

Walker Review of Charging 2008
London workshop

Bad Debt and Affordability

Industry position and proposals

Phill Mills, Water UK
17 December 2008

Aim to cover

1. Where we are? – latest debt position
2. Who are the debtors?
3. Comparison with energy
4. Industry progress
 - Affordability
 - Debt
5. Where we need help
6. Conclusions

Latest debt position

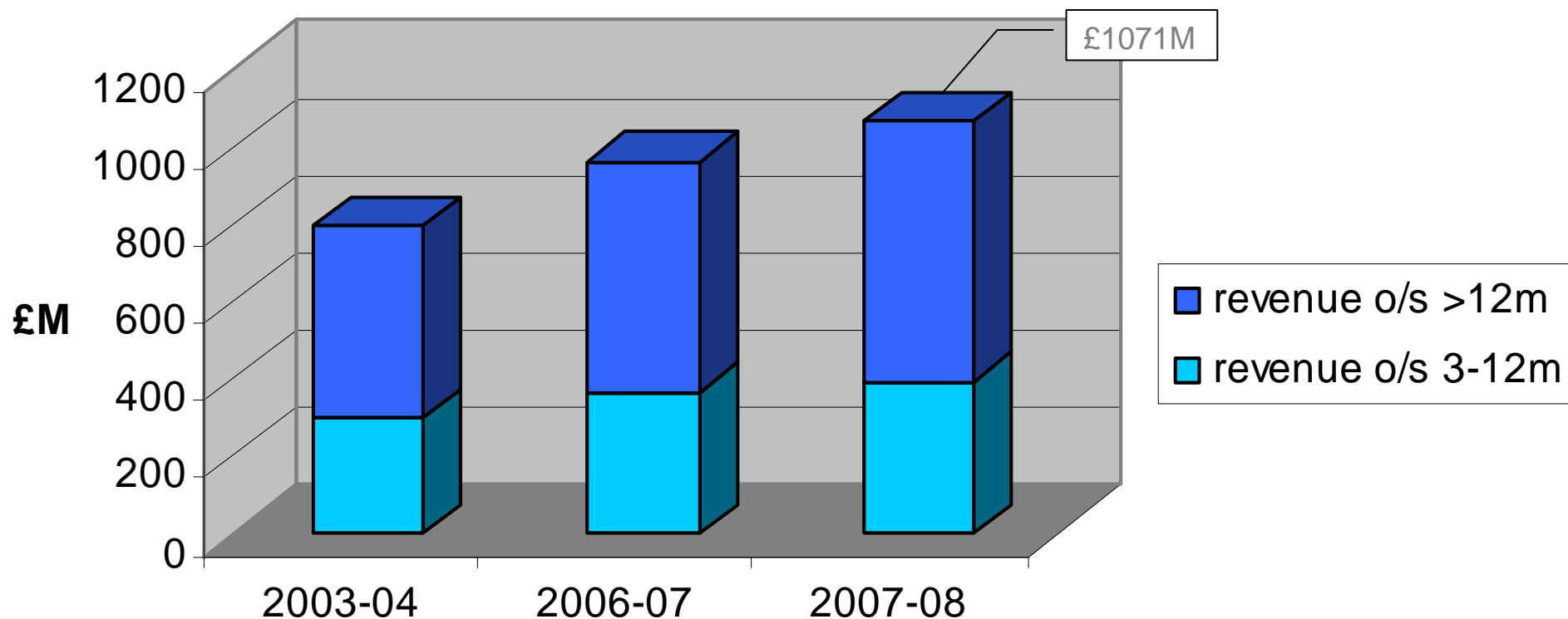
Headline numbers (for 2007-08)

(Source – Ofwat)

- **£1071M** Household revenue outstanding (>3 months)
- **£104M** Household revenue written off (=1.6% billed)
- **~5M** Number of households with revenue outstanding
- **£674M** Household revenue outstanding (>12 months)
- **£71M** Operating expenditure on collection
- **£11** Addition to average household bill (\Leftrightarrow 3% ave bill)

Changes since previous year

Revenue outstanding 2003/04 - 2007/08



Who are the debtors?

