bfy GROUP

Ending Water Poverty by 2030

Are current social tariffs working in England and Wales?

August 2025

Contents

Preface

Following the recent Independent Water Commission (IWC) report, we want to contribute to the debate and trigger discussions about future solutions to the difficult challenge of water affordability. This study highlights the complex landscape policymakers and water companies must navigate to ensure support reaches those who need it. We hope our analysis aids any consultation on introducing a national social tariff to tackle water affordability, as recommended by the report.

Addressing water affordability in Great Britain is challenging. Not least because there's no statutory definition of "water poverty" in the UK. Unlike fuel poverty, it's not enshrined in policy frameworks or supported by a formal criterion. This lack of definition makes it harder for the sector to identify and consistently respond to the pressures low-income households are facing.

In this report, we're proposing a standard definition of water poverty — households spending more than 3 or 5% of their disposable income (after housing costs) on water and sewerage services. The 5% threshold represents households likely to require immediate support to pay their water bills. The 3% mark represents those households where the need for support may be less immediate, but still present.

We aren't claiming that all households within this 3-5% definition can't pay their water bills or are in debt to their suppliers. It's not a direct measure of which households will need support. Indeed, some we've identified may manage, while others outside the definition may struggle. The measure is just one way to assess affordability and help the industry understand the scale of households facing financial pressures when considering all household financial commitments.

For example, the average water poverty gap may not seem substantial, but it can become significant when combined with other financial pressures. Particularly the fuel poverty gap (see our recent report, Fuel Poverty: Warm Home Support Scheme[1]).

We also want to bring attention to affordability pressures, as part of the wider discussions in relation to household financial stress and the cost of living. Water bills, for example, are typically lower than energy bills, and as a result, financially stretched households may prioritise paying them, potentially masking wider financial hardship. A household may appear to be managing its water charges, yet still be in an overall household deficit, facing unsustainable debt or making difficult trade-offs elsewhere.

We've considered income and housing costs across Great Britain for all households, including Scotland. While the approach to billing for water and subsequent payment is different in Scotland, the principles relating to affordability and financial pressures will still be relevant. For clarity, our recommendation for a single national support scheme is in relation to households in England and Wales only.

We support the IWC report recommendation for a more consistent national approach. As we explore in the following report, current support schemes are fragmented and often administratively burdensome for both water companies and households. While not without its challenges, it offers one pathway to improving reach, equity and efficiency, all of which we lay out below.

[1] BFY Group, Warm Homes Support Scheme: Addressing Fuel Poverty: https://www.bfygroup.co.uk/services/market-insights/warm-homes-support-scheme Accessed August 2025

Introduction

We've explored the current support available to households in England and Wales experiencing water poverty. Our aim is to highlight the inconsistency and inadequacy of existing measures, and recommend an equitable, consistent, and effective national approach to help meet the commitment to end water poverty by 2030.

The growing concern and scale of household debt prompted this review. Rising living costs, stagnant wages, and increasing housing and utility expenses significantly pressurise many households. All contributing to rising levels of arrears and bad debt for water companies. Water poverty has become an increasingly important factor within the wider context of financial pressures.

Ofwat states that as of March 2024, 8.2% of households are in arrears with their water company, with the total debt owed estimated to be over £2bn[2]. This means each household is in debt for a significantly higher amount than the average annual household bill. That's a worrying trend for both vulnerable households and water companies.

To better understand the scale and impact of water poverty, we used income data from the Office for National Statistics (ONS) to build a view of real disposable income. Then we could assess the extent to which households are at risk of falling into water poverty.

[2] Ofwat: Analysis of household customer debt – January 2025, https://www.ofwat.gov.uk/publication/analysis-of-household-customer-debt/ Accessed 31 July

Key Takeaways

There are five critical points from our research and analysis into water poverty in England and Wales:

1

Analysis suggests 25% of households are in water poverty

We've identified 6.3m (~25% of 25m total) households in England and Wales spending more than 3% of their income (after housing costs) on water, housing 11.4m people.

On average, the water poverty gap[3] for these households is £170 a year. This means that the total water poverty gap in England and Wales is £1bn.

If we limit the definition to households with a water bill more than 5% of income after housing costs, this changes to ~2.3m households (housing ~3.3m people). With an average water poverty gap of £180.

2

Water poverty tracks to household income

Household income (to a point) is a key indicator of water poverty. Nearly all (95%) homes with an annual household income lower than £14k are suffering water poverty. Over two-thirds for annual household income up to £21k (~20% of all households). We estimate ~80% of these households are spending more than 3% of their disposable income on water and ~40% are spending more than 5%.

However, identifying water poverty for households with over £21k annual income becomes more challenging.

3

Water poverty is an indicator of wider financial stress

75% of households experiencing water poverty may also be fuel poor[4]. Indicating the wider financial pressures that low-income households are experiencing.

4

Existing support schemes are inconsistent

Each water company manages and promotes its own assistance scheme to households struggling to pay their water bills. Every scheme has different qualifying criteria, application processes and levels of help, which leads to a 'postcode lottery' of support.

There is criticism across the industry that many struggling households aren't even aware of the support available to them or how to apply[5].

The support on offer mainly falls into two approaches depending on the scheme and household circumstances:

- a % bill reduction ranging from 15% to 90%, or
- a bill cap varying from £59 to £422.40[6].

5

A centralised support scheme

We recommend a centralised support scheme to improve affordability support for vulnerable customers. This will provide a fairer and appropriate outcome to those households in need and remove the regional disparity in social contributions as part of household bills.

[3] The reduction required in a household's water bill to no longer be classed as being in water poverty.
[4] Energy spend being more than 10% of a household's income after deducting housing costs.
[5] Independent Water Commission: review of the water sector – June 2025, https://www.gov.uk/government/publications/independent-water-commission-review-of-the-water-sector Accessed July 2025
[6] CCW: Help with bills, Social tariffs, https://www.ccw.org.uk/save-money-and-water/help-with-bills/#social-tariffs Accessed July 2025

Analysing the current support

Our view of the current support available to households classed as being in water poverty and proposed improvements.

Current support available to households

Water companies, industry bodies and consumers recognise that support for the poorest households should be available. This support is currently provided via two main routes:

- WaterSure, or WaterSure Wales
- Water company social tariff schemes

WaterSure

WaterSure[7] is a government-backed, but not government-funded, support scheme that helps certain households cap their water bill. It aims to protect vulnerable customers who are on a water meter and meet specific eligibility criteria. WaterSure ensures eligible customers don't pay more than the average metered bill from their water company, even if their actual usage is higher. This can cause substantial savings for high-use households who consume more water because of lifestyle, certain medical conditions or large families.

Social tariff schemes

Every water company has a social tariff scheme to help households that are struggling with water bills. These tariffs help reduce water bills for low-income households.

