

1. Affordable for all?

Safe and reliable water, sewerage and drainage are vital for life. But people have a right to be treated fairly in the charges they are asked to pay for these services. Across England and Wales, nearly all of us rely on the licensed monopoly water companies for these services. We cannot change our supplier if the price or service offered does not meet our expectations.

But water affordability is becoming a real issue for some customers.

Since the companies were privatised in 1989, water and sewerage bills have increased by more than 40% in real terms. While this has funded £90 billion of investment – delivering major improvements in customer service and a cleaner water environment – rising bills put pressure on household budgets. This makes it hard for some people to pay.

Customers' **ability** and **willingness** to pay their bills underpins the sustainability of our water and sewerage services. The companies need a reliable source of revenue to:

- finance the investments required to maintain good standards of service; and
- safeguard services in the face of challenges like a changing climate and a rising population.

We all bear the cost of bad debt if some people cannot or will not pay their bills.

Unlike the energy sector, there is not yet comprehensive support for people who cannot pay their water and sewerage bills. In the 2011 Budget, the UK Government committed to supporting:

- customers who are at risk of having difficulty paying their water and sewerage bills; and

Water affordability is becoming a real issue for some customers. Since privatisation in 1989, bills have increased by more than 40% in real terms



- households in the south-west of England where these bills are particularly high.

Both the UK and Welsh Assembly Governments are consulting on water affordability proposals.

Able to pay?

In a recent survey, 15% of household customers said they struggle to pay their water and sewerage bills. This problem is worse when economic times are tough. And it is not going to go away – the companies' future investment needs will continue to be reflected in their customers' bills.

We know that some people are at greater risk of not being able to afford these bills than others. We cannot say precisely which customers will have problems, but we can consider indicators of the level of risk. This is why we use the term '**water affordability risk**'.

Most people think that paying for the amount they use, through metered charges, is the fairest way to pay for water

How to pay?

The way that customers pay is important. Most people think that metered charges – where customers pay for how much water they use – is the fairest way of charging. Metering can also remind people to be more efficient in how they use water. But at the moment, more than 60% of households across England and Wales do not have a water meter (they are 'unmetered'). And most evidence suggests that people want to have a choice about whether or not to have one installed.

The number of household customers who have water meters is increasing year on year. Some are choosing to have them installed. For others,

particularly in areas where water is scarce, their company is installing meters as a means of managing water resources and ensuring secure supplies. But changing to metered charging affects the bills

that customers pay, because they start to reflect how much water they actually use. And it also changes the amount unmetered customers pay.

The pattern of groups with water affordability risks will change over time as more customers move to metered charges. This document explores the latest evidence on what factors contribute to water affordability risks. It also considers what might change in the future when there are more metered customers.

Willing to pay?

Over the past five years, the amount owed to the companies has gone up by more than 50% and they predict that this will get worse. While many of those in debt may have low incomes, **willingness** to pay is also an issue. This is because customers know they cannot be disconnected if they do not pay their water and sewerage bills.

Overall, the cost of recovering and writing off debt now adds about £14 to each household water and

sewerage bill. It means that customers who pay their bills promptly are effectively subsidising those who do not. This also makes it difficult for those who are struggling to pay. It is important to tackle the issue of affordability risk so that the companies can be tougher on those who choose not to pay their water and sewerage bills.

In February 2010, we published '[A drain on society – what can be done about water debt?](#)' This highlighted the work that is being done to reduce the burden of debt. The issues of affordability and debt, and ability and willingness to pay are connected. Better support for those who are struggling to pay also means that the companies can be more confident that the remaining debtors are those who are not willing to pay and take appropriate action. So, this document also considers other ways of enabling customers to pay their water and sewerage bills.

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Water and sewerage charges in England and Wales

The companies normally charge their customers for water and sewerage services in one of three ways.

- **Unmetered charges**, which are usually based on the notional rental value ('rateable value') of a customer's property before 1990.
- **Metered charges**, which are based on the volume of water a customer uses (recorded on a water meter).
- **Assessed charges**, which are based on an approximation of how much water a customer might use if they were on a meter.

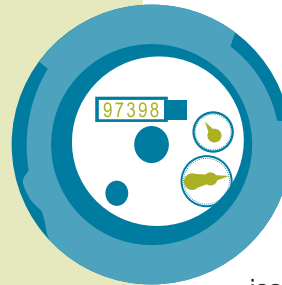
The overall level of a customer's bill will depend on:

- where they live;
- which method of charging they use; and
- how much water they use (if they are on a meter).

The companies design the charges customers pay to recover the running costs of the services they provide – as well as helping to repay the costs of financing investment in the infrastructure to provide services.

Informing the debate

The UK and Welsh Assembly Governments are currently considering the recommendations from the independent review of charging for household water and sewerage services (the 'Walker review'). They are consulting on proposals to support customers who face affordability risks.



The Walker review made a number of recommendations on how water affordability could be tackled and challenged Ofwat to engage more with these issues. Many of the decisions are for the UK and Welsh Assembly Governments. But as the economic regulator of the water and sewerage sectors in England and Wales, we aim to inform the debate in government and the decisions the water companies take.

