

What is water poverty and how is it defined?

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Water poverty is a pressing issue that has been a recurring topic in CEPA's work for a number of years. We have delivered policy advice, analysis and modelling to a number of prominent stakeholders in the UK water industry such as Water UK, UKWIR, and a number of water companies. Given the emphasis on cost of living in a number of party manifestos, CEPA recognises an opportune moment to raise awareness and foster informed discussions on the status of water poverty in the UK.

Introduction

The cost of living was a key feature in several party manifestos¹, especially in addressing fuel poverty and utility bills. Water poverty featured less prominently in manifestos, but the Consumer Council for Water's (CCW's) analysis of water company business plans suggested that average bills may increase by 40% by 2030 (on a nominal basis). The eventual scale of bill increases will depend on a range of factors, including Ofwat's final determinations (due in December with draft determinations released imminently), companies' performance and the path of inflation. Nevertheless, it seems likely that as investment in water quality and cleanliness increases, bills will increase and customers' ability to pay their water and sewerage bills will be tested in the coming years.

The range of impacts of unaffordable water bills on customers may include the following:

- Customers may not be able to pay their bill, therefore falling into debt causing associated stress and broader impacts that come alongside;
- Customers may make sacrifices to living standards in other areas in order to make sure that they can pay their water bill, with consequential impacts on wellbeing; or
- Those customers who have metered water bills may self-ration, reducing their use of water below that which they need to maintain safe and healthy living standards.

The rate customers are charged for water varies significantly in different parts of the UK, with both bills and support schemes (to assist households in need) varying substantially between the different water companies that own, manage and renew water resources and infrastructure. Billpayers often face different eligibility criteria to apply for help in reducing their water consumption or clearing their debt depending on where they live, and different subsidies are offered.

Given this, is there a need for a national solution for water poverty? One proposed solution mentioned in this note is a national social tariff for affected households. A social tariff intervention is something being considered outside of the water sector, such as for other utilities, broadband, public transport and car insurance for example.²



¹ Manifestos reviewed were Labour, Conservatives, SNP, Lib Dem, Plaid Cymru, Reform, and Green.

² Social Market Foundation (2023) Bare necessities – Towards an improved framework for social tariffs in the UK. [Available online.](#)

Definitions of Water Poverty

There are many potential definitions of water poverty. These typically revolve around the ability of households to pay their water and sewerage bills “at a reasonable cost” to that household. There is no official metric to measure water poverty and many of the water companies measure it in different ways making a single estimate of water poverty in the UK difficult.

A relatively simple measure of water poverty is where households spend more than 3% or 5% of their net income after housing costs on water. For example, CCW’s independent water affordability review used the metric of customers spending no more than 5% of their income (after housing costs) on their water bill.³

The 5% threshold has been adopted by water companies; in their pledge to work towards ending water poverty by 2030, the commitment is to have affordable bills introduced for households where the water and sewerage bills would be more than 5% of disposable income.⁴

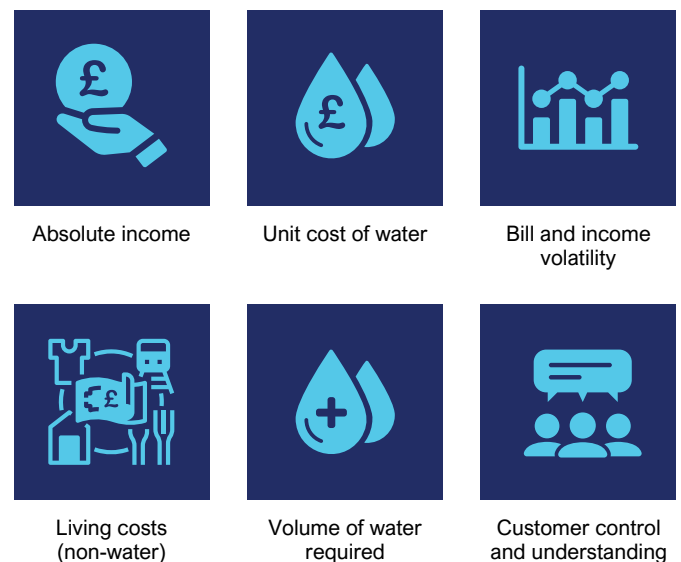
However, water poverty is much more complicated and is not solely an absolute income threshold issue.