There are inconsistencies and gaps in the current support available to households

The current schemes companies offer, although well-intentioned, lead to inequalities in the level of support available because they are all different. Key differences[8] include:

- **Regional disparity:** The level of support available to households varies by company, leading to a 'postcode lottery'.
- **Inconsistent eligibility:** Each individual water company sets eligibility criteria, so this can create confusion and inequity. Some companies offer support based on income, others only when households receive certain benefits, and others insist on completing a full financial assessment.
- **Application process:** The route to apply for help and the 'evidence' required varies per company scheme, adding more pressure to vulnerable bill payers at a highly stressful time.

Where a household receives two bills, one for water and one for waste, they may need to engage with two different companies, with two different sets of criteria, and potentially, receive two different levels of help. **If a household qualifies for one company's scheme, they don't necessarily qualify under the other,** and there is no automatic application across companies. However, we acknowledge and welcome that some companies have improved this and have aligned across water and waste companies to make things simpler for customers.

What has materialised from this approach is that households can experience substantially different water pricing and support mechanisms based solely on geography. This raises fundamental questions about fairness and access to essential services and support.

Low consumer awareness of support

A further criticism of the current approach is the lack of awareness across consumers. Only 25% of households know that water companies provide support to low-income households struggling to pay their water bill[9]. This lack of awareness significantly reduces uptake by vulnerable customers, who are eligible for help, missing out on vital financial support.

[7] Citizens Advice: WaterSure scheme – Help with paying water bills, https://www.citizensadvice.org.uk/consumer/water/problems-with-paying-your-water-bill/watersure-scheme-help-with-paying-water-bills/ Accessed July 2025
[8] CCW: Help with bills, https://www.ccw.org.uk/save-money-and-water/help-with-bills/ Accessed July 2025
[9] CCW: Water Worries – Affordability Research 2025, https://www.ccw.org.uk/app/uploads/2025/01/Water-Worries-Affordability-research-2025.pdf Accessed July 2025

Recommended improvements

Our view of improvements to resolve the current inconsistencies and gaps.

The good news is that industry bodies and suppliers are committed to eradicating water poverty by 2030. Water poverty support is already funded via a cross-subsidy applied to all household water bills. However, to reduce the water poverty gap we've calculated in this report, along with the inequalities of current support available, we need to do more. To hit the 2030 target, we recommend that the industry transitions to a central support scheme.

Introducing a central water poverty support scheme, although not without its challenges, would address the geographical inequalities faced by vulnerable households. Plus, reduce the administrative burden on each individual company, and provide targeted bill support. This would be a move away from the current fragmented system, which is not the comprehensive safety net it should be.

Assumptions and challenges with the data

Defining water poverty

Our approach to measuring water poverty is to try and identify all households who may find it difficult or can't afford their basic water bill. It's a major issue in England and Wales, typically driven by three key factors:

- Cost of water bill
- Income
- Number of household occupants

Fuel Poverty has three definitions applied in Scotland, England and Wales, but there is no corresponding definition of 'water poverty' for households in England and Wales. Leading to gaps in understanding, identifying and supporting vulnerable households.

We explore two measures (or 'definitions') of water poverty, based on disposable income, seeking to highlight households that are experiencing affordability challenges with water bills. Our aim is to identify the households that really need support.

The key measure of water poverty we've adopted is:

The annual water bill is more than 3% of a household's income after deducting housing costs.

For comparison, we've also modelled households that have a water bill more than 5% of household income after housing costs. So, when referring to households in water poverty, we mean households that are spending more than 3% of their income on water (or 5%, if stated).

We've referenced the 3% and 5% thresholds of household income, after housing costs, as markers of water affordability. These measures are widely recognised across the UK water sector and are referenced in policy and regulatory guidance.

They serve as a practical tool to assess whether households are paying a disproportionate share of their income on water and sewerage services. Using a percentage definition provides a measurable framework to assess affordability across different income groups and regions. Although they don't capture every individual circumstance, they help identify households most at risk and inform the targeting of social support schemes.

Water poverty is driven by household disposable income and either water consumption or property size (for unmetered households). Each household will be unique in terms of income and consumption. Because of this, our definition is unlikely to capture households whose disposable income is affected by other financial obligations, e.g. loans, or childcare costs. Therefore, we'll never truly know the extent of water poverty without knowing each household's regular financial outgoings and water consumption.

There is no such thing as an 'average' water bill

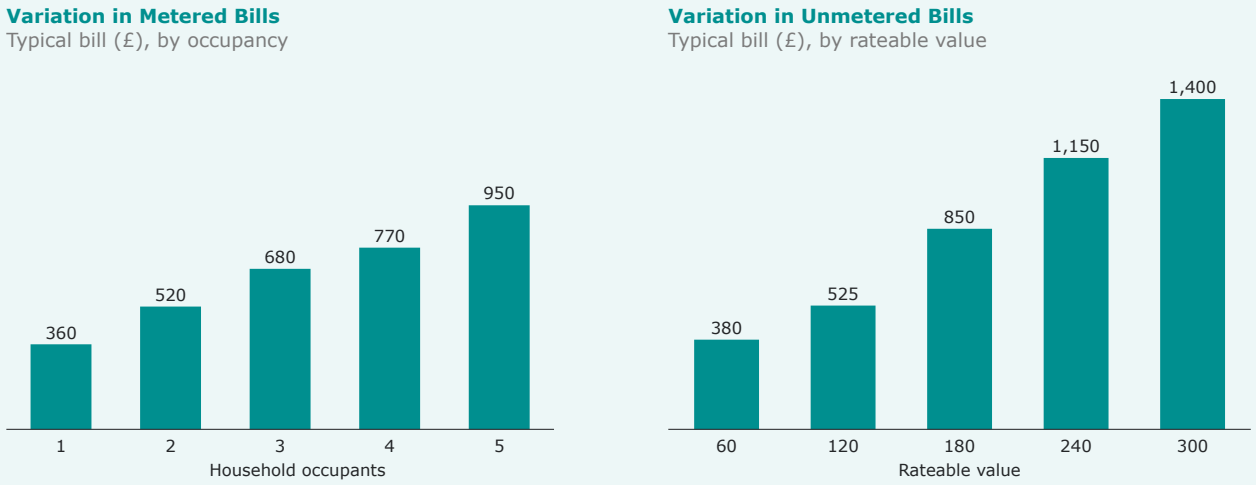
Official estimates of the average water bill across England and Wales show a range between £506 and £703[10]. And an overall average of £603 for 2025/26. However, when analysing the water sector in England and Wales, it's important to highlight there is no single view of an 'average' water bill for a household. The reasons for this are varied and include:

- Different charging structures for metered and unmetered households.
- Most unmetered household water charges are linked to the rateable value (RV) of the property[11].
- Different charges are in place across the 16 regional suppliers.
- Consumption varies by household size.

