

Social pricing. General principles and main methods. (B2)

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1) What is involved ?

This most often consists in a **variable, progressive pricing system where the price per cubic meter is set and increases along with the consumption bracket. It is characterised by lower bills for low consumers, who are not necessarily the poorest, higher bills for high consumers, and the search for better preservation of resources by reducing consumption.**

In certain pricing systems, attention is paid to ensure that there are no excessive discrepancies between the prices paid by the main categories of households in order to ensure **more equitable prices**, as this is not always the case.

But there are also pricing systems of an even more social nature which may be referred to as **solidarity pricing**.

2) Who use this means and since when ?

This type of pricing is relatively recent, but is developing, sometimes even through municipal or national election campaigns, like in France in 2012. It current exists under different forms in some fifty countries, but only in certain cities or regions.

3) Why ?

With the rise in the price of water and the dwindling of drinking water reserves, a number of municipalities and regions have sought various **ways of limiting consumption** and ensuring that the biggest consumers pay the highest price for their water (this principle is contrary to standard business practices where the more a customer buys, the cheaper it gets).

4) Who is primarily concerned ? Places or contexts in which this method seems most appropriate

Obviously, this system only concerns people who are connected to a network, which limits their numbers, especially where it is particularly important to **preserve the water resource**.

As social pricing is not always easy to set up or exempt from additional management costs, it seems particularly **suited to regions where water resources are limited, or where water tariffs are higher than elsewhere and/or give rise to glaring inequalities among user categories**. However, it may be of less interest if it does not lead to significant savings in water and consumption for a large number of people.



5) Important remark : do not confusing "social" pricing with "solidarity" pricing and other measures to reduce the price of water for the most deprived

This last type of pricing and measures aimed at the most deprived is described *in factsheet B8* and is of a totally different nature. Indeed, contrary to what one might think, the word "social" frequently used in this type of **pricing, only takes account of the volumes consumed, not the income of the households**, which is not the purpose sought. **There is no significant correlation between low consumption and low income**. Likewise, **large families**, which are penalised by this system, are not more numerous among wealthy families than among low-income ones.

6) Main social pricing and solidarity pricing methods

As already mentioned (*see factsheet B1* giving general information of the cost of water and its pricing), in addition to special tariffs for farmers, public authorities or certain users or big industrial consumers, **there are three main pricing methods :**



- pricing **by volume**, which is the widely used
- **flat-fee** pricing, mainly used in small communities and sometimes at standpipes or for small groups of households, or when the installation, maintenance and reading of meters would be too costly.

Sometimes, several flat rates are set, according to estimated water consumption

- **mixed** pricing with a "**two-part tariff**", i.e. a combination of the first two, with a smaller fixed fee (standing charge, which may be excessive), but essentially based on the volume consumed ; this system is fairly widespread in several countries.

However, **two other pricing systems** are currently developing : so-called "**social**" pricing, detailed in this factsheet, and so-called **solidarity pricing** detailed in *factsheet B8*.

"**Social**" pricing comes down to setting price brackets, as previously mentioned, with prices rising in keeping with consumption. This boils down to establishing a system of forced "cross-subsidies" between low consumers and big consumers, while striving to avoid excessive discrepancies among the average prices of water paid by the different categories of households in order to ensure fairly **equitable** pricing. However, the actual help provided to the poorest is often minimal, except if they consume very little water.

"**Solidarity**" pricing has an **obvious, preponderant social goal**. Its advocates generally consider that the issue of income and its redistribution should not be a matter for the water pricing policy but the social policy.

Nevertheless, solidarity pricing consists in **finding certain types of specific pricing mechanisms, but mainly subsidies or special measures for the poorest** in order to correct the effects of standard social measures, which may be complementary with such pricing systems and make them more acceptable and satisfactory for everyone. **It is either based on solidarity** among users or is set up by municipal or state

social services.

