



BRIEFING PAPER

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Water bills-affordability and support for household customers

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(statistics – Sections 2.2 and 6)

Summary

- There has been a 40% real terms rise in household water bills since privatisation in 1989; but a 5% real terms decrease in water bills is expected between 2015 and 2020 ([NAO](#)).
- In 2014-15, 24% of households spent more than 3% of their income on water bills ([Ofwat](#)).
- In 2016-17, the forecast average household water bill is £389 ([Water UK](#)).
- Since privatisation in 1989, water companies have invested more than £116 billion in infrastructure assets and services ([Ofwat](#)).
- Around 760,000 people benefit from some sort of financial support from their water company and this is forecast to increase by 1 million by 2020 ([UK Government](#)).

Access to clean water and sanitation is a basic human right, but some people can find that water bills are unaffordable. Problems with affordability mean that bills can go unpaid, or customers cut back on water use or other essentials in order to afford their bills.

Water companies in England and Wales are not legally allowed to disconnect or restrict a household customer's water supply if a bill is unpaid. In 2014-15, the total amount outstanding from unpaid customers' bills was about [£2.2 billion](#). Costs associated with recovering and writing off this debt (known as bad debt) adds the equivalent of about [£21 a year](#) to each household customer's bill.

The UK Government supports the WaterSure and WaterDirect schemes in England, which provide payment support to customers in receipt of certain benefits. It has also legislated to allow water companies to provide social tariffs which address wider affordability issues in their regions. At least 19 water companies currently have social tariffs schemes in place (as at July 2016). However, uptake of new social tariffs has not met initial targets and a number of challenges around customer engagement and awareness have been identified.

Water companies also provide other forms of assistance to help customers who struggle to pay, including charitable trusts, flexible payment plans and water efficiency advice. In 2015-16, water companies provided a package of measures worth more than [£40 million](#) to help customers who were struggling to pay.

The Department for Environment, Food and Rural Affairs is the lead Government Department and sets the policy and legislative framework for the water industry. In May 2016, the [Secretary of State summarised](#) the Government's approach on water affordability as follows:

More social tariffs are being introduced right across the country, but the key point is that everybody is seeing a reduction in their water bills overall, because we have a good regulator and an efficient industry, and we are introducing further competition.

This is a devolved area and as such this Briefing Paper covers household customers in England only, unless otherwise specified. Detailed briefings on Scotland, Wales and Northern Ireland are available on request by Members and their staff. Some links to useful resources are included in Section 7.

1. Water affordability and bad debt

1.1 What is the problem?

Water and sanitation is recognised by the UN as a basic human right. The [UN Sustainable Development Goals](#) for 2030 include a goal to ensure availability and sustainable management of water and sanitation for all.

Water bills can be unaffordable for some people, which can mean that the bills go unpaid, or that customers cut back on water use or other essentials (such as food or heating) in order to afford their bills.¹ Water companies in England and Wales² are not legally allowed to disconnect or restrict a domestic customer's water supply if a bill is unpaid.³

1.2 Affordability of water bills

The Water Services Regulation Authority (known as Ofwat) published a Report: [Affordability and debt 2014-15](#) (December 2015) to inform the work policy and decision-makers carry out to address water affordability issues and water debt.

There is no official definition of "water affordability". The UK and Welsh Governments have previously measured water affordability using the proportion of households spending more than 3% of their income on water and sewerage bills.

Ofwat's Affordability and Debt Report found that 11% of households were spending more than 5% of income on water and sewerage bills; and 24% of households were spending more than 3% of income on water and sewerage bills.⁴ Not all customers are the same and the factors that influence affordability and cause debt can be varied and complex. The Affordability and Debt Report noted it is for companies to understand the different issues that drive debt in their regions.

24% of households are spending more than 3% of income on their water and sewerage bills.

The National Audit Office (NAO) found that, in 2013, water bills represented 2.3% of the average household expenditure. This ranged from 5.3% for the 10% of households with the lowest incomes, to 1.1% for the 10% of households with the highest income. The NAO noted that higher water bills, together with falling real incomes in

¹ Consumer Council for Water, [Affordability of water and sewerage bills](#), last updated 2015 [accessed 11 May 2016]

² Throughout this paper, water and sewerage companies and water only companies are referred to generically as "water companies" and combined water and sewerage bills and water only bills are referred to as "water bills".

³ Section 61 of the Water Industry Act 1991 (as amended by section 1, [Water Industry Act 1999](#) (as amended))

⁴ Ofwat Report, [Affordability and debt 2014-15](#), December 2015 [accessed 11 May 2016]

recent years, mean that water has become less affordable, particularly for lower income groups.⁵

In oral evidence to the Environment, Food and Rural Affairs (EFRA) Select Committee in 2012, the Consumer Council for Water estimated that to address the problem of water affordability would cost anywhere between £400 to £500 million.⁶ The Walker Review (2009) (see Section 5.6 below) recommended that all metered low income customers should be offered a discount on their bills, with an estimated cost of £330 million a year.⁷

1.3 Bad debt

Ofwat analysis of data revealed that the total level of revenue outstanding from customers' unpaid bills was about £2.2 billion in 2014/15. This represents an increase of about 17% over four years (£1.9 billion in 2010/11).⁸ The costs associated with recovering and writing off water debt (often referred to as bad debt) are the equivalent of adding about £21 a year to the bill of each household customer in England and Wales. This is up from £15 in 2009/10 (£17 in 2014/15 prices).⁹

Analysis of the Family Resource Survey by Ofwat showed that 80% of those reporting themselves as being in water debt were tenants living in rented property.¹⁰ Tenant bad debt is split between tenants that are known to water companies but not paying their bills; and tenants that water companies do not hold the correct details for. With the latter problem in mind, the Government introduced provisions in the [Flood and Water Management Act 2010 \(as amended\)](#) (FWMA) to tackle tenant's bad debt by placing a responsibility on landlords to provide details of their tenants for billing purposes.¹¹ However, these provisions have not yet been implemented and therefore do not apply.

During its pre-legislative scrutiny of the Draft Water Bill in 2013, the EFRA Select Committee examined bad debt in the industry, in particular the provisions in the FWMA. The EFRA Committee had previously recommended that the Government implement the relevant FWMA provisions without delay and noted disappointment

Bad debt costs are the equivalent of adding about £21 a year to the bill of each household customer in England and Wales.

⁵ NAO Report, [The economic regulation of the water sector](#), 8 October 2015, para 2.18 [accessed 11 May 2016]

⁶ Environment, Food and Rural Affairs Committee, [Oral evidence](#), 30 October 2012, Q53

⁷ Defra, [The Independent Review of Charging for Household Water and Sewerage Services Final Report](#) (The Walker Review) December 2009, p. 16 [accessed 16 June 2016]

⁸ In 2014/15 prices. See Ofwat Report, [Affordability and debt 2014-15](#), December 2015 [accessed 11 May 2016]

⁹ Ibid.

¹⁰ Defra, [Tackling bad debt in the water industry](#), January 2012 [accessed 5 July 2016]

¹¹ Section 45, Flood and Water Management Act 2010

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“to find that little or no progress had been made”.¹² The Committee reiterated its recommendation as follows:

We remain of the view that it is unacceptable for honest customers to be forced to subsidise those who refuse to pay their water bills. We reiterate our previous recommendation that Defra should implement the provisions of the Flood and Water Management Act 2010 on bad debt without further delay.¹³

In its [Response](#) to the Report, the Government explained that it took a “different view from that of the previous administration” explaining that regulation should not always be the first resort.¹⁴ Instead the Government supports a voluntary approach to obtaining this information in England through a website portal ([Landlord TAP](#)) for landlords and managing agents to provide basic contact information about their tenants to enable water companies to register them for billing.

