Tackling Bad Debt in the Water Industry

A Defra consultation paper
1. Introduction

1.1 The Consumer Council for Water (CCWater) is the statutory consumer organisation representing water and sewerage consumers in England and Wales. We have four regional committees in England and a committee for Wales.

1.2 We will respond to any Welsh Government consultation on the same issue when it is published, and that will also be placed on our website.

2. Executive Summary

2.1 We welcome this consultation to determine the approach in England to tackling the information gap which currently exists when a new tenant takes up occupancy of a property. This gap results in water companies being unable to identify the person liable for charges and to then take appropriate action in collecting revenue from them. Debt accumulates and the on-going cost of this uncollected revenue is spread across bills of all customers.

2.2 Regulations to require landlords to provide tenancy information should be implemented in full in accordance with the provisions of the Floods and Water Act 2010. There is no incentive for landlords to provide the information under a voluntary scheme so it will not be as effective as the regulatory approach.

2.3 The benefits to all customers of early provision of information on tenants are likely to outweigh any additional workload incurred by micro businesses in the introduction of these regulations.

2.4 The approach in England should be considered in conjunction with the approach in Wales when it is announced. Any cross border differences in the information required could lead to confusion for both landlords and customers.

3. General comments

3.1 We welcome this consultation to determine the approach to tackling the information gap which currently exists when a new tenant occupies a property. This gap results in water companies being unable to identify the person liable for charges and to then take appropriate action in collecting revenue from them. Some customers may vacate the property without paying the water bill resulting in difficulties in tracing them. Debt accumulates and the on-going cost of this uncollected revenue is spread across bills for all customers. The gap also means that those tenants who may be in financial difficulty do not get the support they need when they need it as they are not known to the water company.
4. **Option 1: Flood and Water Management Act 2010**

4.1 We continue to fully support both the recommendation in the final report of the Anna Walker Independent Review of Charging and the subsequent provision in the Floods and Water Management Act 2010 for regulations to make landlords jointly and severally liable for water and sewerage bills on failure to provide specified tenancy details within a timeframe. This has the potential to make a useful contribution to addressing both the problem of debt and the associated cost impact on bills, together with facilitating help to customers with affordability issues.

4.2 In 2010 - 11 total revenue outstanding in the water industry was £1,635 million. The cost of this is spread across all customers adding around £15 to each household’s bill. We do not know precisely how much of this debt is attributable to customers in the rented sector but Ofwat’s 2010 analysis of the Family Resources Survey 08-09 shows that 80% of households reporting themselves as being in water debt were living in rented property.

4.3 Our 2009 tracking research found that those renting properties from social housing landlords were among those less likely to agree that their charges were affordable. Ofwat’s 2010 analysis of the Family Resources Survey 08-09 found that those customers generally regarded as likely to experience affordability problems were concentrated in the social and private rented sector.

4.4 It is important that these tenants with affordability problems get appropriate help in a timely manner. They need timely bills with no opportunity to build up debt, and early opportunities to implement efficiencies (eg meter installation or water saving strategies) to minimise bills. Water companies need to be able to identify these tenants, to ensure that any schemes which they may offer to reduce arrears are available to them if required and to provide this help proactively. The implementation of regulations to fill this information gap will help them to achieve this.

5. **Government Moratorium Exempting Micro-Businesses from Domestic Regulation**

5.1 We note the Government moratorium on any new regulations for micro-businesses, ie those employing fewer than ten people, but believe that the benefits to all customers of early provision of information on tenants are likely to outweigh any additional workload for individual landlords and any such businesses. As stated in the consultation it is likely that, in most cases, landlords would already have the details that they would be required

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to provide to companies. This limits the impact of any regulation to the provision of the information to the water companies.

5.2 The water companies in both England and Wales, through Water UK, are introducing a web portal to minimise the impact of provision of the information details and in some cases this may actually reduce the information burden for any landlords who already provide details to water companies on a voluntary basis.

5.3 Seeking a waiver to this moratorium to implement the regulations would seem to be the most pragmatic solution, taking into consideration the comments below on the other options suggested in the consultation to resolve this specific aspect.