20% of debtors owe 70% total debt

- 34% of debtors live in areas with average earnings < £10k
- Tenants are major source of debt – **44% total debt**
- “Leavers” account for **23% total debt**

But - also **hard core of high value debtors**

- 4% debtors have credit risk score in top 25%
- “Affluent Singles & Couples in Exclusive Urban Neighbourhoods” account for ~ 4% total debt

Source - Equifax research for UKWIR (2005)

Comparison with energy

Ofwat report 'outstanding revenue' over 3 months and over 12 months.

Ofgem use debt to refer to customers who either have their PPM set to collect a debt or customers who are on a debt payment arrangement scheduled to last longer than 13 weeks.

[Average period to recover debt (non PPM) = 51 weeks (electricity) and 49 weeks (gas)]

Comparison with energy debt (2007/08)

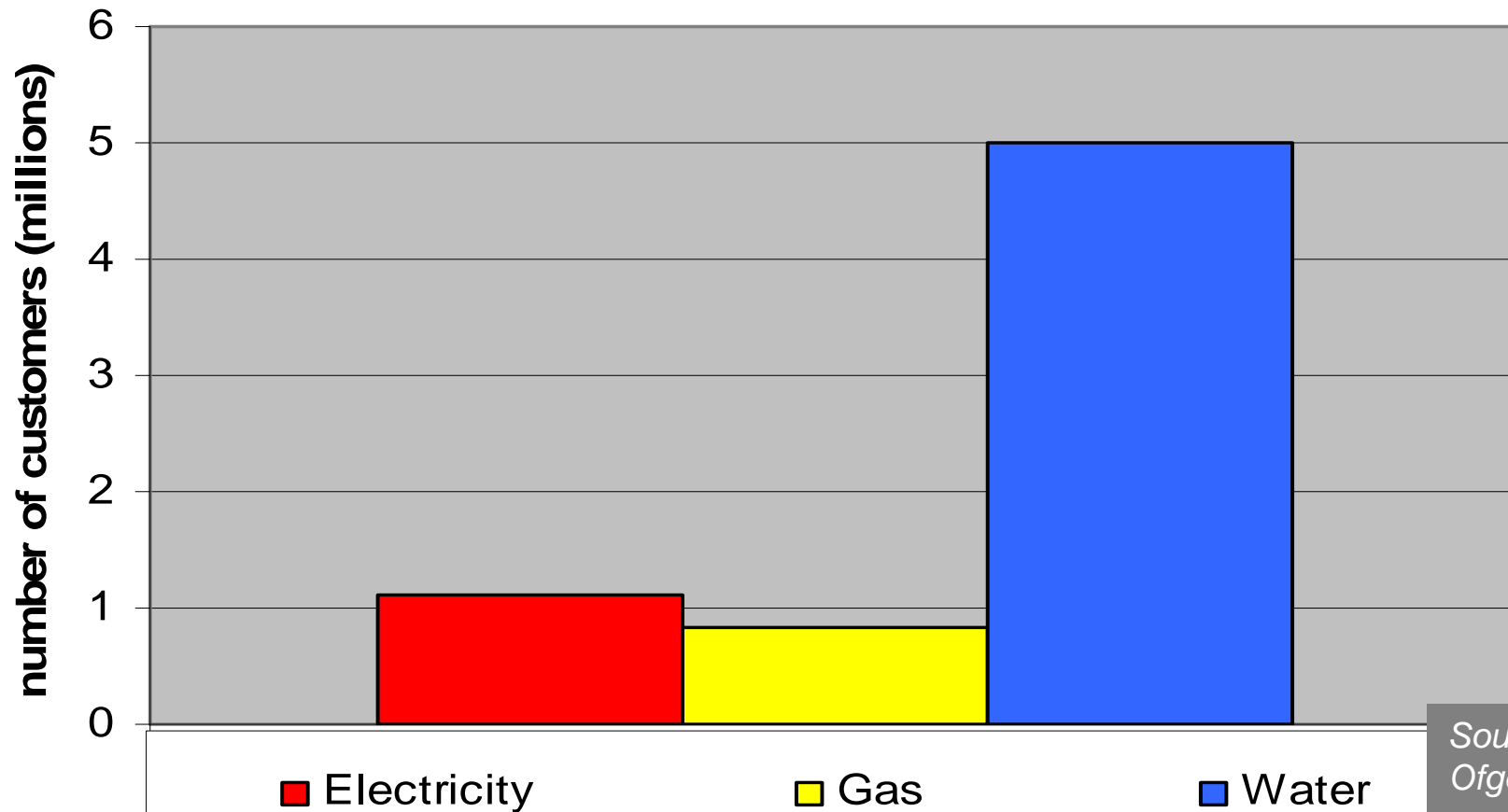
Sector	Nr Customers on prepayment meters	Nr Customers on Fuel Direct / Water Direct	Nr Customers in debt (million)	Overall household debt
Electricity	3,151,878	17,194	1.10	£246M
Gas	2,155,171	22,079	0.89	£176M
Water	0	155,000	~5.0	£1071M