In Wales, it is mandatory for landlords to provide tenants’ details to water companies.¹⁵ The [Water Industry \(Undertakers Wholly or Mainly in Wales\) \(Information about Non-owner Occupiers\) Regulations 2014](#) came into force on 1 January 2015 and place a duty on landlords to provide details of their own address along with the tenant’s name, date of birth and the date they started occupancy. If they do not provide this information they become jointly liable for payment of water charges at the tenanted property.¹⁶ [Non-statutory guidance](#) has been published by the Welsh Government which sets out what owners need to do to comply with the regulations.

In Wales it is mandatory for landlords to provide tenants’ details to water companies to help tackle bad debt.

1.4 Customer vulnerability

What is a vulnerable customer?

Ofwat published a [Vulnerability focus report](#) in February 2016 which was “intended to help the sector better identify and support customers in circumstances that make them vulnerable, together with providing practical guidance for the utility companies.”¹⁷

In this report, Ofwat broadens its approach to customer vulnerability and defines a customer whose circumstances make them vulnerable as:

A customer who due to personal characteristics, their overall life situation or due to broader market and economic factors, is not having reasonable opportunity to access and receive an

¹² Environment, Food and Rural Affairs Select Committee, Sixth Report of Session 2012-13, [Draft Water Bill](#), 1 February 2013, HC 674, Vol. I, Para 64

¹³ Environment, Food and Rural Affairs Select Committee, Sixth Report of Session 2012-13, [Draft Water Bill](#), 1 February 2013, HC 674, Vol. I, Para 65

¹⁴ Government Response to the EFRA Committee’s pre-legislative scrutiny of the Draft Water Bill, June 2013, [Cm 8643](#), paras 66-67 [accessed 20 June 2016]

¹⁵ Water UK, [Landlord portal to tackle debt](#), 3 March 2015 [accessed 31 May 2016]

¹⁶ National Assembly for Wales Research Service, [The Water Industry in Wales](#), April 2015 [accessed 9 June 2016]

¹⁷ Water Briefing, [Ofwat: more work needed to identify and help vulnerable customers](#), 18 February 2016 [accessed 23 June 2016]

inclusive service which may have a detrimental impact on their health, wellbeing or finances.¹⁸

Previously vulnerability has been based on particular types of customer (e.g the elderly and people on low incomes) as identified by section 2 of the Water Industry Act 1991 (see Role of Ofwat below). Ofwat notes the change in approach highlights the need to see vulnerability as relating to a set out circumstances, which may be transient, without labelling customers.

The range of circumstances are illustrated in the diagram below:



Source: Water Briefing, [Ofwat: more work needed to identify and help vulnerable customers](#), 18 February 2016

Ofwat also noted that although vulnerability issues are mainly considered in the context of residential customers, vulnerability may well be an issue for some business and third sector customers, perhaps especially among micro-businesses, which may share similar characteristics to residential customers and have a similar position in the market.

Vulnerability issues may affect some businesses and third sector customers, as well as householders.

What is the role of a water company?

Ofwat's Report found that water companies are in a strong position to identify and provide support to customers who find themselves in vulnerable situations:

water companies are in a strong position to identify and provide support to those customers who find themselves in situations of vulnerability given the vital nature of the services being provided. We [Ofwat] also think it is possible for companies to help their customers out of circumstances that make vulnerable.¹⁹

¹⁸ Ofwat, [Vulnerability Focus Report](#), February 2016 [accessed 23 June 2016]

¹⁹ Ofwat, [Vulnerability Focus Report](#), February 2016, p.12 [accessed 23 June 2016]

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Ofwat expects water companies to identify and support customers in circumstances that make them vulnerable as standard practice when delivering good customer practices. Ofwat expects the following to be part of all companies' standard customer service packages:

- providing well-trained staff that are able to empathise with and assist callers in distress;
- the availability of user-friendly websites;
- accessible, tailor-made and inclusive information resources for customers about support structures that companies provide; and
- the availability of flexible and bespoke payment arrangements.²⁰

Ofwat also published a [Practitioners Pack](#) to provide practical guidance for water companies. It aims to help water companies define their starting point when it comes to working with customers in circumstances that make them vulnerable; identify the key areas to focus on; provide examples of what good looks like when it comes to dealing with specific customer needs; and provide examples of practices that water companies have found useful in assisting their customers who have found themselves in circumstances that make them vulnerable.

Sharing data

The [Vulnerability Focus Report](#) found that data sharing between water companies and other organisations (such as data collection agencies, charities, housing associations, landlord associations, debt management organisations and healthcare providers) to support customers in need of assistance would also be helpful when supporting customers.²¹

However, Ofwat noted that many water company representatives reported a lack of data sharing as a barrier to identifying and assisting customers whose circumstances make them vulnerable, but many companies have also adopted work-arounds, using multiple data sources to build a profile of their customers and the regions that they serve.²²

When sharing data, the provisions of the Data Protection Act 1998 must be taken into account and balanced with the benefits of this approach. Ofwat's report confirms current company practice and the need to have regard to data protection principles:

most companies are making efforts to review, update and analyse their current databases to ensure that they have access to reliable and quantitative information about their customers. Others are considering new ways of gathering relevant data, such as entering into agreements with credit

²⁰ Ofwat, [Vulnerability Focus Report](#), February 2016, p.13 [accessed 23 June 2016]

²¹ Ofwat, [Vulnerability Focus Report](#), February 2016, p.14 [accessed 23 June 2016]

²² Ofwat, [Vulnerability Focus Report](#), February 2016, p.35 [accessed 23 June 2016]

reference agencies, to ensure the robustness of their data management systems and to get a more complete picture of customers in vulnerable circumstances. However, as with any data-driven initiative, to prevent the possibility of customer detriment arising from the sharing of personal data, companies, and their partner organisations, should have regard to the principles laid down in the Data Protection Act 1998.²³

The Information Commissioner's Office has issued a [Guide to Data Protection](#) for organisations handling and sharing personal data.

²³ Ofwat, [Vulnerability Focus Report](#), February 2016, p.14-15 [accessed 23 June 2016]

2. Customer bills

Box 1: Quick facts

- There has been a 40% real terms increase in household water bills since privatisation in 1989; but a 5% real terms decrease in bills is expected between 2015 and 2020.
- In 2014-15, 24% of households spent more than 3% of their income on water and sewerage bills.
- In 2016-17, the forecast average household water bill is £389.
- Unpaid customer bills amounted to £2.2 billion revenue outstanding in 2014-15. This bad debt adds the equivalent of about £21 a year to every household customer bill in costs associated with recovering and writing off.
- Since privatisation in 1989, water companies have invested more than £116 billion in infrastructure assets and services.
- In 2015-16, water companies provided a package of measures (including trust funds, debt matching, write-off schemes, debt advice and water efficiency measures) worth more than £40 million to support customers who were struggling to pay or were in debt.

2.1 Average cost of bills

The average annual household water bill in England and Wales for 2015-16 was £385,²⁴ although average bills by company varied from £329 (for Severn Trent Water) to £483 (for South West Water).²⁵

For 2016-17, the average household water and sewerage bill in England and Wales is forecast to be £389,²⁶ which is a real terms increase of £4 compared with the previous year. Details of forecast average bills by individual water company were [published by Water UK](#) in February 2016.

Water and sewerage bills vary between companies because the cost of providing services is not uniform. Factors that influence the level of bills include:

- geography of a company's operating area;
- number of customers in a company's operating area;

The average annual household water bill in England and Wales in 2016-17 is forecast to be £389.

²⁴ Water UK, [Water and sewerage bills falling in 2015-16](#), 3 February 2015 [accessed 11 May 2016]

²⁵ Note that South West Water customers have benefitted from a Government contribution which reduces each bill by £50 per year. Without this, South West Water's combined average bill would be around £533. See Section 5.6 of this Paper for more information.