5.4 The option to bring the regulation in to force but to exclude landlords who are micro businesses will lead to difficulties in:

- identifying those landlords who are micro businesses
- managing any on going changes to their classification
- ensuring landlords understand whether they are subject to the regulation or not.

5.5 If, at the end of the three year moratorium the decision is taken to extend the requirement to micro businesses, further regulation will be required and further promotion and clarification to landlords of their liability.

5.6 In addition, affordability issues in the rented sector would not be exposed in a consistent manner leading to differences in the provision of services to customers in the same circumstances.

5.7 The other option of delaying the regulation until 2014 when the moratorium on new regulation will end means that tenants with affordability issues will remain in the void, with potentially no awareness of any help that may be available to them to minimise bills and avoid falling into debt. Any impact on the amount of revenue outstanding would also be delayed until 2014 at the earliest. Revenue outstanding to water companies increased in the two years prior to 2011 by more than £200 million.

6. Questions on Option 1

Has the UK Government identified a package of details that would enable undertakers to pursue tenants in the event of non-payment of water bills?

6.1 Water companies will be best placed to respond to this but the provision of name, address and date of birth would enable water companies to identify the customer at a rented property, advise the occupant of the amount due in a timely manner and follow up any non payment appropriately.
Would any of the listed required details be difficult or costly for a landlord to obtain?

6.2 Responsible landlords may already require these details if only to protect their own interests. In that case there would not be any difficulty in obtaining them. Date of birth is essential for accurate credit checks but we recognise that some prospective tenants may be unwilling to provide appropriate documentation to prove their date of birth unless this requirement is endorsed by the legislation.

Is 21 days a reasonable amount of time in which to require landlords to provide water undertakers with these details?

6.3 It is important that water companies receive details of an occupier as soon as possible to avoid a debt building and becoming problematic for the customer. 21 days, coupled with the time the water company then takes to set up billing arrangements and despatch a bill, means that at least a month (possibly a sixth of a short term tenancy) will have passed without the customer perhaps being aware of the cost of water and sewerage services. However, we recognise that landlords too need time to process the information (assuming it will be collected before occupancy) so perhaps 21 days seems like a reasonable balance between the two interests.

Do you think that the impact assessment accurately reflects likely costs to landlords and potential gains by water companies and their customers?

6.4 In assessing the benefits to customers it is important that we take account of the benefits to the whole customer base of increased revenue collection. Also the long term benefits of reduced debt accrual to individual customers and society as a whole, coupled with increased awareness of debt/affordability options according to customers’ particular circumstances, WaterSure, company relief schemes etc.

6.5 It is unfortunate that there is no available information about the expected rate of debt in future as this would have provided a more realistic estimate of the benefits rather than those based on 2009/10 debt levels.

Do you have any additional relevant information around the costs and benefits that the Government can use following the impact assessment?

6.6 There is also a potential benefit to landlords in having tenants who are in a position of managing their affairs or getting help early and thereby reducing any potential impact on their future ability to pay their rent.

Do you think that Water UK’s single web portal for landlords will adequately minimise the burden on landlords to provide details of their tenants?

6.7 We welcome Water UK’s commitment to provide this portal to minimise any impact on landlords when providing details of their tenants. This will be particularly useful for landlords with properties in different water company areas as the information will all be collected in the same place.
6.8 For any landlords who already identify tenants to water companies it may well provide a reduction in their workload. The burden may also not be significant for landlords of furnished property as they currently have an incentive to advise Local Authorities of a tenancy renewal to avoid the liability for Council Tax falling to them.

6.9 One water company is already collecting some information from landlords through a web portal. Provision should be made for any information already collected to be migrated to the England and Wales single web portal once it is established to avoid any inconvenience to these landlords.

What will be the best way to communicate the regulations to landlords?

6.10 Targeted promotion through the various landlords, estate agents and solicitors associations, and their respective representative organisations and newsletters. Articles in trade journals and more widely communicated to all customers as part of annual billing information to ensure landlords, even those with casual or informal arrangements or even only one additional property, are aware of it. Local Authorities may also be able to promote this message when dealing with landlords who advise them of tenancy renewal.