Source: Ofwat - RD18/07; Ofgem - Monitoring company performance Q3/2007, Energywatch

Source; Ofwat RD19/08 and Ofgem Q1/2008 Monitoring company performance

Comparison with energy sector

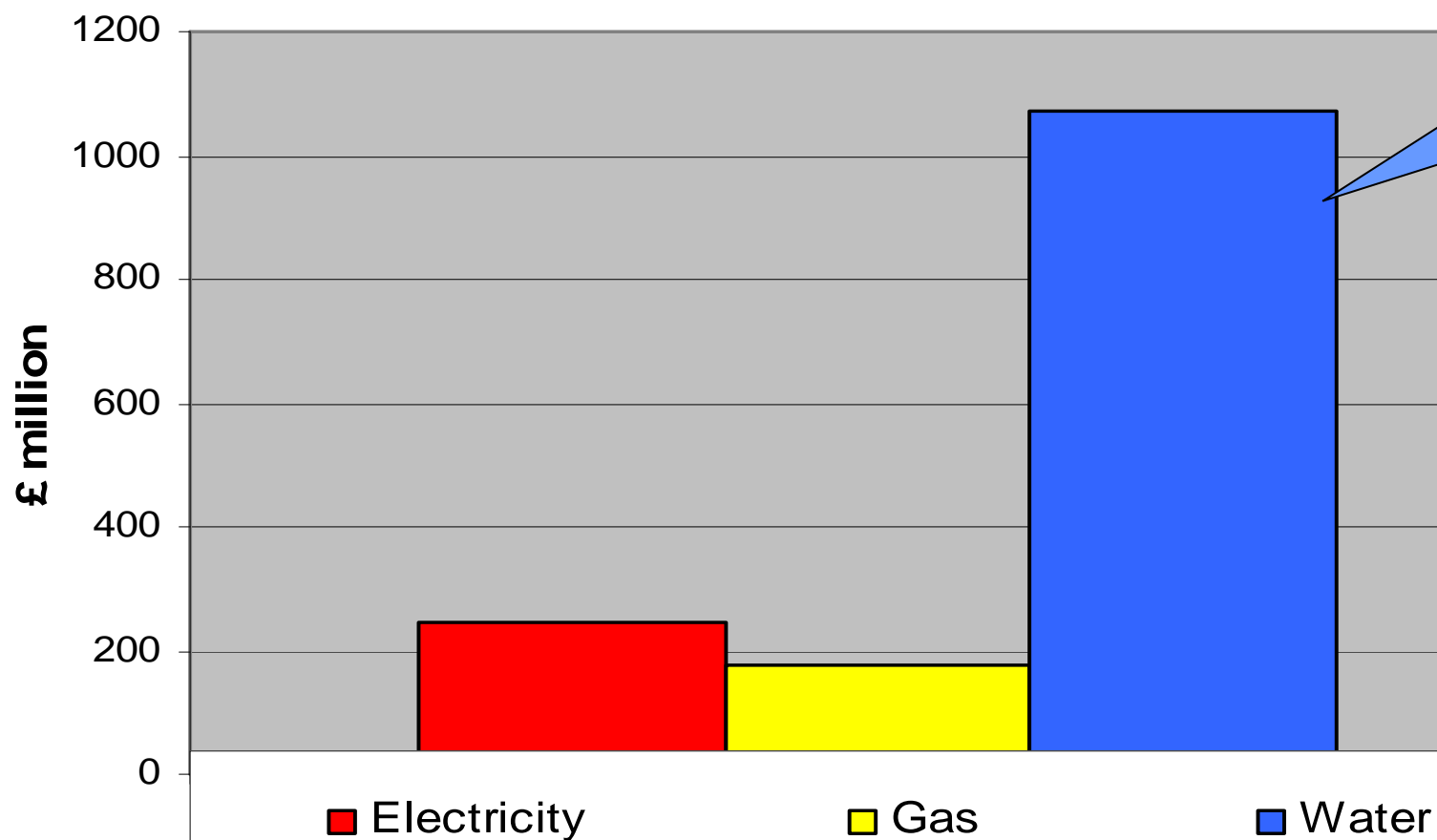
Number of customers in debt to utilites 2007/08



