



Social tariff cross-subsidy research

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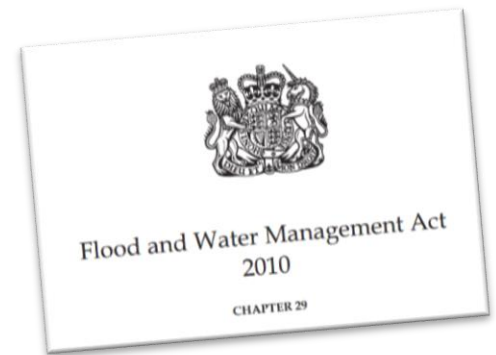


Research context & objectives

An outline of our
understanding of the
research requirements

Background

Social tariffs enable companies to reduce charges for individuals who would otherwise have difficulty paying their bills. They work by using a cross-subsidy system to reduce the bills of those struggling to pay. They came into force following the passing of the Flood and Water Management Act 2010.



Research Objectives

How much are customers willing to cross-subsidise other customers through a social tariff?

What are their views on the amount of the proposed tariff, the eligibility criteria and application process?

Specifically:

- 1** Severn Trent's Welsh company, Hafren Dyfrdwy, launches on 1 July 2018. Hafren Dyfrdwy serves Powys (previously served by Severn Trent) and Wrexham (previously served by Dee Valley Water).
- 2** The company is reviewing the amount that customers are willing to contribute to the social tariff, which will be known as The Big Difference Scheme. This will be an increase from current annual contributions (Powys: £3 dual-service, £1.50 single service; Wrexham: less than 50p).
- 3** The more money customers are willing to contribute, the greater the number of struggling customers that can be helped; but there needs to be broad support from contributors for the amount they pay.
- 4** This research explores perceptions of cross-subsidisation in different contexts, including the water category, and tests the acceptability of a contribution at a range of levels.

Quotas & Weighting

439 face-to-face interviews



Fieldwork
between 3rd
May and 28th
May 2018

Data have been weighted to
ensure the sample is
representative of the customer
base in Wrexham and Powys

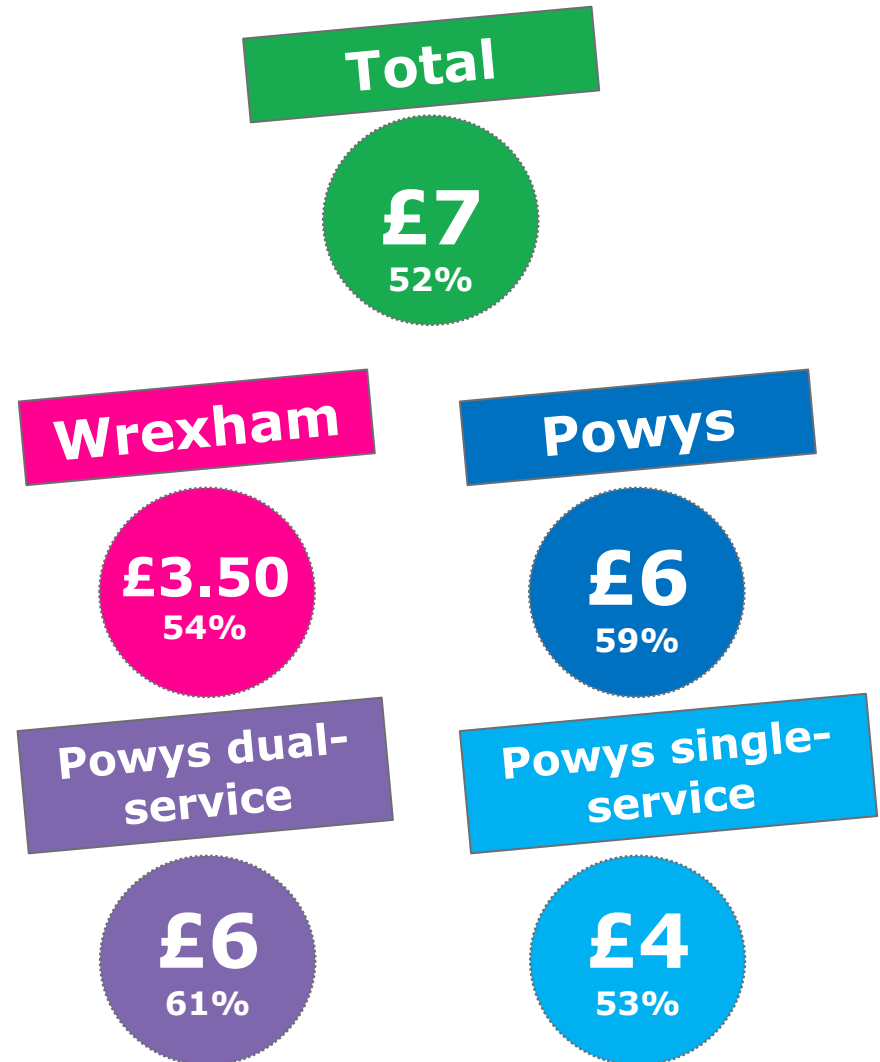
| | | Wrexham | | Powys | |
|----------|---|----------------|--------|----------------|--------|
| | | Quota (Actual) | Target | Quota (Actual) | Target |
| Gender | Male | 100 (98) | 50% | 100 (107) | 50% |
| | Female | 100 (114) | 50% | 100 (110) | 50% |
| Age | 16-24 | 20 (5) | 10% | 16 (3) | 8% |
| | 25-34 | 30 (29) | 15% | 30 (22) | 15% |
| | 35-49 | 70 (42) | 35% | 64 (57) | 32% |
| | 50-64 | 40 (55) | 20% | 50 (63) | 25% |
| | 65-69 | 25 (30) | 13% | 25 (23) | 13% |
| | 70-84 | 10 (43) | 5% | 10 (35) | 5% |
| | 85+ | 5 (8) | 3% | 5 (14) | 3% |
| SEG | Very senior managerial | 40 (9) | 20% | 16 (7) | 8% |
| | Senior managerial, business owners, middle managers | 20 (31) | 10% | 40 (38) | 20% |
| | Small employers, junior management | 20 (40) | 10% | 60 (54) | 30% |
| | Skilled manual | 40 (52) | 20% | 20 (63) | 10% |
| | Semi-skilled or unskilled | 60 (49) | 30% | 50 (36) | 25% |
| | Casual workers; unemployed | 20 (31) | 10% | 14 (19) | 7% |
| Services | Dual Service Customers | N/A | N/A | 150 (191) | 75% |
| | Single Service Customers | N/A | N/A | 50 (26) | 25% |
| TOTAL | | 200 (212) | | 200 (217) | |



Summary of results

Just over half of customers find £7 per year (on a combined bill) or £3.50 per year (on a single service bill) an acceptable level of contribution to the social tariff scheme

- Cross-subsidies in general are supported, however water industry specific ones (particularly those involving debt) garner lower levels of acceptance.
- The majority of customers are willing to support a social tariff scheme and consider themselves to be altruistic
- There is a hardened group who believe it's the responsibility of the individual, the company or the government to ensure that poorer customers are supported and are not the responsibility of other bill-payers
- Whilst there is broad support across customer segments, cross-subsidisation is most likely to be accepted by customers aged 25-34, in skilled or non-manual occupations and amongst those who are personally struggling to pay their bills





Results

Customer attitudes and
perceptions of the proposed
social tariff



There is a strong sense of perceived altruism across the total sample, however this is tempered by an equally strong sense of individual responsibility being important when it comes to personal finances

Looking at the proportions of people who rate **agree or strongly agree** below, it is interesting to note the themes that lie within when then viewing customer perceptions towards cross-subsidies (overleaf). For instance, there is willingness to support the notion of cross-subsidies in the water industry in some instances, however this willingness comes with conditions that should not be ignored.