6.11 Government may also wish to consider what opportunities exist for this promotion to be facilitated through the Central Office of Information (or its successor) campaigns and cross agency initiatives.

Bearing in mind the high proportion of private landlords likely to be classed as micro-businesses, how should the Government proceed with the Regulations?

6.12 In this instance a waiver of the exemption of micro-businesses to new regulation should be made, on the basis that the benefits to all customers of early provision of information on tenants are likely to outweigh any additional workload. Landlords will already have the details that they will be required to provide to water companies and the provision of a web portal will minimise the impact. See also 6.2, 6.4, and 6.7 above.

7. Questions on Option 2: A Voluntary Approach and Promoting Good Practice

Could voluntary data sharing agreements for landlords and other holders of occupancy data be successful in tackling the information gap?

7.1 No, the introduction of a voluntary agreement is unlikely to be as successful as regulations. There is no incentive for landlords to provide this information on a voluntary basis. It seems likely that those with a sense of moral duty may already provide details of occupancy to water companies. We do not know how much the gap would be narrowed but without an incentive to provide the information it would still exist.
7.2 In addition, any difference in approach between England and Wales could lead to confusion for cross border landlords if the information is required in one area and not another.

7.3 We do however support the sharing of information across various agencies to assist debt prevention and targeting of help. What would be the best ways to communicate the responsibility to landlords?

7.4 As 6.10 and 6.11 above

8. General Questions

Having reviewed the options, which do you think is likely to be the most effective?

8.1 There is no incentive for landlords to provide information to water companies under a voluntary agreement. Regulations to require landlords to provide tenancy information should be implemented in full. Any exceptions to this could cause confusion for landlords and service differences to customers whose personal circumstances are the same.

Do you have any other suggestions for tackling bad debt in the water industry?

8.2 CCWater monitors water companies’ revenue collection for domestic customers through its Debt Assessment process. This assesses company debt management to:

- ensure the needs of vulnerable customers are balanced against the companies’ need to collect revenue;
- monitor water company performance, including whether it adheres to its own debt procedures and to Ofwat guidelines;
- make recommendations where we have concerns, or where we feel the company may want to make improvements; and
- share good practice across the water industry.

8.3 Recent assessments have shown that some water companies are taking proactive action on old debt, but there are still individual accounts which show a lack of activity. There is also evidence of collection processes reverting to the beginning of the process with no effective recovery, although we do not have information as to the specific reasons for this. Companies themselves also exchange information on good practice through existing Water UK groups. This exchange of good practice between water companies and CCWater should continue.
8.4 Previous research\(^3\) on customers in debt, or with cleared debt, showed that;

- the size of the annual bill was frequently cited as a reason for non-payment; bills should be broken into manageable ‘chunks’
- frequent bills rather than quarterly or six monthly were preferred by those struggling to pay and this also raised the profile of the bill.

8.5 CCWater believes that there are still gains to be made through the adoption of more informed customer communication, innovation in tariff design, and debt prevention, but water companies need to know their customers to achieve this.

8.6 One such preventative approach identified by research\(^4\) recommended that the Water Direct scheme be extended to those customers in receipt of qualifying benefits but without arrears. This was also raised by respondents to our research ‘Living with water poverty’\(^5\). Customers would value this as an optional budgeting tool to avoid debt. Customers can remain on the scheme after clearing a debt, if Department for Work and Pensions (DWP) considers it in the best interests of the customer. Inconsistent application of this policy nationwide is a barrier for vulnerable customers seeking this approach to manage their debt. Perhaps, the current overhaul of the benefits system could provide an opportunity to reconsider this option and also introduce consistency of application.

**Enquiries**

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\(^3\) Paying For Water Customer Research by - Accent (WaterVoice and Ofwat 2003)  

\(^4\) Customer Targeted Debt Management - Accent (UKWIR 2007)  

\(^5\) CCWater, Living With Water Poverty, June 2009.