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# Water Poverty in England and Wales

**Martin Fitch**



and

**Howard Price**



**Chartered  
Institute of  
Environmental  
Health**

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## **Executive summary**

### **Research**

The research adopts the Government's methodology for defining fuel poverty and applies it to data derived from the ONS's Family Expenditure Survey to quantify the number of households in England and Wales deemed, on that definition, to be spending an excessive proportion of their income on water charges.

Lending authority to that estimate, it then looks at an analysis of the financial circumstances of applicants to two water company charitable trusts to determine the proportion of income they spend on water. For comparison, it takes a look at their fuel expenditure at the same time.

Moving to another group of consumers in known hardship, it undertakes a review of the proportion of income spent on water by certain benefit recipients, noting how the notional amount for water charges in income support has been eroded since its replacement of supplementary benefit. It notes too, how the regional diversity of water charges can exacerbate water poverty.

It looks then at the history and effect of the measures introduced by Government to assist particular householders expected to have difficulty in meeting water charges. Finally, it looks at the relationship between income and debt, at recent trends in water debt, and in its management.

### **Findings**

The Government's standard for fuel poverty – a household needing to spend more than 10% of its net income on fuel to achieve a satisfactory heating regime – can be extrapolated to imply water poverty where a household needs to spend more than 3% of its income on water charges.

Around 4 million households in England and Wales, about one in six, could be spending this much or more.

The proportion of income these people are obliged to devote to water is at least three times that of the population as a whole; UK households in the lowest three income deciles spend on average 3% of their net income on water bills whereas the average spend for all households is just 1%.

Many recipients of Jobseekers' Allowance or Minimum Income Guarantee have water expenditures in excess of 3% of their household income; for many it is twice that amount due to the wide variation in average water charges, depending on where people live, emphasising the role played in water poverty by bills.

Between one half and three-quarters of those applying to the Severn Trent and Anglian water company charitable trusts for help with water bills in the samples we examined had water bills exceeding 3% of their household income.

Applicants in our samples of water charity applicants spend on average 4% to 5% of their income on water; these same householders spend 14% to 15% of their income on fuel; the distributions of proportionate spending on water and on fuel of the applicants were similar in many respects and it thought there is considerable overlap between the populations of fuel poor and water poor nationally.

No “social tariffs” to assist consumers who may face difficulty in affording water have yet been introduced while there is a firm view in the industry that help for poorer consumers should come from Government, not better-off consumers.

The Vulnerable Groups Regulations, intended to assist a small group of consumers, have been completely ineffective – take up was less than one percent of the numbers eligible.

### **Recommendations**

The Government should give consideration to setting 3% of net income as the level above which it is unreasonable to expect a household to meet water charges, acknowledge a higher expenditure to imply water poverty, and develop policies to reduce the numbers of households affected.

The water regulator, Ofwat, should investigate the extent to which water poverty is a factor contributing to water debt, require the companies to publish equivalent data to that provided in the energy industry and ensure that water bills do, in fact, reflect the principle of affordability.

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## 1. Introduction

*People and firms must be able to afford the water they need, and families should face neither hardship because of water bills nor disconnection<sup>1</sup>*

We had several reasons for carrying out this piece of research now but principally, it was because of the imminent review of the Vulnerable Groups Regulations (see Section 4). Notwithstanding this, we also had a sense that the Government, including Ofwat, was indifferent to this facet of poverty. We felt it was time to shine some light on it. At the same time, as the process of the next periodic review (AMP4) is about to begin, we are aware that some of the companies are blaming rising customer debt (and consequently higher financing charges for which they will seek compensation through new price limits) on the ban on disconnections, simplistically ignoring other factors. It was opportune too because we believe the advance of metering will both make the problem of affordability more acute for many and hinder its analysis.

Our research suggests that there is a serious problem of water poverty in England and Wales – that is, people not having enough money to pay their water bills.<sup>2</sup> We think about four million households could be in this situation, around one household in six.

Whether due to the size of bills or to inadequate income, it is a question of affordability, the proportion of our income we need to lay out for water bills, and that is the theme of this paper. For households in the United Kingdom as a whole the proportion is just one percent. For those on lower incomes it rises to three percent; and for people who are really poorly-off the proportion of income they need to devote to water is twice that, at six percent, in extreme cases rising to double figures.

Following this introduction, in the second section, we propose a test to determine whether water is or is not affordable by particular households – whether they are experiencing water poverty. The test we use is analogous to that adopted by the Government to decide whether a household is suffering fuel poverty. We also draw attention to the Government's sustainability indicator in relation to water affordability, and to information the water regulator has published on the question.

In the third section, armed with our method for saying whether or not people are experiencing water poverty we go on to apply our approach to two groups. We consider the affordability of water for applicants to water company charitable trusts and assess the degree to which they experience water poverty (asking about their fuel poverty at the same time), and we ask about links between water poverty and the receipt of social security benefits. Because of its importance in determining whether or not low-income consumers find themselves in water poverty, we also present data on the large regional differences there are in water charges.

Our fourth section is devoted to official action to address water poverty. We discuss the Government's proposal that people likely to face difficulty with bills be assisted

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<sup>1</sup> *A better quality of life – a strategy for sustainable development for the UK*, DETR, 1999

<sup>2</sup> I.e. total water services bills - for drinking water supply, sewage disposal, rainwater disposal and highway drainage.

with “social tariffs” – and note that it went no further than a proposal. We examine the ill-fated Vulnerable Groups scheme, a social tariff that was imposed by Government, but which has failed spectacularly for want of take-up. And lastly, we investigate water debt, and in particular note that discussion of indebtedness for water seems to be going on without consideration of water poverty.

It is our intention through this paper to highlight water poverty as an issue that requires public attention. We hope it will be helpful to Government in reviewing the arrangements for assisting people who face difficulty meeting water bills, and also that it will assist the water regulator, if and when he assumes new responsibilities for low-income consumers as presently envisaged in the draft Water Bill. At the same time, we would not want to give the impression that other matters to do with water services are unimportant, and we fully understand that social issues must take their place alongside environmental and economic considerations in deciding water policy.

We have deliberately avoided discussing remedies in this study because we want to keep affordability in sharp focus. But this does not mean we have no views on what a water charging arrangement that accommodated criteria of affordability might look like. For example, we found the recent report of the economics “think tank” the New Policy Institute, a helpful starting point.<sup>3</sup>

### **Water poverty in a global context**

It would be understandable, but wrong, to demur from considering water poverty in England and Wales on the basis that it is a vastly more serious issue elsewhere in the world. It is true that the hundreds of millions of people elsewhere without adequate water services dwarf the relatively very few households in England and Wales who can be considered to be in water poverty. Of the 4.5 billion population of the developing world, more than a billion have no access to a supply of safe drinking water and more than 2.5 billion are without hygienic means of personal sanitation.<sup>4</sup> But to deny the seriousness of the home issue for that reason would be to overlook the significance of water poverty as a question of social exclusion.

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<sup>3</sup> *Water Charging and Social Justice - why politicians must act*, New Policy Institute, 2000

<sup>4</sup> Loughborough University Water Research Group website, 5 December 2001

## 2. A test for water poverty

*Development, which ignores the essential needs of the poorest people, whether in this country or abroad, is not sustainable at all.<sup>1</sup>*

### **A standard for the affordability of water by analogy with fuel poverty**

The idea of affordability is obviously important when it involves essential expenditure such as that on water services, yet it is not easy to say, categorically, whether a particular expenditure is affordable in an absolute sense or not because that involves value judgements about priorities. We do have a way of saying whether expenditure is more or less affordable, however, and the Ofwat data in Table 1 below allows us to do so for water.

A field of expenditure in which UK public policy does declare itself categorically on affordability, however, is domestic energy supply. If you are obliged to spend more than 10% of your net income on energy services to keep your home acceptably warm, you are considered to be experiencing fuel poverty. An array of initiatives is now in place to address the difficulties of householders in this situation, with the commitment of Government to ending fuel poverty, at least for vulnerable groups (older people, families with children, and people who are disabled or have a long-term illness) by the year 2010.<sup>2</sup> The fuel poverty threshold of 10% was devised several years ago on the basis of the 1988 Family Expenditure Survey finding that households in the lowest three income deciles spent, on average, 10% of their income on energy: this was taken to be the upper limit of the amount that people could reasonably be expected to spend on fuel.

It may be argued that as water poverty and fuel poverty are dissimilar in many of their effects, drawing parallels between the two is not appropriate. Disconnection of supply for water debt is no longer permitted, but it is for gas and electricity; most householders do not yet have measured water supplies – which could constrain them to use less water than they need – whereas fuel supplies are all metered. It is estimated that tens of thousands of householders die prematurely each year because of cold homes but while, fortunately, there is no such parallel with respect to water, large water bills in relation to income do have the potential for causing significant deprivation. Householders may limit their use if they have a metered supply; they may go short of other essentials or discretionary expenditure in order to pay their water bill; and they may suffer the anxiety and humiliation of being pursued for debt. Whether these are the incidents of “water poverty” can only be a matter for political debate and judgement but we suggest they are; as such judgments are nowadays based on considerations to do with social exclusion, the absence of disconnection or overt health risk in the case of water poverty should not in our view lead to its being taken any less seriously than fuel poverty.