96%

I like to help other people when I can

93%

I believe in human goodness

89%

I am concerned about the needs others

89%

I donate to charitable causes

87%

I believe people should be responsible for their own finances

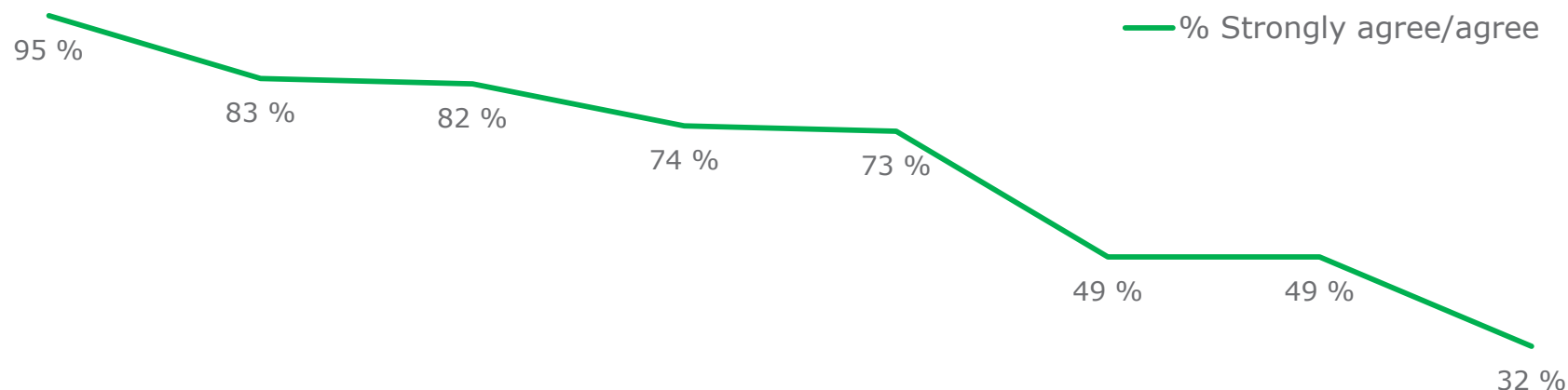
83%

I feel sympathy for those who are worse off than myself

45%

I usually trust what people say

Altruistic views are harboured across the customer base, however there are also significant proportions who think that help should either come with conditions (i.e. means testing) or not be offered by other customers at all.



It's essential that ST/DV keeps bills affordable for everyone

Only customers who have proved they are genuinely struggling to pay their water bill should be eligible for a bill discount

ST/DV's discount scheme, should be available to all customers who need it, not just those on benefits

People who are genuinely struggling to pay their water bill should get a bill discount

ST/DV's discount scheme, should be extended, so that it can help all customers who are struggling to pay

Bill discounts for customers who are struggling should not be funded by other customers

It's morally right for customers to help others who are struggling to pay their bills

I don't support the idea of helping people on low incomes to pay their water bill

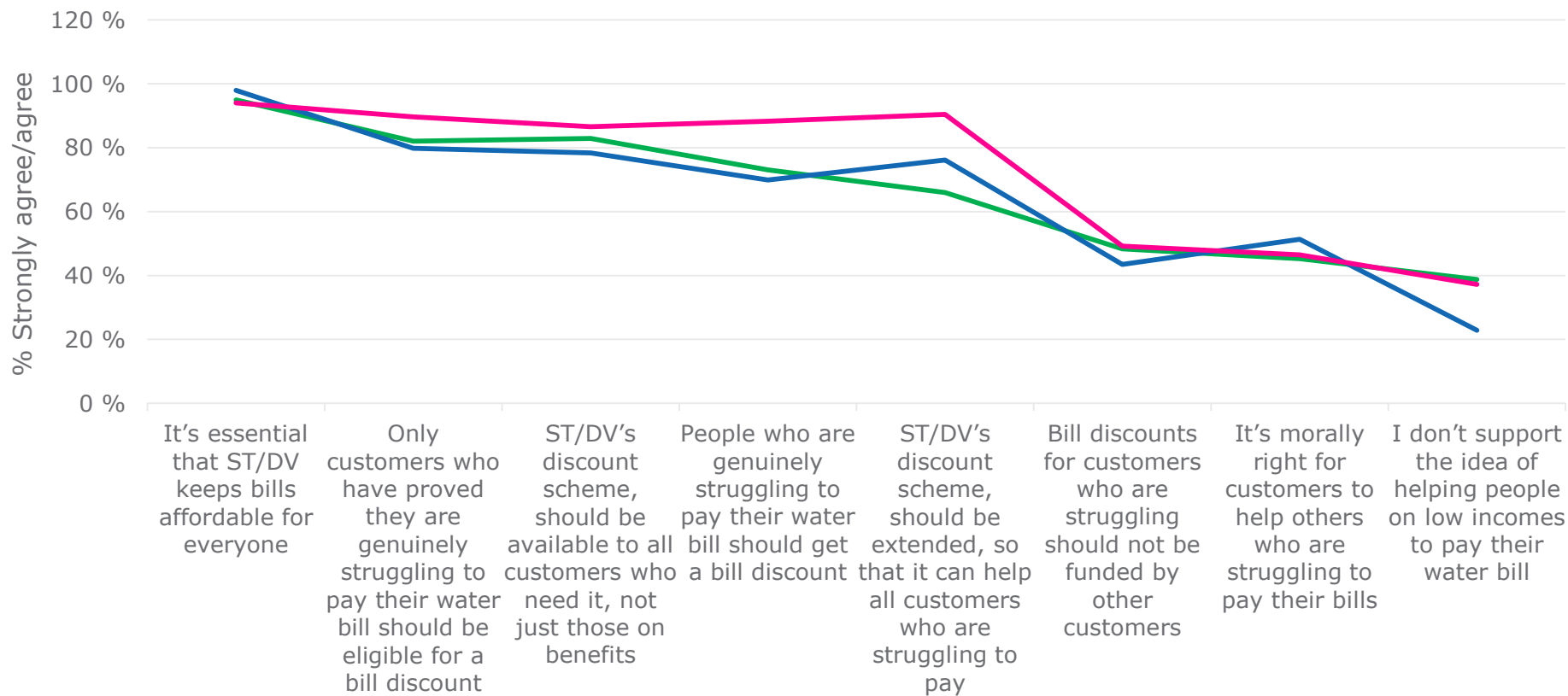
Q08: ST/DVW would also like to know how much you agree or disagree with what some other customers have said.

