

Debt and affordability

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The water industry has a significant debt problem. Unpaid water bills last year (2007-08) resulted in debt of £1,070 million (outstanding greater than three months). Of this £673 million was outstanding over 12 months. These figures are an increase of around 7% above the 7% average increase in water charges for that year.

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Introduction

The number of households in water debt is around 4.3 million. This compares with around 1.1 million for electricity and 0.8 million for gas, despite the higher bills for energy. Also the levels of debt in the energy sector are much lower. Water debt in 2006-07 was £930 million, compared to £223 million for electricity and £179 million for gas.

The costs of collecting water debt together with the loss of capital and the costs of debt write-off add around £11 to every customer's bill.

The Defra Cross Government Review of Water Affordability (2004) suggested that 10.7% of households will be spending more than 3% of disposable income on water bills (a measure of water affordability) by 2009-10.

Who are the debtors?

Research by Equifax in 2006 showed:

- **20%** of debtors owed 70% of the total water debt
- **46%** of debtors are in the highest 10% credit risk category
- **34%** of debtors are likely to live in rented accommodation
- **23%** of debt is 'leaver debt', where companies cannot trace defaulting customers.

There is also a hard core of high worth debtors.

- **4%** of debtors have credit scores in the top 25%

- **4%** of debt is accounted for by 'affluent singles and couples in exclusive urban neighbourhoods'.

What is the industry doing?

The industry is following a triple track approach:

- Providing measures to help the vulnerable and those struggling to meet their water bills
- Tackling those that can pay but do not pay – through the court service
- Lobbying for legislative change to reduce the debt burden and working with consumer bodies to improve help with water affordability.

Water company measures to help the vulnerable and those struggling with their bills

Helplines Phone helplines so customers can discuss their payment problems with companies and agree appropriate payment plans

Flexible payment plans Customers can choose how frequently they pay

Referrals To charitable trusts and hardship funds

Free water meters This may reduce a customer's charges

Help with Water Direct Help in applying for direct payment from benefits – Water Direct

Tariff advice Advice on the 'WaterSure' tariff; metered customers on benefits who qualify can receive a reduced bill

Promotion of debt advice Signposting to debt advice agencies

Water UK is also working with EDF Energy, SAS, AT Kearney and Quadrant Consulting to promote the 'Saving from Poverty'(SfP) proposal.

SfP is an integrated and alternative banking and budgeting system designed to help those on low incomes and/or benefits. It will help customers meet their essential weekly financial commitments (including utility bills) through a ring fenced allocation. The proposal will use a development of the current Post Office Card Account (POCA) and be run on a social enterprise model with an independent board of trustees.

Unlike current basic bank accounts (BBAs) or the existing POCA, SfP accounts will allow weekly direct debit payments reflecting customers weekly incomes. For utilities (and public sector organisations) SfP will reduce the costs of collection, allowing savings to be potentially shared with customers on SfP through preferential tariffs.

Other measures to tackle the growing debt problem

Water legislation gives water companies the power to levy charges on the 'occupier' of properties. There is no definition of 'occupier' though there are similarities to rating where case law suggests for rented properties, the tenant is to be charged rather than the property owner.

Liability for water and sewerage charges - briefing

Debt from tenants amounted to around 44% of total household debt, according to the Equifax report for UKWIR. Leavers also account for around 23% of total debt.

Local authority legislation for recovery of council tax sets a priority order or hierarchy of who is responsible for council tax on any property – the 'liable person'. Tenants are included in this hierarchy at the second, third and fourth level. The last and residual level is the property owner.

Water UK believes there would be a consequent reduction in household water debt if responsibility for water charges was amended in legislation from 'occupier' to 'liable person' as set out in local government legislation. There should also be a requirement for residents, owners or managing agents to supply information to the water company to identify who is the 'liable person' for any property

Supporting this change Water UK believes that other public bodies and utilities should be able to share information on the 'liable person' for a property with the appropriate water company. These changes will allow companies to consistently identify the liable person for water charges and pursue them for payment.

Conclusion

Without the changes in legislation and adoption of measures set out in this briefing, the current 'credit crunch' and general increase in household bills can only mean household water debt will increase further, resulting in even greater on-cost to the bills of all paying customers.

Phill Mills

Deputy Chief Executive, Water UK

Notes

1. Rental properties

The Equifax study concluded that tenants are the worst debtors. Debtors living in rented occupation have higher risk, higher total debt and importantly higher average debts.

Nearly half of total debt (44%) is held in areas where just 20% of the UK population live – in areas of more than 54% rented accommodation. This is where 34% of the 'live' and 'leaver' debtors live.

Conversely only 7% of the total debt is owed by people living in areas of low rental accommodation (11% of water debtors).

2. Water Direct

Water UK supports the improvement and extension of the Third Party Deduction Scheme - Water Direct. Currently there are about 155,000 customers paying their bill through Water Direct. There is, however, potential to improve the scheme from one of last resort and open it up to more customers through a wider range of eligible benefits, and even to customers who are not already in debt.

Recent research carried out for UKWIR on customers' attitudes to Water Direct found that 91% believed the scheme useful; 82% thought Water Direct helped them manage their finances better and 86% thought Water Direct should be available to those on benefit but not in arrears.

3. Saving from Poverty

Our aim in promoting SfP is to support government's objective of promoting financial inclusion, whilst helping the industry address the growing problem of household debt. AT Kearney has developed a business case model for utilities which shows significant saving on cost to serve indebted customers. These savings could be reinvested in improving budgeting services or providing lower tariffs for those customers using SfP.

The Defra Minister, Phil Woolas, commented that SfP was "a significant proposal" that could tackle fuel poverty as well as water affordability.

4. Charging legislation

Local government legislation sets out a priority order or hierarchy of who is responsible for council tax on any property - the 'liable person':

- Who lives in the property and owns it
- Who lives in the property and has a lease (this includes 'assured tenants' under the Housing Act 1988)
- Who lives in the property and is a 'statutory' or 'secure' tenant
- Who lives in the property and isn't a tenant but has permission to live there
- Who lives in the property (for example a squatter)
- Who has a lease of six months or more on the property, but doesn't live there
- Who owns the property but doesn't live there

Revenue recovered for all English authorities in 2007-08 as a percentage of revenue billed was 97.1%¹ by the end of March 2008. In comparison, revenue recovered for water companies by the end of the financial year was 91.8%².

1 Receipts of annual council taxes collected by financial year end as a percentage of net collectable debt (Source CLG).

*2 Revenue outstanding up to 12 months as a proportion of revenue billed in 2007-08 is 8.2%
(Source Ofwat).*