

# **Environment and Sustainability Committee**

## **E&S(4)–13–13 paper 1**

### **Inquiry into water policy in Wales – Evidence from the Minister for Natural Resources and Food**

#### **Introduction**

1. The Welsh Government provides the strategic direction for water policy in Wales, framed within a complex set of regulatory and operational responsibilities. Our core principles are ensuring access to safe drinking water, maintaining water and sewerage services at an affordable price and compliance with statutory obligations that drive all round water quality.
2. The Programme for Government, published in September 2011, set out the key actions that we will be taking in relation to water and the measures we will use to track progress. This builds on the wider commitments in relation to water set out in the Environment Strategy for Wales 2006, the Sustainable Development Scheme – One Wales: One Planet 2009, the Climate Change Strategy for Wales October 2010, the Strategic Policy Position Statement on Water 2009 / 2011 and the previous Ministers Written Statement on Water – December 2011.
3. The Tackling Poverty Action Plan sets out a range of commitments to ensure water bills are kept at an affordable level and for customers to have a choice of charging options that will reduce debt and protect vulnerable groups.

#### **Water Affordability**

4. In December 2009, Defra and the Welsh Government jointly commissioned a Review of Household Charging and Metering for Water and Sewerage Services, which was led by Anna Walker, the then Chief Executive of the Healthcare Commission.
5. The Walker Review examined the current system of charging households for water and sewerage services and covered water affordability, along with proposals for encouraging greater water efficiency and possible future options for water metering.
6. One of our top priorities is to reduce poverty in Wales and one of our particular areas of concern is about the impact of water charges and the impact of rises in water bills on those customers who are least able to pay.
7. Water affordability is part of a broader issue of general poverty, where households struggle to afford the necessities of life. This is especially important when considered alongside other utility and household bill increases.

8. Our current and emerging policy proposals build on the Written Statement on Water Policy in Wales that the previous Minister for Environment and Sustainable Development published on 12 December 2011. This highlighted affordability as a key priority for the Welsh Government and stated the intention to further develop aspects of the Walker Review for proposals within the draft Water Strategy for Wales which we intend to publish for consultation later this year.
9. Over the last six months we have been analysing research and holding discussions with stakeholders across the water sector in Wales to develop our affordability policy. We have identified the following outcomes for the strategy:
  - Water bills are kept at an affordable level.
  - Customers have a choice of charging options that will reduce debt, drive up efficiencies and deliver benefits for all while protecting vulnerable groups.
  - Water and sewerage charges are fair and equitable for all customers.
  - Customers are protected from any unnecessarily large increases in bills.
10. A household is deemed to be in water poverty if they pay more than 3% of their income on their water bill and if a household pays more than 5% then they are deemed to be in severe water poverty. According to the most recent information from Ofwat 30% of households in Wales spend more than 3% of their disposable income on their water and sewerage bills, with 14% of households spending more than 5%.
11. To keep water bills at an affordable level and reduce water poverty we have been developing a number of specific proposals, based upon the recommendations of the Walker Review, that will ensure we have a sustainable and fair system of charging in place. Taken together, these measures will help improve water affordability in Wales over the course of this administration.

### Social Tariff Guidance

12. Our Social Tariff Guidance was published on 1 March 2013. This Guidance aims to reduce charges for water consumers in Wales who have difficulties paying their bills. As part of the Programme for Government, Welsh Government officials are required to regularly report on the:
  - number of water undertaker social tariffs developed in accordance with the guidance
  - number of social tariffs approved by Ofwat
  - number of households benefiting from social tariffs
  - level of water company debt reduced.
  - customer acceptance of proposed social tariffs

- and decreases in the levels of people experiencing water affordability in Wales

13. Officials will review the Guidance as and when necessary to ensure it is fit for purpose, undertaking a formal review of social tariffs in Wales after the water and sewerage undertakers Asset Management Plan 6 (AMP6) period ends in 2020. This will allow appropriate time for the water and sewerage undertakers to measure the success of their tariffs.

### Bad Debt Regulations

14. 'Bad debt' results from unpaid bills that end up written off by a water company as a loss either because the debt cannot be collected, all reasonable efforts to collect it having been exhausted, or where the cost of pursuing further action in an attempt to collect the debt exceeds the cost of the debt itself.

15. Bad debt currently adds an average £20 to every water customer's bill. In Wales we are committed to tackling this bad debt in order to help lower bills. At present, the occupier of a property is liable for payment of water bills, but some people do not pay their bills and many water debtors are tenants.

16. In an attempt to tackle this issue, Section 45 of the Flood and Water Management Act 2010 provides that landlords are liable for water charges if they do not pass the details of their tenants to water companies. This part of the Act is not yet in force and in order for it to come into force the Welsh Ministers must issue Regulations.

17. We are currently developing a consultation on 'Bad Debt' Regulations which we intend to publish for consultation later this year. The Regulations will place a duty on landlords to provide details of their tenants to their water company or face being held liable for any unpaid water bills at properties they own.

18. This is an important consultation which will ensure that we tackle bad debt in the water industry in the most appropriate way for Wales.