Base: Total sample Powys & Wrexham combined (n=429)



Unsurprisingly, those who are **just about managing** to pay their household bills are more likely to believe that the schemes should be extended to help all those who struggle

- I never struggle to pay my household bills
- I sometimes struggle to pay my household bills but I usually manage to keep on top of it
- I struggle to pay my household bills and I am often behind in my payments



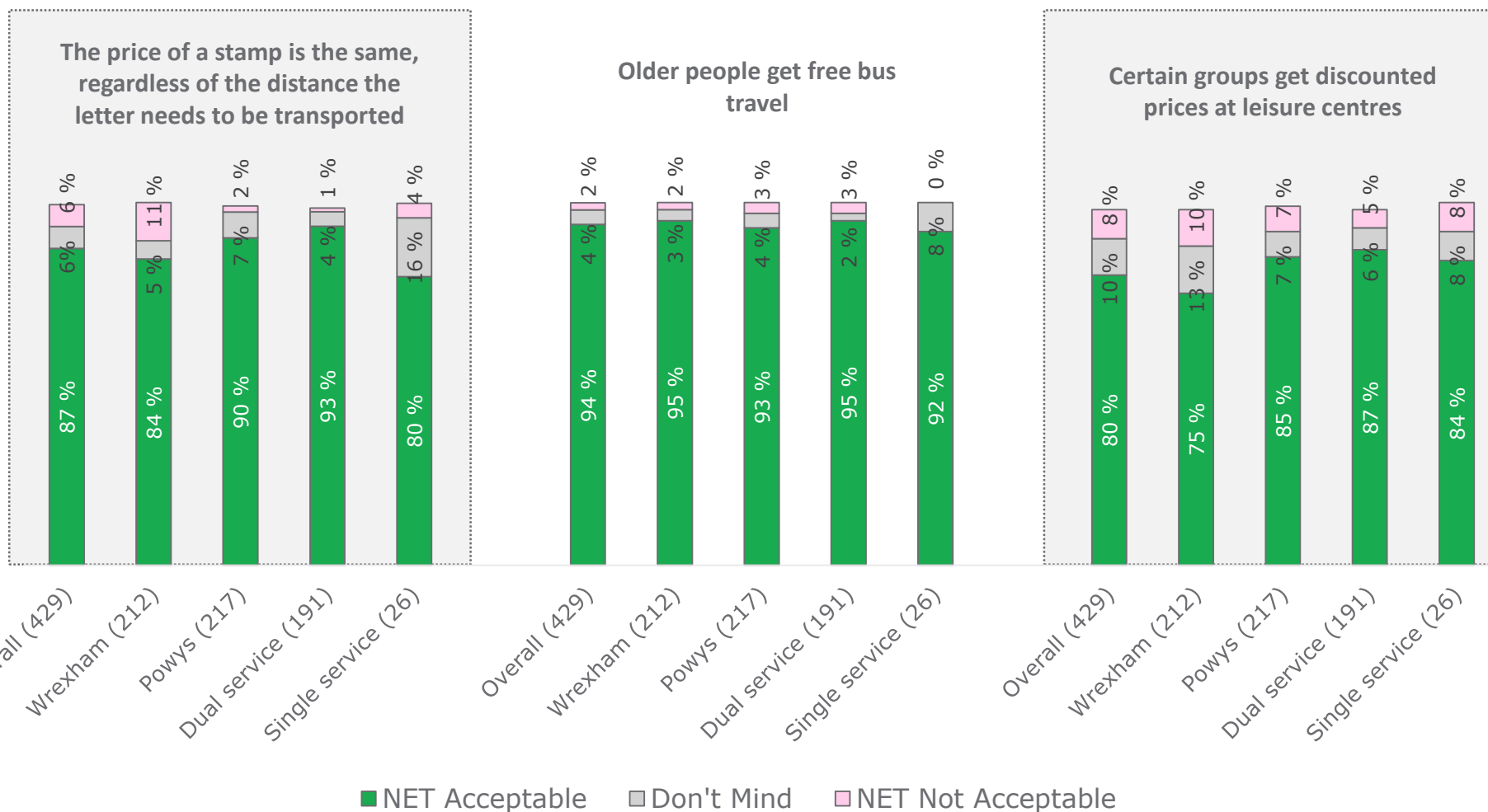
Q08: ST/DVW would also like to know how much you agree or disagree with what some other customers have said.

Base: Total sample Powys & Wrexham combined (n=429)



In general, the concept of cross-subsidisation is seen as acceptable, across all customer segments

How acceptable or unacceptable do you find each of the following cross-subsidies?

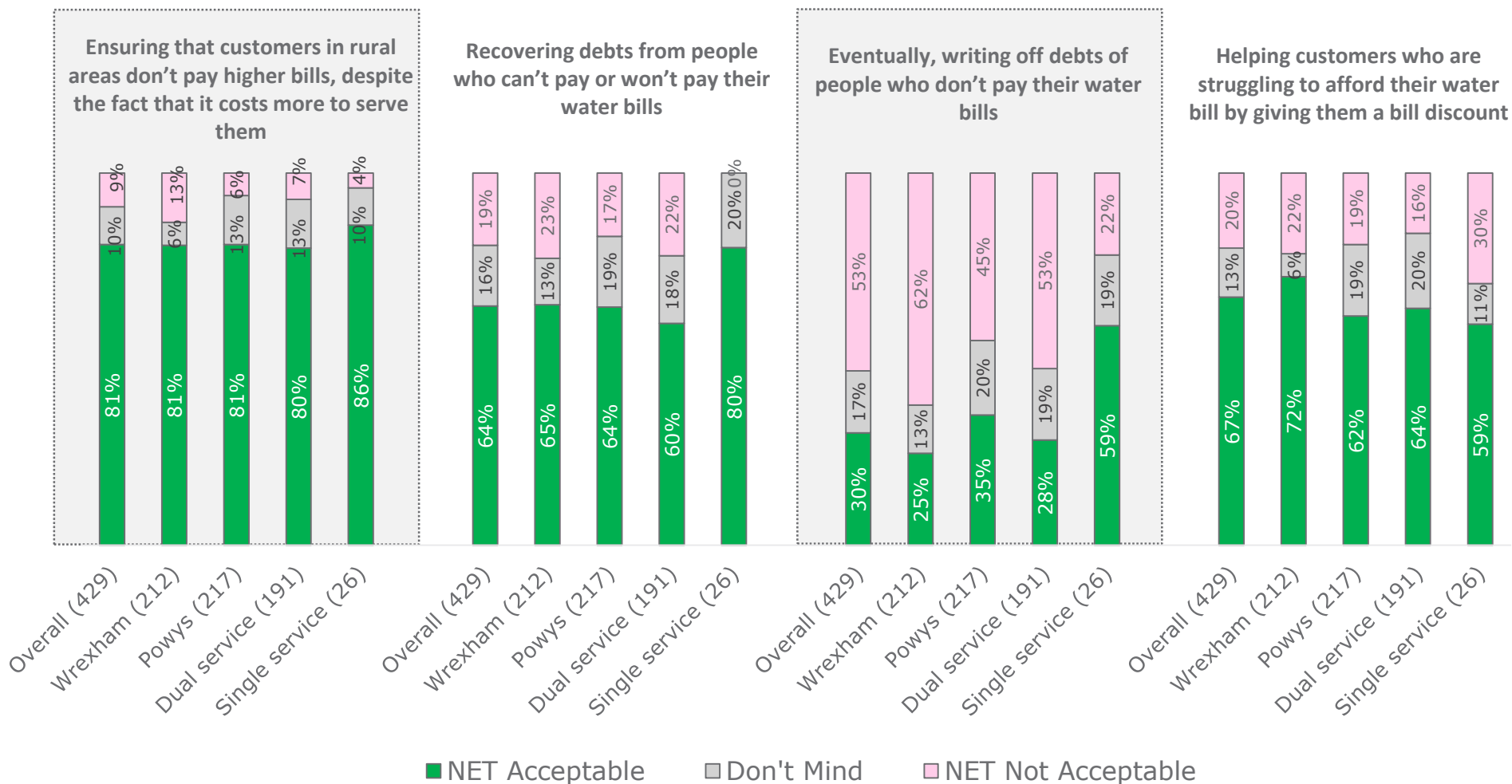


Base: 429. Q01. How acceptable or unacceptable do you find each of the following cross-subsidies?



Cross-subsidisation that is specific to the water industry however doesn't garner as much support – and this lack of sentiment is compounded when the cross subsidies in question relate to water debt

How acceptable or unacceptable do you find each of the following cross-subsidies?



Base: 429. Q02. How acceptable or unacceptable do you find each of the following cross-subsidies?