[10] Discover Water: Average annual water and sewerage charges across England and Wales households, https://www.discoverwater.co.uk/annual-bill Accessed July 2025

[11] An unmetered charge can also be based on an assessed volume charge or a flat rate charge

Figure 1: Metered and unmetered disparity: A visual representation of the variances in household water bills between metered and unmetered bills



Metered households

We've highlighted how 'average' bills can vary in Figure 1. Our analysis highlights that doubling the occupancy from 1 to 2 in a metered property can increase the water bill by ~31%. There is no similar increase for unmetered supplies as household occupancy has no direct correlation to charges on bills, as water consumption isn't measured.

Unmetered households

Most unmetered households in England and Wales have their water bill calculated based on the RV of the property. Before April 1990, every property in England and Wales was given a 'rateable value' based on how much the property could be let for. This method can be criticised as it appears there is no correlation between household size and consumption, and therefore bill amount. A single occupancy householder in a high RV property could have a water bill that is x3.5 that of a single occupancy household in a low RV property (£1,400 compared to £380).

Transition to metered households

Although over 60% of households pay for their water by metered volume, the rest can use as much as they like for a fixed price based on the historic rateable value of their homes. Water companies have committed, via their draft Water Resources Management plans (WRMP), to have over 90% of households charged by metered volume by 2050[12].

Further disparity in supply

Water and sewerage bills vary across the country. Most customers receive a combined water and sewerage bill. However, in some parts of England and Wales, customers get their water from one company and their sewerage service from another so, may receive separate bills.

[12] Defra: Smart metering in draft water resources management plans, https://www.gov.uk/government/publications/a-review-of-englands-draft-regional-and-water-resources-management-plans/appendix-a-smart-metering-in-draft-water-resources-management-plans Accessed July 2025

Our methodology

As we've set out in the previous section, varying billing methods coupled with the lack of central consumption data source, make it particularly challenging to measure and analyse the impact of water poverty on households.

We've also established you can't look at household bills alone to assess levels of water poverty. It's standard to assess levels of water poverty on income, minus housing costs such as mortgage repayments, private rent or social housing rent. Therefore, housing costs have as much of a bearing on whether a household is deemed to be in water poverty as income.

To better understand water poverty and more accurately account for the charging disparities, we added extra datasets to provide a more rounded picture of the scale of water poverty.

We used income data from the Office for National Statistics (ONS) to build a better view of real disposable household incomes. For each income bracket i.e. 'decile', we've estimated a range of housing costs (covering all tenure types, e.g. privately renting, social housing, etc.).

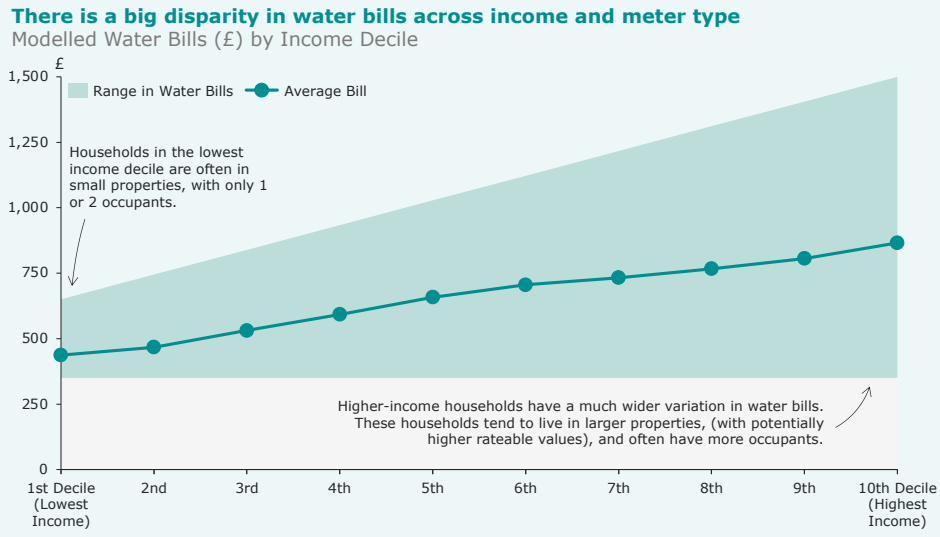
We then estimated the distribution of household sizes within each decile (i.e. the number of occupants in each household). This enabled us to estimate water bills for households with water meters (households with more occupants will use more water). For households without water meters, we've assumed water bills correlate with property value, which we've assumed loosely correlates with income.

Figure 2 shows this distribution of water bills and would suggest an average water bill across England and Wales of ~£650, in line with official estimates of ~£613 for 2025/26[13]. It also suggests an average metered bill of around £500-550, compared to an average unmetered bill of £800.

It's worth noting we haven't included assessed bills or existing regional social discounts in our modelling, meaning our estimates are likely to be slightly higher.

These assumptions have allowed us to estimate the number and characteristics of households spending more than 3% and 5% of their income on water bills. However, it remains only an estimate and will

Figure 2: Modelled water bills by income decile: A visual representation of the disparity in water bills across income and meter type



Metered Water Bills

- We've assumed typical metered bills range from **~£300** for a low-consuming single-dweller, up to **~£900** for a high-consuming large family.

Unmetered Water Bills

- We've assumed typical unmetered bills range from **~£400** for a property with a low rateable value, up to **£1,400** for properties with the highest rateable values.

How these assumptions stack up

- These assumptions give an average water bill of **~£650 per year** across all households. The average for metered customers is ~£550 per year, while unmetered customers spend an average of ~£800 per year.
- This doesn't include *assessed rates*, *empty properties*, households in receipt of *social discounts*, or households with *very high consumption*.

[13] Discover Water: Average annual water and sewerage charges across England and Wales households https://www.discoverwater.co.uk/annual-bill Accessed July 2025

not capture all households struggling with water poverty. No two households will have the same water usage, and our modelling doesn't account for any other financial obligations that households may face. We also haven't accounted for households currently benefitting from social discounts. These vary significantly between regions and water suppliers (but which undoubtedly will lift some households out of water poverty).

Households in Scotland are mostly unmetered and are billed by their local authority for their water supply and wastewater collection (together with their Council Tax). Although we haven't treated these households separately, we expect that similar rates of water poverty prevail in Scotland as in England and Wales.