²⁶ Water UK, [Household water and sewerage bills for 2016-17](#), 3 February 2016 [accessed 11 May 2016]

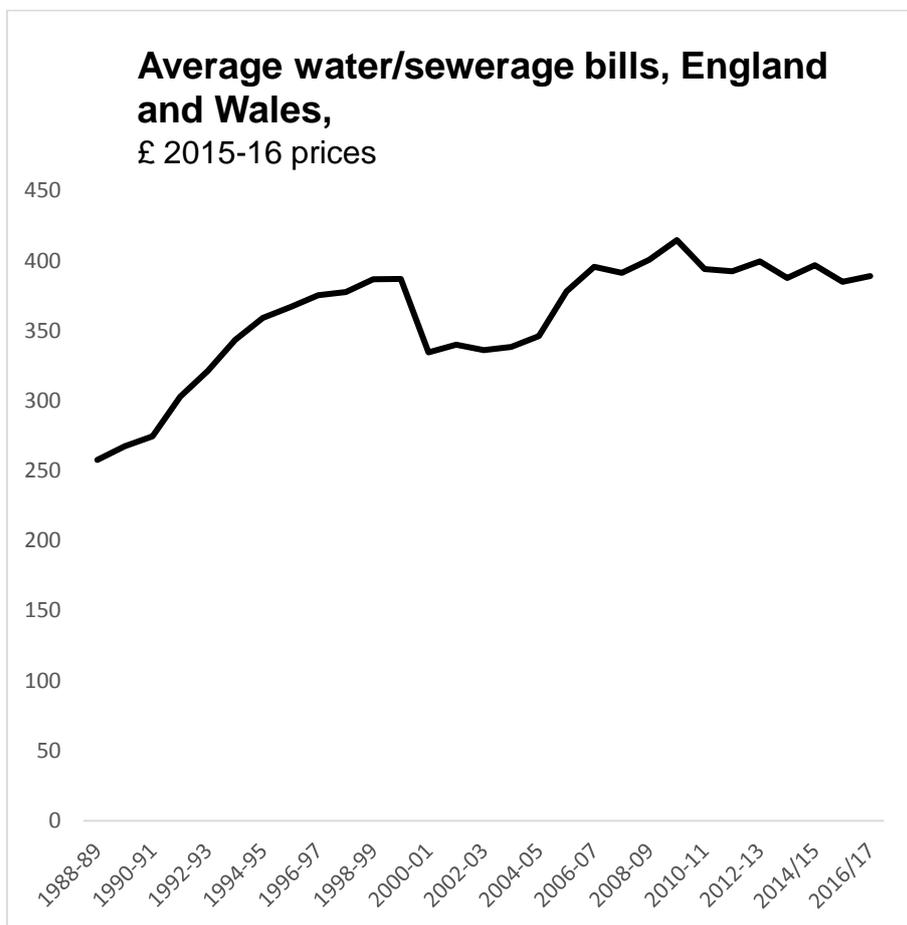
- ease with which water can be abstracted (taken from the environment);
- degree of pumping and treatment required; and
- state of repair and condition of company infrastructure.

2.2 Long term trends in water bills

According to the National Audit Office (NAO) Report: [The economic regulation of the water sector](#) (8 October 2015) there has been a 40% real terms rise in household water bills since privatisation in 1989. However, Ofwat expect a 5% real terms fall in household bills between 2015 and 2020.²⁷

The chart below illustrates the trend in the industry average annual bills since 1989. The table in Section 6 looks at changes since the late 1980s by water and sewerage company; the industry average also includes water only companies.

There has been a 40% real terms rise in household water bills since privatisation in 1989, but an expected 5% real terms fall in bills between 2015 and 2020.



The chart above shows that overall average bills increased at their fastest rate in the early 1990s and peaked at their highest in 2009/10. According to NAO, since 1995, the average bill has increased by 9%

²⁷ NAO, [The economic regulation of the water sector](#), 8 October 2015, p7 [accessed 11 May 2016]

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in real terms.²⁸ The table at Section 6 of this paper shows that since 1999/2000, the average water bill has increased by 1% in real terms; and since 2009/10 there has been a real terms decrease in average water bills of 6%.

Looking at individual water and sewerage companies, real increases since 1989/90 have varied from around 10% in the Anglian Water region to nearly 60% in the United Utilities (58%) and the Thames Water (55%) areas. In more recent years there has been a mixture of real terms increases and decreases. Since 2009/10, most individual water and sewerage companies have seen a decrease in average bills in real terms, ranging from around a 18% decrease in the South West region to a 7% decrease in the Wessex region. The Northumbrian and Thames regions have seen real increases in this same period of 4% and 2% respectively.

2.3 Impact of taxation and financing costs

Water companies are very capital-intensive as they need to fund considerable investment into infrastructure. The services provided by water companies are almost entirely funded by their customers and financed through private investment.²⁹ Ofwat estimates that, since 1999, the main reasons for customer bill increases have been the costs of complying with environmental and drinking water legislation and maintaining the existing infrastructure network.³⁰ Since privatisation in 1989, water companies have invested more than £116 billion in maintaining and improving infrastructure assets and services.³¹

Since privatisation, water companies have invested more than £116 billion in maintaining and improving infrastructure assets and services.

There is no separate or special tax regime for water companies. For all companies, the tax system differentiates between capital spending and current spending. Unlike current spending, capital expenditure is not simply offset against profits for tax purposes. Instead, companies get allowances for capital assets which produces a yearly deduction. Therefore, in presentational terms, a company can have a large 'operating profit' (the balance of its current expenditures and income) and yet have little or no tax to pay once the capital adjustments are made.

In addition, water companies commonly issue bonds (a form of debt funding) to investors to raise money on the financial markets. This is a more tax efficient form of funding than equities as debt interest is tax deductible. These structures are legal and commonly used in private equity.

²⁸ NAO, [The economic regulation of the water sector](#), 8 October 2015, p7 [accessed 11 May 2016]

²⁹ NAO, [The economic regulation of the water sector](#), 8 October 2015, p5 [accessed 11 May 2016]

³⁰ NAO, [The economic regulation of the water sector](#), 8 October 2015, p12 [accessed 11 May 2016]

³¹ Ofwat [Water sector overview](#) [accessed 11 May 2016]

[Water UK](#) (the UK-wide industry body) explains that the structures chosen by water companies have directly led to lower customer bills:

When companies invest for the future, they can defer - but not avoid - corporation tax due to the tax relief on capital allowances. This reduction in tax has directly led to lower customer bills.

Companies look to finance their investment as efficiently as possible. They use a mixture of debt finance and equity finance, of which the equity finance is more expensive, to compensate shareholders for the greater risk they face.

The stable and predictable regulatory regime has allowed companies to secure more of their finance through debt finance than the average UK company, which reduces bills for customers. It has also made the UK water industry an attractive destination for global investment in our essential services.³²

However, the choice of financing structures and consequent lower tax bills have also been criticised in the context of increasing customer bills.

Chair of Ofwat, Jonson Cox, has previously questioned the practice of water companies reducing tax payments in the UK by the use of bonds, describing the dichotomy between profits and prices charged to customers as raising “business, regulatory and moral questions” in the context of a vital public service.³³

More recently, former Shadow Defra Minister, Alex Cunningham MP, has criticised the low tax bills paid by water companies, stating that:

Water consumers who have seen their bills increase considerably over time will be angry that the companies that supply their homes have collectively paid a lower rate of tax than some of their lowest paid customers, many of who struggle to pay their bills. It is time the government acted on the total lack of transparency and ensured that all companies making vast profits at the expense of the British people do the right thing and pay their taxes in the UK.³⁴

In the Budget 2016, the Government announced that it will introduce new rules to limit the tax relief that large multinational enterprises can claim for their interest expenses from 1 April 2017, stating that:

The government is committed to low taxes to support business – but these low taxes must be paid. Tax avoidance and aggressive tax planning by multinationals is unacceptable and the [business tax road map](#) sets out a package specifically targeting multinational enterprises that are engaged in these activities.³⁵

Water company structures and lower tax bills have been criticised in the context of increasing customer bills.