So we have taken a parallel path for this study. We commissioned the Office of National Statistics (ONS) to find out how much of their income householders in the

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<sup>1</sup> *A better quality of life – a strategy for sustainable development for the UK*, DETR, 1999

<sup>2</sup> *The UK Fuel Poverty Strategy*, DTI/DETR, November 2001.

lowest three income deciles spend on water. The finding was 3% and the details are in Appendix 1. This ONS finding has enabled us to propose the standard of 3% to determine whether, in relation to their income, a household's water charges are affordable, and thus whether or not the household is experiencing water poverty.

This finding may be placed in context by comparing it with the average expenditure on water of all consumers. The ONS also supplied the data to do this (see Appendix 2) and it will be seen that with the exception of Wales, all the average expenditures were 1% - UK, UK Countries, and Government Office Regions. The proportion of income people in the bottom third of the income distribution are obliged to devote to water is three times this average. This is larger than the multiple which defines fuel poverty.

### **A sustainable development indicator**

Co-incidentally, the Department for the Environment, Food and Rural Affairs has also used 3% as a measure of water affordability in the context of sustainable development.<sup>3</sup> The most recent statistic offered is for 1997/8 and shows the proportion of households in Great Britain spending more than 3% of their income on water charges to be 18%, or, some 4.3 million in total. This proportion reduced from 22% in 1994-5.<sup>4</sup>

The Department chose the threshold of 3% only for illustrative purposes, being a level above which water charges might represent hardship but its explanation went on to observe that householders' median spend on water is less than 1.5%, carrying the implication that spending on water above twice the median would be of concern. This is, of course, the position the Department takes on fuel expenditure.

### **The water regulator's concerns about water poverty**

Nor was this unforeseen. In a report written nearly a decade ago,<sup>5</sup> the water regulator examined the affordability of water services to low income consumers amidst anxiety about the cost impact of new obligations contained in EC Directives. Whilst overall, during the succeeding decade, average bills were not expected to increase significantly as a percentage of income, rising from 1.2% to 1.3%, he predicted larger proportionate increases for certain consumer groups. Pensioners, families with children, and single parent families within the category of consumers having incomes below half the national average were expected to end up paying at least 4% of their income, depending on where they lived. Yet more striking were the indications for water bills increases as a proportion of the net income, discounting housing benefits, of single parents and single pensioners receiving income support. Single parents' bills were expected to go up during the succeeding decade from around 4% of their income to approaching 6%; those of pensioners from nearly 6% to over 8%.

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<sup>3</sup> The information in this section is taken from the website <http://www.sustainable-development.gov.uk/index.htm>

<sup>4</sup> 24.1 million is the figure given for households in Great Britain in *The Official Yearbook of the United Kingdom of Great Britain and Northern Ireland*, National Statistics, The Stationery Office, 2001

<sup>5</sup> *Paying for Quality*, Ofwat, July 1993

Moreover, these were averages, and for householders residing in areas with high water charges the forecasts were much higher for these income support claimants, approaching 10% for single parents and 14% for pensioners.

Ofwat has not conducted the analysis again on the same basis, though a less alarming account was offered in 2001 in an Ofwat presentation – Table 1 below.<sup>6</sup>

**Table 1: Water bills as a percentage of household income**

Household group	Company					
	Severn Trent		South West Water		Yorkshire Water	
	1995	2000	1995	2000	1995	2000
Single pensioner <sup>7</sup> (£150 rateable value)	3.9	3.3	7.3	6.2	5.6	4.7
Single pensioner <sup>8</sup> (50m <sup>3</sup> )	2.6	1.7	3.7	2.8	2.9	2.2
Pensioner couple <sup>9</sup> (£150 rateable value)	2.1	1.8	3.9	3.4	3.0	2.6
Pensioner couple <sup>10</sup> (75m <sup>3</sup> )	1.8	1.2	2.8	2.1	2.1	1.6
Couple with two children <sup>11</sup> (£150 rateable value)	1.4	1.6	2.6	2.9	2.0	2.2
Couple with two children <sup>12</sup> (125m <sup>3</sup> )	1.7	1.6	2.8	2.8	2.0	2.1

<sup>6</sup> Ofwat presentation to the AGM of the Centre for Utility Consumer Law, University of Leicester, June 2001

<sup>7</sup> Dependent on state pension

<sup>8</sup> *ibid*

<sup>9</sup> *ibid*

<sup>10</sup> *ibid*

<sup>11</sup> Lowest gross income quintile group

<sup>12</sup> *ibid*



### 3. Patterns of water poverty

... *Government's principal aim [is] to put in place a fair, affordable charging scheme for all*<sup>1</sup>

In this section we present the findings of our research into the affordability of water for householders who applied to a water company charitable trust to help them meet their water debts. We then go on to compare the affordability of water with the affordability of fuel for these same householders; this is of particular interest, given the suggestion implicit in our work that the methodology used for establishing fuel poverty be adopted for indicating water poverty. We also look in this section at the implications of social security rates for water poverty and at the regional diversity of water charges.

#### **The affordability of water for water charities applicants**

Our study was greatly assisted by the Severn Trent Trust Fund and the Anglian Water Trust Fund. These two water charities supplied us with anonymised data about their applicants' water bills, income, and other circumstances. There were just short of 200 households in each of the samples and the data gave us concrete information about the affordability of water for these consumers at the time they applied to the trusts, between May and October 2001.

Water charities have been in operation in England since 1993; ten water companies fund arrangements for assisting householders in debt for water in one form or another.<sup>2</sup> In certain circumstances the two charities meet debts and expenses other than water. Severn Trent, for example, has an arrangement with Powergen in which the charity and energy company share the cost of clearing energy debts to give householders a fresh start. The charities vary greatly in their scale of operation, the Severn Trent Trust Fund (6,800 applications in 1999-00) and the Anglian Water Trust Fund (4,500 applications in 2000-2001) being the biggest. In total, the water industry donated £3.7 million to charitable trusts and money advice organisations in 2000-01.<sup>3</sup> In view of the government's encouragement of them in England, it is noteworthy that, in reaction to "the strong views of respondents that the discretionary nature of [water charities] could be inequitable and even arbitrary", the Scottish Executive decided that similar schemes should not be introduced in their country.<sup>4</sup>

Assessing the affordability of water for a household involves the straightforward comparison of their water bill with their income. Obviously, the definition of income is critical in this and we should clarify our approach before presenting our findings. A majority of the applicants in each of our samples were receiving the safety net benefits, income support or jobseekers' allowance. We have sought, so far as

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<sup>1</sup> *Water charging in England and Wales – A new approach: response to consultation*, Department of the Environment, Transport and the Regions, 1998

<sup>2</sup> *Water Charities – a description of charitable trusts and hardship funds in the water industry*, Centre for Utility Consumer Law, 1998

<sup>3</sup> RD 12/01, Ofwat, 15 August 2001

<sup>4</sup> *The Water Services Bill – The Executive's Proposals*, Scottish Executive consultation 2001

possible, to use a definition of income that reflects the budgeting reality of these consumers – what they have in their hands each week to meet their commitments. Thus, we have in general used a definition of income that is net of tax and national insurance, and that includes neither council tax nor housing benefit – nor housing costs. This was not always possible, as the technical footnote 1 to Appendix 3 explains.

We found that on average these consumers needed to spend between 4% and 5% of their net income on water. Their average incomes were near to £130 a week for both charities; their water bills were on average £189 a year for Severn Trent and £266 for Anglian. Average unmeasured bills for England and Wales were £233 from April 2001.<sup>5</sup> Full details of these findings may be found in Appendix 3.

Inevitably, the averages quoted conceal large variations:

Unsurprisingly, incomes of wage earners were above the averages for the samples as a whole, £224 for STTF, £166 for AWTF. (The higher income figure for Severn Trent is in part accounted for by our different treatment of the incomes of applicants to the two charities: lacking the data, we were unable to net-off the housing costs of owner occupiers in the STTF group.) For pensioners, incomes were below the average for the sample, £97 for STTF, £103 for AWTF.

The water bills for the two samples did not vary greatly about the averages mentioned above, with the exception of the markedly lower average bills for metered consumers in Anglian, compared with those charged on the basis of rateable value: £230 metered, £284 rateable value.

For the Severn Trent sample, the extremes in terms of proportionate expenditure on water were households with earned income, 2.2%, and income support or jobseekers' allowance recipients, 4.7%. For Anglian, the lowest and highest for proportionate expenditure on water were households with children, 3.6%, and pensioner households, 5.5%

but it was the distribution within each of the samples of applicants' proportionate expenditure on water that was of greatest interest to us.

This is given in Table 2 which shows the percentage of consumers in each expenditure band – less than or equal to 3% of income spent on water, more than 3% but less than or equal to 6%, and more than 6%, for the two samples. While substantial numbers of applicants in both regions were moved to seek help at proportionate spends of 3% or less, more than half of the applicants' water bills exceeded 3% of their income, the threshold we propose for establishing water poverty. In the Anglian sample, the figure is nearer to three-quarters, highlighting the impact of Anglian's higher charges on affordability. Around one-fifth of applicants in each case have proportionate water expenditures of more than 6%, twice the proposed threshold.