Comparison with real-world client data

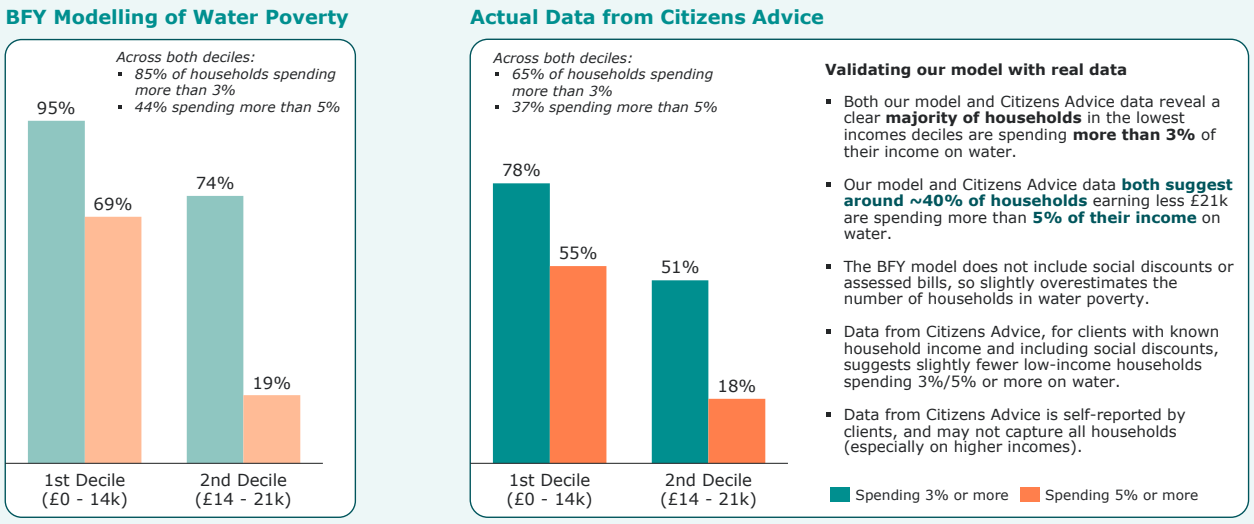
We ratified our data modelling and assumptions against anonymised data from Citizens Advice, and the results aligned. This comparison confirms our view that most households in the lowest two deciles are likely to be experiencing water poverty.

Our analysis suggests ~80% of households earning less than ~£21k per year are spending at least 3% of their disposable income on water (rising to 95% of households earning less than £14k). We also estimate ~40% of households earning less than £21k per year are spending at least 5%.

By aggregating and analysing their own real-world data, Citizens Advice reported 65% of households in the lowest two income deciles are spending 3% or more on water, and 40% are spending at least 5%.

This is slightly lower than our estimate, because the Citizens Advice data included some water bills as low as £60 per year (a result of the most generous social discounts currently offered by suppliers). We didn't include social discounts in our analysis because of the vast differences in discounts, regional approach and the impact on different households. However, if we included social discounts, we would expect to arrive at a slightly lower figure than 95%. Additionally, Citizens Advice data is self-reported by clients – so may not be a true reflection of the reality of all households.

Figure 3: Modelled water poverty in first and second income decile compared to Citizens Advice client data



Findings and insights

6.3m households (11.4m people) could be considered in water poverty, contributing to a £1bn water poverty gap

Applying our definition of water poverty, there is ~6.4m households in England and Wales, where their water bill accounts for more than 3% of disposable income after allowing for housing costs. This equates to 25% of all homes and 11.4m people. Extending our analysis to Scotland, indicates a total of ~7m households in Great Britain meet this measure of water poverty.

For those households that have a water bill that represents more than 5% of income, after housing costs, there are 2.3m households (3.3m people) classed as being in water poverty in England and Wales, equating to 9% overall.

A water poverty gap is the reduction in a household's water bill required to no longer be classed as being in water poverty. Our analysis suggests that the average water poverty gap is £170 for households under our 3% measure. This means the total ('aggregate') water poverty gap to bring all (6.3m) households out of water poverty is £1bn for England and Wales, or £400m when applying the 5% measure.

Water poverty tracks to household income

Our analysis tracks water poverty directly to household income. However, under the current social tariff schemes being offered by water companies, the financial tests being applied to eligibility criteria don't always take household income into account. Or if they do, the criteria for assessing income vary dramatically. This leads to consumer confusion and inequitable levels of support for households experiencing the same level of water poverty stress but just happen to be in different geographical locations.

Some examples of the different financial criteria being applied include[14]:

- Less than £19,995 household income excluding benefits.
- Spending 5% or more of their 'equivalised' income (after housing costs) on water, meaning the income is equivalised to the number of household occupants.
- 'Low-income' households that are assessed as being in financial difficulty.
- A household with less than £22,011 annual income *may* qualify.
- Customers receiving an income-related benefit **and** with household income no higher than the following levels:
  - 1 occupant: £12,000
  - 2 occupants: £18,100
  - 3+ occupants: £19,100
- Household income is less than £26,000, **and** the annual water bill is more than 3% of net household income (after housing costs, rent or mortgage payments).

Household income is a key indicator of water poverty

We estimate that over 80% of households with annual incomes lower than £21k are suffering from water poverty as they're spending more than 3% of their disposable income on water. With ~40% spending more than 5%.

Figure 4: Water poverty estimates: % of households in water poverty applying 3% and 5% measures and the total water poverty gap for both customer groups

Water Poverty Estimations in England and Wales, including metered and unmetered households

	Water Poverty Rate	Households (GB)	Total Water Poverty Gap	Average Gap (W/P HHs)	Average Gap (all HHs)	Average Gap (non W/P HHs)
3% Measure	**25%**	**6.3m**	**£1,000m**	**£170**	£44	£58
5% Measure	**9%**	**2.3m**	**£400m**	**£180**	£16	£18

[14] CCW: Help with bills, https://www.ccw.org.uk/save-money-and-water/help-with-bills/ Accessed July 2025

For households in the lowest income decile (<£14k per year) the situation is even starker, with nearly all these households experiencing water poverty[15]. 95% are spending at least 3% of their income on water, and over two-thirds (69%) are spending more than 5%.

The impact of housing costs on water poverty

Figure 6 demonstrates that there is significant variation in housing costs. The amount households pay depends on the type of tenure. Households renting in the private sector pay considerably more than homeowners with a mortgage or social housing tenants.

Looking at households in the lowest two deciles (income under £21k), ~17% of households are privately renting, paying at least £9k per year in housing costs. Whereas social housing tenants in the same income bracket have housing costs that are 33% lower at ~£6k per year.