³² Water UK, [Investment, profits and tax](#), 27 November 2014 [accessed 3 June 2016] See also: Water UK briefing, [Water companies' investment and tax](#), November 2013 [accessed 3 June 2016]

³³ The Telegraph, [Dichotomy between water profits and prices raises moral questions](#), comment piece by Jonson Cox, 9 June 2013 [accessed 11 May 2016]

³⁴ The Sun, [Tax poophole: water and sewage firms are paying nothing despite raking in a massive £1.6bn in profits](#), 30 April 2016 [accessed 9 June 2016]

³⁵ HM Treasury, [Budget 2016](#), 16 March 2016, para 4.21 [accessed 23 June 2016]

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Before the Budget was published, the water industry had pushed for a specific exemption from these rules, stating that the tax relief available on interest payments encourages the large amounts of investment made by water companies and that the industry “was not comparable with multinationals that shift profits to avoid paying tax in the UK”.³⁶ The Government has not proposed a specific exemption for water companies but the [Business Tax Road Map](#) does state that:

The government also intends to introduce rules to ensure that the restriction does not impede the provision of private finance for certain public infrastructure in the UK where there are no material risks of BEPS [Base Erosion and Profit Sharing].³⁷

At this time the Government stated that it would consult on the detailed design of these rules, with a view to including legislation in *Finance Bill 2017*.³⁸ This consultation was launched on 26 May 2016; details are [collated on Gov.uk](#).³⁹

Water UK publishes information about water companies’ operations, investment and performance, including detailed tables of data on companies’ profit-loss accounts as well as tax paid and tax deferred. Please refer to [Water UK: Industry Facts and Figures 2015](#).

Following a detailed review of board leadership and governance in 2014-15, Ofwat has also published a report [What progress are water companies making towards being transparent about their governance and performance?](#)

More discussion of the interaction of Ofwat’s price review process with factors such as tax rates is included in Section 4.1 below.

³⁶ Financial Times, [Water companies press for tax exemption](#), 11 February 2016 [subscription needed] [accessed 23 June 2016]

³⁷ HM Treasury, [Business tax road map](#), para 2.36 [accessed 5 July 2016]

³⁸ HM Treasury, [Overview of tax legislation & rates](#), March 2016 para 2.28

³⁹ The Government’s proposals to restrict interest deductibility as part of its efforts to combat Base Erosion & Profit Shifting are discussed in Commons Briefing paper SN5945 [Corporate Tax Reform \(2010-2016\)](#), 20 June 2016 - see section 6.2 in particular.

3. What help is there for those struggling with water bills?

Financial support for customers who struggle to pay water bills varies substantially from company to company. Water companies have several schemes to help customers who struggle to pay, including social tariffs which provide discounts to vulnerable consumers, often paid for by slightly higher bills for other customers. Some companies also have charitable trusts and other sources of funding to help customers struggling to pay their bills. Details of the specific funding schemes available can be found on individual water company websites.

The Government has stated that around 760,000 people benefit from some form of financial support from their water company and this is forecast to increase by one million by 2020.⁴⁰

According to Water UK, in 2015-16, water companies provided a package of measures (including trust funds, debt matching, write-off schemes, debt advice and water efficiency measures) worth more than £40 million to support customers who were struggling to pay or were in debt.⁴¹ More information is set out in the [Water UK briefing on Affordability](#).

3.1 Options open to everyone

Householders struggling to pay their bill should get in contact with their water company as soon as possible.

Water companies can offer:

- online advice of what help is available;
- helplines with specially trained staff;
- flexible payment plans;
- referrals to charitable trusts and hardship funds;
- free water meters in some cases.⁴²

Water companies also offer advice on their own special tariffs and can refer customers to local debt advice agencies where appropriate.

CCWater teamed up with poverty relief charity Turn2us in January 2016 to launch a [Benefits Calculator](#) (see paragraph 3.2 below) and [Grants Search Tool](#) to help low-income customers identify ways to boost their household income and pay off debts. The Grants Search Tool can be used by customers to see if they qualify for assistance

⁴⁰ HM Treasury, Treasury Minutes, [Government responses on the Fifteenth to the Twentieth reports from the Committee of Public Accounts: Session 2015-16](#), Cm 9237, March 2016

⁴¹ Water UK, [More social tariffs in place](#), 1 April 2015 [accessed 11 May 2016]

⁴² Water UK, [Affordability](#) [accessed 11 May 2016]

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from more than 3000 charitable funds, including those established by water companies.⁴³

More information on water meters is provided in the [Library Briefing Paper on Water meters: the rights of customers and water companies](#).

In addition, [Citizens Advice](#) and [Consumer Council for Water](#) provide detailed information on their websites on the options that are available when customers are struggling to pay their bills.

The [Consumer Council for Water](#) also gives the following tips on how to reduce water bills:

Consider switching to a meter For many households the most effective way of cutting their water bill is to have a water meter installed free of charge. Some people can save more than £100 a year and there's usually an option to switch back to your original unmeasured charges within the first year, or even longer in some cases, if you change your mind. It won't benefit everyone but as a 'rule of thumb' if your property has more bedrooms than people living there it's definitely worth checking if you could save. Use our [online calculator](#) to find out how much, if anything, you would be likely to save.

Stop paying for a service you don't receive If you have a soak-away in your garden – which drains all of the surface water from your property back into the earth – you can apply for the surface water drainage charges to be removed from your bills. This will typically save you about £35 a year. If you've got a septic tank instead of a connection to the sewerage system you shouldn't be paying a penny in sewerage charges. Check your bill – it could save you around £200 a year.

Sign up to WaterSure If you're already on a water meter but have high usage needs due to a large family or a medical condition, and you also receive income-related benefits, then the WaterSure scheme can help. All water companies in England and Wales offer the scheme which limits the amount you are charged each year.

Ask for help if you are on a low income Most water companies in England and Wales now offer reduced 'social tariffs' for customers on lower incomes. In some cases this can reduce your bills by more than 50 per cent.

Fish for some freebies If you're a metered customer then using water more efficiently will cut your water bill. Many water companies now offer free water-saving devices – all you need to do is pick up the phone and ask for some. And even if you aren't metered, using hot water more wisely can help reduce your energy bills. Options open to those in receipt of certain benefits

⁴³ CCWater [Annual Review 2015/16](#) for England and Wales [accessed 8 August 2016]

3.2 Options for those in receipt of certain benefits

Customers in receipt of certain benefits may be eligible for particular schemes. There is a [Benefits Calculator](#) available on CCWater's website which helps customers identify whether or not they are entitled to a wide range of means-tested benefits.

WaterSure

The national WaterSure tariff was introduced by the [Water Industry \(Charges\) \(Vulnerable Groups\) Regulations 1999](#) (as amended). All water companies in England and Wales offer the WaterSure Scheme.

It provides help for households with more than three children (under 19) who are on a water meter and in receipt of certain benefits. It places a cap on what the householder pays—they only have to pay the average charge for the region, even if they use significantly more water.

To be eligible for the scheme, the householder has to be claiming one of the following:

- council tax benefit;
- housing benefit;
- Income Support;
- income-based Jobseeker's Allowance;
- Working Tax Credit;
- Child Tax Credit (except families in receipt of the family element only);
- Pension Credit;
- Income-related Employment and Support Allowance.⁴⁴

WaterSure is also available to those in receipt of these benefits without children when they have a medical condition (such as psoriasis) that requires significant use of water.⁴⁵

Water companies operating in England reported an increase in WaterSure take up from 35,300 to 94,000 between 2009/10 to 2014/15 (an increase of 170%). However, awareness of WaterSure across England (and the Water Assist scheme across Wales) remains low at around 9%.⁴⁶

Helpful information about how to apply for WaterSure is available on the [Citizens Advice page on the WaterSure scheme](#).