Acceptability of cross-subsidy

Gabor Granger pricing
analysis

Overview of Pricing Approach

Pricing Approach

DJS used a Gabor Granger pricing analysis to evaluate acceptability of contributing to the social tariff at a range of different contribution amounts

- 1** All respondents were shown an introduction to the Big Difference/Here2Help schemes
- 2** We then presented respondents with a scenario which detailed a) the bill impact, b) the number of customers this would help and c) the percentage of vulnerable customers that would be helped.
- 3** A range of bill impacts with the related number and percentage of customers helped were shown at each screen.
- 4** Respondents were shown a mid-range bill impact as a starting point:
 - Wrexham: £3 total
 - Powys Dual Service: £5 total
 - Powys Single Service: £2.50 total
- 5** If this was seen as acceptable they were then shown a higher price point, if unacceptable a lower price point. This was repeated until respondents reached an upper or lower limit of acceptability / unacceptability, or had been shown all price points.

Total

£7 in total per year is acceptable to 52% of customers

Just over a half of customers find a total bill impact of £7 acceptable with a significant drop in acceptability at £8. £12 is acceptable to a quarter of customers.

Acceptability of contribution level

Very acceptable /acceptable/don't mind



N.B. Results shown combine Wrexham, Powys single/dual-service. We have assumed single-service customers contribute half as much as combined customers. Q4: How acceptable would you find the cross-subsidy at this level? Base: Total sample Powys & Wrexham combined (n=429)

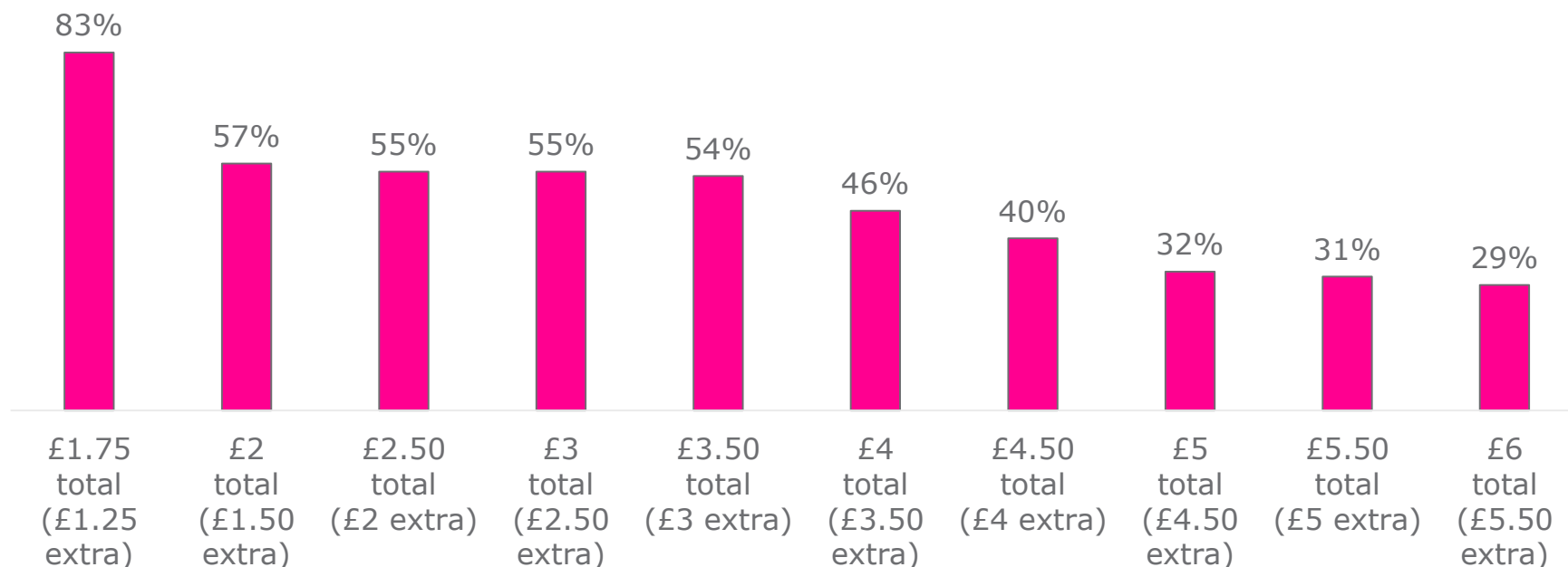
Wrexham

£3.50 in total per year is acceptable to 54% of Wrexham customers, an increase of £3

More than a half of customers find a bill impact of £3.50 acceptable, with a significant drop in acceptability at £4. Just less than a third of customers would find a bill impact of £6 acceptable.

Acceptability of contribution level

Very acceptable /acceptable/don't mind



Q4: How acceptable would you find the cross-subsidy at this level?

Base: Total sample Wrexham (n=212)

Wrexham

Millennials, men and those in skilled trades or junior management have the highest levels of acceptance

The highest levels of acceptance is amongst 25-34 year olds

Customers in skilled trades, junior management and other non-manual occupations have the highest levels of acceptance

Men have a higher acceptance of £7 than women.

| | £7 acceptable (%) |
|--|-------------------|
| Wrexham Total | 5% |
| Female | 52% |
| Male | 56% |
| Semi-skilled/routine occupations/unemployed | 49% |
| Skilled workers/other non manual occupations | 63% |
| Managerial/professional occupations | 51% |
| 16-24 | 43% |
| 25-34 | 77%* |
| 35-49 | 48% |
| 50-64 | 57% |
| 65-69 | 63% |
| 70-84 | 35% |
| 85+ | 25% |
| Children | 54% |
| No children | 53% |
| I never struggle to pay my household bills | 52% |
| I sometimes struggle to pay my household bills | 65%* |
| I often struggle to pay my household bills | 39% |

*indicates statistically significant difference at 95% confidence level

Q4: How acceptable would you find the cross-subsidy at this level?

Base: Total sample Wrexham (n=212)