Concerning so-called social pricing - even though its goal is not as social as its name implies (the name is probably due to the fact that it comprises reduced prices for the first cubic metres consumed) - **there are several types.**

In each variant, **the pricing is not "linear"**, i.e. it does not fully depend on the volume consumed, from the first to the last cubic metre (except for two-part tariffs), **but is set by consumption brackets**, each of which has a specific price.

This pricing per bracket may have different aspects. It may consist in either :

- **Progressive linear pricing** (the most frequent form), sometimes called "**pricing by consumption bracket**" where the price of the cubic metre is the same within a particular bracket but increases when the number of cubic metres consumed exceeds the bracket limit and falls into the following bracket(s). This type of pricing **generally comprises three or four brackets**, with prices increasing from the first bracket, sometimes called "social" or "low-cost" bracket to the last (e.g. in **Brussels** where a two-part tariff is applied, there are 4 brackets where prices range from €0.60 / m³ for up to 15 m³, to €3.06 beyond 60 m³/year, along with a standing charge of around €10) ; in **Barcelona** (also a two-part tariff) there are 3 brackets : €0.45 /m³ up to 72 m³, then €0.91/ m³ up to 144 m³ and €1.36 /m³ beyond that, along with a standing charge of €60 /year.

The **Barcelona example gives a good illustration**, even though there are worse ones, **of the excessive character that a standing charge may have for small consumers** : the stated tariff shows that the standing charge corresponds to 102 cubic metres at the progressive rate (the actual price paid for the 102 m³ would be double that amount, i.e. €120 due to the standing charge). In such a case, the standing charge would amount to **50%** of the bill. This percentage is even higher for lower consumption.

For average standard consumption of **120 m³**, the standing charge accounts for **44%** of the bill, as the higher the consumption, the lower this percentage.

For this reason, **a particular form of social pricing using a two-part tariff consists in integrating a certain reduction of the standing charge which may target specific categories. See factsheet B7.**

- **Pricing by progressive consumption brackets**, sometimes called "**pricing by sliding consumption brackets**" or "**superprogressive pricing**"- a rarer expression as it is more dissuasive for big consumers or large families in which there are also several brackets but where users pay all of their water at the price of the bracket under which their total consumption falls.

Example : In Tunisia, there is a multi-bracket pricing system in which tariffs range from 0.145 dinars/m³ for consumptions under 80 m³/year, to 0.89 dinars/m³ beyond 600 m³/year, but users pay for all of their water at the tariff of their consumption bracket.

- Purely linear pricing, progressive linear pricing or pricing by progressive brackets **but taking into account specific parameters (getting closer to solidarity pricing systems)**, leading to **three other types of pricing**, which are not so common, except in certain countries :

- Social pricing **of a socio-economic nature**, in which socio-economic parameters are introduced, for example concerning the composition of households, their housing or their income, like in Chile, Greece, Turkey and Spain.

- **Reduced tariffs** where a percentage of reduction or subsidy is automatically applied to certain user categories such as low-income persons, elderly or ill persons needing a lot of water for their treatments ; the amount or percentage may vary according to categories.

- **Mixed pricing** in which increases are applied to certain districts or wealthier population categories to finance the creation or development of standpipes or new facilities in poor districts, which is another form of cross-subsidy.

We would like to point out that, while social pricing presents advantages in numerous cases and incites users to pay more attention to the cost of water, it also has certain drawbacks which you should be aware of before making any decision.

For example, the most widespread pricing method (progressive linear pricing), where everyone, including the wealthiest families, benefit from the low-price bracket, can also have negative consequences for large families (or in certain districts or villages for those who need to get water from a neighbour who has a connection and who, because he/she uses more water, will have to pay a higher price for it).