### Metering

19. Between March 2011 and July 2011 we consulted on the recommendations from the Walker Review of Charging for Household Water and Sewerage Services, which also included the potential role of water metering in future charging structures.

20. The consultation explored the implications of a metering programme for Wales. The consultation also looked at a number of approaches to metering and a range of scenarios about levels of metering uptake and the overall impacts on customers and their bills.

21. The majority of respondents to the consultation agreed with our guiding principles to help inform decisions on the future policy and a legal framework for metering. These were putting in place sustainable long-term solutions, promoting behavioural change and protecting vulnerable and low income households.
22. Overall, responses to the consultation indicated that people were generally supportive of metering as it promotes fairness and can encourage efficient water usage.
23. We are currently in the process of developing an impact assessment which will look at potential options to deliver a phased and proportionate metering programme for Wales. This will inform proposals which will be presented in our draft Strategy.

### **The UK Water Bill**

24. The draft Water Bill includes the commitments to legislation set out in the UK Government's Water White Paper *Water for Life* and meets many of the recommendations of Martin Cave's independent Review of Competition and Innovation in Water Markets.
25. The majority of the draft Water Bill focuses on the UK Government's market reform proposals to unbundle water supply and sewerage licensing to facilitate and enhance a competitive market in England. This will allow all businesses and public sector bodies in England to be able have a choice of retail service provider.

### Market reform

26. The Welsh Government is committed to ensuring customers are at the heart of the delivery of water and sewage services in Wales and this reflects the Welsh Government's approach to citizen centred delivery. Our aim is to see high quality, affordable, resilient and responsive services for both domestic and business customers in Wales.
27. In September 2009, the UK Government and Welsh Government issued a consultation on the Cave Review. The UK Government consulted on proposals for taking forward the recommendations from the review in England. The Welsh Government did not seek views on similar proposals for Wales, but used the consultation document to provide an opportunity to receive comment on the appropriateness of the recommendations in relation to the water industry in Wales.
28. Officials have reviewed a number of reports and have met with Ofwat and Defra on various occasions to discuss how retail and upstream competition in the water industry could benefit Wales. However, to date, we have not received any clear modelling or evidence to demonstrate the benefits of taking these policies forward in Wales at this time.

29. Officials are currently in the process of commissioning a study which will look at the current water industry regulatory and legislative framework in Wales (baseline). This will enable the Welsh Government to understand whether the current regulatory regime in Wales is fit for purpose. We will also be exploring options to test against the baseline that will ensure customers in Wales receive the best service and we continue to encourage our water companies to embrace the demands from efficiency. These options would include as a minimum enhanced regulation and incentivisation and market solutions.
30. We will also be taking an opportunity to assess what service requirements and expectations business customers have in relation to the water industry in Wales.
31. Our Water Strategy consultation will be used to explore a range of options which will focus on the requirements of business customers within the water and sewerage supply areas of Wales and efficient regulatory mechanisms to enhance improvement and innovation in the industry. This consultation will help to inform the Welsh Government's approach to providing both domestic and business customers with affordable, resilient and responsive water services.

### **Water Strategy for Wales**

32. The Programme for Government set out the development of a Water Strategy as a key action for the current administration.
33. The Strategy will set out the Welsh Government's strategic direction for future water policy in Wales and it will consider how, as a Government, we can support the economic, environmental and social needs of Wales. In particular, the Strategy will aim to look at water in the widest sense – what is our relationship with water and what do we need to do to derive the greatest economic, environmental and social benefit from this resource.
34. The Strategy will be set in the context of wider Welsh Government policy including the Living Wales Programme, the Tackling Poverty Agenda, and the Climate Change Strategy for Wales. It provides an opportunity for us to exemplify our approach to natural resource management.
35. In particular, the Strategy will seek to respond to relevant recommendations which the Welsh Government intends to take forward in relation to a number of reviews:
  - Martin Cave's *'Independent Review of Competition and Innovation in Water Markets (April 2009)'*
  - Anna Walker's *'Independent Review of Charging for Household Water and Sewerage Services (December 2009)'*
  - David Gray's *'Review of Ofwat and Consumer Representation in the Water Sector (August 2011)'*

36. Over the past 6 months, we have undertaken a significant amount of Stakeholder engagement activity to test and inform our thinking. This has been conducted through individual meetings with water companies, regulators and other key stakeholders to discuss their priorities and aspirations for inclusion in the strategy. On 7 November 2012, we held a specific workshop with members of the Water Industry Forum for Wales to understand strategic objectives for the water strategy.

37. A series of policy workshops were held through February 2013 with two more scheduled for May 2013. The purpose of these workshops is to seek views and information from key stakeholders to inform development of the consultation on the Water Strategy. Each workshop covered a key topic that the consultation will address. The topics were:

- Delivering high quality drinking water in Wales;
- The future management of sewerage and drainage services in Wales;
- Water resources in Wales
- Delivering results for customers - the future of the water industry;
- Delivering results for household customers - tackling water poverty and affordability issues;
- The value of water;
- Water resources management in Wales - an ecosystem approach.

38. We are in the process of analysing responses to the workshops held so far.

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**Minister for Natural Resources and Food**