Drivers of Water Poverty

Households can fall into water poverty, or be at risk of doing so, for a variety of reasons. Through our work with UKWIR on water poverty, we have identified six principal drivers presented below:

Figure 1: Six principal cost drivers of water poverty



Source: UKWIR and CEPA analysis for UKWIR publication titled “Defining water poverty and evaluating existing information and approaches to reduce water poverty”

Each of the drivers may apply to a different extent in different regions and segments of the population. Additionally, they can be permanent or transient. A good understanding of these drivers must play a fundamental role in appropriately designed and targeted strategies, which reflect and address regional and demographic differences between households.

³ CCW (2021) Independent review of water affordability. [Available online.](#)

⁴ Water UK (2019) Public Interest Commitment

1. How common is water poverty?

The 3% and 5% thresholds of disposable income spent on water and sewerage is fairly widely used by water and wastewater companies in England & Wales, as well as Ofwat. It is possible to estimate the incidence of water poverty at a national level. The table below summarises estimates of water poverty in England & Wales produced in recent years.

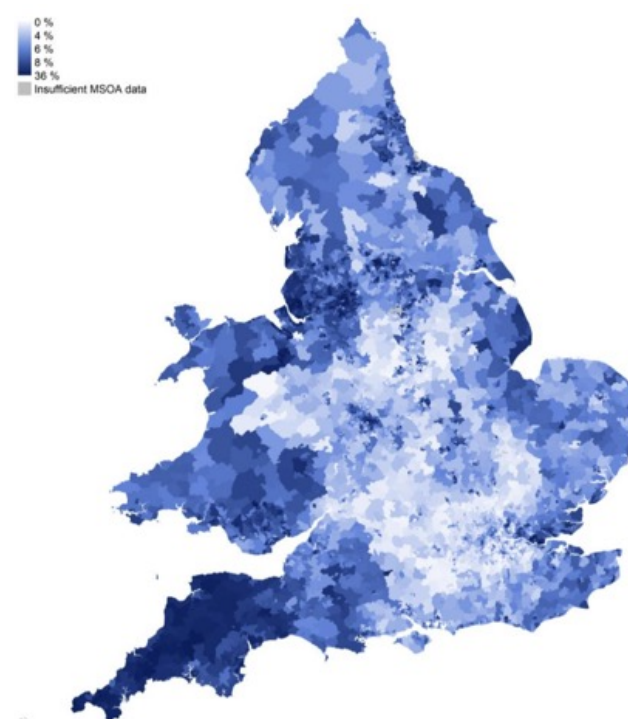
Table 1: Estimates of Water Poverty in England & Wales using data between 2009/10 and 2019/20

Year of data:	2009/10	2012/13	2013/14	2017/18	2019/20
Water poverty at 3% level	23.6%	22%	24%	21.9%	17.9%
Water poverty at 5% level	11.5%	8%	11%	10%	6.5%
Source:	Brashaw and Huby (2013) ⁵	New Policy Institute (2015) ⁶	Ofwat (2015) ⁷	NEA (2019) ⁸	CEPA & Water UK (2021) ⁹

As you might expect, given the regional nature of water companies and the large differences in income and housing costs between areas of England & Wales, there are large differences between the prevalence of water poverty. CEPA's analysis, on behalf of Water UK, of water company bills, incomes and housing costs produced the first granular estimates of water poverty and how it varied across England & Wales, as shown in Figure 2.

This analysis showed that the prevalence of water poverty varied by roughly a factor of three between water companies, with more than one in four households being in water poverty at the 3% level in regions served by some companies.

Figure 2: Geographical variation in the prevalence of water poverty in England & Wales (MSOA data)



Source: CEPA's top-down simulation of water poverty for Water UK¹⁰

⁵ Bradshaw, J., & Huby, M. (2013). Water poverty in England and Wales. *Journal of Poverty and Social Justice*, 21(2), 137-148.