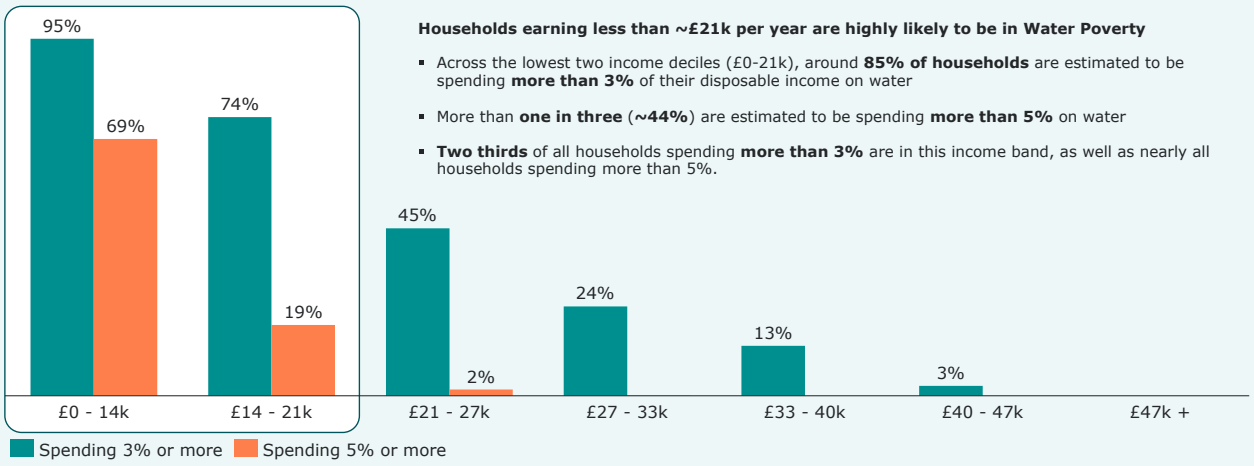
Due to the variation in housing costs per sector, and higher consumption for metered properties with a larger number of occupants, high-income households can still suffer from water poverty.

Figure 6 demonstrates that income alone (although a reliable indicator in the low-income deciles) can't be relied upon in isolation to identify households at risk of water poverty. Therefore, the social

Figure 5: Estimated rate of water poverty by household income band: Nearly all homes with an income of less than £14k per year are suffering water poverty

95% of households taking home less than 14k per year are suffering water poverty

Estimated rate of water poverty, by household income band

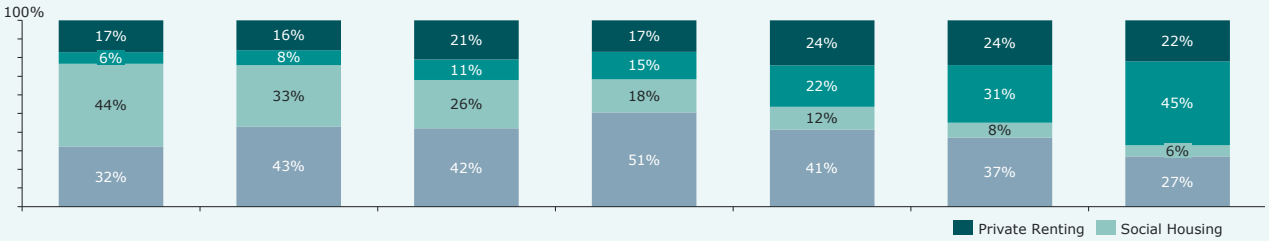


Households earning less than ~£21k per year are highly likely to be in Water Poverty

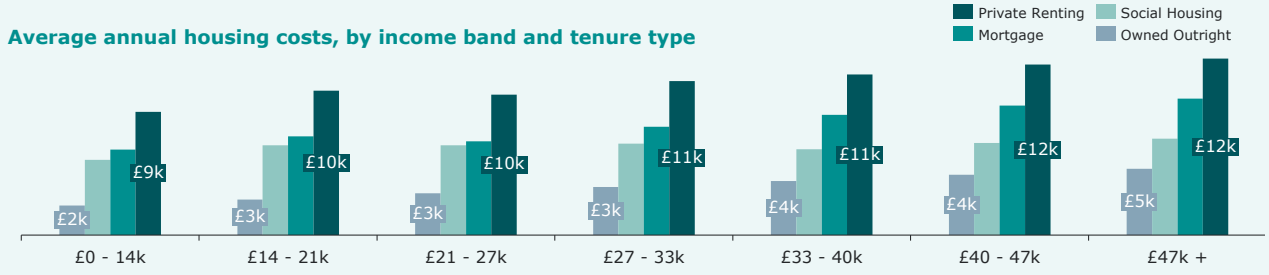
- Across the lowest two income deciles (£0-21k), around **85% of households** are estimated to be spending **more than 3%** of their disposable income on water
- More than **one in three** (**~44%**) are estimated to be spending **more than 5%** on water
- **Two thirds** of all households spending **more than 3%** are in this income band, as well as nearly all households spending more than 5%.

Figure 6: Variation in housing costs across tenure type

Share of households by tenure type and income band

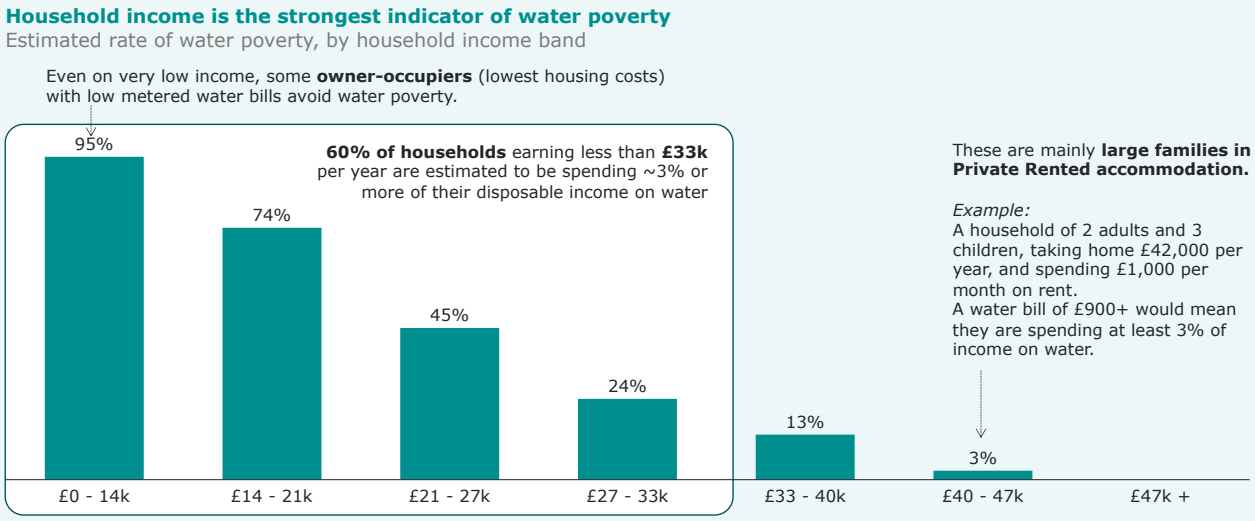


Average annual housing costs, by income band and tenure type



[15] Estimated rate of water poverty, by household income band

Figure 7: Percentage of households in water poverty across household income deciles



tariff scheme that assesses eligibility on income alone (with no adjustment for housing costs) is exacerbating the inequity for vulnerable households. Households caught in this situation are more likely to be large families living in privately rented accommodation or with larger mortgages.