The Flood and Water Management Act 2010 will enable the companies

to introduce social tariffs for customers who have difficulty paying their water and sewerage bills in full. We will provide evidence and analysis to inform the guidance that the Department for Environment, Food and Rural Affairs (Defra) and the Welsh Assembly Government will issue and the schemes that the companies put in place. It is important to ensure that this and any other help reaches those who need it.

So, in this document, we:

- set out the high-level findings of work we have carried out so far to help identify those customers at risk of having water affordability problems;
- discuss the existing support available to help customers who may be at risk of water affordability problems; and
- set out how we plan to contribute to finding solutions for those customers, and invite views on our work to date and next steps.



What does Ofwat do to keep prices down?

As the economic regulator, we protect customers of monopoly services. We set limits on the prices that the companies charge. We make sure that customers pay no more than is necessary to provide these services. Bills are about £110 lower than they would otherwise have been without our regulation.

When we set price limits, we challenge the companies' proposals until we are satisfied that they will deliver reliable, value-for-money services for their customers. We last set price limits in November 2009 for each of the five years between 2010 and 2015.

2. What is water affordability?

For the purposes of this document, we use ‘water affordability’ to mean the ability of household customers to pay their water and sewerage bills. But measuring or defining the ‘affordability’ of essential water and sewerage services is difficult.

This is because any measure or indicator that focuses on affordability will inevitably reflect a judgement about the relationship between water (and sewerage) and other household needs. So, for individual customers, how difficult they find it to pay their water and sewerage bills will depend on a range of factors – including other demands on their household income.

We do not advocate using a particular measure or threshold as a policy objective. But we think it is important to gather evidence on patterns of affordability. This will help us to:

- identify the customers who are more likely to experience water

affordability problems;

- design more efficient and effective ways to help them; and
- measure the success of different types of help over time.

Developing indicators of affordability risk

Measuring water affordability is complex and there are a number of approaches we could follow. To help us, we set up an independent advisory group on understanding water affordability. The group comprises experts in measuring poverty, fuel poverty and water affordability, as well as representatives from Defra and the Welsh Assembly Government.

We asked the group to help us identify an approach that is in line with the latest thinking and best

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practice in understanding and measuring poverty. As a first step, we developed an indicator based on the percentage of income (after housing costs) spent on water and sewerage bills. This gave us an initial means of understanding the groups of household customers who are at risk of finding it difficult to pay their water and sewerage bills.

We used data from the Family Resources Survey (FRS) to help us identify thresholds that illustrate patterns of water affordability risk across different groups of household customers. The FRS, which is sponsored by the Department for Work and Pensions, is a survey of 25,000 households

designed to be representative of the UK population.

What threshold to use?

Based on the available data and the advice of our independent advisory group, we chose indicative thresholds of above 3% and above 5% of household income spent on water and sewerage bills. In reaching this judgement, a number of factors guided us.

The first was that the threshold for fuel poverty was originally based on double the 'median' (or typical) expenditure on fuel bills. For water and sewerage, the typical expenditure in England and Wales is 1.6% of income. This rises to 3.7% of income among the poorest third households.

Another factor that guided us was typical expenditure patterns. For example, average home energy bills are three times higher than average water and sewerage bills, at more than £1,000.



“Although all respondents were on low incomes and facing broadly similar outgoings, it was clear that there was enormous variation in their personal situations, outlook and attitudes that affected how they dealt with the financial demands upon them”

– from ‘Living with water poverty’, a 2009 report prepared for the Consumer Council for Water (CCWater)

Finally, we noted that these thresholds are broadly in line with those used in other developed economies (see below).

We have tested the findings of our income-based indicator against other measures of affordability, including:

- customers reporting that they are struggling to afford their bills (self-reported affordability);
- customers known to owe money to their water company, how much they owe and the length of time payment has been due (debt);
- customers' overall ability to afford all their household bills – not just

water and sewerage (material deprivation); and

- how affordable customers find the costs of water and sewerage to meet their 'essential needs' (affordability of essential consumption).

We are exploring other indicators of water affordability with our independent advisory group. We will seek to develop the most useful ones further and welcome your views on this issue.

We discuss this in more detail in 'Affordability and debt 2009-10 – current evidence', which will be available on our website shortly.

International comparisons and approaches

The income-based approach we have taken and the thresholds we have chosen are broadly in line with approaches used internationally. Work on the affordability of essential services typically uses income-based measures, and often analyses this by income group. A recent study across 14 Western European countries found typical expenditure on water and sanitation to average about 1.1% of disposable income, rising to 2.6% for poor households.

In general, the affordability benchmarks that governments and international agencies in developed economies use for water and sanitation services are in the range of 3% to 4%. A survey of practices in more than 50 developed and developing countries found that policies and practices aimed to limit expenditure to about 3% to 4% of disposable income. For example, in France water affordability measures reduce the expenditure of poor households from 4% to 5% of disposable income down to less than 3%.