Source: Ofwat – RD19/08;
Ofgem - Monitoring
company performance
Q1/2008.

Comparison with energy sector

Household debt (£ million) 2007/08



Water
£1071M > 3
months
£674M > 12
months

Source: Ofwat – RD19/08;
Ofgem - Monitoring
company performance
Q1/2008.

Industry progress

1. Affordability –

- What the industry is doing
- Where the industry needs help

2. Debt -

- What the industry is doing
- Where the industry needs help

Affordability - what the industry is doing

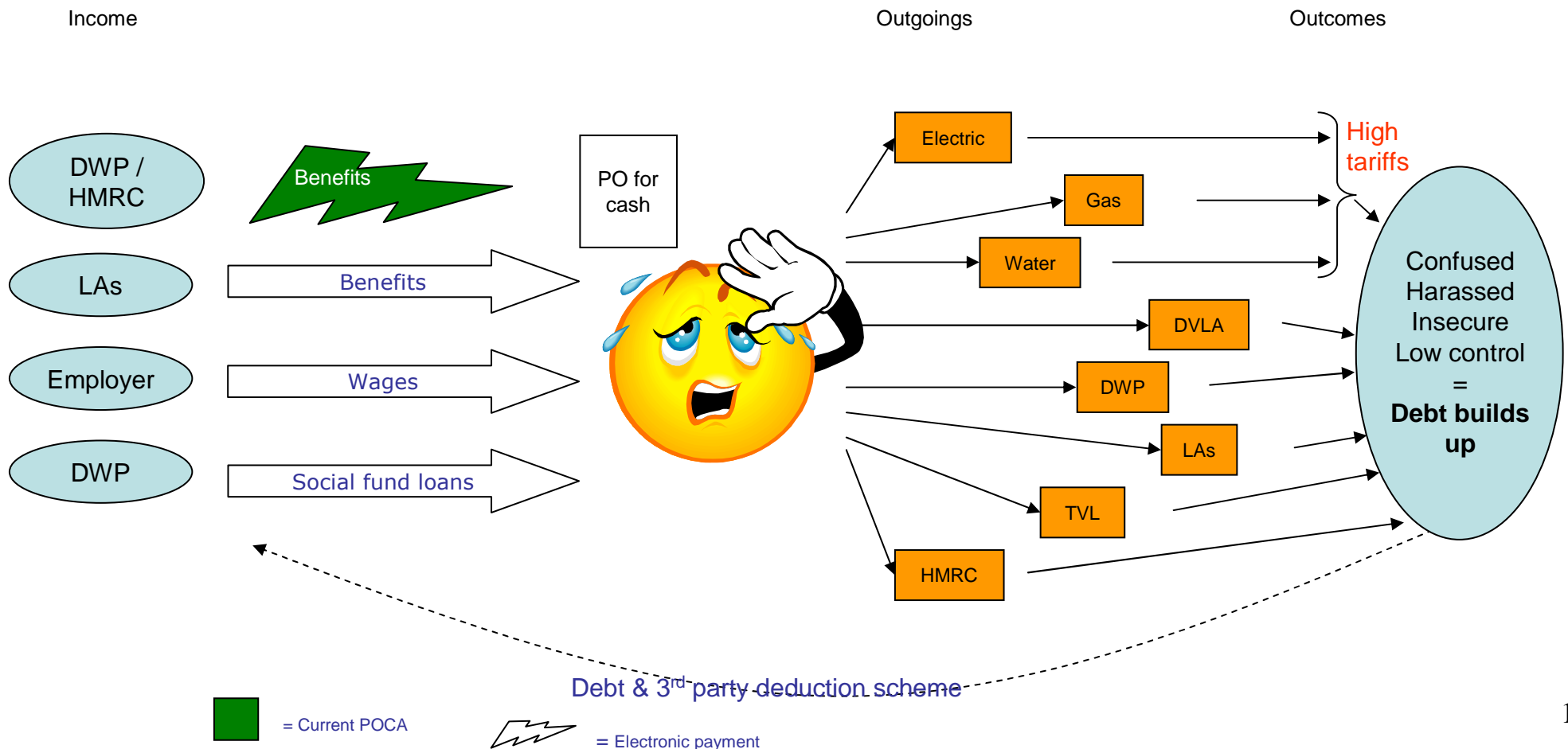
- Helplines - customers can discuss their payment problems with companies
- Flexible payment plans – customers can choose how frequently they pay
- Charitable trusts, hardship funds and 'restart' schemes
- Free water meters – may reduce customer's charges
- Help in applying for payment from benefits – Water Direct
- Advice on the "WaterSure" tariff - metered customers on benefits who qualify can receive a reduced bill.
- Support for CABx

Some companies now offering social tariffs or other help, e.g.

- Wessex "Assist"
- South West "Watercare"
- Anglian "Aquacare Plus"
- Welsh "Water Direct" & "Water Collect" discounts
- Thames (Affordability tariff in DBP)