⁴⁴ Ofwat, [WaterSure \(vulnerable groups scheme\)](#) [accessed 8 April 2013]

⁴⁵ Ofwat, [WaterSure \(vulnerable groups scheme\)](#) [accessed 8 April 2013]

⁴⁶ Ofwat, [Affordability and debt 2014-15](#), December 2015, p11 [accessed 22 June 2016]

Water Direct

The Department of Work and Pensions runs a third party deduction scheme which is available to claimants of certain benefits. This means that bills are paid directly out of benefits payments. Where this is used to repay water debt or charges it is known as Water Direct.

More information is available on the CCWater [webpage on WaterDirect](#) and on the Gov.uk webpage on [Help paying your bills using your benefits](#).

3.3 Social Tariffs

Water companies are explicitly allowed by the [Flood and Water Management Act 2010](#) to include social tariffs in their charges scheme whereby they reduce charges for customers who would otherwise have difficulty paying their bill in full.

In June 2012, the Government introduced [guidance on social tariffs](#) for water companies and Ofwat under section 44 of the FWMA, setting out how social tariffs can be introduced. Companies have been able to introduce social tariffs since April 2013.⁴⁷

Water companies can choose whether or not to introduce social tariffs, following consultation with Ofwat and their customers. The reduction of charges can be funded by a cross-subsidy between customers, introduced by the water company.

Water UK has a list of every company in England and Wales that has a social tariff scheme—totalling 19 (out of 21) in July 2016. More information on each relevant scheme can be found on CCWater's webpage on [Lower bills for customers struggling to pay](#). Portsmouth Water is the most recent company to introduce a social tariff in July 2016.⁴⁸

In relation to the take-up of social tariffs, Ofwat stated that:

Most companies have not achieved the initial target they set for registered customers for their social tariff schemes. They have highlighted a number of challenges around this, including: the availability of cross-subsidy; lack of awareness and engagement around the schemes; initially set criteria for a customer to join schemes; and lack of uniformity of schemes.⁴⁹

The Ofwat [Affordability and Debt](#) Report includes more detail on take up rates and recommendations and good practice for addressing these challenges.

In December 2015, the Public Accounts Committee published a [Report on economic regulation of the water sector](#) in which it recommended that all companies should provide a minimum\

⁴⁷ HC Deb 19 November 2012 c341W

⁴⁸ Utility Week Live, [Water firms launch new social tariffs to help struggling customers](#), 4 April 2016 [accessed 23 June 2016]; CCWater, [Portsmouth Water – New Social Tariff Scheme](#), [accessed 6 July 2016]

⁴⁹ Ofwat, [Affordability and debt 2014-15](#), December 2015, p10 [accessed 22 June 2016]

threshold of support and that take-up rates of social tariffs should be monitored by Defra and Ofwat:

Currently 14 of the 18 large companies in the sector have introduced social tariffs. The water companies and the Consumer Council for Water recognise that there are varying levels of customer awareness around eligibility for these schemes which is an obstacle to take-up - especially where customers are served by different water and sewerage suppliers.

Recommendation: Defra and Ofwat should ensure that all companies provide a minimum threshold of support for low-income customers who are struggling to pay, and oblige companies to advertise clearly the support they provide to all customers. Defra and Ofwat should monitor take-up rates to identify priority areas where improvements are needed.⁵⁰

The Government did not accept the recommendation regarding to a minimum threshold of support. However, it did agree that take-up rates should be monitored:

The Government agrees that customer take-up rates for support should be monitored and Ofwat will ask each company to confirm how it is meeting its own targets on a regular basis. Around 760,000 people benefit from some form of financial support from their water company and this is forecast to increase by one million by 2020.⁵¹

⁵⁰ On the basis of a Report by the Comptroller and Auditor General on [The economic regulation of the water sector](#), HC 487, 14 October 2015 [accessed 22 June 2016]

⁵¹ HM Treasury, Treasury Minutes, [Government responses on the Fifteenth to the Twentieth reports from the Committee of Public Accounts: Session 2015-16](#), Cm 9237, March 2016

4. Regulation of the water industry

The water industry in England and Wales was privatised in 1989. Over 50 million household and non-household customers in England and Wales receive services from one of 32 privately-owned companies.⁵² Most water and sewerage companies are regional monopolies, with dedicated pipe networks and water supplies in each water company area. This means that most people cannot choose or switch their supplier and competition is limited. Consequently there is a need for economic regulation of the industry to ensure that customers get value for money.

All water companies hold an appointment as a water undertaker (or sewerage undertaker as relevant), which is subject to a number of conditions. This is also referred to as a licence. Copies of each undertaker's licence are available on [Ofwat's webpage on licences](#).

Water companies must also comply with a range of UK and EU water quality, environmental and economic legislation. Ofwat is the economic regulator; the Environment Agency (England) and Natural Resources Wales (Wales) are the environmental regulators; and the Drinking Water Inspectorate is the drinking water quality regulator. Consumer Council for Water is the independent representative of household and business customers in England and Wales.

4.1 Role of Ofwat

Ofwat is the economic regulator. Its primary statutory duties are:

- to further the consumer objective;
- to ensure that water and sewerage companies properly carry out their functions and are able to finance them; and
- to secure the long-term resilience of water supply and wastewater systems.⁵³

Ofwat also has a number of secondary duties which are set out on its webpage [Our duties](#).

Consumer Objective

The "consumer objective" is to protect the interests of consumers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the provision of water and sewerage services.⁵⁴

Section 2 of the Water Industry Act 1991 identifies particular types of customer who Ofwat is legally required to have regard to the interests of. These include individuals who are disabled or chronically sick; individuals of pensionable age; individuals with low incomes; and individuals residing in rural areas. However, Ofwat must not take this

⁵² Ofwat, [Water sector overview](#) [accessed 11 May 2016]

⁵³ Section 2, Water Industry Act 1991 (as amended).

⁵⁴ Section 2(2B), [Water Industry Act 1991](#) (as amended).

to imply that regard may not be had to the interests of other types of consumers.⁵⁵

Ofwat must also have regard to the strategic guidance issued by Defra and the Welsh Government. Defra's [strategic policy statement](#) to Ofwat includes the following:

Ofwat shall ... keep under review whether companies are taking sufficient action to have a measurable positive impact on the needs of those customers that may struggle to afford their charges.⁵⁶

In addition, as discussed in Section 1.4 above, Ofwat is reviewing its approach to vulnerability to look at circumstances without labelling customers.

Price Review

Ofwat carries out a price review process every five years in which it sets wholesale price controls which apply to customers' bills and the services they receive for five-year periods. These five-year cycles are often referred to as Asset Management Planning Periods or AMPs. When setting the price controls, Ofwat must balance the interests of the customer with the need to make sure the water company can finance its delivery of infrastructure and services to customers, as well as meeting their other legal obligations.

The last price review was carried out in 2014 and set price limits from April 2015 to March 2020. In the last price review, Ofwat placed more emphasis on customer engagement and expected companies to take responsibility for engaging more with their customers to give them more say over the prices and services that they provide. The next price review is due to commence in 2019. More information on the price review process is set out on [Ofwat's webpages](#) and further information about how Ofwat has increased engagement with customers is included on Ofwat's [Price review 2014, Customer Engagement webpage](#). The NAO Report on the [Economic Regulation of the Water Sector](#) also includes detailed analysis of the price review process.

By accepting Ofwat's price limits, water companies agree what they will deliver for customers in return for the revenues that they can expect to recover. They also accept the risk associated with delivering services in line with the price limits. The price review approach and five year periods means that companies can make gains if costs turn out to be lower than Ofwat's assumptions during the price review; but companies also bear the risk of the losses if costs turn out to be higher than Ofwat's assumptions. Costs may turn out to be lower if companies take actions to make efficiency savings within their operations; but can also be lower (or higher) due to

⁵⁵ Section 2(2C), [Water Industry Act 1991](#) (as amended).

⁵⁶ [Defra's strategic policy to Ofwat](#), May 2013 [accessed 16 June 2016]

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aspects outside a company's control, such as taxation or financing costs. These aspects are discussed further in Section 2.3 above.