For example, a large household (2 adults and 3 children) with an annual income of £42k, paying £12k in rent, could be in water poverty with an annual bill of over £900.

- Income: £42,000
- Housing costs: £12,000
- Remaining income: £30,000
- 3% of remaining income for water poverty threshold: £900

Water poverty is an indicator of wider financial stress

Our data highlights that 75% of households we've identified as spending 3% or more on water in England and Wales are also experiencing fuel poverty[16]. This hints at the wider financial pressures households are experiencing.

Extending our analysis to Great Britain would suggest that there are ~5.15m households (see Figure 8) who meet the criteria for both fuel and water poverty.

The IWC review of the water sector in June 2025 reported that 2.5m household customers were in payment arrears with their water company. The report states each household owes an average of £822[17]. Our definition of water poverty doesn't consider current arrears,
so the actual figures may be even higher than we've modelled.

Debt relief support

Against a backdrop of cost-of-living challenges, household budgets are under more pressure than before with increases in council tax, energy, water, groceries, and mortgage interest rates. Households that aren't classed as being in water poverty may still find it challenging to pay water bills. 36% of those who responded to a Citizens Advice study said they would find it more difficult to afford the average 2025/26 water bill increase[18].

Water companies offer support to households struggling to pay their water bill, even when they are not eligible for social tariff support. However, the level of support on offer varies between companies. All offer payment method and frequency options plus payment plans, but they may also provide additional support such as one-off grants to clear arrears or debt matching and write-off schemes to incentivise payment. However, like the social tariff support on offer, the eligibility and level of support available will vary across the regions.

[16] Spending more than 10% of a household's income on energy after housing costs have been deducted.
[17] Independent Water Commission: review of the water sector – June 2025. https://www.gov.uk/government/publications/independent-water-commission-review-of-the-water-sector, Accessed July 2025
[18] Citizens Advice, Barriers to Access: Why water and broadband social tariffs aren't reaching struggling households - Citizens Advice Accessed July 2025

Smart metering: both an opportunity and a challenge in tackling water poverty

Current proposals in Water Resources Management Plans (WRMP) and Regional Plans are for household smart metering to increase from 12% to 51% by 2030, 75% by 2040 and 77% by 2050[19].

Introducing smart water meters to more homes will enable consumption monitoring and customers will get bills reflecting their actual water consumption. This offers both challenges and opportunities for water companies to meet their commitment to eradicate water poverty by 2030.

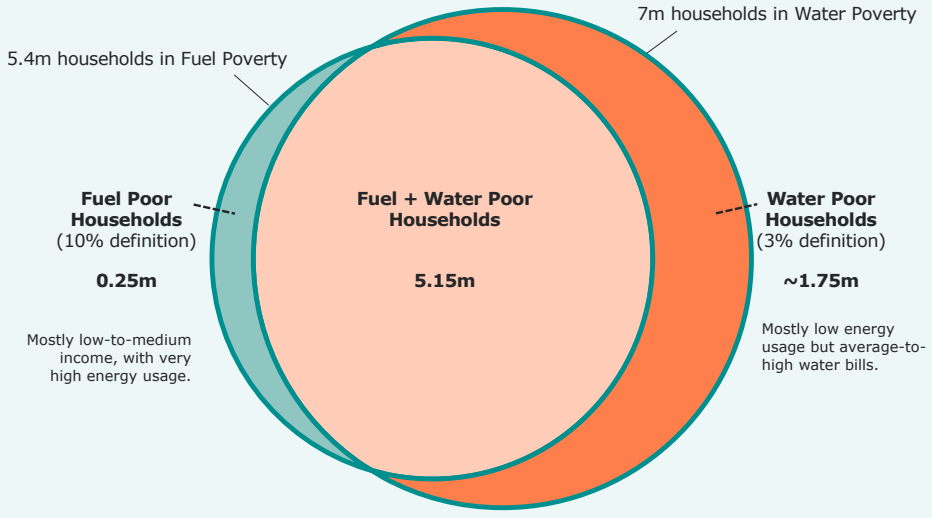
Unmetered supplies

For single or low occupancy unmetered households with a high RV value, smart metering (or compulsory metering programmes) bills will match consumption and may move households out of water poverty. However, large households in a low RV property could get higher bills now matched to their consumption and find themselves in water poverty.

The benefits of metering and monitoring consumption

Moving households to metered supplies is a key strategic lever for water companies to ensure there is enough water for customers now and in the future. With better network data, suppliers can spot leaks more easily and quickly. Metering will also highlight entire areas that are water stressed, allowing companies to conduct compulsory metering programmes. And households with particularly high consumption levels can be targeted and supported to reduce their consumption.

Figure 8: Households estimated as being in water and fuel poverty.



[19] Defra: Smart metering in draft water resources management plans, https://www.gov.uk/government/publications/a-review-of-englands-draft-regional-and-water-resources-management-plans/appendix-a-smart-metering-in-draft-water-resources-management-plans Accessed July 2025

Our recommendation to reduce water poverty

A new centralised support scheme

We recommend a centralised support scheme to help improve affordability support for the most vulnerable customers, provide a more equitable outcome to those households in need, and remove the disparity in social contributions being applied to household bills. This could be via automatic enrolment to ease the burden placed on the most vulnerable households to seek and apply for support.

Customer first instead of funding first

The current level of social funding, which is supported with cross-bill subsidies, may not be enough to close the water poverty gap based on our analysis. Instead of designing a scheme to better allocate existing funds, we propose changing the funding to match the estimated levels of water poverty. This should ensure that the most vulnerable households are properly supported.

A universal definition

We recommend having a global definition to deliver maximum protection to vulnerable households. Automatic identification and enrolment that is managed centrally could remove the current awareness risk, meaning some households currently slip through the safety net. However, we do acknowledge that using a definition based on measures of income, household costs, and water costs can make identification difficult. Therefore, this is part of the logistical challenge that any central scheme would need to overcome.

Which group to target?

Based on our analysis, we believe the 3% definition would have the biggest impact. Households that are in the 3% category could be automatically enrolled in a central support scheme to ensure they're brought out of water poverty.

We're recommending the 3% measure as we believe it provides a fairer, more inclusive, and preventative approach to tackling water poverty. The 3% measure supports earlier intervention for those at risk, helping to reduce arrears and long-term bad debt.

The 5% threshold only identifies households likely to be in financial distress already. So, by restricting support to only those in the 5% brackets, 4.5m households wouldn't receive support that, based on our analysis, they desperately need.

The 3% measure also aligns more closely with fuel poverty numbers.

