



Water UK Briefing Note on “Reduced Flow” (or “Trickle Flow”) devices

August 2009

Introduction

This Water UK briefing note on “reduced flow” (or “trickle flow”) devices, as an aid to recovery of unpaid water charges, is based on discussions with staff from Yarra Valley Water, Victoria and information published by the Essential Service Commission of Victoria, Australia. The note sets out the context and issues and raises questions that would need addressing if a similar approach was proposed in the UK.

The paper is not intended to support or oppose the use of “reduced flow” or “trickle flow” devices.

The use of such devices in the UK was made illegal with the ban on disconnection of household customers for non-payment of water charges with the Water Industry Act 1999¹, so any change of approach would require primary legislation.

The term trickle flow is an unhelpful misnomer, which gives a misleading impression. In the Australian state of Victoria, the use of these devices is governed by the Customer Service Code approved by the state’s Essential Services Commission, which specifies the minimum flow as 2 litres / minute.

This flow is sufficient to maintain essential water availability and sanitary conditions within the building, but is far more than a “trickle”. Throughout this briefing note, we therefore refer to “reduced flow” devices rather than “trickle flow” devices.

Background information on the need for a new approach

Levels of household debt in the water sector are high and continue to escalate. Revenue outstanding over 3 months reached £1.25 billion in 2008/09². This is an increase of 12.8% over the previous year. The harder to recover debt of over 12 months reached £804 million, an increase of 15.8%

¹ Water Industry Act 1999: Explanatory Notes

Disconnection. Until now, if consumers did not pay their water and sewerage bills, water companies had the power to disconnect the supply. Water companies also argued that they were not prohibited from restricting the amount of water available for a consumer’s use if they did not pay their bill. The Act removes the power to disconnect water supply for non-payment, or to limit the supply with the intention of enforcing payment, from a list of different premises.

² Unpublished draft figure from Ofwat email to Water UK. Ofwat will confirm figures in an RD letter later in 2009

over the previous years. Debt in the water sector, despite significantly lower bills, is over 4 times higher than in the gas or electricity sectors.

The cost of water debt adds around £11 to every paying customer's bill.

The main reason that the energy sector has much lower debt than the water sector, despite having much higher bills, is that gas and electricity companies still have powers to disconnect customers. This also allows them to use prepayment meters that have the ultimate sanction of disconnection if customers do not maintain payment. Energy companies will also use prepayment meters for the recovery of debt as well as for payment of ongoing charges and the avoidance of debt building up.

The right to disconnect also mean that gas and electricity debts are regarded as "priority debts" by Citizens Advice, Money Advice Trust and other debt advisors and promoted as such in their advice to clients. A "priority debt" is described as one "where serious action can be taken against you if you don't pay what you owe"³. Water debt is not regarded as a "priority debt" because the water supply will still be maintained, and is therefore relegated to lower down the repayment hierarchy.

Research by Equifax for UKWIR⁴ in 2005 concluded that there are individuals with low credit risks, with good credit payment histories and higher income and wealth who could afford to pay water bills but purposefully choose not to. Equifax suggested around 7% of those with a debt older than 12 months had a credit risk score of 450 or more⁵. They also suggested that "affluent singles and couples in exclusive urban neighbourhoods", despite being a small proportion of the UK population, represent a higher proportion of debt (3.6% of household water debt).

So, whilst there are a large number of vulnerable and low income people struggling to meet their household commitments, including water bills – the so called "can't pays" – there are also customers who can but choose not to pay: the so called "won't pays".

A possible new approach

³ For further information on which debts are regarded as "priority debts" see http://www.direct.gov.uk/en/MoneyTaxAndBenefits/ManagingDebt/PlanYourWayOutOfDebt/DG_10013266. Note that water debt is not even mentioned, even as a non-priority debt.

⁴ UKWIR report 04/CU/104/3 Water Industry Debt – Socioeconomic and Demographic Effects

⁵ Credit scores can range from 0 to over 600, but the majority of scores usually fall between 300 and 500. Equifax suggest generally scores indicate the following:

- 420 to 466 is good and lenders will be more inclined to grant credit
- 467 and above is excellent and lenders will be more inclined to grant credit

In 2006 the House of Lords Science and Technology Committee published a report on “Water Management”⁶, which included comments on debt. The Lords commented in their report that they saw in Australia “*that the threat of partial disconnection was a powerful incentive for those customers who could afford to pay but might otherwise refuse to do so*”.

The Independent Review of Charging for Household Water and Sewerage Services led by Anna Walker mentions in its Interim Report⁷ (despite being outside of its terms of reference) the use of “reduced flow” devices – described in the report as “trickle-valves” – as one means of recovering unpaid water charges. The report also suggests “*it would be feasible to set up a process whereby “trickle-valves” could be used in exceptional circumstances after rigorous independent safeguard conditions have been met, for example through agreement by the Courts or CCWater*”.