In 2013, the Consumer Council for Water estimated that water company profits were inflated by £600 million over the prior two years due to low interest rates and high inflation:

Water companies have beaten Ofwat's profit assumptions by around 30% in the last two years alone. Of this at least £600m is due to the benefits that companies get when inflation is high and interest rates are low. CCWater has been talking to water companies about using some of this money to improve their services for customers' benefit.⁵⁷

According to the NAO, the total turnover of water companies in 2014-15 was £11.8 billion.⁵⁸ The NAO found that, between 2010-2015, water companies benefitted from several factors outside their control, including cuts in corporation tax rates and unexpected falls in borrowing costs:

We estimate that, had Ofwat used a similar indexation approach [to Ofgem] in 2009, total customer bills would have been £840 million lower between 2010 and 2015. Conversely, under Ofgem's approach customers could have faced higher bills if interest rates had risen above their long-term average.

...

Cuts in corporation tax rates after price limits were set meant that regulated companies paid up to £410 million less in tax than Ofwat had assumed. This combined with other factors, such as regulated companies offsetting taxable profits with unpaid-for losses from holding companies, to lead to an overall gap of at least £710 million between actual tax payments and Ofwat's assumptions. Ofwat only shares the benefits of lower than expected tax payments with customers if the change is due to a financial restructuring of the regulated water company.⁵⁹

In January 2016, the House of Commons Committee of Public Accounts recommended that Ofwat should review its approach to the Price Review process as following the "windfall gains of at least £1.2 billion between 2010 to 2015" made by water companies as a result of "Ofwat over-estimating water companies' financing and tax costs over the period":

Ofwat has consistently over-estimated water companies' financing and tax costs when setting price limits. As a result, water companies made windfall gains of at least £1.2 billion between 2010 and 2015 from bills being higher than necessary.

For the 2010 price review Ofwat also set an allowance for corporation tax charges which was not adjusted to reflect the falls in the headline tax rate that subsequently occurred. As a result, water companies made windfall gains of at least £1.2

⁵⁷ Consumer Council for Water, [Water Watchdog Challenges Industry on Extra Profits](#), 23 May 2013 [accessed 3 June 2016]

⁵⁸ NAO Report, [The economic regulation of the water sector](#), 8 October 2015, key facts [accessed 11 May 2016]

⁵⁹ *Ibid.*, para 13

billion between 2010 and 2015 from bills being higher than necessary. Other regulators have adopted different approaches to setting revenue allowances for tax and debt costs. For example, the energy regulator Ofgem updates these allowances annually to reflect changes in corporation tax and the market cost of debt for companies with similar characteristics to those it regulates.

Recommendation: Ofwat should review its approach to setting allowances for the cost of debt and corporation tax, taking into account the methods used by other economic regulators, and report publicly on what actions it intends to take to improve its performance.⁶⁰

The Government accepted this recommendation with a target implementation date of December 2017:

Ofwat is looking at how it sets the cost of debt and its approach to tax as part of its overall strategy for the next price review in 2019 (PR19) to ensure that there is an appropriate sharing of risks between companies and customers in line with its statutory duties. Ofwat is carrying out a programme of work that is designed to determine this policy over the next 2 years and will include its position in the methodology statement for the PR19 in December 2017. Ofwat is working closely with other regulators through the UK Regulators Network (UKRN) on common policy areas, which includes tax and cost of debt.⁶¹

Interim changes to price limits

There are two existing ways in which price limits can be changed by Ofwat between price reviews:

- 1 an [interim determination](#), which can be applied for by the company or triggered by Ofwat;⁶² or
- 2 a [substantial effects determination](#), which can be triggered by the company or by Ofwat.

Interim determination

All companies can ask Ofwat to reset their price limits between price reviews if specific changes have led to a significant reduction in their revenue or an increase in their costs.

For example, in August 2013, Thames Water applied to Ofwat for an interim increase in prices for the following year by way of an interim determination. Thames Water claimed it had faced extra costs of £291 million because various items (including bad debts, the transfer of private sewers, land purchases relating to Thames Tideway Tunnel and higher Environment Agency charges) had cost more than the amount estimated when the price limits were set in 2009. Thames

⁶⁰ House of Commons Committee of Public Accounts, [Economic regulation of the water sector](#), Fifteenth report of Session 2015-16, HC 505, 13 January 2016, para 1

⁶¹ HM Treasury, Treasury Minutes, [Government responses on the Fifteenth to the Twentieth reports from the Committee of Public Accounts: Session 2015-16](#), Cm 9237, March 2016

⁶² This is also referred to as an interim determination of Condition K (or an IDoK)

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Water asked to add an extra £29 or 8% to the annual average household bill.

On 8 November 2013, Ofwat published their [final decision](#) to disallow Thames Water's application on the basis that Thames Water had not provided enough evidence to justify an increase in bills.⁶³ However, Ofwat's previous agreement with Thames Water still allowed it to increase charges by 1.4% above inflation in 2014-15.

Substantial Effects Determination

The broader impacts of changes beyond management control can be reflected in a re-consideration of price limits, provided that a 20% materiality threshold is met i.e. the value of the impact must be at least 20% of a company's annual turnover. The substantial effects determination can be triggered by either a company or Ofwat depending on whether such an event has a favourable or adverse effect on a particular company.

For example, in September 2013, Ofwat announced that they were considering this mechanism in relation to Thames Water for its 2014-15 bills but, following [consultation](#), Ofwat decided not to pursue a substantial favourable effect notice.⁶⁴

⁶³ Ofwat, [Final determination of Thames Water's IDoK application](#), November 2013 [accessed 5 July 2016]

⁶⁴ Ofwat position note, [Ofwat's decision not to pursue a substantial favourable effect notice on Thames Water's price limits for 2014-15](#), 11 February 2014 [accessed 13 May 2016]

5. UK Government action on water affordability

The Department for Environment, Food and Rural Affairs (Defra) is the lead Department for the water industry in England and sets the policy and legislative framework. The latest information on what the Government is doing about the [water industry](#) and [water and sewerage services](#) is published on Gov.uk.

Ofwat is a non-ministerial Government department directly accountable to Parliament. The Government provides Ofwat with a [Strategic Policy Statement](#) to transparently set priorities for the regulator. Ofwat is required to report on the steps they have taken in response to the Government's steer.

In [response to an oral question](#) about whether the Government will introduce a "fair scheme for all vulnerable customers" on 5 May 2016, the Secretary of State, Elizabeth Truss, stated that:

More social tariffs are being introduced right across the country, but the key point is that everybody is seeing a reduction in their water bills overall, because we have a good regulator and an efficient industry, and we are introducing further competition.⁶⁵

Significant Government reviews, consultations, legislation and actions since 2009 are set out below in reverse chronological order.

5.1 Better Markets Bill (2016)

The Queen's Speech 2016 announced the [Better Markets Bill](#) with a purpose of opening up markets, boosting competition, and giving consumers more power and choice and making economic regulators work better.

The subsequent [Government press release](#) and accompanying [Call for Evidence](#) (25 May 2016) explains that, in relation to water, the focus is on whether the provision of advice, advocacy and dispute resolution could be made better for consumers.⁶⁶

The Call for Evidence also confirms that changes to the water sector are unlikely to occur before 2019:

The tailored review of the Consumer Council for Water is due to take place in 2019. The Government will need robust evidence to justify any changes in this sector before this date.⁶⁷

⁶⁵ HC Deb, 5 May 2016, [Col 301](#)

⁶⁶ BIS and DCMS, [Government considering plans to make 7 day switching a reality across more markets](#), 25 May 2016 [accessed 27 May 2016]

⁶⁷ BIS, [Call for Evidence on Improving the Consumer Landscape and Quicker Switching](#), May 2016 [accessed 27 May 2016]

5.2 Increasing competition for household customers (2015)

Following the publication of the Government's productivity plan in July 2015,⁶⁸ the Government published [A better deal: boosting competition to bring down bills for families and firms](#) in November 2015 which examined the core industries that account for a significant proportion of household spending.