Due to the strong relationship between household income and financial stress in relation to water affordability, we also recommend that households with an income of below the £21k threshold could be automatically enrolled in the central scheme. Our analysis shows 85% of these households are estimated to be in water poverty, so using this measure, as well as the 3% for households with higher income, could help ensure the scheme supports those most in need.

Method of support

If everyone agrees to providing a central scheme, as many parties in the industry advocate, it demands a discussion about how we apply the support to consumer bills, e.g.

- Bill cap
- Banded support
- Percentage bill reduction

Each method has pros and cons. Any scheme still needs to encourage households receiving support to monitor and reduce water consumption where possible. This is an ongoing challenge with any support scheme based on a bill cap approach. While a bill cap may be the fairest and simplest way to align to the water poverty definition, it could oppose the aim of reducing water consumption, especially in water stressed areas.

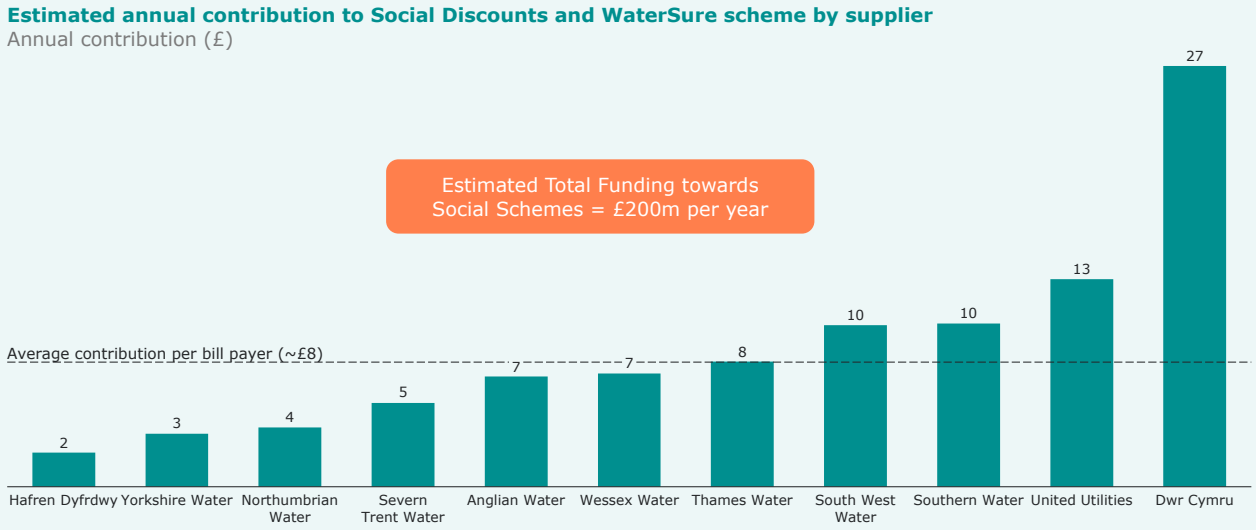
Costs and funding

In 2024, water companies spent a total of ~£235m per year on social support schemes. This was mostly funded by cross-subsidies. The annual contributions to social discounts from bill payers vary by supplier (see Figure 9), with the average household in England and Wales spending £8-9 per year.

It's widely recognised that not all eligible households currently get the support they need due to a lack of awareness. So, comparing the cost of current support doesn't give the full picture.

Our analysis suggests that a centralised scheme to close the water poverty gap would cost between £400m and £1000bn per year, depending on how widely it's targeted. As part of the 2024 price review, water companies forecast the total spending on social schemes to rise to ~£640m per year by 2030

Figure 9: Current annual contributions to support schemes by regional supplier



(mainly through cross-subsidies). This means a new centralised scheme is possible within existing budgets, but targeting as many households as possible would require an additional ~£360m per year.

Benefits of a central scheme

There are benefits of a central scheme to both consumers and companies. Creating a unified definition of who to support should remove the geographical inequalities experienced across households. Particularly as industry-wide forecasts indicate a 35–36% rise in bills over the 2025-2030 period, with some regions (Thames Water and Southern Water) facing increases of up to 50% or more[20]. It could also remove the lack of awareness as households will be identified automatically.

One advantage of a centralised and auto-enrolment scheme is the ability to reach particularly disengaged households. It's widely accepted that some households struggle to access available support because of literacy challenges, language barriers, confusing and complex information or limited access to digital tools. But a central scheme with less complicated eligibility criteria or sensitive tests might help suppliers and the wider industry support more people who really need help.

A central scheme administered nationally by one central body can leverage automation and can access central data on income, e.g. Department for Work and Pensions (DWP). This may reduce current administrative costs and burdens for individual companies.

Following the IWC report[21], the government has committed to overhauling the current regulatory landscape and introducing a new single water regulator (replacing the powers shared by Ofwat, the Drinking Water Inspectorate and the Environment Agency). This could remove many of the potential barriers to a central scheme if we seize the opportunity to place the consumer at the heart of the shake-up.

The independent report also echoes our recommendation of a central support scheme. It states that the UK government should consult on introducing a national social tariff with consistent eligibility criteria and levels of support.

This is a pivotal moment to reshape how we support households struggling to afford such a basic necessity. By uniting regulatory reform with a centralised scheme, we've the chance to build a fairer system that ends the postcode lottery and ensures no household is left behind simply because of where they live.

Automation and digitisation

The development of a new, centralised water affordability scheme presents a rare opportunity to design a system that is inclusive, data-led, and built for scale from the outset. By placing automation and digitisation at the core of the scheme's design, we can avoid repeating the limitations seen in other sectors, such as the Warm Home Discount scheme for energy customers.

Any new affordability scheme needs to harness the full potential of modern data infrastructure to be fit for the future. Automating eligibility identification and delivery of support. This could enhance the experience, not just for households, but also for water companies and regulatory bodies.

[20] Ofwat: What the 2024 Price Review means for customers and water bills, https://www.ofwat.gov.uk/regulated-companies/price-review/2024-price-review/what-it-means-for-customers-and-water-bills/?utm_source=chatgpt.com#pricereview2024 Accessed July 2025

[21] Independent Water Commission: Final Report – July 2025,https://assets.publishing.service.gov.uk/media/687dfcc4312ee8a5f0806be6/Independent_Water_Commission_-_Final_Report_-_21_July.pdf Accessed July 2025

Key data sources could include HMRC income data, DWP benefit information, and Open Banking data to capture real-time household income and spending. Local authority data, used in council tax support, housing benefit and free school meal eligibility, could further improve accuracy, especially for low-income households not captured by central systems. Lessons from other sectors, such as broadband and energy, show that cross-sector data-sharing can enable auto-enrolment and reduce administrative burden, improving uptake and ensuring support reaches those most in need.