Fuel poverty indicator

Households are considered to be in fuel poverty if they need to spend more than 10% of their income to heat their homes to an adequate standard of warmth. At the time the UK and Welsh Assembly Governments adopted this figure, it represented about double the average proportion of income that all households paid on their energy bills. Using an equivalent rationale for water gives us a threshold of 3.2%.

In water, the risks of 'self-rationing' are reduced by the fact that many households do not pay according to how much they use, and by the ban on disconnecting domestic supplies.

We have used an approach based on actual expenditure or bills, rather than a measure of essential expenditure. This is because – to date – data on levels of 'essential use' of water has not been developed.

The fuel poverty indicator has also been used as a policy objective. It is now under review.

3. Who is at risk?

One of the Walker review's recommendations was that Ofwat should report on affordability and debt, and ensure that experience about who needs help is shared. In this chapter, we set out key findings from our early work based on analysis of data from the FRS.

Key findings

- Across England and Wales about 5.4 million households (or 23% of all households) are spending more than 3% of their income on their water and sewerage bills. Of these, more than 2.6 million households (or 11%) spend more than 5% of their income.
- Over the past five years, water affordability risk has grown as disposable incomes among the lowest income groups have fallen or remained stagnant. Over the same period, water and sewerage bills have increased by 18% in real terms.
- There are three key factors that drive water affordability risk for customers. These are:

- **your income:** low-income households spend a higher proportion of their income on their water and sewerage bills. They are more likely to report that they struggle to pay their bills or to be in debt;
- **where you live:** water affordability risk is regional. There are more customers at risk in areas where bills are relatively high or where incomes are relatively low. But there are still a number of customers who are at risk – even in areas with average or below-average bills. For example, nearly two million households in areas served by Severn Trent Water and Thames Water pay more than 3% of their income on water bills; and
- **how you pay:** customers who do not have water meters have more affordability risks. Four million households (or 26% of all unmetered customers) spend more than 3% of their income on their water and sewerage bills.



More than 1.8 million unmetered customers spend above 5% of their income.

- The choice of whether to pay metered or unmetered charges is a particularly important affordability risk factor for single pensioners or working-age adults living alone. In areas where more customers choose to have water meters, such as the south-west of England, unmetered bills tend to be higher. So, these customer groups may be particularly at risk.
- Affordability risk affects all types of households, but lone parents,

working-age adults living alone and single pensioners are currently the most likely to have water affordability risks – particularly if they do not have water meters.

We recognise that there is more work to do and that we need to continue to improve our understanding of who is at risk. This is so that measures to help vulnerable groups are better designed. There is more information on this issue in ‘Affordability and debt 2009-10 – current evidence’.

Emerging conclusions

Our work so far has helped us to identify some important issues.

- At present, many customers with affordability risks could save money if they had a water meter. This is particularly true for large numbers of single pensioners or working-age adults living alone. More work is needed to understand why different groups of customers do not take up the option of having a water meter

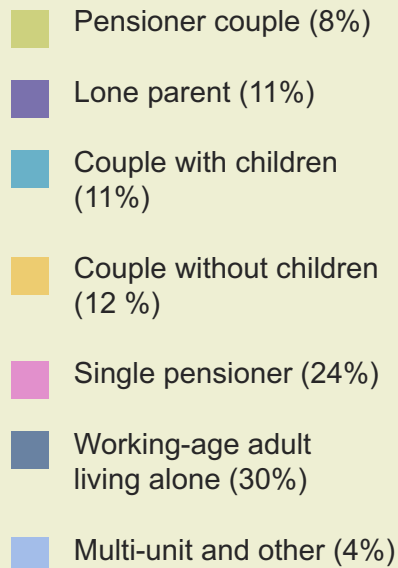
installed. In particular, the onus is on the companies to do more to ensure that customers are aware of the options available to them.

- As metering levels increase, the pattern of who is affected by affordability risks will change. For example, some families may find it more difficult to pay their bills because they will reflect more

closely the volume of water they use. We need to understand where and how these issues are likely to emerge and how best to help those affected.

- Affordability risks affect particular groups of customers, reflecting different underlying causes. To design measures that help with affordability, the companies and

Households spending >3% of income on water bills by household type



policy-makers will need a clear understanding of the profile of affordability risks and how particular customers are affected.

Income and benefits

Because our indicator is based on income, it is not surprising that this emerges as a key factor in contributing to water affordability risks overall. Our work reveals how customers with lower incomes spend a much higher proportion of their disposable income on their water and sewerage bills.

In England and Wales, about 90% of the customers (or more than 2.2 million households) who spend more than 5% of their income on their water and sewerage bills have an income of below £160 a week (or £8,300 a year).

We have also explored the relationship between affordability risks and the receipt of benefits. We found that:

“There is nothing that consumes my head other than how to settle the bills. It’s really hard”

– disabled lone parent, Croydon, taken from CCWater’s ‘Living with water poverty’

- customers on benefits have more affordability risks, with 57% spending more than 3% of their income on their water and sewerage bills, and 20% spending more than 5%; and
- most households with affordability risks (60%) do not receive benefits.