Protecting Customers: how it works in Australia

A number of water companies in the Australian state of Victoria have accepted and agreed procedures in place to reduce the flow to indebted customers they believe have the ability to pay but have chosen not to. These companies include Yarra Valley Water, South East Water, Westernport Water and 11 others, and the use of reduced flow devices is governed by the Customer Service Code approved by the state’s Essential Services Commission (ESC), introduced in July 2005.

Water UK has discussed the issues around the use of such devices and the essential safeguard procedures employed with representatives from Yarra Valley Water (YVW).

YVW does not use the term “trickle flow” but ‘reduced flow’, since the aim of installing the flow restrictor is to achieve an ‘inconvenience’ flow of 2 litres/minute at the first mains tap⁸ without affecting basic health and hygiene requirements.

Before resorting to reducing the flow, YVW has to follow a 4 stage process to make contact with the customer. This process includes a safety net and if there is any doubt about the customer’s ability to pay then the company will not reduce the flow.

⁶ House of Lords Science & Technology Committee. 8th Report of session 2005-06. Water Management. June 2006. See:

<http://www.publications.parliament.uk/pa/ld200506/ldselect/ldscstech/191/191i.pdf>

⁷ See <http://www.defra.gov.uk/environment/water/industry/water-charging-review/interim-report.htm>, page 142

⁸ The flow of 2 litres/minute means an average glass (1/3 litre) would fill in 10 seconds. A toilet cistern (9 litres) would refill in less than 5 minutes. This flow rate is set out in the Essential Services Commission Customer Service Code for Metropolitan Retail and Regional Water Businesses – clause 7

In the state of Victoria, the urban water businesses are required to assist customers who have payment difficulties on a case-by-case basis⁹ by (amongst other things) not restricting the water supply of a customer or pursuing legal action without having first taken additional steps to secure payment, including making a reasonable attempt to contact the person, offering a payment arrangement and resolving any dispute over the outstanding amount.

Further details of the process and safeguards in place are set out in the ESC's Water Performance Report for 2007-08¹⁰. The ESC reports that Western Water and Yarra Valley Water indicated that they only restrict customers that have the capacity to pay and are not already on an instalment plan. Those that do not have the capacity to pay are identified in accordance with the hardship policy and offered instalment plans including hardship assistance to manage outstanding balances.

South East Water indicated that it makes many attempts to contact the customer and offer payment assistance prior to restricting supply. The business also endeavours to determine if there is observable hardship, in which case a restriction will not proceed. Full supply will not be restored until the customer has contacted the business concerning their circumstances or entered into a mutually-agreed payment arrangement.

Both South East Water and Yarra Valley Water indicated that restrictions on water supply are only undertaken as a measure of last resort, after all avenues of recovery or contact have failed and where there is no record of financial hardship.

As part of the Commission's performance reporting framework, businesses are also required to identify how long customers who are restricted for non-payment remain on restrictions. Most companies reported that 50% or more supplies were restored within 3 days and 7 companies reported that 65% or more supplies were restored with 3 days.

Successful recovery on outstanding revenue

YVW carry out around 100 reduced flow installations a year, out of a customer base of 700,000 households (1.7 million people). The process generates a high volume of payments (around 70%) within 3 days from customers whose flow is restricted.

⁹ Essential Services Commission Customer Service Code for Metropolitan Retail and Regional Water Businesses. See <http://www.esc.vic.gov.au/NR/exeres/70FEED56-8ACE-477B-A0D4-7B2987D8AC0C.htm> for the full code, and Appendix 1 for sections of particular relevance

¹⁰ Essential Services Commission, Victoria - Performance of urban water and sewerage businesses 2007-08. See <http://www.esc.vic.gov.au/public/Water/Regulation+and+Compliance/Performance+reports/Water+performance+reports/Performance+reports.htm>

The impact on other customers' payment behaviour is more important to overall debt collection levels, but harder to quantify. It is likely that the knowledge that it is possible for the water company to reduce flow levels provides a strong incentive for those who can pay to do so.

Comparisons between water supply companies operating in different regions and operating environments are complex and there may be a number of factors that need to be taken into account.

However, it is interesting to note that, as shown in their annual reports, accounting charges for bad and doubtful debts made by South East Water and Yarra Valley Water are substantially less as a proportion of revenue than the average provision in England and Wales. The charge for both companies recently has consistently been below 1% of turnover in recent years¹¹ – while in England and Wales, the average charge has been around 2% of turnover, increasing to 2.5% in the last year.

Implications for health

Reduced flow devices have been used for many years in Australia, as far as we are aware without any significant implications for health, as the minimum flow level is set to meet basic health and hygiene requirements.