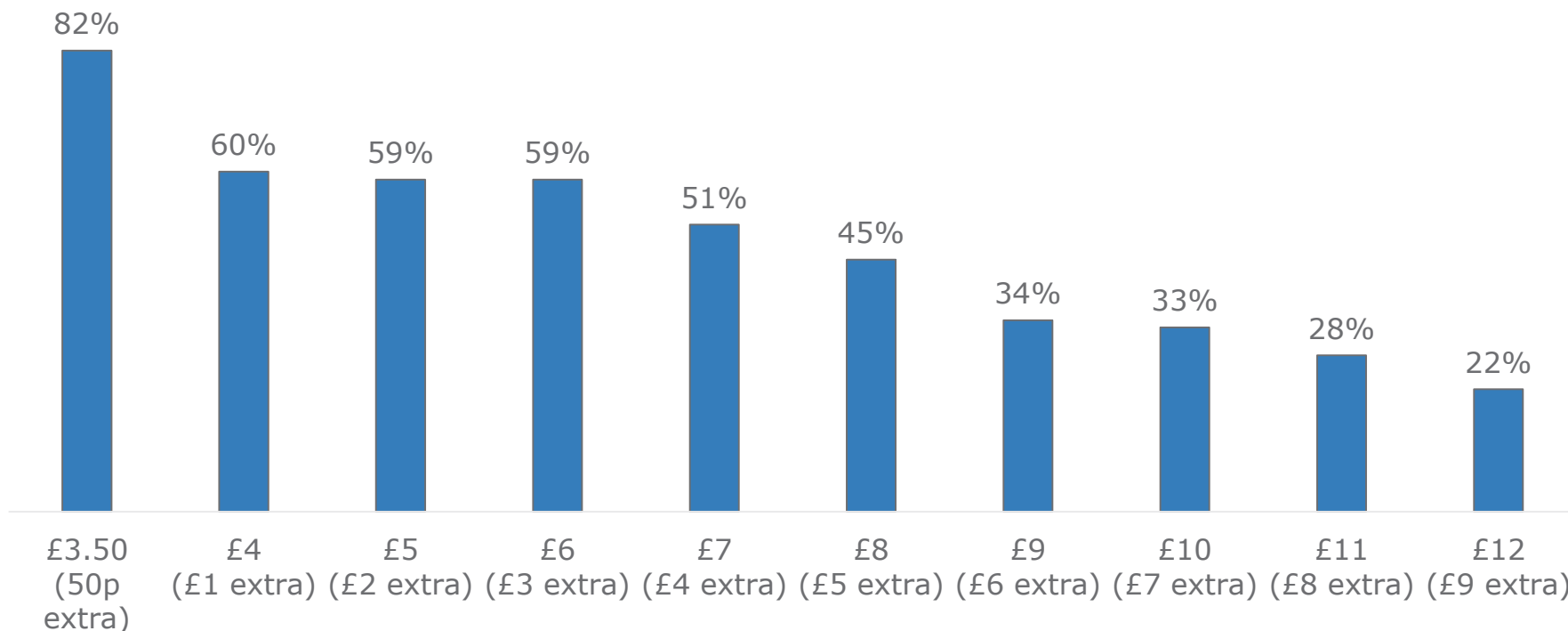
Powys

£6 in total is acceptable to three fifths of Powys customers, an increase of £3 per year

59% find a bill impact of £6 acceptable, with a significant drop in acceptability at £7. Just over a fifth of customers would find a bill impact of £12 per year in total acceptable.

Acceptability of contribution level

Very acceptable /acceptable/don't mind



N.B. Results shown combine Powys single/dual-service. We have assumed single-service customers contribute half as much as combined customers. Q4: How acceptable would you find the cross-subsidy at this level? Base: Total sample Powys (n=217)



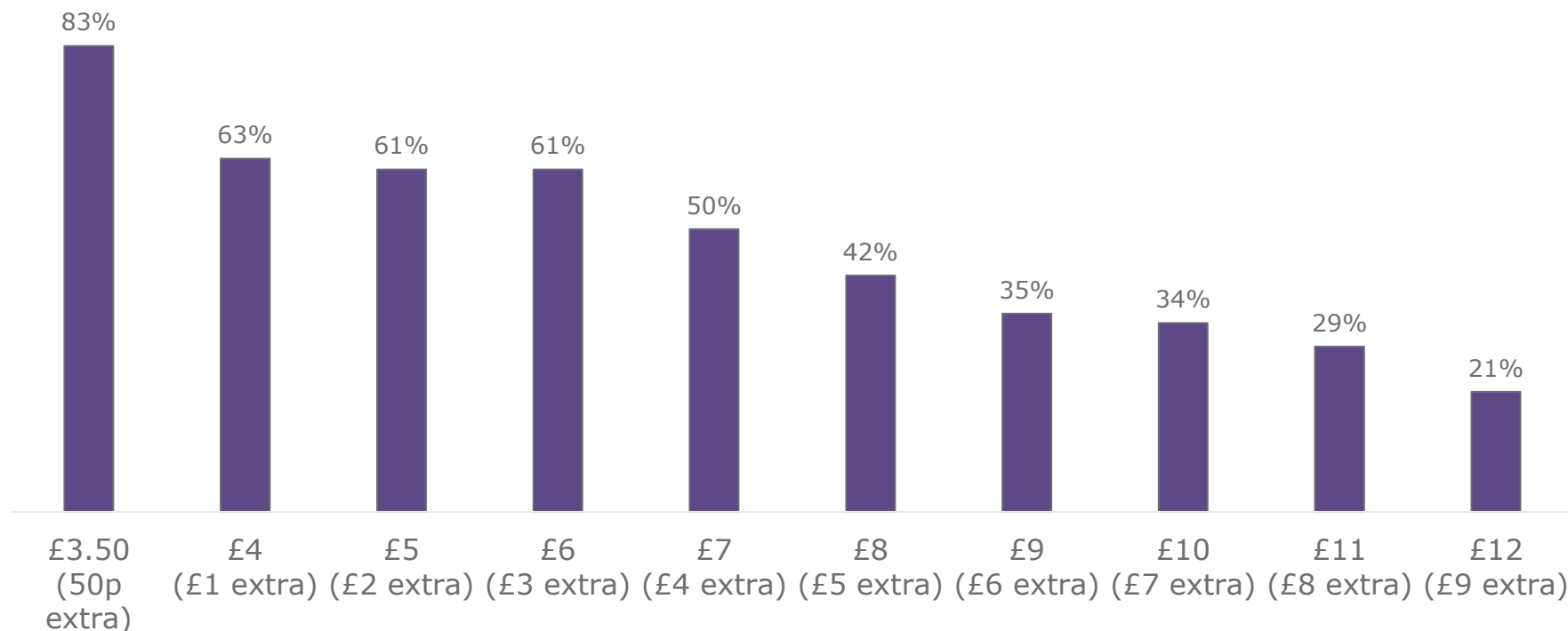
Powys: Dual-Service

£6 in total per year is acceptable to 61% of dual-service customers

There is a significant drop in acceptability for dual-service at £7.

Acceptability of contribution level

Very acceptable /acceptable/don't mind





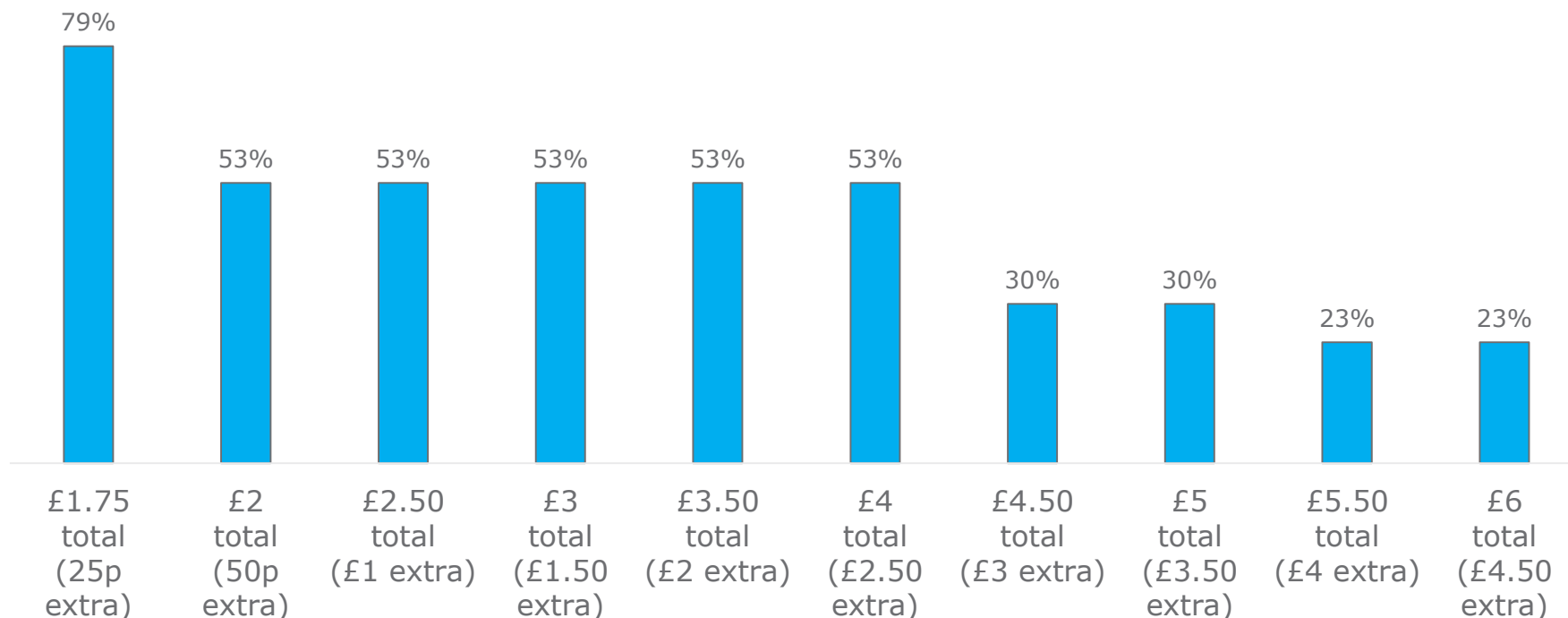
Powys: Single-Service

£4 in total per year is acceptable to 53% single-service customers

There is a significant drop in acceptability at £4.50 for single-service.