Water bills were identified as the sixth highest average annual cost for households, following housing costs (including mortgage repayments); energy; clothing; insurance; and telecoms.⁶⁹ In this report the Government announced that it "will work with water companies to begin the transition to household retail competition before the end of this Parliament".

Retail services are those services relating to customer services such as customer care, billing, selling, metering and advice. It would not mean that the water that comes out of customers' taps would be any different, but that customers would be able to choose which company provides them with the customer-facing services.

The [Consumer Council for Water published a Report](#) on 20 May 2016 which examines the views and concerns of household customers on the potential opening-up of the market.⁷⁰ Its findings included that around two thirds of households would like the freedom to switch retail water suppliers; but only a third said they were likely to consider switching when they were informed that potential savings would be approximately 1% of the overall annual bill (between £4-8).⁷¹

In order to provide an assessment by summer 2016 of the costs and benefits of extending retail competition to household water customers in England,⁷² Ofwat published [terms of reference](#) and a short [call for evidence](#) in early 2016.

Ofwat published an [interim report](#) in July 2016, which found that there are important policy decisions that need to be given careful consideration ahead of introducing a competitive household market, such as whether and how to provide protection for customers who are not active in the market and how to provide assistance for vulnerable customers and social tariffs. Other emerging findings included:

⁶⁸ HM Treasury, [Fixing the foundations: Creating a more prosperous nation](#), July 2015 [accessed 11 May 2016]

⁶⁹ HM Treasury, [A better deal: boosting competition to bring down bills for families and firms](#), November 2015, Table 1.A [accessed 11 May 2016]

⁷⁰ SYSTRA on behalf of CCWater, [Floating the idea: Household customer views on water market reform in England](#), 20 May 2016 [accessed 27 May 2016]

⁷¹ CCWater blog, [Household support for water competition hinges on bill savings](#), 20 May 2016 [accessed 27 May 2016]

⁷² HM Treasury, [A better deal: boosting competition to bring down bills for families and firms](#), November 2015, Box 1.A [accessed 11 May 2016]

- There are potential benefits available from the introduction of competition. The scale of those benefits will depend on how competition is designed and implemented.
- Choice is something customers want – Ofwat’s research suggested that approximately half of customers would welcome having a choice as a result of competition.
- Many customers said they would want significant savings to switch. Retail costs accounts for about 10% of the average bill of £386. Ofwat’s analysis showed that competition could drive efficiencies in retailing that on their own would suggest a price saving for customers in the order of £6 – or 2% – off the average bill.
- Half of the customers surveyed identified other factors, such as service improvements and innovation, that would be attractive to them.⁷³

In July 2016, Defra’s representative in the Lords (Lord Gardiner of Kimble) gave the following update on introducing household competition:

Let me set out our stall: we want to have good evidence on the potential for household competition and the benefits that it could bring for customers. We have asked Ofwat, as the independent economic regulator, for an analysis of the potential costs and benefits for household customers, and we believe it will be due in September. Obviously the introduction of household competition would require amendments to be made to primary legislation and, indeed, changes to Ofwat’s price review process. There would also need to be an agreed practical timetable for delivery.⁷⁴

More background information is set out in Section 4 of the Library Briefing Paper on [Increasing competition in the water industry](#).

5.3 Water Act 2014

The most recent piece of primary legislation relating to the provision of water and sewerage services is the [Water Act 2014](#). This Act introduced a legislative framework for a significant degree of market reform in England and Wales, including:

- increasing retail competition for the non-household sector (i.e. businesses, charities and the public sector), including by allowing new entrants into the market and allowing non-household customers to switch retail suppliers if they choose to do so. The reformed retail market is expected to commence in England in April 2017.⁷⁵ The Welsh Government has postponed the introduction of non-household retail competition in Wales.

⁷³ Ofwat, [Extending retail competition to residential customers](#), July 2016 [accessed 8 August 2016]

⁷⁴ HL Deb 5 July 2016, Vol 773, [Col 179](#)

⁷⁵ The [Draft Water and Sewerage Undertakers \(Exit from non-household Retail Market\) Regulations 2016](#) were debated by the [House of Lords in General Committee](#) and a [House of Commons delegated legislation committee](#) in July 2016 in advance of the Regulations coming into force on 3 October 2016.

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- introducing upstream competition, relating to the supply of raw or treated water into a company's network or the removal of waste water or sewage for treatment. These changes are not expected until around 2019.

Detailed information on these changes is set out in the Library Briefing Paper on [Increasing competition in the water industry](#).

Previous Labour proposals on affordability

There were calls from the Opposition for Government to look at additional measures that could address water affordability during the passage of the Water Act 2014. These are detailed in the [Library Research Paper on the Water Bill](#) (see section 5.2) and the [Library Research Paper on the Committee Stages of the Water Bill](#).

The then shadow Secretary of State for Environment, Food and Rural Affairs, Maria Eagle, called for a range of changes to tackle water affordability during second reading, including:

- Giving Ofwat “tougher powers to bring down prices” between price reviews;
- A new National Affordability Scheme;
- Water companies being required to help those who are struggling to pay their bills;
- Implementation of the provisions on bad debt in the Flood and Water Management Act 2010.⁷⁶

National Affordability Scheme

During Committee stage of the Water Act 2014, then shadow Minister Thomas Docherty moved new clause 30, which would require the Secretary of State to bring forward a National Affordability Scheme “with an eligibility criteria prescribed by the Secretary of State in the form of a statutory instrument, subject to the approval of both Houses”.⁷⁷ Mr Docherty raised concerns that the social tariffs being offered did not provide the required level of support.

Mr Docherty stated that the new clause would end “the post-code lottery by ensuring that every water company has a social tariff”.⁷⁸ These would be determined by national criteria but be funded and delivered regionally.

Some members of the Committee raised concerns about the affordability of this approach, and the extent to which other customers would be able to afford higher bills to fund the scheme. Mr Docherty responded that the eligibility criteria would have to be determined later in secondary legislation.

In response, the then Minister said that a “nationally mandated social tariff would be difficult to introduce”. He said that “if there were

⁷⁶ HC Deb 25 November 2013, Col 63

⁷⁷ Water Bill Deb 10 December 2013 Col 147

⁷⁸ Ibid., Col 151

nationally set criteria—income-based, for example—under which people became eligible... because of regrettable disparities in income between different parts of the country and different water company areas, different numbers of people would be eligible in different water company areas, and because of that, the burden on the remaining customers would vary by area”.⁷⁹

See the [Library Research Paper on the Committee Stages of the Water Bill](#) for more detailed information.

In the Lords stages, Lord Whitty also proposed the introduction of a national affordability criteria with determined eligibility criteria determined by the Secretary of State in consultation with relevant bodies. He argued that social tariffs in operation and those likely to be rolled out in the future were likely to have a limited reach and would not be sufficiently inclusive. See the [Library Research Paper on the Lords Amendments on the Water Bill](#) for more detailed information.

5.4 Voluntary action (2013)

In 2013, Ofwat sought voluntary agreements from companies to raise their bills in 2014/15 by less than the regulator had originally permitted. Only six out of the ten largest water and sewerage companies heeded this call, though the sector eventually shared some £400 million with their customers once absorbed costs and additional support for customers struggling to pay are taken into account.⁸⁰

The then Secretary of State Owen Paterson also wrote a letter to all water companies in which he urged companies to share the benefits of their unexpectedly high profits:

It is essential that unexpectedly high profits for companies are translated into real and tangible benefits for customers through higher investment or lower bills. I therefore welcome the positive response the industry has made to this challenge so far through absorbing some additional costs and investing in services that benefit customers.⁸¹

All relevant water company responses are available following a [Freedom of Information Release](#) in November 2013.