Implementing a data-driven model will require robust governance arrangements to ensure privacy, security and appropriate use of personal information. Consent-based models, such as those used in Open Banking and some Universal Credit verification processes, offer a framework for ethical data use that maintains customer trust. With the right data partnerships and infrastructure in place from the start, a centralised scheme has the potential to deliver support at scale while avoiding the exclusions and inefficiencies currently being experienced.

Challenges of moving to a central scheme

While a centralised scheme would bring much-needed consistency and fairness, it's important to acknowledge the potential challenges, particularly around eligibility identification and targeting. The Warm Home Discount for fuel poverty has seen similar issues, where the core group is defined strictly by benefit entitlement. This approach excludes many households who may have low incomes and high energy bills, but who don't qualify for means-tested benefits. As a result, financially vulnerable customers can fall through the gaps in support.

Another concern is the risk of a 'cliff-edge' effect, where households either qualify for full support or receive nothing at all. This all-or-nothing approach can be particularly problematic for those just above the eligibility threshold but are left unsupported.

While assessing each household individually would be the fairest way to reflect genuine affordability, this would be complex, administratively burdensome, and wholly unmanageable at a national scale. A more pragmatic solution could be to enhance a central scheme that extends beyond the agreed definition and has a tiered or proportional element, where support is gradually tapered based on income and water cost burden. This would allow more households to receive appropriate help without the extremes of inclusion or exclusion. Such an approach would need to strike a balance between fairness, reach, and operational feasibility.

We must also consider the challenge around how households currently receiving support are moved onto the central scheme.

In recognition that there may be some households that are receiving support, which may not qualify under our recommended definition, we believe every effort should be made to ensure that there are no losers in any transition. This may mean that households have to stay on existing schemes until their circumstances change, leading to a gradual phasing out of these schemes.

Introducing a centrally administered water affordability scheme will require careful consideration of how it's funded and how support is distributed. As highlighted in the IWC'S report, the design of such a scheme could represent a shift from local, company-level decisions to national distributional choices. Rather than individual water companies and their customers determining support through local cross-subsidies,
a central scheme would require a unified approach to funding across all bill payers.

Embedding a fair and transparent funding model for water poverty support is essential to maintain public trust and ensure that rising costs don't disproportionately impact those least able to pay.

Coordinating across retailers and regions will require robust systems and data-sharing agreements, and will need regulatory, water company, and government backing to ensure that the scheme is a success. The government's commitment to overhaul the regulatory framework should be seen as an enabler to remove some of these challenges, not as an additional challenge.

Opportunities to reduce operating costs

With the right support across industry bodies, and with targeted investment in automation and digital, the industry has a genuine opportunity to transform access to support. Although requiring upfront investment, a central scheme, operated correctly and utilising technology, can reduce costs longer term. Transferring the administration of schemes from each individual company to a central function could reduce operating costs that should be reflected in consumer bills in the future.

Conclusion

A national water poverty scheme for households in England and Wales could transform a system that is widely acknowledged to be inconsistent and inadequate into one that is fair and effective. By targeting low-income and vulnerable households, standardising eligibility criteria, and leveraging technology to automate processes, the new central scheme would address the current postcode lottery and lack of awareness. Funding and implementation hurdles remain, but with political will and collaboration, the industry has the opportunity to lead the way in identifying and tackling water poverty.

About BFY Group

- BFY Group is trusted by leading energy and utilities companies to deliver transformational change.
- Since founding in 2004, we've been proud to remain an independent, privately owned firm based in Nottingham, working with clients throughout the UK. In 2025, we transitioned to employee-ownership, and were recognised as Europe's fastest-growing management consultancy by the Financial Times.
- Our deep expertise is what sets us apart. We bring in leading talent directly from the sectors we serve, equipping them with the consulting skills they need to make a lasting impact with our clients.
- Our team's experience spans all levels including senior leadership, with backgrounds at companies like Severn Trent, Thames Water, Business Stream, Water Plus, and Northumbrian Water.
- Our energy background includes roles at E.ON Group, British Gas, EDF, Scottish Power, Smart DCC, Ofgem and the Retail Energy Code Company.
- We specialise in Transformation, Strategy and Commercial Excellence, Operational Turnaround and Recovery, and ESG and Carbon Reduction.
- BFY Group is recognised as one of the UK's Leading Management Consultants by the Financial Times, receiving five awards in 2025. We've also earned recognition as a Great Place to Work on multiple occasions, and our Private Equity clients voted us as one of the 50 Most Ambitious businesses and leadership teams in the UK.

Ian Barker | **Managing Partner**
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As our founder and Managing Partner, Ian shapes the BFY vision and inspires our team to bring it to life. Valued highly for his deep industry knowledge and straight-talking, sensible approach, Ian is central to our client engagements, curating solutions for the most complex challenges in Energy, Utilities and Private Equity.

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With a background in customer debt, Rachel leads operational and financial turnarounds for clients, ensuring debt resolution strategies address short-term pressures and long-term resilience. Passionate about ensuring customers in debt receive the right support, Rachel delivers tailored solutions and outcomes benefiting both businesses and customers.

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Amber partners with our clients to deliver transformation and performance improvement in collections and recoveries. With over 20 years' experience in Utilities and B2B Water, Amber has held various senior leadership roles, including at ScottishPower across Collections, Metering and Billing, as well as being Head of Credit Management for Business Stream.

John de Bono | **Consultant**
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John helps to inform decisions and inspire exceptional performance through insight and analysis. John has an extensive background in technical and academic research for a wide range of audiences, with his award-winning research being recognised globally.

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Jon is an experienced customer service leader, project and people manager. He has over two decades of experience in front-line customer and field service transformation projects, across energy and water, at organisations like Thames Water, Water Plus, E.ON, npower, EDF Energy and Scottish Power.

Drew Jackson | Manager
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Drew helps clients solve complex operational problems and deliver lean transformation activity – improving business and customer outcomes while maximising revenue. Drew has 17 years' experience across Utilities and Finance, holding roles in Operations, Business Intelligence and Continuous Improvement, including at npower, Smart DCC and Thames Water.

Jit Parmar | Manager
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Jit helps clients to navigate operational complexity to drive sustainable operational transformation and performance improvement, balancing customer needs with business value. Jit has 25 years' experience in Transformation and Business Improvement programmes, including at British Gas and Water Plus.

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Ed helps clients reduce bad debt, enhance collections, and strengthen overall financial performance. With over a decade of experience in the energy and water industry, Ed has recently supported one of the UK's largest water suppliers in significantly improving their debt collection processes and reducing their bad debt.

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Julia helps clients to deliver commercial value and optimise their planning and performance management processes. Julia has over 24 years' experience across the Energy and Water industry, most recently at Severn Trent as Forecasting & Planning Lead.

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Craig has over 15 years transformation experience in the Utilities industry, helping to transform business in the UK and abroad. His previous role was helping to transform the Customer Service Directorate at Northumbrian Water.

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