Acceptability of contribution level

Very acceptable / acceptable / don't mind



Powys

Women, families with children and customers aged <65 have the highest levels of acceptance at £6

The highest levels of acceptance amongst <35 year olds

Customers in skilled trades, junior management and other non-manual occupations have the highest levels of acceptance

Women and families with children have a higher level of acceptance

| | £6 acceptable (%) |
|--|-------------------|
| All Powys customers | 59% |
| Female | 67%* |
| Male | 51% |
| Semi-skilled/routine occupations/unemployed | 59% |
| Skilled workers/other non-manual occupations | 62% |
| Managerial/professional occupations | 54% |
| Age: 16-24 | 100%* |
| 25-34 | 62%* |
| 35-49 | 61%* |
| 50-64 | 61%* |
| 65-69 | 34% |
| 70-84 | 40% |
| 85+ | 30% |
| Children | 64% |
| No children | 55% |
| I never struggle to pay my household bills | 53% |
| I sometimes struggle to pay my household bills | 70%* |
| I often struggle to pay my household bills | 31% |

*indicates statistically significant difference at 95% confidence level

Q4: How acceptable would you find the cross-subsidy at this level?

Base: Total sample Powys (n=217)



Overall, customers who identify as Welsh have marginally higher acceptance. There is little variance in metered/unmetered customers, nor those who were born outside of Wales

| Total | | £7* acceptable |
|-----------------------------------|--|-----------------------|
| Total | | 52% |
| Metered | | 51% |
| Unmetered | | 52% |
| Respondents born in England | | 51% |
| Respondents born in Wales | | 51% |
| Respondents born elsewhere | | 74%* |
| Identify strongly as Welsh | | 57% |
| Do not identify strongly as Welsh | | 50% |

| Wrexham | | £3.50 acceptable |
|-----------------------------------|--|-------------------------|
| Total | | 54% |
| Metered | | 55% |
| Unmetered | | 50% |
| Respondents born in England | | 60% |
| Respondents born in Wales | | 52% |
| Respondents born elsewhere | | 66% |
| Identify strongly as Welsh | | 62% |
| Do not identify strongly as Welsh | | 49% |

| Powys | | £6* acceptable |
|-----------------------------------|--|-----------------------|
| Total | | 59% |
| Metered | | 54% |
| Unmetered | | 61% |
| Respondents born in England | | 61% |
| Respondents born in Wales | | 55% |
| Respondents born elsewhere | | 79%* |
| Identify strongly as Welsh | | 61% |
| Do not identify strongly as Welsh | | 57% |

In Wrexham, acceptance is higher for those with strong Welsh identity

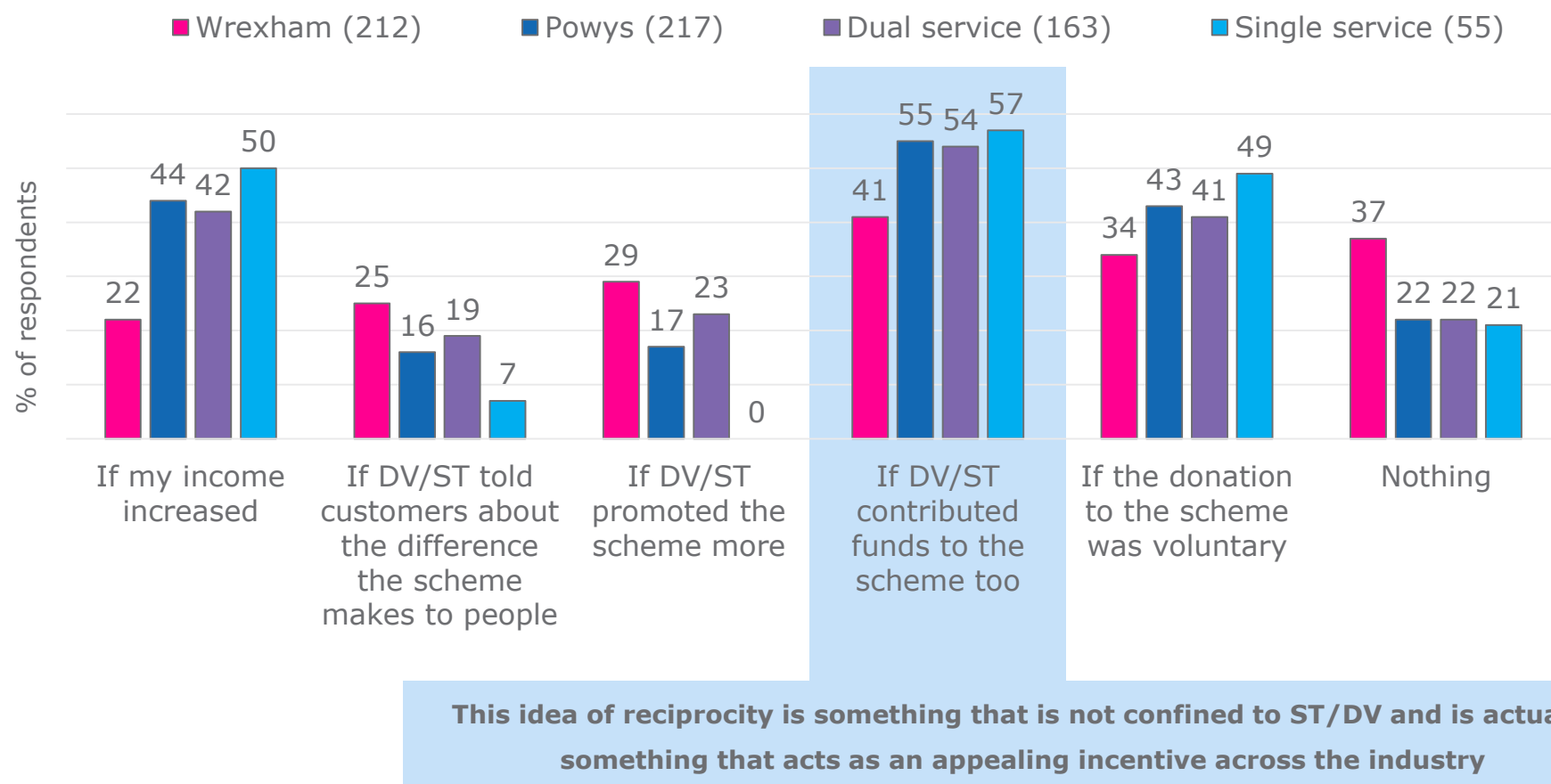
In Powys, acceptance is higher for unmetered customers

**Single and dual service customer responses have been combined. To produce a single price acceptability point, the single-service price point has been doubled. Q4: How acceptable would you find the cross-subsidy at this level? Base: Total sample Powys & Wrexham combined (n=429), Wrexham (n=212)m, Powys (n=217).*



