

The Water White Paper is a positive vision for the future of the industry but questions remain on the issues of competition and affordability

*The Water White Paper offers a real opportunity to build on the successes of the existing arrangement and ensure a sustainable industry. The government has taken a huge stride forward by recognising the need to address the problem of water affordability for low income households, although, as **Tony Smith** argues, the plans to tackle the issue fall short of what is needed.*



The government's Water White Paper has the potential to deliver the biggest shake-up of the water sector in England and Wales for over two decades. "Water for Life" seeks to address head-on some of the key challenges potentially facing the industry and its consumers. It represents a real opportunity to build on the successes of current arrangement and ensure a sustainable industry which will be fit for purpose for future generations.

If the White Paper was a traffic light, rather than a 'roadmap', then our view is that for customers it's not quite on green yet. There is certainly much in there for water customers to welcome, such as the approaches to diffuse pollution and catchment management, but also aspects which need further thought if this crucial opportunity is not to be missed.

The biggest green light for customers is the government's approach to water metering. "Water for Life" recognises that a blanket approach to compulsory metering in England is not the right answer. We know from our research and work with water companies that an approach which targets metering where needed and ensures appropriate pacing, communication and protection from transitional impacts is much more likely to succeed in terms of customer acceptance.

Customers need to understand why metering is necessary and to have some influence over how it is taken forward. It is important that they are properly consulted; and for low income customers with high usage to be helped through support with water efficiency advice and practical measures, such as water saving devices, and social tariffs. The Water White Paper provides the right framework to achieve this.

The key *amber light* issue for customers is competition. Business customers have wanted retail competition for water for a long time and have been frustrated by the lack of progress compared to other sectors. The government's package of reforms to extend competition is therefore welcomed. In particular the proposal to reduce the water consumption usage threshold from 50 million litres to 5 million litres will be welcomed and open up the market to a further 24,000 business by the end of the year. The contestable market is currently limited to just 2,200 customers.

However there is still a big question whether retail competition in water has got sufficient value in it to provide what customers want and sufficient margin to encourage new entrants into the market. The current access pricing regime, the so-called costs principle, has previously constrained competition and the proposal to change this is positive. However the key issue for customers is what replaces it and what effect will this have on ineligible customers. The government and Ofwat, the economic regulator, must ensure that safeguards are put in place to ensure that the competitive choice opened up to business customers is not detrimental to household customers in the non-contestable retail market.

Likewise the introduction of upstream competition and abstraction reform would need care. These measures could benefit water consumers if they enable the more efficient allocation of water but could have a significantly negative impact on some customers in some regions or in some

localities, if the implementation is done very locally and has a big price impact on customers.

The *red light* issue for customers is water affordability. The scale of the problem is significant. The extensive infrastructure investment funded by customers since privatisation means bills are around 50% higher in real terms than they were in 1989. [Evidence from Ofwat](#) shows that almost a quarter of all households and 64% of the poorest 30% of households now spend more than 3% of their disposable income on water.

In addition to the problems which affordability poses for low income households and the industry as a whole it can also act as a drag on the future ambitions of the water sector. Customers who have an affordability problem tend to be less receptive to paying for future environmental improvements and having a water meter, for example.

The government has taken a huge stride forward by recognising the need to address the problem of water affordability for low income households. However, in their current form, the plans to tackle the issue fall short of what is needed.

From 2013 companies will, for the first time, be able to develop and introduce their own local social tariffs funded through customer cross subsidy. Subject to broad guidance, it will be for companies to decide whether to introduce a tariff, and, in consultation with their customers, what form this should take.

A further issue is that the extent to which a social tariff funded solely through the transfer of costs between customers can fully address the scale of the problem facing low income households. Companies will, quite rightly be expected to consult and take account of their customers views on willingness to fund these tariffs. [Our research](#) suggests customers might be prepared to contribute up to perhaps around £2 extra from their annual bills but not much more, to help others on low incomes.

Customer funding at that level would generate around £40 million across the industry. However estimates from [York University](#) and an [independent review](#) suggest the cost of a comprehensive affordability solution could be in the region of £400m.

Our 2010 social tariff research indicated customers see the benefit in government funding water affordability help as this allows costs to be spread widely and in a way which is more progressive than through water bills.

There are real signs that the government has listened to customers on this point. If enacted the Water Industry (Financial Assistance) Bill will enable public expenditure to be used to help improve the fairness of charges to customers of South West Water who, due to an historic legacy pay charges significantly higher than other customers. Adopting the same approach in relation to general water affordability could help the government close the gap between the size of the problem and currently proposed solution.

Please read our [comments policy](#) before posting.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics.

About the author

Tony Smith has been Chief Executive of the Consumer Council for Water since 2005. He worked in strategy and marketing in a wide range of sectors before joining the utility sector where he has worked at a senior level in electricity and as a director in the water and rail sectors.

No related posts.