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<sup>5</sup> Ofwat press release 29 March 2001.

**Table 2: The distribution of applicants' proportionate water expenditure (% of applicants; % of income)**

Proportion of income spent on water (%)	Severn Trent	Anglian
=<3	45	28
>3, =<6	38	49
>6	17	23
	100	100
<i>Average Spend</i>	4	5

### Water poverty and fuel poverty

Naturally, the two water charities routinely collect detailed household budgeting information in order to evaluate applications. As this included expenditure on fuel,<sup>6</sup> and it was supplied to us along with data on expenditure on water, we were able to examine applicants' proportionate expenditure on fuel as well as water. This meant we were able to assess the degree of fuel poverty among the applicants too.

In view of our approach of constructing the notion of water poverty by analogy with fuel poverty it was of interest to us to see what the "pictures" of these applicants' water poverty and fuel poverty looked like side by side. Applicants' proportionate water and fuel expenditure are shown together in Table 3 – the "Anglian fuel poverty study" referred to there was an unpublished report on fuel poverty conducted by the Trust in 2000 from a sample of 100 of their applicants.

<sup>6</sup> Supplied by applicants but not checked; information supplied on water bills is verified by reference to the supplier

**Table 3: The distribution of applicants' proportionate water and fuel expenditure (% of applicants; % of income)**

		STTF	AWTF	Anglian fuel poverty study
Proportion of income spent on <b>water</b> (%)	=<3	45	28	-
	>3, =<6	38	49	-
	>6	17	23	-
		100	100	-
	<i>Average Spend</i>	4	5	-
Proportion of income spent on <b>fuel</b> (%)	=<10	30	33	23
	>10, =<20	47	52	55
	>20	23	15	22
		100	100	100
	<i>Average spend</i>	15	14	-

What does Table 3 tell us? We described earlier the definition adopted by Government for fuel poverty and explained the linked definition we propose for water poverty. Under those definitions, the table shows a majority of households applying to both Trusts to be in both water poverty and fuel poverty. With the exception of STTF applicants' water expenditure, the majorities are large, and around one-fifth of applicants in all three datasets are experiencing water or fuel poverty at twice the threshold level. The largest percentage of applicants falls into the middle band of proportionate expenditure in the Anglian region – among the applicants to the STTF, the largest percentage appears below the water poverty threshold.

The average proportionate expenditures for water and fuel bear a similar relationship to the poverty thresholds for the two utilities – in each case roughly half as much again. The resemblances are striking and the comparison invites the suspicion of similarities in the numbers and characteristics of households experiencing water poverty and fuel poverty in the population at large. It may indeed be (and there is anecdotal evidence) that the groups making up the two “poverties” largely comprise the same households. The Government has published two figures for households in fuel poverty in England: 3.3 million or 4.5 million, depending on whether housing benefits are included in income or not.<sup>7</sup> For Wales, the number given is 222,000, on the different basis of eligibility for assistance with home insulation measures.<sup>8</sup>

The table also shows the difference in the extent of water and fuel poverty between these two regions. It highlights the role that the level of water charges, compared with that played by underlying low income, has upon water poverty.

<sup>7</sup> *The UK Fuel Poverty Strategy*, DTI/DETR, November 2001, page 30

<sup>8</sup> *ibid*, page 57

## Water poverty and the level of social security benefits

How affordable is water if your income is a social security benefit? The question is readily answered, in notional terms, by taking average water charges and comparing them with published benefit rates. As company charges vary widely, Tables 4a and 4b take a range of figures. Social security benefit payments also vary greatly, depending on claimants' circumstances; in order to see what the most pressing circumstances look like, we have selected the benefits with the lowest rates. The tables take the most recent data available: Table 4a for 2001-02 and Table 4b for 2000-2001.

**Table 4a: Water bills as a percentage of social security rates, 2001-02 (%)**

Annual charge	Jobseeker's Allowance single	Jobseeker's Allowance couple	Minimum Income Guarantee single
Average measured (£194)	7	4	4
Average unmeasured (£233)	8	5	4

**Table 4b: Water bills as a percentage of social security rates, 2000-01 (%)**

Annual charge	Jobseeker's Allowance single	Jobseeker's Allowance couple	Pensioners' income support single
Newcastle (£198)	7	5	5
Plymouth (£346)	13	8	8

The 'Average measured' and 'Average unmeasured' charges are for England and Wales.<sup>9</sup> The Newcastle and Plymouth figures are the lowest and highest notional water charges for the English cities in a listing prepared by the DTI for household bills in 2000<sup>10</sup>, see also Table 8.

Weekly social security rates for the year from April 2001 were as follows:

Income based Jobseeker's Allowance, single person<sup>11</sup> £53.05 = £2,759 pa  
 Income based Jobseeker's Allowance, couple<sup>12</sup> £83.25 = £4,239 pa  
 Minimum Income Guarantee, single person<sup>13</sup> £92.15 = £4,792 pa

The corresponding social security rates for the year from April 2000 were as follows:

Income based Jobseeker's Allowance, single person £52.20 = £2,714 pa  
 Income based Jobseeker's Allowance, couple £81.95 = £4,261 pa  
 Pensioners' income support, single person £78.45 = £4,079 pa

<sup>9</sup> Ofwat press release 29 March 2001

<sup>10</sup> *Household Utilities Price Indices*, United Kingdom, DTI, 2001, and see Table 8 of this paper.

<sup>11</sup> About 600,000 claimants, not necessarily householders – First Release, ONS, 14 June 2001

<sup>12</sup> About 40,000 claimants, not necessarily householders – First Release, ONS, 14 June 2001

<sup>13</sup> About 730,000 claimants, single and couples, most likely to be householders.

It is notable that all the proportionate expenditures in Tables 4a and 4b exceed the 3% threshold we suggest for water poverty; the tables also include categories of householders paying water bills at more than twice the threshold. Although it is true that not all recipients of these benefits will be householders, the numbers among them who are responsible for paying water bills must nevertheless be substantial.

Moving a step closer to actual circumstances, information about the amount income support claimants pay for water is available in connection with the Direct Deductions scheme in which the Benefits Agency takes over payment of claimants' utility bills when they get into debt – exceptionally the scheme is also open to certain claimants not in debt. The GB average amount deducted at source from claimants' benefits for payment of water bills under the scheme was £4.26 a week at May 2001 for claimants who were also having arrears deducted at the standard amount of £2.70 to meet water debt. For claimants just having their water charges deducted, the amount is stated to have been £3.86. 119,000 claimants were having charges *and* arrears deducted, 11,000 just current charges.<sup>14</sup>

It will be seen from Table 5 that on average claimants in the deductions scheme for water similarly pay more than 3% of their income for water if they receive Jobseekers' Allowance or Minimum Income Guarantee.

**Table 5: The average water charges of claimants having their payments made directly by the Benefits Agency, as a proportion of benefit income, 2001-02 (%)**

Annual charge	Jobseeker's Allowance single	Jobseeker's Allowance couple	Minimum Income Guarantee single
Deducted from income support (£4.26/wk)	8	5	5
Deducted from income support (£3.86/wk)	7	5	4

An interesting point in connection with our finding about direct deductions for water is the presumption by Ofwat that low-income consumers derive some protection from their propensity to occupy lower rateable value homes.<sup>15</sup> If this were the case, it would be reflected in lower charges, at least for unmeasured supply, however, the £4.26 figure for income support claimants' expenditure on water is not far short of the average unmetered bill from April 2001 of £233 or £4.48 a week. Of course, in the future, with the shift to metering and the consequential relative increase in RV-based charges, low income consumers will no longer be protected, even theoretically, in this way.

In fact the amount of benefit contained in income support to meet water charges has been a concern since the early years of the privatised water industry when bills were increasing at above the rate of inflation. In addition, changes to the social security system in 1988 had in effect passed some responsibility for meeting water charges from the social security scheme to benefit claimants themselves: before the change,

<sup>14</sup> *Income support quarterly statistical enquiry, August 2001 DWP*

<sup>15</sup> *Approval of companies' charges schemes 2001-2002, Ofwat 2000*

supplementary benefit claimants received the actual charge for water services as part of their allowance, and since it was often rebated along with rent and rates through a link with the housing benefit scheme, most gave little thought about paying for water.

In correspondence between the House of Commons Library and an MP in 1996<sup>16</sup> it was conceded that the amount included in income support since 1988 had been eroded as water bills had increased faster than benefit rates. Table 6 is reproduced from the HoC Library reply. £1.65 a week was assumed to be the amount incorporated into benefit rates at the changeover to income support in 1988 - an amount less than the then average charge for water, presumably in the belief that claimants would live in lower rateable value houses and have lower charges than the average. Table 6 also shows how that £1.65 - even up-rated in line with income support rates - failed to keep pace with rising water charges, and met an ever diminishing proportion of bills. According to the House of Commons Library, around £280 million a year would have been required at that time, in 1996, to restore the purchasing power of the water element in income support.