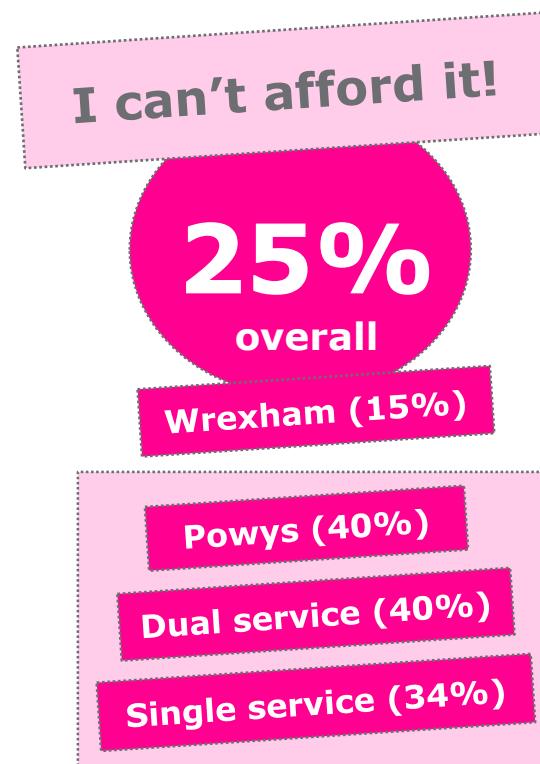
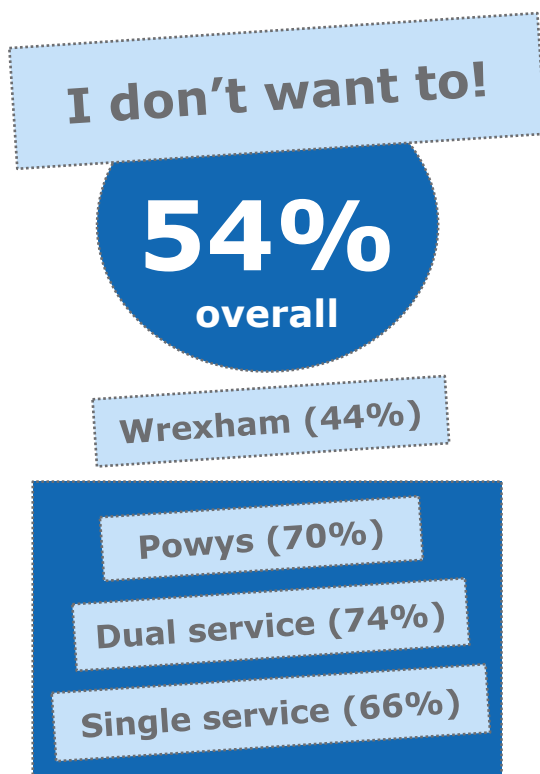
Reciprocal behaviour from ST/DV would act as the strongest incentive mechanism for customers agreeing to contribute more towards the BG/H2H scheme

Would anything make customers contribute more to their respective social tariff schemes?





Approaching one third (**29%**) of customers interviewed would not want to pay any more than the amount they stated, mainly due to a **lack of desire** or perceived **lack of ability to afford it**.



49 customers gave other reasons as well however these tended to be more fragmented in nature:

"It should come from the government, or shareholders should have a cap on dividends." (Wrexham)

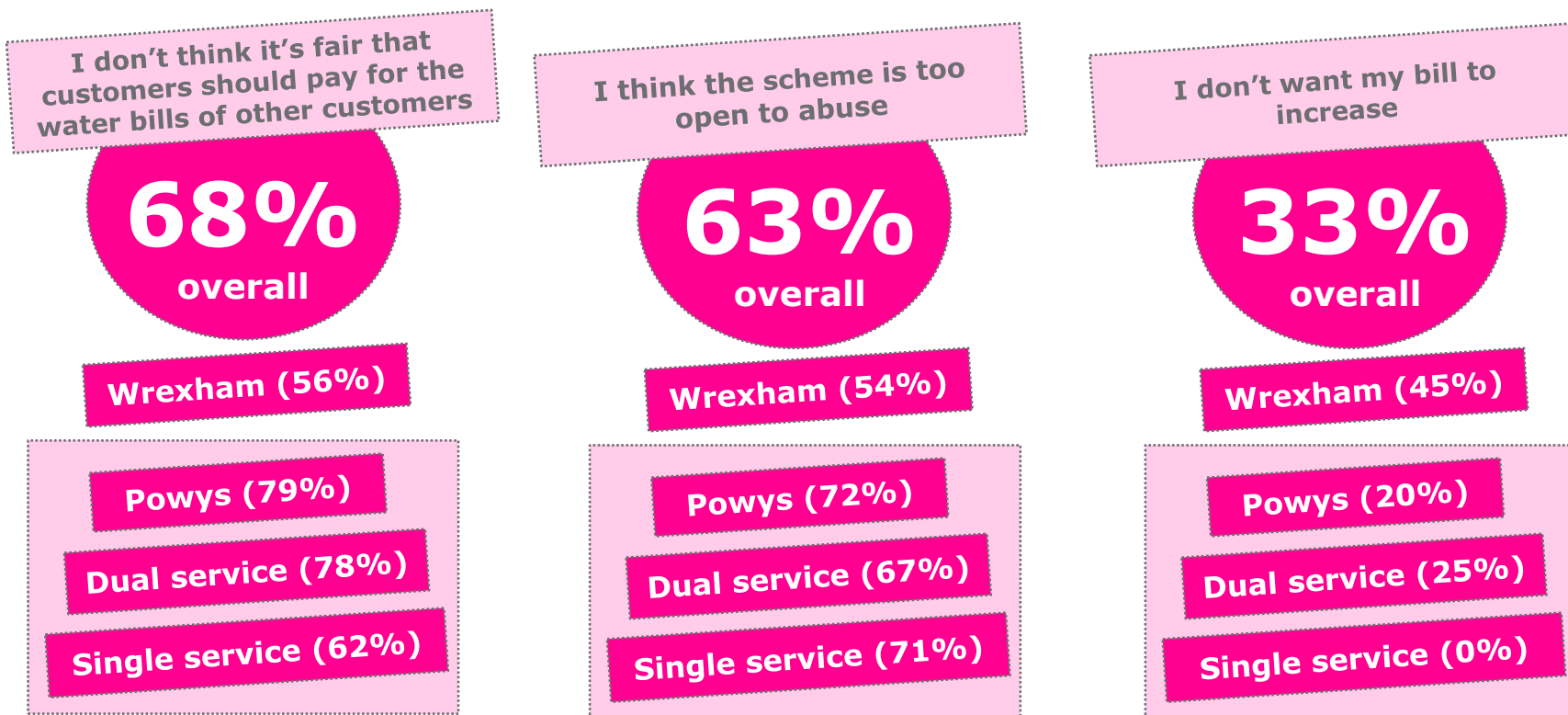
"It's not my responsibility." (Wrexham) *"It's already difficult to make ends meet on state pension."* (Powys)

"We are all struggling!" (Wrexham)

"Up to 50p per month is enough." (Wrexham)



Reasons why people didn't want to pay more than the final price-point they were willing to contribute centred on issues of fairness (or lack thereof) **(68%)** and concerns around misuse of the scheme **(63%)**. A further third claimed that they didn't want their bill to increase.