A recent study by UKWIR (the water and sewerage sectors’ research body) found that households on low incomes and benefits are more likely to be in debt. It found that 58% of those in debt are in the bottom third of household incomes and 62% are on benefits.

Where you live

The water and sewerage bills that customers pay in different parts of England and Wales vary

Why do bills vary between companies?

Bills vary between the companies because the cost of providing water and sewerage services in different parts of the country varies. There are a number of reasons for this, including:

- the availability of water in the company’s area and how easy it is to take it out of the environment (‘abstraction’);
- the level of pumping and treatment required;
- how easy it is to dispose of wastewater in the local environment; and
- population density.

significantly. In 2011-12, average water bills range from £311 for Severn Trent Water to £517 in South West Water's area.

Our research suggests that water affordability risks tend to be higher in areas where bills are high. South West Water, for example, has the largest proportion of its customers spending above 3% and 5% of their income on their water and sewerage bills, followed by Dŵr Cymru and United Utilities. But at about 240,000 customers, it accounts for only a small proportion of the national total of customers at risk. (In contrast, Thames Water has more than one million household customers with water affordability risks.)

Another important factor to consider is average incomes. Wessex Water has the second highest average bills in England and Wales. But because household incomes in this area tend to be higher than average, there are fewer customers at risk of finding it difficult to afford

their water and sewerage bills. On the other hand, United Utilities has mid-range bills, but the third highest proportion of affordability risks. This reflects the number of household customers in the company's area with below-average incomes.

This suggests that targeting assistance at the companies with high bills may help some of those customers with the highest affordability risks. But across England and Wales, it may not help all those who struggle to pay their water and sewerage bills.

How you pay

About 40% of customers in England and Wales pay according to the volume of water they use. The remaining 60% pay a fixed amount

“To be honest, I begrudge paying the water... because it's so expensive, and we used to live in Yorkshire and it was so cheap”

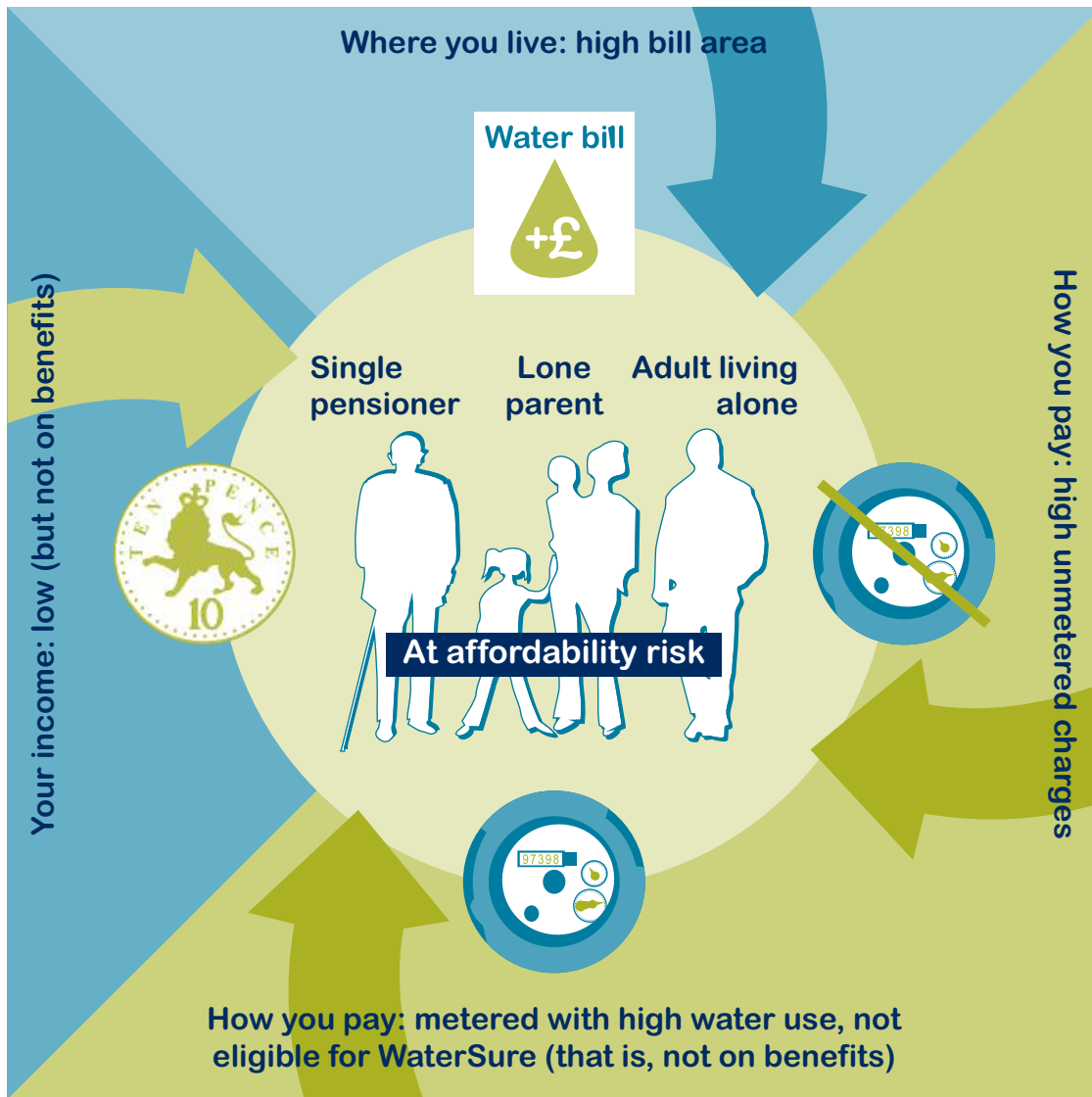
– family (with disabled family member), Penzance, taken from CCWater's 'Living with water poverty'