Improvement in the position of pensioner and family households on income support following the return of the Labour Government in 1997 will have offset this detriment to some extent for those claimants and the below-inflation water price increases from 2000 will also have been of benefit to all consumers. But the gap remains substantial. Examination of social security statistics<sup>17</sup> shows that the amount in income support to meet water charges was £2.70 in 2000. As claimants on income support who were subject to direct deductions were paying on average between £3.86 and £4.26 a week in 2001 for water services, the gap is between one and two pounds a week. The number of claimants receiving income support or jobseekers' allowance (a variant of income support for people obliged to seek work) in England and Wales is at present something over four million<sup>18</sup>.

**Table 6: Erosion of the amount in income support to meet water bills (£/week)**

	Amount to meet water charges	Average water bill – England and Wales	Benefit as % of Bill
1988/9	1.65	2.05	80%
1989/90	1.72		
1990/1	1.81		
1991/2	1.96	2.99	66%
1992/3	2.10	3.27	64%
1993/4	2.17	3.56	61%
1994/5	2.26	3.83	59%
1995/6	2.30	4.06	57%
1996/7	2.37	4.27	55%

<sup>16</sup> Correspondence between HoC Library and Helen Jackson MP, 17 May 1996

<sup>17</sup> *The abstract of statistics for social security benefits and contributions and indices of prices and earnings, 2000 Edition*, Table 2, DWP

<sup>18</sup> *Income support quarterly statistical enquiry, August 2001* and *Jobseekers' allowance quarterly statistical enquiry, August 2001* DWP

## Regional diversity in water charges

The implication of this section is that people with low incomes face a real struggle paying their water bills. But water bills are far from standard items in household budgeting; they vary greatly depending on where people live. The struggle is hardest for low-income households living in high-charging areas. We illustrate the geographical diversity of water charges with data from Ofwat, from ONS, and from the DTI.

Twenty-four companies supply water and/or sewerage services in England and Wales and their charges vary markedly, the highest being more or less double the lowest. Table 7a shows that for water, people served by Tendring Hundred Water Services pay on average almost twice the charge levied on consumers in Portsmouth. For sewerage, the charge of the most expensive company, South West Water, is over twice that of the lowest charging company, Thames Water Utilities. Table 7b shows these relationships expressed as percentages of the industry average.<sup>19</sup>

**Table 7a: Highest and lowest average household bills, England and Wales, 2001-2002 (£)**

	<b>Low</b>	<b>Industry average</b>	<b>High</b>
<b>Water</b>	75 Portsmouth Water	105	142 Tendring Hundred Water Services
<b>Sewerage</b>	95 Thames Water Utilities	119	203 South West Water

**Table 7b: Highest and lowest average household bills, England and Wales, 2001-2002 (%)**

	<b>Low</b>	<b>Industry average</b>	<b>High</b>
<b>Water</b>	71	100	135
<b>Sewerage</b>	80	100	171

The DTI data bring together water and sewerage to present the more pertinent idea of “water bills”.<sup>20</sup> In Table 8, the figures are for unmeasured charges and the amounts for the cities listed are indicative of charges for their regions. The previous tables showed the highest company charges to be around twice the lowest: Table 8 shows charges in Plymouth are not far off being twice those in London. Scotland and Northern Ireland are represented in this table for illustrative purposes. Scottish water charges are generally lower than those in England and Wales, though they are set to rise in coming years to fund the large investment programme planned for that country. In Northern Ireland, domestic consumers are not charged directly for water services; funding there is derived wholly from the Northern Ireland Assembly; Northern Ireland has no plans to develop charging arrangements like those in Great Britain.

<sup>19</sup> From tables attached to Ofwat press release, 29 March 2001

<sup>20</sup> See note 10 above

**Table 8: Water bills in 2000 for various cities in the UK (£pa)**

Newcastle	198
Manchester	225
Liverpool	225
Leeds	220
Nottingham	203
Birmingham	203
Ipswich	297
London	189
Canterbury	265
Southampton	244
Plymouth	346
Cardiff	278
Edinburgh	196
Aberdeen	239
Belfast	-

Finally, the striking feature of the country and regional data in Appendix 2 is the disparity between water charges and incomes. Tables 9a and 9b have been constructed from these data. The figures given are averages drawn from large populations, of course, and inevitably conceal much variation in both bills and incomes. Despite this, the mismatch is conspicuous, underlining the great regional disparity in the affordability of water.

**Table 9a: UK Country and Regional water charges and income (£/week)<sup>21</sup>**

	Lowest	Average	Highest
Water and sewerage bill	3.80 London	4.20 UK	5.20 Wales and South West
Average household income	304.50 North East	370.50 UK	452.00 London

**Table 9b: UK Country and Regional water charges and income (%)**

	Lowest	Average	Highest
Water and sewerage bill	90 London	100 UK	124 Wales and South West
Average household income	82 North East	100 UK	122 London

<sup>21</sup> In order to provide reliable estimates the data were derived by ONS from information on water and sewerage charges and incomes during the three years 1997-98 to 1999-00.



## 4. Addressing water poverty

*...the Government's policy is to provide a system of fair and affordable water charges, particularly for vulnerable customers....<sup>1</sup>*

What collective arrangements do we have to ensure we can all afford our water bills, or, in other terms, what is the Government doing to address water poverty? We have discussed the erosion of support for income support recipients and it is clear that that development is exacerbating people's difficulties. We give credit for the first real terms price cuts in water charges which took effect in 2000 and the improvement in the benefits position of families and pensioners but still, for significant numbers of people, the bite that water bills take out of incomes remains worryingly large.

Government has encouraged the establishment of the handful of water charities, through its fiscal policy. They have been a controversial innovation, however, and their contribution (together with that of certain companies' in-house hardship funds) to combating water poverty overall, remains negligible. This leaves two more recent initiatives and in this section we look briefly at the concept of "social tariffs" but in particular at the "vulnerable groups" provisions. At the end, we discuss the way debt is approached in this utility sector.

### **Social tariffs**

What consideration has been given to setting tariffs to assist people who are likely to be facing difficulty paying their water bills? As the following shows, so-called social tariffs have been discussed, but none has yet been approved.

The Government's approach to social tariffs is this:

*"The Secretary of State is keen to see the development of innovative tariffs that can assist customers who may face difficulty paying their water bills. The terms of companies' licences requires them not to exercise undue discrimination between customers. However, this does not wholly rule out the principle of social tariffs. Water companies should be in the best position to design tariffs, based on their knowledge of their customers and local circumstances. Against this background, tariff structure should be designed to mitigate the impact of bills on all low-income customers. Where companies devise well-considered and workable proposals for social tariffs, which do not have unacceptable impact on other customers' bills and do not represent "undue discrimination" the presumption should be that such tariffs should be allowed in charges schemes."<sup>2</sup>*

The Director-General (the D-G), however, expresses his duty thus:

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<sup>1</sup> *Water Charging in England and Wales: Government decisions following consultation*. DETR, November 1998.

<sup>2</sup> *Water Industry Act 1999: Delivering the Government's Objectives*, DETR, February 2000.

“ ... a customer's bill should, in general terms, reflect the costs which that customer imposes on the water and sewerage systems for a supply of clean water, disposal of dirty water and draining surface water.”<sup>3</sup>

In outlining his duties, the Director also emphasises the requirement that neither undue preference nor any undue discrimination be shown in the way companies set their tariffs. The upshot of this subtle divergence of approach is that no social tariffs have been proposed or approved beyond the statutory vulnerable groups scheme (though this is not to say that some poorer consumers do not benefit from environmental tariffs such as Anglian's "SoLow").

The Director concluded in his response to the most recent consultation on social tariffs, “ ... there is little enthusiasm for further social tariffs amongst the respondents to the consultation, although this stems largely from concerns that these are matters that should be decided by Government rather than companies.”<sup>4</sup> The Director had hardly been enthusiastic himself, however, having argued in his consultation document that protection for low-income consumers was already provided through attention to their budgeting needs (e.g. by frequent payment options) and to good practice in debt recovery (which, he pointed out, occasion costs that are borne by consumers in general), together with the Vulnerable Groups scheme. *De facto*, Ofwat has argued, bills must be affordable and his proposed criteria for the acceptability of social tariffs (endorsed by respondents) were extremely stringent. They included: effective targeting, attention to overlap between schemes, minimum impact on the bills of consumers in general of the proposed scheme together with all other sources of assistance, minimum impact of consequential charges upon vulnerable consumers themselves, and avoiding pre-empting the Government's review of the Vulnerable Groups Scheme. Any company wishing in principle to answer the Secretary of State's call had a minefield indeed to navigate.

## **Help for vulnerable groups**

### *The Water Industry Act 1999*

Despite clear opposition during the passage of the Bill, the spectre of drought and a strong "green" lobby overwhelmed prevailing social concerns with the result that the 1999 Act gave a significant boost to the use of water meters (as favoured, of course, by the previous Tory administration<sup>5</sup>). The other techniques then and since advocated in the energy field (and used abroad in the water field) to encourage conservation<sup>6 7</sup> received no direct recognition. Among the Act's three stated aims (instituting a system of fair and affordable water charges, ensuring that water is used in a sustainable way and protecting the aquatic habitat), the environmental ones took precedence and while, prior to the 1997 General Election, then shadow Secretary of

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<sup>3</sup> *The Role of the Regulator*, Ofwat website, December 2001

<sup>4</sup> *Approval of companies' charges schemes 2001-2002: Ofwat's conclusions on the consultation*, Ofwat 2000

<sup>5</sup> See e.g. DoE Press Release 170, 4 April 1995.