Affordability - what the industry is doing

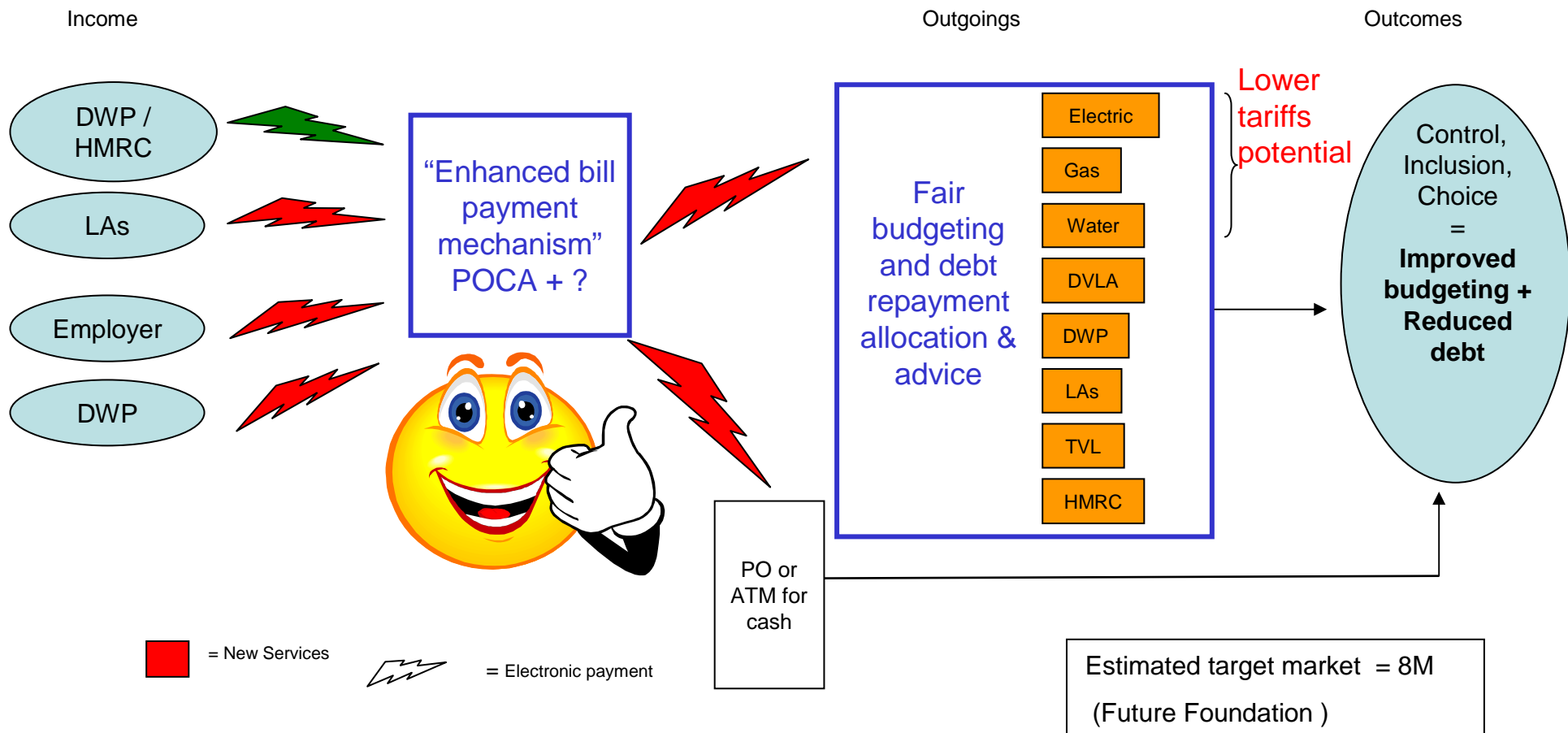
Current position: Unilateral trading model is inconvenient, costly for all and creates debt