regardless of how much water they use. What they pay is normally linked to the rateable value of their home.

Metering tends to reduce affordability risks for some customers. For example, lower proportions of metered lone working-age adults (17%) and single pensioners (9%) spend more than 5% of their income on their water and sewerage bills compared with their unmetered counterparts (24% and 17% respectively).

Large numbers of these customers could reduce their affordability risks if they switched to metered charges.

What drives affordability risk?



Nearly one million single pensioner households (50%) currently pay more than 3% of their income on their water and sewerage bills, compared with 21% of those with water meters.

While metering would not remove all affordability risks for these customers, it would reduce them significantly. Our research suggests that couples with children are less likely to benefit from switching to a meter.

The level of metering varies across England and Wales. For example, 72% of all South West Water customers have a meter, compared with only 15% of Portsmouth Water's customers. In areas where there is more metering, the bills of remaining unmetered customers tend to be higher (see right). So, single pensioners and working-age adults living alone on unmetered

charges can be paying very high bills relative to their actual usage.

As metering levels increase across England and Wales, we expect that fewer single-occupant households will have problems paying their bills. On the other

hand, we also expect more large families to have higher bills.

This suggests it is important that the companies understand the impact of their metering policies on customers who may find it difficult to pay their water and sewerage bills.

Why do unmetered charges go up when other customers switch to paying on a meter?

We try to ensure a fair balance between the charges that metered and unmetered customers pay. In practice, this means linking unmetered bills to the volume of water used by an average unmetered customer.

Customers who opt for metered charges tend to use less water – even before they opt – than do customers who remain unmetered. So, average unmetered water use normally increases when customers opt, and unmetered charges increase correspondingly.

4. Help for those at risk

Help to enable customers with affordability risks to pay their water and sewerage bills is available in various forms. There are four main types of help.

- **Help with paying**, including optional metering, easy billing and payment options, and benefits entitlement checks.
- **Help with debt**, which includes debt write-off and payment matching schemes, and advice from the companies.
- **Help with water efficiency**, including free water-saving products, such as cistern devices.
- **Help through charges**, such as the WaterSure scheme, special tariffs and company social tariffs.

Our evidence suggests that the availability and quality of help for customers varies significantly across England and Wales. The companies could do more to identify those customers in their area with water affordability risks, and to communicate the help that is available more effectively.

Below, we outline how the companies provide help – and where we think they could improve. There are more detailed examples in ‘Current evidence on affordability and debt – customer requirements and company performance’, which will be available on our website shortly.

Help with paying

Optional water meters

The companies are legally required to install water meters free of charge for any household customer who requests one. This is known as ‘optional metering’. And yet many customers – often those who live alone, or in properties with high rateable values – do not have a meter, even though they could save money on their water and sewerage bills if they switched.

We have always expected the companies to make customers aware of optional meters – for example, in their billing leaflets or

codes of practice. And we think that there are better ways to do this.

In ‘[Push, pull, nudge – how can we help customers save water, energy and money?](#)’, which we published in March 2011, we noted that the way options are presented to customers is important. For example, an UKWIR study found that optional metering rates were four times higher when the companies used more persuasive language in their promotional material.

But many customers do not read the information that the companies send them. They need to find new and more effective ways of engaging with their customers.

Water Direct

The UK Government provides help with payment through a Third Party Deduction Scheme called Water Direct. To be eligible, customers must receive certain benefits and already be behind with their water and sewerage bills. They can then

have payments taken directly from their benefits.

In June 2010, nearly 192,000 household customers across England and Wales were registered for Water Direct. This makes the water and sewerage sectors the largest users of the scheme.

But the numbers of eligible customers taking up Water Direct varies significantly across England and Wales, as do the approaches the companies adopt to encourage participation. A new initiative from Dŵr Cymru, for example, offers customers on Water Direct a discount of £25, sharing cost collection savings with them. We think that other companies should consider similar approaches.

Easy payments

In general, customers find it easier to manage bills that are frequent, accurate and easy to understand. Problems with customer service in billing and payment can cause



particular difficulties for those customers with affordability risks.