<sup>6</sup> Reducing energy prices has been a significant plank of the government's fuel poverty strategy (see *The UK Fuel Poverty Strategy*, DTI/DETR November 2001); conservation has been promoted at the same time through improving the energy efficiency of homes.

<sup>7</sup> See *Encouraging domestic water saving*. Price H, for PUA, June 1995.

State Frank Dobson had been outspoken in his criticism of metering<sup>8</sup>, his replacement in Government, Michael Meacher, embraced it, pressed in addition by his officials co-incidentally in need of an alternative to rateable values (RVs) as a future charging base. Evidence of metering's adverse social effects<sup>9</sup>, itself criticised<sup>10</sup> for underestimating the likely problem, apparently carried little weight in the decision-making process.

Under the Act, foreshadowed by the publication the previous year of the Government's conclusions to a public consultation<sup>11</sup>, domestic consumers were given the power to demand meters, free at the point of installation, on 12 months "sale-or-return" approval; conspicuously, consumers already with meters were not given the equivalent right to trial charges founded on RVs or any other basis. The choice was, at the same time, skewed by the operation of the tariff basket whereby revenue lost to the companies from high RV/low user "switchers" could be, indeed *had* to be, recouped from a diminishing population of unmeasured consumers, predominantly domestic, artificially increasing the (at least, short-term) attraction of meters<sup>12</sup>. Praised by the Minister as promoting increased customer choice, the measures were more realistically condemned by others as "compulsory metering by stealth", measured charging, then affecting just c.14% of consumers, being predicted as a result to grow to as much as c.70% by 2009.

While at the same time, by banning domestic disconnections and pre-payment meters, the worst potential consequences of water debt were removed, the advancing linkage of bills to consumption did nevertheless pose a threat to poorer consumers and those with abnormally high water needs who faced either a financial penalty and/or constrained usage, the first increasing social exclusion and the latter threatening personal and public health. Acknowledging this, the Government's sop came in an announcement by the Minister at second reading that large families on low incomes and (with no mention of income status) others with members suffering certain medical conditions requiring high water use would be protected from high measured bills; bills for both groups would be capped at the average (to be calculated by a method to be determined by the Director-General<sup>13</sup>) measured charges for their respective water and sewerage undertakers.<sup>14</sup>

### *The proposals developed*

That promise first found full expression in a consultation paper published by the DETR, nearly a year later, in October 1999<sup>15</sup>. Leaning on powers inserted into the

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<sup>8</sup> See e.g. *Environment update no.10*. The Labour Party, July 1995.

<sup>9</sup> See *The Social Impact of Water Metering*. WS Atkins for Ofwat /DETR 1992 and e.g. *The impact of water metering on domestic households in Oldham*. Oldham MBC, July 1994.

<sup>10</sup> E.g. for unrepresentative trial areas, especially the Isle of Wight (see the response of the National Consumer Council to the NRA's *Saving Water*, PUA Bulletin January 1996).

<sup>11</sup> See note 1 above.

<sup>12</sup> See *The impact of water metering on council tax based charges*. Peter Vass, in *Water charging and social justice*. New Policy Institute, 2000.

<sup>13</sup> See now the Vulnerable Groups Regulations, r3(2) and "RD 25/99", Ofwat 15 December 1999 (which contains the curious statement: "Detailed guidance as to the numbers of customers Ofwat is minded to accept on this tariff...")

<sup>14</sup> Hansard 7 December 1998, col. 45.

<sup>15</sup> *Water Industry Act 1999; Consultation on Regulations*, DETR, October 1999.

1991 Act<sup>16</sup> to prescribe in Regulations matters with which undertakers' charges schemes must comply, underpinned by mandatory guidance to the D-G on the social objectives charges schemes should support (including "affordability"), the paper set out proposals for Regulations in England<sup>17</sup>.

As previously announced, the draft defined two distinct groups of vulnerable consumers: large families on low incomes and the families of people with designated medical conditions. "Large families" was elucidated to mean individuals (thus including single-parent households) with three or more dependent children under the age of 16 who were in receipt of one of a specified list of means-tested benefits. The list of specified medical conditions comprised kidney failure requiring home dialysis, abdominal stoma (ileostomy, colostomy), "desquamation", weeping skin disease and incontinence where (in addition) such a condition caused the family member to use significantly more water.

It was never clear how excluding dependent children over 16 contributed to social inclusion and "significantly" has, so far as we can tell, never been defined. It is not clear either how that omission alone may have affected take-up under the subsequent Regulations. Attracting little comment, applicants also had to be receiving treatment for their conditions, excluding more who would otherwise have qualified but who, for want of any effective treatment, simply endured them.

### *The response*

The proposals met with immediate criticism from, among others, the Ofwat National Customer Council (ONCC), in particular for the costs (estimated at that time by the DETR as, at most, £1.20 pa or 0.005% of then average bills per household<sup>18</sup>, later amended to just £0.75<sup>19</sup>) they would impose on the majority of consumers required to subsidise their vulnerable neighbours<sup>20</sup>. From a rather different perspective and noting the existing extent of other, e.g. geographical, cross-subsidies by comparison, the Public Utilities Access Forum (PUAF) complained<sup>21</sup> that capping bills at the "average" did not necessarily make them "affordable"<sup>22</sup>, particularly when regional price variations were taken into account (let alone regional differences in income); that the plans made no provision for helping equally poor consumers having trouble meeting high *unmeasured* bills (a problem exacerbated by the effects of tariff re-balancing<sup>23</sup>), and, highlighting the very narrow view of poverty taken by the proposals, that help was surely required for *all* households, whether with or without children, if their income was low enough.

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<sup>16</sup> Water Industry Act 1991, s.143A, inserted by s.5 Water Industry Act 1999.

<sup>17</sup> A separate but in material respects identical consultation paper was issued in respect of Dwr Cymru and the Dee Valley Water Co by the National Assembly for Wales

<sup>18</sup> See note 15 above

<sup>19</sup> See note 2 above

<sup>20</sup> *Joint response by the ONCC and the 10 regional CSCs to DETR consultation on Water Industry Act 1999 regulations*, 19 November 1999

<sup>21</sup> Response to *Water Industry Act 1999: consultation on Regulations*, PUAF November 1999

<sup>22</sup> Average combined bills varied during 1999/00 between £206 (Thames) and £356 (South West) i.e. by up to 73%

<sup>23</sup> See note 12 above

PUAF also criticised the proposed application process which, in the case of consumers with medical conditions required the regular disclosure of potentially embarrassing details of those to water company officials. It said this would deter many applicants from seeking help. It was, of course, almost equally improbable that many large, poor households would readily identify themselves to their water undertakers either.

### *The Regulations*

Far from addressing these criticisms, however, the Regulations (the “Vulnerable Groups Regulations”), when they were finally published<sup>24</sup>, compounded them by actually reducing the numbers of households to whom they would apply. They did this by adding to the requirement to need more water as a consequence of a specified medical condition another to be poor as well. The accompanying press release<sup>25</sup> attributed to “consumer groups” this “clearer focus”, noting some as having argued that vulnerable consumers should not be subsidised by others (while omitting to mention that their argument had continued, vainly, that help should come from general taxation instead). There is, however, little doubt that “consumer groups” was principally a euphemism for the ONCC whose opposition to any further cross-subsidy was well-known.

### *How effective have they been?*

Though it is clear that, through their narrow definition of those in need, the Vulnerable Groups Regulations failed to meet the declared political objective<sup>26</sup>, even when the concurrent help of the element in income support is taken into account, perhaps a fairer test of the Regulations themselves is to ask how many of those within that definition have actually benefited? As far as we know neither DEFRA nor Ofwat has concluded any research since 1999 to confirm the estimates made at the time so as a starting point, to see whether they might have been too high or too low, we attempted to replicate them. Trying took us to some unusual sources; it was neither easy nor, in the end, very satisfactory.

*Large, poor households* -The Regulatory Appraisal which accompanied the draft Regulations<sup>27</sup> estimated in October 1999 that c.500,000 households in England had three or more (dependent) children and were in receipt of the requisite benefits. By the following February, this had been increased to 600,000<sup>28</sup>. Of this group, it was originally estimated that c.75,000 (15%), later increased to 100,000 (17%), were in homes with water meters. We were, however, unable to corroborate this figure and so, must accept it as broadly correct.

*Ill, poor households* - How the estimate in the same Appraisal that another c.400,000 households would qualify for help by reason of a member having treatment for one of the specified conditions, a consequent need for more water and a metered supply is

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<sup>24</sup> Laid before Parliament as the Water Industry (Charges)(Vulnerable Groups) regulations 1999 on 22 December 1999; in force from 12 January 2000

<sup>25</sup> DETR Press Release 1240/1999, 22 December 1999.