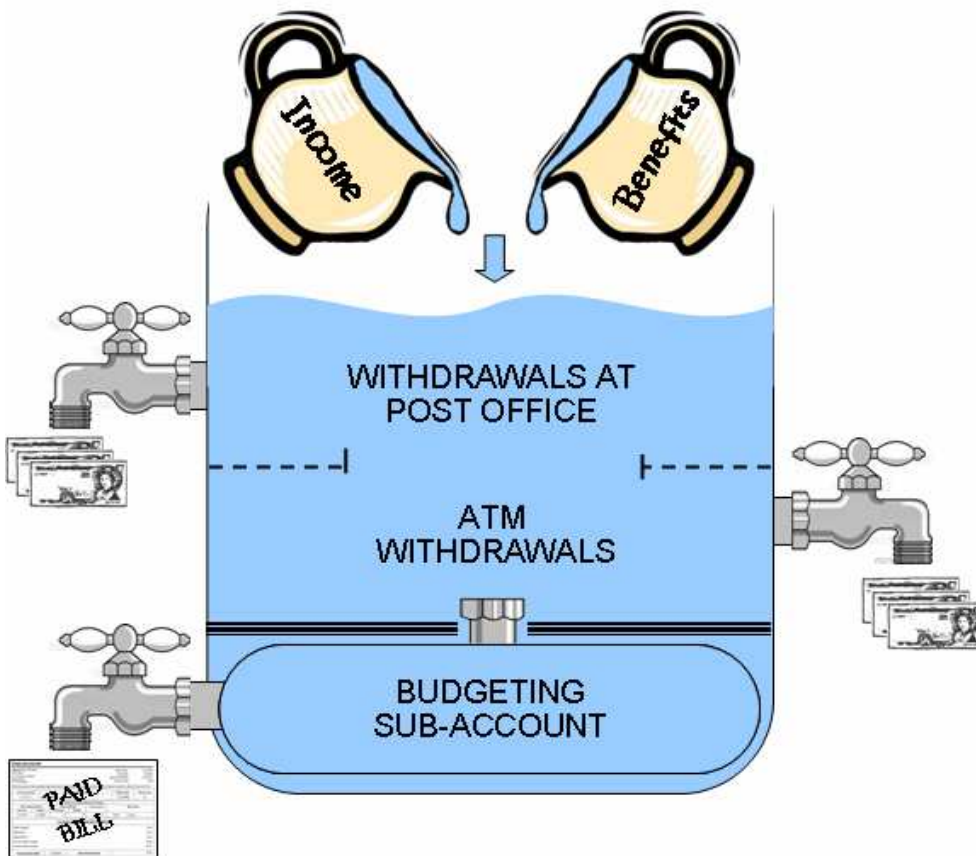
Affordability - what the industry is doing

"Saving from Poverty"

Future Potential: Holistic, shared service approach reduces costs and improves outcomes for all



"Saving from Poverty" – budgeting



- Portion of customer funds allocated to a budgeting sub-account
- Bill payments made electronically to SFP service providers on predetermined order
- Some funds only available for withdrawal on an emergency basis via Post Office
- Non-allocated funds can be withdrawn via ATM or Post Office
- SFP set up on social enterprise model

Affordability – where we need help

- Getting Government and DWP support for “Saving from Poverty” as part of POCA-2
- Identifying target customers for WaterSure – vulnerable groups tariff
 - [WaterSure - 24,000 successful applicants, >70,000 potential applicants]

Debt – what the industry is doing

- Water Direct
 - Lobbying for improvement
 - More proactive approach from companies
- Sharing of defaulters' data – credit reference agencies
- Future communication channels, e.g. TXT billing & payments
- Research and good practice sharing

(But still major user of the Court Service)



Debt – where we need help

Water Direct

- Change DWP approach so Water Direct is not a scheme of last resort
- Widen range of applicable benefits
- Allow customers on Water Direct who are not already in debt
- Help target eligible customers through data sharing (?)

[UKWIR research (2007) showed ~90% respondents believed Water Direct helped them manage their finances better and get out of debt]

Debt – where we need help

Liability for charges

- The Water Industry Act 1999 gives Water Companies the power to levying water and sewerage services charges on the “occupiers” of properties.
- Renters account for 44% debt (34% total debtors)
- ‘Leavers’ account for 23% debt

Proposal 1 - for private rented properties

Adopt the ‘liable person’ approach used in Council Tax legislation.

Debt – where we need help

Liability for charges

Proposal 2 – Information requirements

Requirement for residents, owners or managing agents to supply information to the water company to identify who is the liable person for the property

- 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

Debt – where we need help

Liability for charges

Proposal 3 - Specific classes of property

Owner liable, e.g. residential care homes, religious communities, house of multiple occupation, asylum seekers

Conclusions

- Water debt is increasing
- Water affordability is an issue
- There are solutions
- But - need range of options
- Industry will help those willing, but unable, to pay

But

- Industry needs help to tackle those unwilling, but able to pay



Thank you

Water UK

www.water.org.uk