We expect the companies to offer their customers a range of payment choices, but data that we, UKWIR and CCWater have collected shows that their performance in this area is mixed. For example, only seven companies bill their metered customers on a quarterly basis, while six companies offer the same flexibility for their unmetered customers.

The companies should do much more to find solutions to the core issues that customers have with billing and payment. They need to work proactively with individual customers to find the solutions that are right for them.

The availability and quality of help for customers varies significantly – we think the companies should be more proactive in engaging with those customers who find it difficult to pay their water and sewerage bills

Benefits entitlement checks

A number of companies offer benefits entitlement checks as a way of helping customers to pay their water and sewerage bills. As an example, South West Water offers such checks to customers who are already in debt.

Special assistance

Some customers – for example, because of age or disability – require special assistance to access and pay for services. We provide guidance to the companies on the essential elements of their special assistance policy and procedures.

In 2009-10, there were nearly 135,000 customers registered with the companies for special assistance – an increase of 14% over the previous year. But although numbers are rising, in 2009 CCWater found

that only 24% of customers were aware of this service. The onus is on the companies to learn more about individual customers' circumstances so that those who qualify for assistance get the help that they need.

Help with debt

Codes of practice

We require the companies to produce a code of practice and procedure on debt recovery. This should provide customers with guidance on the support available to them and set out each company's debt recovery procedures.

The companies are required to make their customers aware of their codes of practice and make them readily available. They must also review and update these documents every three years, taking into account CCWater's views and our guidelines.

CCWater is responsible for auditing the companies' debt guidelines. It has found that problems around debt



Our evidence suggests that the companies should do more to find solutions to the core issues that customers have with billing and payment

recovery still exist, including:

- lack of early debt recovery action;
- missed opportunities to consider customers' circumstances;
- delays in addressing problems following debt collection agency action; and
- not initiating or following up doorstep visits in a timely way.

- Severn Trent Water visits customers who have more than two years of debt to provide advice on payment options and tariffs.

'Restart' payment schemes

Some of the companies – for example, South West Water and Southern Water – have schemes to clear the arrears of customers who are in debt and experiencing particular difficulties. They also help customers to establish regular payment patterns. These schemes work by clearing arrears for customers who have significant debt because of exceptional personal or financial circumstances. In some cases, the company matches the regular payments the customer makes to clear the outstanding debt.

Helplines and advice

A number of companies offer helpline and advice services to customers in debt.

- South West Water has established an advice 'gateway' through Plymouth Citizens Advice Bureau, which offers specialist water and debt advice.
- The Legal Services Commission offers advice about debt and benefits to Northumbrian Water's customers who are already in debt. It also helps customers to set up manageable repayment plans.

Help with water efficiency

Each company has a duty to promote the efficient use of water by consumers. They must also meet targets we set for water efficiency savings. We expect the companies to give their customers information on sensible water use in the home. And we expect them to give their customers access to water-saving devices and a free supply pipe leak detection and repair service. This can help with affordability for metered customers.

The Waterwise-led ‘Tap into savings’ project aims to encourage consumers to save water and energy. It brings together local partners, including water companies, local councils, housing groups, Defra and the Environment Agency.

Another example is Severn Trent Water’s approach to involve all those who provide social housing in its area, spreading the water efficiency message to about 600,000 households.

Such approaches show how the companies can innovate in working with partners. There is potential for creatively tailored water and energy efficiency advice, along with improvements to properties, to deliver real help for customers.

Help through charges

Company social tariffs

The companies offer help to certain customers in the form of special lower charges. We use the term ‘social tariffs’ for any of these special charges if other customers fund them through a small increase in their own water and sewerage bills. At present, such tariffs are only allowed when they are required through regulations. It is the role of the UK and Welsh Assembly Governments to require or give guidance on new social tariffs. Under section 44 of the Flood and Water Management Act 2010, the

Problems with debt recovery still exist – but some companies have schemes in place to help clear outstanding debt and help customers to establish regular payment patterns

companies will be able to introduce social tariffs for customers.

These tariffs will have to comply with guidance from the Secretary of State in England or Welsh Ministers in Wales. This means that the companies must understand fully the nature of the affordability risks in their regions.

WaterSure

In England, the companies are required to offer certain metered customers on low incomes a social tariff called ‘WaterSure’. The companies that operate in Wales offer WaterSure on a voluntary basis, with the approval of the Welsh Assembly Government.

Customers on this scheme have their bills capped at the average

household level for their company's area. (Dŵr Cymru offers a lower cap on a voluntary basis.) This means that they do not have to worry about how much water they use. To be eligible, customers must have a water meter and receive certain means-tested benefits or tax credits. They must also:

- be responsible for (and have living with them) three or more children under the age of 19 and in full-time education; or
- have a medical condition (or someone living in the property has) that requires significant additional water use.

On average, it costs other customers who do not qualify for WaterSure about 35 pence a year to fund this social tariff.