<sup>26</sup> See note 1 above

<sup>27</sup> See note 15 above

<sup>28</sup> See note 2 above

less clear (and, in fact, it was halved within four months); while figures for benefits claimants (if not for the proportion of them with a measured water supply) should be readily available within Government, as the Appraisal noted, figures for people suffering from the various medical conditions are not collated centrally. How we went about constructing our estimate of the size of this group will be found in Appendix 4 but our conclusion was that c.343,000 households would be eligible under the medical condition heading.

*Both groups of households* - Putting the two groups together then presented another uncertainty, i.e. estimating the overlap between them. No attempt seems to have been made to do this in either of the Regulatory Appraisals since at the time of the first, they were seen as distinct and independently deserving groups and the second just refined the estimates of each. There will be some overlap, of course, but we have been unable to estimate it. We think it will be small, nevertheless.

Setting it aside accordingly, if it is not more than off-set by the growth in metering anyway, and assuming no significant changes in family composition, rates of claiming or the incidence of relevant illnesses in the interim, there are two ways to gauge the success of the regulations: by looking at the numbers now claiming under them relative to the estimates and by looking at the actual benefit per successful applicant, again compared to expectations.

#### *Take-up*

Summarising the numbers then, on the Government's estimate (which we accept), 100,000 poor households qualify by reason of poverty and size while on our estimate, 343,000 qualify by reason of poverty and illness - a combined total of 443,000 households. The Government's estimate of the latter group is just 200,000, giving a combined total of 300,000. Quite a difference but, in fact, that hardly matters since at the end of the 2000/1 charging year, the total number of customers benefiting from the tariff was just 1,724<sup>29</sup> - 0.4% of the number we estimate as eligible and a little under 0.6% of the Government's estimate – an astonishingly low take-up when compared to either estimate, notwithstanding all their inherent uncertainties.

**Table 10: Estimates of numbers eligible under the Vulnerable Groups scheme**

	Eligible		Applicants	
	Government estimate	Our estimate	Number	% Eligible
Family size condition	100,000	100,000		
Medical condition	200,000	343,000		
Total	300,000	443,000	1,724	<0.6

#### *Costs*

<sup>29</sup> Per the companies' June returns (in e-correspondence with Ofwat, January 2002)

But even this gross shortfall in numbers is not the end of the story. Bill-payers from both the large, poor households and the ill, poor households were assumed by the Regulatory Appraisals to be likely to benefit by £50 pa, in 1999/00 terms equivalent to c.20% of the average of all combined household bills or c.24% of average measured consumption (ignoring standing charges). That is, to a minimum of £15M in total in the first year. We asked Ofwat how much the companies reported they had *actually* spent, assuming that since they were being permitted to pass on those savings *via* other consumers' bills, they would have to justify that. We were surprised that Ofwat could not tell us. What we did learn, however, was that the saving (i.e. by successful applicants) the companies were told to assume for accounting purposes was only half that expected by the DETR, i.e. £25 pa per household. How could different Government departments be at such odds? And what has happened notwithstanding to the money raised from the majority of consumers for the "vulnerable fund", in fact just under £7.5million net in the first year and more in 2001/2?

### *Public opinion*

More broadly, the adequacy of the Government's scheme can also be assessed by qualitative survey - by asking people what they think it should cover, then comparing their opinions with the "real thing". Ofwat has, in fact, undertaken such a survey<sup>30</sup> and the answers are in the public domain. Key among them is that the great majority of people think water is a special case - that everyone should be enabled to afford enough. Most, hence, support the principle of help being given to vulnerable consumers and they think the definition of those is currently drawn too tightly; that is particularly true of the list of medical conditions in respect of which the view is widespread that such people have no responsibility for their misfortune and that eligibility for help should not be circumscribed by a poverty condition too. Though help for poorer *unmeasured* consumers is generally seen as fair and reasonable, there were concerns about using benefits as a proxy for poverty. These were, however, often rooted in a suspicion of the benefits system and were not so much to do with a reluctance to help the poor *per se*. When it comes to the inevitable cost of help, not only was the then current estimate widely seen as quite acceptable but most people, while drawing a line somewhere, would be willing to pay substantially more.

### *A review pending*

To its credit, the Government wanted some protection in place as soon as possible. It ignored calls to delay but the Vulnerable Groups Regulations were consequently introduced in something of a hurry. In their haste, they contained drafting errors which had soon to be corrected but they were, from the first, regarded as a pilot with a promise to review them after their first year. Though that review began in Government last Summer, its pace has been slow and at the beginning now of their third year of operation, the public part of that review is still pending. The message for the review from both the figures and the survey of public opinion seems, however, to be clear: separate the poor from the sick, provide help for all the former, metered or not, on the basis of a more reliable passport (or, perhaps, directly *via* the benefits system?), and compensation for the latter regardless of their means.

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<sup>30</sup> See *Protection for Vulnerable Customers*, DVL Smith Ltd for Ofwat, July 2000.

Some signs from DEFRA, the Department now responsible, seem favourable. Work done preliminary to the review has revealed the shortfall in anticipated applications from which the conclusion has already been drawn that “there is likely to be room to extend the scheme without imposing unreasonable increases on other customers’ bills” but though additional customer groups are in Ministers’ minds, there is nevertheless still no intention to lend protection to any unmeasured consumers. The Government’s rationale is that while they can still receive all the water they want regardless of cost, they cannot be in “water poverty”<sup>31</sup>. We, of course, take a slightly different view of that.

Implicit in the statement quoted at the beginning of this section is a belief that the system of water charging prior to the 1999 Act was neither fair nor guaranteed affordability, especially for the vulnerable. We would certainly agree about the latter. But this section has shown that the steps taken consequently have failed, and failed comprehensively, to change that. Their failure was predicted but the scale of that has surprised even us. Not only have they not reached the vast majority of their intended target but at best, the Vulnerable Groups Regulations have not even turned the clock back to before 1988, that is to say that at the assumed level of receipt, the help they provide does not fill the gap opened up since then as a result of the change from supplementary benefit to income support.

### **Dealing with water debt**

There is an important judgement to be made in discussing the recovery of unpaid water charges: to what extent should we be talking about debt management, and to what extent about affordability? Inevitably, the judgement is contentious because of its political nature – it reflects the weight we accord to the interests of the affected groups, in particular the interests of low-income consumers. Because it is a moral question, the search for technical answers, be it in economic theory or in operational quests like separating supposed *can't-pays* from *won't-pays*, will be in vain; only politics can decide whether the emphasis should be closer to debt management or to affordability.

Our reason for saying this will be obvious. In a report about the affordability of water charges, we include a section on debt, not because we seek to deal with debt as a problem in itself, but for the light it may throw on the affordability of water. We are aware that others have concentrated on debt management as *the* problem: during winter 2001-02, both the water and energy regulators had initiatives in hand aimed at preparing guidelines for companies on dealing with debt.<sup>32</sup>

#### *How much water debt is there?*

A consumer is defined as being in debt if a bill is not paid by the end of the billing year in which it is issued. Over 4.4 million households in England and Wales were in water debt at the end of the financial year 2000-01, 19% in all. The average debt was £154. In the financial year 2000-01 the amount of revenue outstanding and written

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<sup>31</sup> Personal correspondence with WSR Division, DEFRA, October 2001.

<sup>32</sup> *Debt Recovery Guidelines – Consultation*, Ofwat January 2002 and Joint Ofgem/energywatch Advisory Group on Debt Management and Prevention press release 17 December 2001

off for household services was £688 million<sup>33</sup>. In 2000-01, it cost the industry 10% more to collect its household revenues than in 1998-99, a total of £51 million.

Debt recovery involves an escalation of action from warning to summons to county court judgment. 4.8 million households received warnings in 2000-2001; the much smaller number of 239,000 was proceeded-against and, in the end, 164,000 judgments were awarded<sup>34</sup>. But company-level information for recovery action shows a great divergence in activity: Southern Water obtains so few judgments that its performance shows up as zero in terms of judgments per 10,000 consumers; Wessex Water is the most active company having a rate of 275, against the industry average rate of 78.

*How has ending disconnection affected water debt?*

The Water Industry Act 1999 ended the disconnection for debt of domestic consumers from June 1999. This was a controversial change, having been opposed by the regulator and by the Ofwat National Customer Council, because of fears that debt would rise and become a burden on other consumers. Ofwat's conclusion after two years is that there has been a general trend towards higher levels of outstanding revenue and increasing numbers of customers in debt.

This conclusion is based on three of four key indicators: the revenue outstanding and written off in 2000-2001 was 7% greater than the figure for 1998-1999, the last full year prior to the ending of disconnection; expenditure on revenue collection was 10% greater; and there was a 10% increase in the number of households in debt. Contrarily, however, the average level of individual debt to fell to £154. Notwithstanding, individual company experience varied greatly, some with reduced and some with greater debt, the same applying to expenditure on debt recovery. Moreover, Ofwat stated this variation between companies to be greater than the amount of change between the years either side of the ending of disconnection. This seems to suggest that debt levels are a function more of company practice than consumer behaviour and it is, in our view, premature to say that rising debt is a direct consequence of the disconnection ban. It is in any case questionable how many householders know about the stop on disconnection; the Centre for Utility Consumer Law is presently engaged in a qualitative study of customers' experience of applying to the Severn Trent Trust Fund for help with water debts and a preliminary finding is that people are only exceptionally aware of the ban.