All of these mechanisms and their respective advantages and drawbacks are described in detail in **dedicated factsheets B3 to B8 which we prompt you to read.**

7) Specific difficulties and precautions to be taken

- **The terminology** used by specialists **varies** significantly from one to another, including the terms "social pricing" and "solidarity pricing", making things more complicated. Also, beyond these terms, when you read a document, it is prudent to strive to find out exactly what type of pricing is being presented, what is its real aim and what the impacts are for the various categories of persons concerned, especially the most fragile, as **in social pricing**, like in all other systems, **there are always a certain number of winners and losers.**

- **Choosing or setting up** a pricing system suited to the corresponding population **is not a simple matter** and sometimes gives rise to unpleasant surprises. It is up to the municipal councils to make a decision, once the opinion of the population has been sought. **It is therefore necessary to be prudent, and to gather all the data required to simulate the effect of the system beforehand.**

- Concerning reported **water prices**, great attention is required to avoid major errors, especially when making comparisons. You must **strive to find out** exactly what is covered by the total price of a cubic metre. Does it include taxes or not, does it include the standing charge when there is one, is it the price of water on its own or with sanitation ? These parameters **can totally change things.**



- **To be accepted and effective, the pricing must be as equitable as possible** and the tariff increases generated for certain categories must be reasonable and not result in too great a drop in consumption or people turning to alternative resources (e.g. private wells), which could result in the need to increase tariffs in order to preserve the financial stability of the service.

- Social pricing is not the panacea it is sometimes made out to be. **It is not a system which is very easy to set up or manage** without certain additional costs. While it obviously has advantages, it also has drawbacks which vary according to categories and situations.

- **Setting up such a pricing system is not necessarily an interesting proposition if it only results in minimal reductions in consumption or price smoothing for the majority of users.**

Moreover, if the "social" goal sought is to help the most deprived, it is then better to opt for "solidarity" pricing or to allocate specific subsidies.

- **Overly complicated systems with many consumption brackets or parameters are more difficult to manage and should therefore be avoided.**

8) Achievement examples

See the examples given for each type of social pricing system or related system (**Factsheets B3 to B5**)

9) Where to obtain further information

a) Websites

- **Académie de l'eau** : publication of several very interesting, well-documented, illustrated studies by Mr Henri Smets, President of ADEDE :

- "**De l'eau potable à un prix abordable**", 254-page book explaining the concept of affordable water prices and comprising an extensive appendix showing numerous examples and graphs illustrating pricing practices in numerous countries.

- "**La tarification progressive en France et dans le monde**", 138-page book published in 2011, with a summary on pages 9 to 12, showing, through numerous examples and graphs referring to specific cases, the various ways of setting up an equitable pricing system to keep the price of one litre of water at the same level for the maximum number of people irrespective of the size of the household, but lower for the poor.

-**Social and progressive water pollution in France**: Page explaining the functioning and challenges of social water pricing in France (in french):

<https://yonnelautre.fr/spip.php?article5695 >

- **H2O Magazine** : 4-page article with an abstract by Mr Henri Smets (Académie de l'eau) entitled "**Le tarif progressif équitable pour l'accès à l'eau potable**" explaining how to choose an **equitable** system out of the various progressive pricing systems to guarantee that the average price per cubic meter is the same for all households on a particular network, in particular when a two-part tariff is used (fixed part + variable part).

<http://www.h2o.net/magazine/enjeux-...>

- **UNDP** : "**Human Development Report 2006**". This long and **very interesting report** contains a wealth of information and figures on water and sanitation problems across the world, and in particular **on pricing and subsidy issues** (pages 84 to 86 and 97 to 99). Available online at :

<http://hdr.undp.org/en/reports/glob...>

b) Video

-**Video on the pricing of water and electricity**: in which 4 speakers explain the issues of the pricing of water and electricity

<https://www.youtube.com/watch?v=XfiRf-Q2Mb0>

- Emplacement : Accueil > en > Wikiwater > Technical sheet > Reducing the cost of water > Social or solidarity pricing >
- Adresse de cet article : <https://wikiwater.fr/b2-general-presentation-the-main>