At present, take-up of the WaterSure scheme is low – across England and Wales only about 31,000 customers are registered for it. Take-up also varies across the companies. South West Water, for example, has the highest number of customers registered for the



There is the potential for the companies to innovate in terms of the work they do to promote the efficient use of water by consumers – we have identified examples of good practice across the sectors

scheme of any of the water companies. This is partly because of the number of ways it promotes the WaterSure tariff, including:

- through its call centre staff;
- in a yearly newsletter to customers;

The Consumer Council for Water

As well as representing water customers as a whole, CCWater provides customers with day-to-day advice about their water and sewerage bills. It can help resolve individual complaints or problems that customers have with their water company – including those with affordability problems.

CCWater also works with the companies and with us to ensure that customers' perspectives are properly reflected in the companies' and regulatory policies.

- through local debt advice centres; and
- through its Watercare scheme.

This suggests that the other companies could promote this scheme more effectively.

'Win-win' tariffs

A number of companies offer special tariffs that do not impact on other customers' bills. These are sometimes called 'win-win' tariffs because the reductions they provide can be funded through cost savings (such as lower debt recovery costs).

For example, Wessex Water's 'Assist' tariff sets bills for customers with debt problems according to their ability to pay. Other companies offer similar schemes. United Utilities offers its customers a £10

We think the companies ought to do more to understand their customers' circumstances

discount if they pay their bills through social housing providers. Dŵr Cymru has something similar in place – and has reported an improved collection rate as a result.

Special (transitional) tariffs

If a company changes the way it charges its customers, we make sure that it phases in these charges so that the transition is manageable. This gives customers time to adjust. Southern Water's universal metering programme is the most recent example of this approach.

By 2015, 92% of the company's household customers will have a meter and pay according to the volume of water they use. This

could mean higher or lower bills for those customers who do not have a meter at present. It could also mean potentially large bill increases for some customers – particularly those on low incomes and with large families.

To make the changes more manageable, Southern Water has put in place a package of transitional support, including:

- the option of a ‘changeover tariff’ for all customers affected by the metering programme to phase in the move to metered charges; and
- a ‘support tariff’ that will cap the metered bill for those who cannot afford their new bill. The company will combine this with individual benefit checks and tariff advice.

National social tariffs in energy

The Energy Act 2010 sets out requirements for energy suppliers to deliver a standard discount – the Warm Homes Discount – to customers on means-tested components of pension credit. The Department for Energy and Climate Change (DECC) proposes that the energy companies will provide £350 million of support by 2014-15. Customers who do not qualify will fund the scheme through a standard contribution (a ‘flat rate levy’) to their energy supplier. This provides clarity on costs.

A core group of eligible customers will receive a fixed rebate on their electricity bill of £120 in the first year of the scheme. This will rise to £140 by the fourth year. Data sharing will make it easier to promote take-up of the scheme.

The energy companies are also expected to provide support to a broader group of customers who are likely to be vulnerable to fuel poverty, as well as continuing with other forms of non-financial help (such as energy advice, helplines and benefit entitlement checks).

The scheme’s costs are to be shared fairly across all the energy companies. This is so that those with particularly high numbers of eligible customers do not end up paying more than others based on their share of the market. This is a form of national funding.

This approach raises interesting lessons for how social tariffs may be considered in the water and sewerage sectors.

5. Next steps

In this document, we have described what we currently know about water affordability risks and why some customers struggle to pay their water and sewerage bills. We have also considered the range of help that is currently available, and explored what might be done to improve it and to make the most of new opportunities under the Flood and Water Management Act 2010.

This is work in progress and we invite your views on taking these issues forward.

In this chapter, we consider the way ahead, sketching out the implications for future work.

Building understanding

Our analysis shows that the pattern of water affordability risks is complex and dynamic. There are a number of factors that contribute to customers facing water affordability problems. These need to be viewed together to build up a picture of the

customer groups that are most at risk. Any policies to tackle water affordability must also be flexible. This is because patterns of affordability risks change over time, particularly as the level of metering increases, and as economic circumstances and welfare systems change.

We will publish our evidence on affordability risks by water and sewerage company area. This data will help to inform the companies' thinking about what forms of assistance would be most beneficial to their customers. We will also update this over time, and track trends and changes as they emerge.

But the companies also have a part to play. They need to be more accountable to their customers, and better understand their needs and requirements. For example, we think they could do more to collect information themselves on the customers in their area who need

help or who are at greater risk of finding it difficult to pay their water and sewerage bills.

Our work has relied on an income-based indicator (although we have considered a range of other evidence). Over the coming year, we plan to carry out more work with our advisory group to consider if there are other indicators or data sources we should develop.

Are there other approaches to understanding affordability and different indicators that we should explore?

Improving help

While there is a variety of help available to customers who may find it difficult to pay their water and sewerage bills, the nature and quality of that help varies significantly across the companies. We think there is considerable scope for new and better ways to help customers.

For example, in October 2010 we held a workshop with water, energy and telecommunications companies and consumer groups to discuss how helpful services and schemes could be effectively communicated to ensure that eligible customers get the help and support they need. This includes those who require special assistance. We are currently considering what else we can do to support such customers.