⁶ New Policy Institute. (2015). *A socially responsible water industry?*

⁷ Ofwat (2015) *Affordability and debt 2014-15 – supporting information*

⁸ NEA (2015) *Water Poverty: A Common Measurement*

⁹ CEPA & Water UK (2021) *Quantitative analysis of water poverty in England and Wales*

¹⁰ Water poverty is estimated at the Middle-layer Super Output Area (MSOA) level, a geographical area/hierarchy for reporting statistics in England and Wales used by the ONS

2. How is water poverty currently addressed?

All water companies have a social tariff scheme to help low-income households with their bills. In some cases, “low-income” is defined as a household income below an annual or weekly threshold (e.g. £18,725 p.a. before deductions), or the household receives a means tested benefit, or sometimes households are assessed as being in financial difficulty.

Examples of the discount schemes are Bill Capping (at a fixed £ amount), a fixed % discount, or a discount in years 1 and 2 from when the household first applied.

Companies also offer Debt Support Schemes, Financial Hardship Funds, Water Direct schemes allowing water charges to be paid using welfare benefits, flexible payment plans, and payment breaks.

As well as the company specific schemes, in England, there is a “WaterSure” scheme which is set nationwide to limit bills for those on benefits who also have a high essential use of water (either for medical reasons or because the household has a certain number of school-

age children).¹¹ Customers in Wales are also covered by WaterSure Wales, which works in a similar way to the English scheme.

It is worth noting that these social tariff schemes are mostly funded by somewhat higher bills for those that are not on a social tariff: there is a cross-subsidy between individuals and households.

Looking to the election, only one of the major parties had an explicit mention of water poverty in their manifesto. The Lib Dems pledged to “Introduce a single social tariff for water bills to help eliminate water poverty within the next parliament”.¹²

In 2023, CCW’s Independent review of water affordability published a set of recommendations, including the recommendation of a single social tariff, to either be funded by the government, or by water companies and their customers via a central pot for England & Wales.¹³

3. Is water poverty increasing?

There are several reasons why we would expect water poverty to have increased in recent years, and to increase further in the future. There has been pressure on disposable incomes, especially for poorer households, with the Office for National Statistics (ONS) suggesting that disposable incomes of the poorest fifth of the population reduced by 3.8% in 2022 alone.¹⁴ Essential spending for many households has increased as mortgage rates, rents and energy costs have increased.

Even as incomes are under pressure, it seems likely that the costs of water and sewerage will rise. Not only have water companies asked for increased bills to address investment and their own cost pressures, but the Covid-19 pandemic has likely resulted in an increased demand for water in the homes, not just because consumers were asked to work from home, but also associated behaviour changes, such as more frequent and longer handwashing, increased showering and washing of clothes after being out of the house.

¹¹ Citizens Advice (2024) WaterSure scheme – help with paying water bills. [Available online](#).

¹² Liberal Democrats (2024) For a Fair Deal – Manifesto 2024, page 62.

¹³ Water companies in England and Wales are independent of one another and have independent revenues. We could foresee a situation where some companies (and their customers) become net contributors into the scheme, meaning their customers are subsidising the bills of customers in another area, which has some difficult implications

¹⁴ [Average household income, UK - Office for National Statistics \(ons.gov.uk\)](#)

4. How can CEPA help?

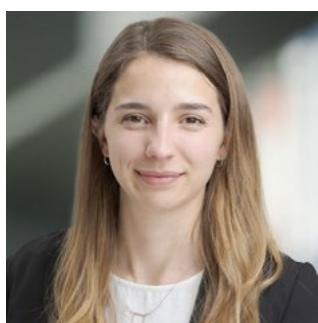
CEPA is an economic consultancy that specialises in understanding and analysing policy issues, and we have extensive experience in understanding both the water industry and water poverty.

Areas that we think are most applicable are:

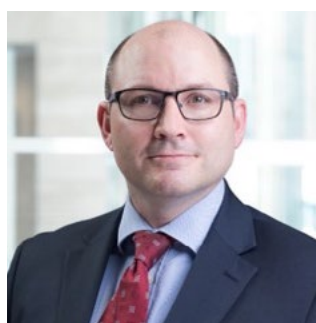
- Developing and understanding the policy options for addressing water poverty
- Understanding and estimating the scale of and locational density of water poverty

- Estimating the cost of addressing water poverty, and how this might be shared between customers
- Analysing the distributional effects of cross-subsidies between both customers served by a water company and between water companies

If you are interested in our work on water poverty, or would like to discuss ideas to develop, please contact one of our experts listed below:



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