7 customers gave other reasons as well however these tended to be more fragmented in nature:

"Reduce profits and subsidise those in need." (Wrexham)

"The Water Board make enough profit. (Wrexham)

"We are paying enough already." (Powys)

"This is only one bill of many." (Powys)



Appendix 1:

Research Methodology



There is specific guidance from Welsh government guidance on cross-subsidy research

- Sample size must be adequate and representative of household customer base
- Include customers likely to be eligible for tariff, unlikely to be eligible and 'just about managing' customers
- Research must be conducted by a member of the Market Research Society
- Research and stimulus materials must be in plain English
- Survey must test a proposal or set of proposals that address affordability issues in that area
- Proposals must state who will be helped by the social tariff, how many, to what extent and cost this would add to bills
- 'Don't mind' responses can be treated as acceptance
- 'Don't know' responses cannot be treated as acceptance



We have also taken further advice from CCWater

Their advice has included:

- The cross-subsidy acceptability question should not be placed in a standalone survey, focusing solely on the social tariff
- The survey should result in a single price-point that is broadly acceptable to customers – we should avoid framing the question in different ways, because we don't want to get multiple price-points
- There is no specific threshold for acceptability % that the survey should seek to find
- There is no need to test the *current* level of cross-subsidy. The aim is too understand how much *more*, if any, customers are willing to contribute
- All respondents should see the same stimulus materials
- The following acceptability scale is appropriate: very acceptable, acceptable, don't mind, not very acceptable, not at all acceptable, don't know. (CCW believe that 'don't mind' should be the mid-point of the scale, and that 'don't know' should be an option).
- Acceptance result should be as a percentage of all respondents, including those answering 'don't know'.

Respondents were shown background information about the schemes

"I will now tell you a bit more about the situation in Powys/Wrexham.

Severn Trent is already helping up to 250/263 of their customers in Powys/Wrexham who are in the most extreme financial situations, by funding discounts to their water and waste water bills.

They now want to help more customers who are genuinely struggling to pay their bills. They would like to reduce bills for more customers who genuinely struggle to pay.

People would not be automatically entitled to this scheme if they are on benefits.

The amount customers contribute from their bills towards this scheme will affect the number of customers who can be helped. So Severn Trent needs to know how much customers would be willing to contribute towards this scheme.

We'd now like to ask you about the amount you'd be willing to contribute from your bill, to reduce bills for customers who are genuinely struggling to pay theirs."

All respondents were shown an introduction before the pricing analysis

Wrexham

Dee Valley Water estimates that up to **12%** of its customers in Wrexham find their water and sewerage bill unaffordable. Dee Valley Water believes that there are a large number of struggling households in their Wrexham region who aren't currently helped by the scheme, but who would benefit from the discount. Dee Valley Water would like to help many more customers in Wrexham, but it only has limited funds.

Powys

Severn Trent estimates that up to **12%** of its customers in Powys find their water and sewerage bill unaffordable. Severn Trent believes that there are a large number of struggling households in their Powys region who aren't currently helped by the scheme, but who would benefit from the discount. Severn Trent would like to help many more customers in Powys, but it only has limited funds.

Options in Gabor Granger Pricing Test

Wrexham

Currently, less than 50 pence per year from every annual household bill goes to pay for the Here2Help scheme discounts.

If customers in Wrexham were each willing to contribute **£[price point]** via their water bill, the company could give a Here2Help discount to **[number]** Wrexham customers who are struggling per year. This is **[x%]** of the Wrexham customers who are estimated to be struggling to pay their water bill.

How acceptable would you find the cross-subsidy at this level?

| Price Point | Number of customers | % of struggling customer base |
|--|---------------------|-------------------------------|
| £1.25 pence extra per year, or 10 pence extra per month (or £1.75 per year in total) | 1,589 | 19% |
| £1.50 pence extra per year, or 13 pence extra per month (or £2.00 per year in total) | 1,816 | 22% |
| £2.00 extra per year, or 17 pence extra per month (or £2.50 per year in total) | 2,270 | 27% |
| £2.50 extra per year, or 21 pence extra per month (or £3.00 per year in total) | 2,724 | 33% |
| £3.00 extra per year, or 25 pence extra per month (or £3.50 per year in total) | 3,178 | 38% |
| £3.50 extra per year, or 29 pence extra per month (or £4.00 per year in total) | 3,632 | 44% |
| £4.00 extra per year, or 34 pence extra per month (or £4.50 per year in total) | 4,086 | 49% |
| £4.50 extra per year, or 38 pence extra per month (or £5.00 per year in total) | 4,540 | 55% |
| £5.00 extra per year, or 42 pence extra per month (or £5.50 per year in total) | 4,994 | 60% |
| £5.50 extra per year, or 46 pence extra per month (or £6.00 per year in total) | 5,448 | 66% |

Options in Gabor Granger Pricing Test

Powys Dual-Service

Currently, £3 per year from every annual household bill goes to pay for the Big Difference Scheme discounts.

If customers in Powys were each willing to contribute **£[price point]** via their water bill, the company could give a Big Difference Scheme discount to **[number]** Powys customers who are struggling per year. This is **[x%]** of the Powys customers who are estimated to be struggling to pay their water bill.

How acceptable would you find the cross-subsidy at this level?

| Price Point | Number of customers | % of struggling customer base |
|--|---------------------|-------------------------------|
| 50p extra per year or 4 pence extra per month (or £3.50 per year in total) | 843 | 24% |
| £1 extra per year or 8 pence extra per month (or £4 per year in total) | 963 | 28% |
| £2 extra per year or 17 pence extra per month (or £5 per year in total) | 1,204 | 34% |
| £3 extra per year or 25 pence extra per month (or £6 per year in total) | 1,445 | 41% |
| £4 extra per year or 33 pence extra per month (or £7 per year in total) | 1,685 | 48% |
| £5 extra per year or 42 pence extra per month (or £8 per year in total) | 1,926 | 55% |
| £6 extra per year or 50 pence extra per month (or £9 per year in total) | 2,167 | 62% |
| £7 extra per year or 58 pence extra per month (or £10 per year in total) | 2,408 | 69% |
| £8 extra per year or 67 pence extra per month (or £11 per year in total) | 2,649 | 76% |
| £9 extra per year or 75 pence extra per month (or £12 per year in total) | 2,889 | 83% |

Options in Gabor Granger Pricing Test

Powys Single-Service

Currently, £1.50 of the annual bill paid by households like yours goes to pay for the Big Difference Scheme discounts. Households which get both water and waste services from Severn Trent pay more than this towards the Big Difference Scheme.

If customers like you in Powys were each willing to contribute £[price point] via their bill, the company could give a Big Difference Scheme discount to [number] Powys customers who are struggling per year. This is x% of the Powys customers who are estimated to be struggling to pay their water bill. How acceptable would you find the cross-subsidy at this level?

| Price Point | Number of customers | % of struggling customer base |
|--|---------------------|-------------------------------|
| 25 pence extra per year, or 2 pence extra per month (or £1.75 per year in total) | 843 | 24% |
| 50 pence extra per year, or 4 pence extra per month (or £2.00 per year in total) | 963 | 28% |
| £1.00 extra per year, or 8 pence extra per month (or £2.50 per year in total) | 1,204 | 34% |
| £1.50 extra per year, or 13 pence extra per month (or £3.00 per year in total) | 1,445 | 41% |
| £2.00 extra per year, or 17 pence extra per month (or £3.50 per year in total) | 1,685 | 48% |
| £2.50 extra per year, or 21 pence extra per month (or £4.00 per year in total) | 1,926 | 55% |
| £3.00 extra per year, or 25 pence extra per month (or £4.50 per year in total) | 2,167 | 62% |
| £3.50 extra per year, or 29 pence extra per month (or £5.00 per year in total) | 2,408 | 69% |
| £4.00 extra per year, or 33 pence extra per month (or £5.50 per year in total) | 2,649 | 76% |
| £4.50 extra per year, or 38 pence extra per month (or £6.00 per year in total) | 2,889 | 83% |

If you have any questions or would like to hear more, contact...

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