But there is a real need for the companies to engage more effectively with their customers. This includes doing more to identify those who may struggle to pay their water and sewerage bills, and making sure that the most appropriate help is targeted in an effective manner.

We will work to promote understanding of what works best and to spread good practice and learning. We will work with the companies and with Government on

Improving incentives for companies to meet customers' needs

Improving the incentives on the companies to meet their customers' needs, including in helping with affordability, is a key theme running through our wider work to improve the way we regulate. Our **service incentive mechanism**, which we introduced in 2009, encourages the companies to get all aspects of their services right first time for customers. They have incentives to reduce complaints. Billing issues remain the most common source of customer complaints, so the companies will now have stronger incentives to help customers.

Within our **future price limits project** we are considering how the separation of retail functions could help focus retail suppliers more closely on customers' needs. We are exploring the scope to improve incentives so that the companies deliver a more customer-focused service, with better incentives to promote water efficiency and effective consumer protection. This could include allowing more choice over retail charging, with a default tariff to protect customers' interests.

Our **future water charging project** is considering how to ensure charging meets future challenges. We need charging that encourages sustainable behaviour, and is fair to all consumers, including those with affordability risks. We are considering how the governance of charging throughout the value chain should fit with wider market reforms and how we regulate.

Affordable for all – how can we help those who struggle to pay their water bills?



these issues, and consider new tools, such as the use of behaviour change insights.

We are interested to hear your views of how we might best work to stimulate improved understanding and the spread of good practice.

Informing Government policy

Given that water affordability is subject to so many influences, it is unlikely that there will be a single solution. Instead, it will require a range of targeted and flexible interventions – not just from us or from Government, but from the companies as well. As the economic regulator with a primary duty to protect consumers, we are committed to playing our part and

working with others to help tackle affordability.

The UK Government has committed to providing support for customers at risk of having water affordability problems. The benefits system provides a basic minimum income for recipients, but there is no separate element identified to cover water and sewerage costs. In principle, the benefits system could address water affordability risks at source, and could avoid distorting market prices and incentives to conserve water. But we recognise the constraints on the welfare system, and the range and complexity of issues in welfare reform.

In light of the Flood and Water Management Act, the 2011 Budget and the Walker review, we will continue to work with the UK and

Welsh Assembly Governments in taking forward any policy options. We will respond to changes to guidance for us or for the companies to ensure that they can be implemented effectively. We will use our capability in analysing water affordability to ensure that impact assessments are based on sound evidence. We will advise both the UK and Welsh Assembly Governments on design and implementation issues in delivering social policy objectives through water charging or regulations.

We will also work to understand the evidence on the impact of any new social tariffs or interventions over time.

We want to make sure that the evidence is available to support decisions. What other data and information should we provide to the Government?

You can help

We would welcome your views on issues raised in this document or the work we are carrying out. In particular, we would welcome your thoughts in response to the following questions.

- What other evidence is needed to inform policy on affordability and debt?
- What can we do to improve company practice in the provision of assistance to households at risk of affordability problems?
- What can we do to promote better understanding of social tariff options by the companies and by their customers?

Please email Georgia Klein, Head of Affordability and Social Impacts (georgia.klein@ofwat.gsi.gov.uk) if you would like to contribute to the debate. You can also submit your views via our website.

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6. Further information

Ofwat publications

[‘A drain on society – what can be done about water debt?’](#), February 2010.

[‘Push, pull, nudge – how can we help customers save water, energy and money?’](#), March 2011.

[‘Affordability and debt 2009-10 – current evidence’](#), May 2011.

[‘Affordability and debt 2009-10 – supporting information’](#), May 2011.

[‘Current evidence on affordability and debt – customer requirements and company performance’](#), May 2011.

Related information

[‘Deliberative research into customer views on fair charging’](#), Consumer Council for Water/Ofwat, February 2007.

[‘Charging research 2007’](#), Consumer Council for Water/Ofwat, April 2008.

[‘Living with water poverty’](#), Consumer Council for Water, March 2009.

[‘Water affordability in England and Wales’](#), Consumer Council for Water, March 2009.

[‘Exploring the potential of the tax and benefits system to help with water affordability’](#), Consumer Council for Water, March 2009.

[‘Billing and operational services – preferred customer communication channels’](#), UK Water Industry Research, 2010.

[‘Customer targeted debt management’](#), UK Water Industry Research, 2010.

[‘Annual tracking survey 2009/10’](#), Consumer Council for Water, June 2010.

[‘Cross-subsidies and social tariffs’](#), Consumer Council for Water, June 2010.

[‘Complaint handling in the water industry in England and Wales 2009/10’](#), Consumer Council for Water, September 2010.

[‘Consultation on the Walker review of charging for household water and sewerage services’](#), Welsh Assembly Government, March 2011.

[‘Consultation: Water affordability in response to the Walker review of charging for household water and sewerage services’](#), Department for Environment, Food and Rural Affairs, April 2011.



Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We are responsible for making sure that the water and sewerage sectors in England and Wales provide consumers with a good quality and efficient service at a fair price.



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