In the UK, there is little or no experience of reduced flow devices and there is therefore little information on any possible health implications, although one of the reasons put forward for the ban on the complete disconnection of water was the potential impact on health of the customers directly affected and more generally around the wider concerns for public health.

However, this is by no means a uniformly held view – for example, the Joseph Rowntree Foundation in its Social Policy Research note 73 of March 1995 refers to work by Alicia Herbert and Elaine Kempson of the Policy Studies Institute¹², and their conclusions on Health and Environmental Health Implications:

The evidence from the study suggests that the environmental health impact of water disconnection may have been overstated. First, none of the customers who were disconnected from their water supply reported any health problems. Second, most customers were disconnected for only a short period of time. And third, those who had their water cut off did not live near enough to one another for disconnection to constitute a large localised health risk.

¹¹ Source: Annual Reports from South East Water and Yarra Valley Water

¹² Alicia Herbert and Elaine Kempson – Water Debt and Disconnection – Health and Environmental Health implications

In August 1996 the Department of Health said there was no evidence of a danger to health from disconnection¹³. A spokesman said: "*We have never been able to establish any direct relationship between water disconnection and the spread of communicable diseases in the UK.*" The Government at that time rejected a call to make the disconnection of water supplies illegal because of the risk to public health.

It should be noted that these comments all refer to the disconnection of water supplies, rather than a reduction in flow rate to the property.

Implications for domestic plumbing systems

Many new houses are fitted with mains-fed combination "combi" boilers or 'unvented' hot water systems. These require a minimum flow rate to operate effectively. Reducing the available flow might affect the operation of such units and of electric showers.

Further research is therefore necessary to establish the impact of flow reduction on hot water systems.

Conclusions

Household water debt has increased since the ban on disconnection in 1999. Recent increases have been greater than the increase in water charges which in themselves have been greater than the rate of inflation. The rise in water debt looks likely to continue.

There are significant numbers of customers who can afford to pay their water bill but choose not to.

Household water debt adds around £11 to every paying customer's bill

The Independent Review of Charging for Household Water and Sewerage Services, led by Anna Walker, mentions in its Interim Report the use of trickle valve devices as one means of recovering unpaid water charges. The review team has asked for comments on the possibility of using these devices to reduce supply to persistent 'won't pay' customers.

This briefing note refers to the successful use of reduced flow devices in Victoria, Australia to recover unpaid water charges from those that can pay but choose not to. To protect vulnerable customers and those struggling to pay, the regulator (Essential Services Commission) and the companies have set up a Customer Service Code that includes a hardship policy and covers the circumstances and agreed procedures before restriction of water supplies can be made.

¹³ *The Independent - Tuesday, 20 August 1996*

There are lessons the UK can learn from the debt management and recovery practices in Victoria. However, there may be issues that are UK specific.

Recommendations

Water UK calls for study and research into options around the use of flow reduction devices as an incentive for the payment of water debt in the UK. This study should include an assessment of the effectiveness of such devices to encourage payment and the appropriate safeguards to ensure that the vulnerable and those struggling to pay do not have their supplies restricted.

Appendix 1

Essential Services Commission (Victoria) Customer Service Code

The Essential Services Commission's Customer Service Code, which took effect on 1 July 2005, requires all urban water businesses to assist customers facing payment difficulties on a case-by-case basis and that a series of steps be undertaken before restriction can occur. It also limits the scope for businesses to restrict customers where the outstanding amount is less than \$120¹⁴ (or the customer has failed to pay consecutive bills in full over a 12 month period). They must also not restrict or commence legal action if:

- the customer is eligible and has lodged an application for a government funded concession and the application is outstanding
- the customer has made an application under the Utility Relief Grant Scheme and the application is outstanding
- the customer is a tenant and the amount unpaid is owed by the landlord or the tenant has a claim against the landlord in respect of a water bill pending at the Victorian Civil and Administrative Tribunal or
- the amount in dispute is subject to an unresolved complaint procedure in accordance with a water business's complaints policy.

In considering whether it is appropriate to restrict a customer's supply or take legal action it is important to consider:

- whether there are more effective means of encouraging prompt payment of bills and recovery of outstanding debts
- the costs and benefits of applying such measures (including whether the cost of the action taken to recover the debt is greater than the outstanding debt. For example, when legal actions are used to recover a small debt the additional cost of a summons may be greater than the debt owed to the business, thus further exacerbating the customer's payment difficulties) and
- the individual circumstances of the customer and their capacity to pay the debt or their willingness to enter into alternative payment arrangements such as instalments.

Most businesses apply restrictions or take legal action only after all assistance possible has been provided to customers and where the level of outstanding debt is quite high and the cost of recovering that debt is less than the debt itself.

¹⁴ Exchange rate: \$Aus2 = £1 (average rate July/Aug 2009)