Alternatively, there may be a time lag in operation here. Interestingly, while the statistics on debt recovery show a general reduction between 1995-6 and 2000-01 in action so far as claims and judgments are concerned, for the first stage, pre-claim notices, there has been an increase, including an upward movement over the three years spanning the ending of disconnection; well over a million more of these warnings were issued in 2000-01 compared with 1998-99. This information is set out in Table 11. This large increase may yet feed through to the later stages of recovery action and reverse the downward movement in summonses and judgments of recent years.

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<sup>33</sup> RD 12/01, Ofwat 15 August 2001 for the data in this section and the next

<sup>34</sup> Ofwat letter to the Centre for Utility Consumer Law, 25 January 2002

**Table 11: Water industry enforcement action (thousands)**

	1995-96	2000-01
Pre-claim letter or notice	3,334	4,781
Claim	387	239
Judgment	268	164

Notwithstanding, such of the rising debt as may be attributable to the ban on disconnections seems to be having only a very modest effect on the companies and, in particular, no greater effect than they predicted. Given the opportunity to cover any additional financing costs in their AMP3 bids, only one company, Dee Valley, got its sums sufficiently wrong to need to apply for a further, interim, determination to raise an extra £140,000 over three years 2002/3 – 2004/5. Part of this sum moreover was set aside not for debt financing but for the employment of a debt counsellor and for collection agents<sup>35</sup>.

#### *Information about water debt*

What is the nature of the link between water debt and low income? Are we able to come to a view on treating payment problems as a question of debt management, or should we be talking about affordability? Is the question of affordability fundamental to debt management?

At the moment we lack the information to approach these questions. This paucity of information about water debt is surprising, at a time when over 4 million consumers are a year behind with payments. It is also puzzling, given the practice in the gas and electricity industries. Water bills are broadly comparable to gas and electricity charges, but for those the numbers in debt are smaller - 1.8 million for gas and 1.6 million for electricity. This comparison needs qualifying because of the widespread use of prepayment meters for gas and electricity supply, especially by low-income households, an option ruled out for water supply by Section 2 of the Water Industry Act 1999, but detailed information about energy supply company performance is published in relation to debt recovery practice, including data relating to ten different payment methods. Industry level information is available about numbers in fuel poverty and levels of debt<sup>36</sup>.

Admittedly, links between debt, fuel poverty and low income cannot be established using these data, but requiring the publication of energy companies' performance in services to people with payment difficulties is a welcome acknowledgement of the struggles people can have paying utility bills. Commercial confidentiality is said to be the obstacle to publication of water industry information, but it is not clear why the energy supply industry, with its now complete liberalisation in all sectors, should be less concerned about the publication of this information than the non-competitive water industry.

Writing in the mid-1990s, Herbert and Kempson were unequivocal: "Water debt was concentrated amongst low income households" is their opening remark in an

<sup>35</sup> Director-General's letter to the Managing Director of the company, 14 December 2001

<sup>36</sup> These data are on the Ofgem website at [http://www.ofgas.gov.uk/sap/key\\_indicators.htm](http://www.ofgas.gov.uk/sap/key_indicators.htm)

examination of the pattern of water debt and its relationship with low income<sup>37</sup>. Table 12<sup>38</sup> shows that two thirds of those with debts had incomes of less than £160 a week. The risk of water debt fell sharply with rising income and as a consequence, the researchers found from their survey that one in six households living on less than £100 a week were in debt compared with only one in fifty of those with incomes in excess of £400.

**Table 12: Economic circumstances of debtor households**

Net weekly income	Households with water debt in past year (%)
Up to £100	41
£100-£159	23
£160-£219	13
£220-£299	11
£300-£399	8
More than £400	3

At least we know enough to recognise our current ignorance about water debt. Table 13 relates indebtedness in general to income<sup>39</sup> and Table 14 relates fuel poverty to income.<sup>40</sup> Though a relationship between income and indebtedness might seem clear, we know that things are not so simple; older people, the study found, had fewer debts despite lower incomes while higher-earning families indebtedness was due to higher costs, particularly of children, and commenting on their data which we show in our Table 13, Berthoud and Kempson invited us to think of a triangle of debt-inducing factors: age and children as well as incomes.

**Table 13: Indebtedness by income**

Income	Up to £100	£100-£150	£150-£200	£200-£250	£250-£300	£300-£400	£400 plus
Proportion with any problem debts (%)	33	22	13	9	10	8	2
Proportion with three or more debts(%)	10	4	4	2	1	1	*

Drawing energy into the equation, the correspondence between fuel poverty and debt is far from exact, and fuel poverty itself is a function of several factors, especially home energy efficiency as well as income. Nevertheless, these tables do suggest that there are questions about the relationship between water debt and income that we ought to be asking, and that published data ought to be in a position to answer.

<sup>37</sup> *Water debt and disconnection*, Alicia Herbert and Elaine Kempson, Policy Studies Institute 1995

<sup>38</sup> Table B2, Appendix B *ibid*

<sup>39</sup> From Table 8.5 in *Credit and debt*, Richard Berthoud and Elaine Kempson, PSI 1992

<sup>40</sup> Adapted form Table 4.5 in *The UK Fuel Poverty Strategy*, DTI/DETR November 2001

**Table 14: Fuel poverty by income**

Mean income (£ per week)	Proportion of income spent on fuel (%) <sup>41</sup>
107	Over 20
109	15-20
137	10-15
225	5-10
444	5 or less

If we are to put ourselves in a position to decide the balance we should strike between approaching water debt as an affordability issue or a matter of debt management we need much better data. We need to know about the distribution of water debt by income, about company performance in the prevention and management of debt and we need to be able to observe trends over time. Company level data are needed, both to secure accountability and because of the present wide regional variation in water charges.

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<sup>41</sup> Percentage of income (including housing benefit and ISMI) required to maintain a satisfactory heating regime

## 5. Conclusions

### *Water is Everybody's Business<sup>1</sup>*

This research has used the methodology of the Government's fuel poverty strategy to suggest a standard for water poverty. A household is considered to be in fuel poverty if an expenditure of more than 10% of income is required to achieve a satisfactory heating regime. The corresponding figure for water is 3% of income. We applied the standard to a sample of low-income householders and found a similarity in the patterns of water poverty and fuel poverty. This suggested that the extent of water poverty might be similar to that for fuel poverty, around four million households in England and Wales. Work by the Department for the Environment, Food and Rural Affairs supports the methodology and finding: a proportionate spend on water of 3% of income is the Department's measure of water affordability in its sustainability indicator, and the proportion of households in Great Britain spending above that level is 18%.

Our investigation of the circumstances of households under pressure in meeting water bills showed that they faced significant difficulties. A half to three-quarters of the applicants to water charities in the samples we examined had water bills exceeding 3% of their household income, and would be in water poverty on our definition. Recipients of Jobseeker's Allowance and Minimum Income Guarantee often need to spend much more than 3% of their income on water. This is not surprising in view of the erosion of the value of income support with respect to water charges. These pressures are increased for households living in high-charging water company areas – the level of company charges varies greatly and people on standard (low) social security benefits can find themselves paying approaching twice as much as they would if they lived in a region with the lowest charges.

Enquiring about official action to address these difficulties, we found not just conflict between Government Departments but a reluctance to accept that water poverty even exists. Not surprising then that despite lengthy consideration, no "social tariffs" have been introduced by the companies while the social tariff imposed by Government in the Vulnerable Groups Regulations has been a *débâcle* in failing almost completely to attract take up and the regulatory review of rising water debt has ignored considerations of water affordability.

It is true that water poverty, like fuel poverty, or indeed food or any other poverty is no more than a subset of general poverty. But that does not mean that it does not merit special attention. The Government has acknowledged this in urging the regulator and industry to consider "social tariffs", and in bringing forward the ill-fated scheme to help vulnerable groups, now subject to review. Further, the Government has included provisions in its draft Water Bill for the water regulator and the proposed new Consumer Council for Water to have new duties to protect the interests of low-income consumers.

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<sup>1</sup> 2<sup>nd</sup> World Water Forum, The Hague, March 2000

What is to be done? The policy pressure point at the moment is water debt, which makes it a sensible starting point. We do not know how much water debt arises because people cannot afford their bills and how much the figures are the outcome of company practices. There are two stages to finding out. First, we need to know how much money is coming into the homes of people in debt – we need to know the relationship between debt and income - and for this we need better information than we have at present. Second, we need to decide the amount of income people can reasonably be expected to spend on water, as we have done for fuel. Then we need to develop policies to address water debt, again as we have done for fuel. This programme will require the attention of Parliament as well as contributions from the water industry, the regulator, consumer bodies and other commentators.