5.5 The Water White Paper (2011)

The Coalition Government published its policy on water affordability in its Water White Paper, [Water for Life](#).⁸²

⁷⁹ Ibid., Col 166

⁸⁰ House of Commons Committee of Public Accounts, [Economic regulation of the water sector](#), Fifteenth report of Session 2015-16, HC 505, 13 January 2016, para 2

⁸¹ Defra, [letter to all Water Company CEOs](#), 4 November 2013 [accessed 22 June 2016]

⁸² HM Government, [Water for Life](#), CM 8230, December 2011 [accessed 22 June 2016]

It did not propose additional government funding to tackle water affordability. Its principle response to affordability was to continue the WaterSure tariff, and to give water companies the discretion to introduce their own social tariffs for vulnerable customers not eligible for Watersure. The Government hoped that its wider reforms of the sector, such as on competition in the Water Act 2014, would help to keep bills down in the longer term.

Detailed discussion and scrutiny is set out in the EFRA Committee's [Report on the Water White Paper](#) and the corresponding [Government Response](#).

5.6 Walker Review (2009) and Government consultation on affordability (2011)

A major review of charging for household water and sewerage services was published in 2009. The [Walker Review](#) concluded that it was right that water bills reflect the true value of water to help pay for the necessary investments in the sector. However it noted that increases in water bills to pay for this investment can make affordability a problem for certain vulnerable groups.⁸³

The Walker Review made a number of recommendations seeking to ensure that water bills remain affordable to all. It recommended that all those on low incomes be offered discounts on bills. It also recommended that the WaterSure scheme (see Section 3.2 above) be available for those on low incomes with a medical need.⁸⁴

The Walker Review recommended that all metered low income customers should be offered a discount on their bills, with an estimated cost of £330 million a year.⁸⁵ However, the review noted that if the estimated annual cost of these measures was considered “too expensive”, “as a minimum” a “discount scheme should be introduced for low income households with children”. It estimated that the cost of this proposal would be £110m a year—although a more recent 2011 estimate put this at £73 million.⁸⁶

The Walker Review noted that while there were “strong arguments” for such changes to be funded by the Government via the national taxpayer, an alternative was “for the local water customer to pay”. This would happen via a cross-subsidy in each region, in which all

⁸³ Defra, [The Independent Review of Charging for Household Water and Sewerage Services Final Report](#) (The Walker Review) December 2009 [accessed 16 June 2016]

⁸⁴ Defra, [The Independent Review of Charging for Household Water and Sewerage Services Final Report](#) (The Walker Review) December 2009 [accessed 16 June 2016]

⁸⁵ Defra, [The Independent Review of Charging for Household Water and Sewerage Services Final Report](#) (The Walker Review) December 2009, p. 16 [accessed 16 June 2016]

⁸⁶ Defra, [Affordable water: a consultation on the Government's proposals following the Walker Review of Charging](#), April 2011 [accessed 16 June 2016]

water customers pay slightly more to offer discounts to those in need in the region.⁸⁷

The Coalition Government published [a public consultation on water affordability](#) in April 2011. It consulted on many of the Walker Review recommendations including on how reductions in bills might be paid for. The consultation responses [can be found here](#).

In the consultation the Government rejected Walker's recommendations on universal discounts for those on low incomes. It also rejected Walker's recommendation of a minimum discount for low income households with children. The Government described these options as "unaffordable". Instead the Government said it was "minded to improve the concession available under WaterSure for households with three or more children living at home under the age of 19 with the cost of WaterSure met by the Government rather than water customers as is currently the case".⁸⁸

The Government did decide to make direct payments to reduce water bills in the South West by £50 per year. For more detailed information please refer to the Library Briefing Paper on [Water bills in the South West](#).

The Government also stated that it intended to provide guidance to water companies to allow them to introduce their own "social tariffs which would enable water companies to offer more support to customers at risk of affordability problems".⁸⁹ See more in Section 3 above.

⁸⁷ Defra, [The Independent Review of Charging for Household Water and Sewerage Services Final Report](#) (The Walker Review) December 2009, p. 16 [accessed 16 June 2016]

⁸⁸ Defra, [Affordable water: a consultation on the Government's proposals following the Walker Review of Charging](#), April 2011

⁸⁹ Defra, [Water for life](#) (The Water White Paper) December 2011 Cm 8230

6. Summary of average bills

Average annual bills by company (water & sewerage companies in England & Wales) £ 2015/16 prices

	1989/90	1994/95	1999/2000	2004/05	2009/10	2012/13	2013/14	2014/15	2015/16	2016/17	Change to 2016/17		
											1989/90 -	1999/00 -	2009/10 -
Anglian	373	478	445	406	473	463	449	435	406	411	10%	-8%	-13%
Dwr Cymru	354	472	478	410	488	469	449	444	438	438	24%	-8%	-10%
North West / United Utilities ^(A)	263	337	390	385	454	431	420	419	412	415	58%	6%	-9%
Northumbrian ^(B)	257	347	379	332	363	386	371	371	371	378	47%	0%	4%
Severn Trent	253	336	361	317	362	359	346	336	329	329	30%	-9%	-9%
South West ^(C)	348	561	563	522	598	591	516	500	483	488	40%	-13%	-18%
Southern	296	364	436	367	446	468	464	441	418	411	39%	-6%	-8%
Thames	241	301	330	299	365	369	366	374	369	374	55%	13%	2%
Wessex	330	412	436	402	492	500	494	490	460	460	39%	6%	-7%
Yorkshire ^(D)	292	354	386	348	400	391	380	377	361	366	25%	-5%	-9%
Industry average ^(E)	267	359	387	346	414	399	388	398	385	389	46%	1%	-6%

Notes:

Prices adjusted using RPI

Bills are gross, and exclude any rebates unless otherwise stated

2016/17 data are forecasts, 2014/15 and 2015/16 data are based on average changes in bills from the previous year.

All figures have been rounded to the nearest whole number.

A. From 1996 part of United Utilities.

B. Excludes Essex & Suffolk Water which became part of the company in 2001.

C. From April 2013 onwards, households in the South West Water region have received a Government contribution which reduces bills by £50 per year. The 2013/14 figures onwards in this table for South West Water and the industry average are net of this contribution

D. Excludes North Surrey Water which became part of the company in 2001.

E. Includes water only companies.

Sources:

Water & sewerage bills, Ofwat various years

[Households Water and Sewerage Bills, Water UK, various years](#)

7. Further reading and resources

7.1 Wales

Detailed information on the water industry in Wales, including on the regulation of the industry and social tariffs is set out in the [Welsh Assembly Research Service publication on the Water Industry in Wales \(April 2015\)](#)

The [Welsh Government's Water Strategy for Wales \(2015–2035\)](#), sets out the strategic direction of water policy in Wales for the next 20 years.

7.2 Scotland

For information on the water industry in Scotland, please refer to the [Scottish Parliament Information Centre \(SPICe\) Briefing on the Environment](#), which sets out the main legislation and policy as well as an explanation of the regulation of the Scottish water industry.

For information on charges in Scotland, see Water Industry Commission for Scotland (2015) [Strategic Review of Charges 2015-21: Final determination](#).

7.3 Northern Ireland

For information on regulation of prices in the water industry in Northern Ireland, please refer to the [Northern Ireland Assembly Research and Information Service Research Paper, Price Cap Regulation in the UK Water Industry \(November 2012\)](#).

7.4 Other

To find out information on how water companies in England and Wales are performing, including in relation to customer satisfaction and price comparisons, please refer to discoverwater.co.uk

More information on UK water quality requirements is set out in the Library Briefing Paper on the [Water Framework Directive: achieving good status of water bodies](#).

For information on whether or not householders have to have a water meter, see the [Library Briefing Paper on Water meters: the rights of customers and water companies](#).

For detailed information on the expected changes to the water industry to open up competition in England and Wales, please refer to the Library Briefing Paper on [Increasing competition in the water industry](#).

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