**Appendix 1: Expenditure on water and sewerage charges and income, where households are in the lowest three disposable income decile groups 1999-2000**

based on weighted data

Grossed number of households (thousands)	7,601
Total number of households in sample	2,207
Total number of persons in sample	3,635
Total number of adults in sample	2,757
Weighted average number of persons per household	1.6
Upper boundary of group (£ per week)	193

**Commodity or service**

**Average weekly household expenditure (£)**

<b>Water and sewerage charges</b>	<b>3.70</b>
<i>Percentage standard error</i>	2
Number of recording households	1,777
Average number of grossed recording households (thousands)	6,610
<b>Disposable weekly household income</b>	<b>115.50</b>
<i>Percentage standard error</i>	1
Number of recording households	2,196
Average number of grossed recording households (thousands)	7,559
<b><i>Water and sewerage charges as a percentage of disposable income</i></b>	<b>3</b>



**Appendix 2: Expenditure on water and sewerage charges and income by UK Countries and Government Office Regions 1997-98 – 1999-2000**

based on weighted data

	North East	North West	Yorks and the Humber	East Midlands	West Midlands	East	London
Average number of grossed households (thousands)	1,210	2,790	2,100	1,730	2,140	2,080	3,030
Total number of households in sample (over 3 years)	985	2,160	1,668	1,342	1,637	1,636	2,013
Total number of persons in sample (over 3 years)	2,250	5,234	4,064	3,243	4,102	3,925	4,655
Total number of adults in sample (over 3 years)	1,651	3,831	3,002	2,427	2,987	2,941	3,427
Weighted average number of persons per household	2.2	2.4	2.4	2.4	2.5	2.3	2.3
Commodity or service	<b>Average weekly household expenditure (£)</b>						
<b>Water and sewerage charges</b>	<b>4.40</b>	<b>4.40</b>	<b>4.50</b>	<b>4.40</b>	<b>4.40</b>	<b>5.10</b>	<b>3.80</b>
<i>Percentage standard error</i>	2	1	1	2	2	1	1
Number of recording households	939	2,058	1,607	1,284	1,565	1,547	1,798
Average number of grossed households (thousands)	888	1,875	1,463	1,205	1,478	1,376	1,909
<b>Disposable income (£)</b>	<b>304.50</b>	<b>347.50</b>	<b>331.90</b>	<b>356.90</b>	<b>365.70</b>	<b>392.00</b>	<b>452.00</b>
<i>Percentage standard error</i>	3	3	2	2	2	3	2
Number of recording households	983	2,161	1,667	1,342	1,632	1,636	2,009
Average number of grossed households (thousands)	812	1,862	1,405	1,152	1,424	1,328	2,011
<b><i>Water and sewerage charges as percentage of disposable income</i></b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>

	<b>South East</b>	<b>South West</b>	<b>England</b>	<b>Wales</b>	<b>Scotland</b>	<b>Northern Ireland<sup>1</sup></b>	<b>United Kingdom</b>
Average number of grossed households (thousands)	3,650	2,100	20,810	1,210	2,220	610	24,850
Total number of households in sample (over 3 years)	2,788	1,790	16,021	1,018	1,787	1,310	20,136
Total number of persons in sample (over 3 years)	6,655	4,247	38,375	2,504	4,046	3,509	48,434
Total number of adults in sample (over 3 years)	5,016	3,158	28,440	1,819	3,078	2,410	35,747
Weighted average number of persons per household	2.3	2.3	2.3	2.4	2.3	2.7	2.3
Commodity or service	<b>Average weekly household expenditure (£)</b>						
<b>Water and sewerage charges</b>	<b>4.60</b>	<b>5.20</b>	<b>4.50</b>	<b>5.20</b>	<b>2.20</b>	<b>..</b>	<b>4.20</b>
<i>Percentage standard error</i>	<i>1</i>	<i>1</i>	<i>0</i>	<i>2</i>	<i>1</i>	<i>..</i>	<i>0</i>
Number of recording households	2,637	1,696	15,131	963	1,633	..	17,727
Average number of grossed households (thousands)	2,498	1,437	13,147	878	1,490	..	15,305
<b>Disposable income (£)</b>	<b>425.90</b>	<b>353.50</b>	<b>380.20</b>	<b>307.90</b>	<b>330.60</b>	<b>307.70</b>	<b>370.50</b>
<i>Percentage standard error</i>	<i>2</i>	<i>2</i>	<i>1</i>	<i>2</i>	<i>2</i>	<i>3</i>	<i>1</i>
Number of recording households	2,787	1,788	16,005	1,018	1,785	1,309	20,117
Average number of grossed households (thousands)	2,505	1,397	13,897	828	1,480	403	16,608
<b><i>Water and sewerage charges as percentage of disposable income</i></b>	<b><i>1</i></b>	<b><i>1</i></b>	<b><i>1</i></b>	<b><i>2</i></b>	<b><i>1</i></b>	<b><i>..</i></b>	<b><i>1</i></b>

<sup>1</sup> The total includes the enhanced Northern Ireland dataset for 1998-99 and 1999-2000

.. Data not available

### Appendix 3: Water charities' data - statistical findings

<b>Income<sup>1</sup></b>	<b>STTF</b>	<b>AWTF</b>
Mean overall income of applicants	£134	£129
Mean income of pensioners	£97	£103
Mean income of income support/jobseekers' allowance recipients	£102	£120
Mean income of wage earners	£224	£166
Mean income of households with children	£184	£174
<b>Water Bill</b>		
Mean overall water bill of applicants	£3.64	£5.11
Mean water bill of pensioners	£3.32	£5.10
Mean water bill of income support/jobseekers' allowance recipients	£3.52	£5.02
Mean water bill of wage earners	£3.95	£5.48
Mean water bill of households with children	£3.95	£5.52
Mean water bill of metered households <sup>2</sup>		£4.42
Mean water bill of un-metered households		£5.47
<b>Water bill as a proportion of income</b>		
Mean overall proportionate water spend	4.0%	4.8%
Mean proportionate water spend of pensioners	4.0%	5.5%
Mean proportionate water spend of income support of jobseekers' allowance recipients	4.7%	5.1%
Mean proportionate water spend of wage earners	2.2%	4.4%
Mean proportionate spend of households with children	3.1%	3.6%
Mean proportionate spend of metered households		4.6%
Mean proportionate spend of un-metered households		5.1%

<sup>1</sup> Severn Trent's income figures are net of tax and national insurance; they do not include housing benefit or council tax benefit. The same is true for Anglian, with the important exception that that Trust's income figures are *also net of housing costs* – that is net rent, mortgage payments, and net council tax. Average housing costs reported for Anglian were £54.41 a week (on a range of £2.65 to £120 with an 'outlier' of £199).

<sup>2</sup> Only applicants with unmetered charges were included in the Severn Trent sample. About a quarter of Severn Trent's consumers are metered compared with a half for Anglian.

<b>Demographic details</b>		
Mean household size	2.2	2.4
Households with wages income	28%	29%
Pensioner households	5%	8%
Households on income support	54%	58%
Households having children	40%	47%
<b>Charging basis for water supply, Anglian cases</b>		
Households having metered supplies		44%
Households charged by rateable value		66%
<b>Sample</b>		
Applicants	196	192
Timing	3 August – 23 October 2001	8 – 25 May 2001

**Appendix 4: Estimating the number of “ill, poor” households eligible for help.**

<b>Renal failure</b>			533 <sup>1</sup>
<b>Incontinence</b>			
faecal		430,000 <sup>2</sup>	
urinary			
adults	2,300,000 <sup>2</sup>		
of which <65		1,550,000 <sup>3</sup>	
children		428,000 <sup>2</sup>	
		-----	
		2,408,000	2,408,000
<b>Weeping skin diseases</b>			
psoriasis	249,000 <sup>4</sup>		
eczema	2,600,000 <sup>4</sup>		
	-----		
	2,849,000		
of which 24% receiving treatment <sup>5</sup>		683,760	
varicose ulceration <sup>6</sup>		645,000	
		-----	
		1,328,760	1,328,760
<b>Flaky skin disease<sup>7</sup></b> (“desquamation”)			-
<b>Stomas<sup>8</sup></b>			68,400
			-----
			3,805,160
	of which 18% metered <sup>9</sup>	685,000	
	of which 50% on benefits <sup>10</sup>	342,500	
		=====	

<sup>1</sup> UK renal registry, December 2000

<sup>2</sup> *Good practice in continence services*, Department of Health, May 2000.

<sup>3</sup> Eligibility requires that the condition is being actively treated; we cannot find data on this but have discounted adults over retirement age who may have less incentive to seek treatment rather than just to manage their disabilities.

<sup>4</sup> *Health care needs assessment*, Stevens A and Rafferty J (eds.) Radcliffe Medical Press, 1997.

<sup>5</sup> Illustrating the effect of the “active treatment” criterion, only 24% of the psoriasis and eczema sufferers in the study had made use of any medical service in the six months preceding. *Ibid.*

<sup>6</sup> *A multidisciplinary approach to leg ulcer management*, Taylor A and Smyth J, on website [www.internurse.com](http://www.internurse.com) January 2001.

<sup>7</sup> We could find no data for this anywhere and now understand that it is a symptom of a number of conditions rather than a condition *per se*.

<sup>8</sup> *Practical stoma care*, Black P in *Nursing Standard*, June 28 2000.

<sup>9</sup> The proportion of all households metered in England and Wales at April 1999, Ofwat.

<sup>10</sup> The assumption made by the DETR in its estimate, February 2000.



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