

**Utility Week Consumer Debt Conference
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Water Industry Overview – can we hold our own in the downturn?

Rob Wesley, Policy Adviser, Water UK

[s1]

Before I start, I'd just like to refer back to the previous speaker, Anna Walker, whose review of course provides the backdrop for this year's conference – at least from a “water” point of view

The water industry recognises that the review lead by Anna really is crucial for the sector – we have been working closely with Anna and the review team, and we are looking forward to the final report next month.

However, that mustn't be the end of the story - we will be continuing to press for key recommendations to be taken forward with new legislation. I'll come back to this later.

[s2]

This morning, I'm first going to put things in context by looking at the latest debt position – and it won't be a surprise that consumer debt in the water sector continues to rise.

I'll then move on consider how the downturn is affecting companies, and what they are doing to mitigate it.

Which will lead me to ask whether the industry has got the right tools to cope – and I'm sure it won't surprise anyone that my answer is no, it hasn't, and it needs help to address the situation.

So, the headline numbers, taken from last year's June Returns ...

[s3]

After outstanding household revenue broke through the 1 billion pound barrier last year, it is disappointing but not surprising that debt has continued to rise – to over 1.2 billion pounds. The harder to recover debt that is more than 12 months old is now over 800 million pounds – and last year companies wrote off 114 million pounds. And operating expenditure on recovering revenue was 76 million pounds.

These are large numbers – but the number that perhaps shows the scale of the problem most clearly the one at the bottom of the slide. We estimate that the cost of debt management, the loss of capital and the write off now adds on average around £12 to every customer's water bill, up from £11 last year.

So how do these figures compare with previous years?

[s4]

Well, the first thing to say is that to fit this year's figure on, I've had to increase the scale of the graph!

Year on year, outstanding revenue has increased by 13% in real terms. The harder to collect older revenue has increased by even more – 16% - a year on year increase of over 100 million. And looking over a five year period, outstanding revenue has increased by more than 50%.

These figures are bad enough, but we should remember that these are figures for 2008-09 – before the full impact of the recession is felt.

[s5]

While the economy might be about to come out of recession, we can expect debt to rise even further as unemployment continues to rise. This graph shows figures for claimant count unemployment – that is the number of people who are claiming job seekers allowance.

This is a significantly lower number than the total number of people who are unemployed – but here it is the trend that is important. On the left, in dark blue, is the actual figure for the end of the last financial year – just under 1.5 million.

To the right are forecasts of unemployment taken from the independent forecasts published by the Treasury. They show unemployment rising significantly – to over 2 million, and staying high for some time. It is sadly inevitable that increased unemployment will impact on the level of water debt.

I expect that this is a point that Ofwat will wish to take into account shortly when they make their final decisions on how to treat debt at PR09.

Now of course, the recession affects all sectors, not just water. So how does water compare with other utilities?

[s6]

Well, it's interesting to note that while the latest figures from Ofgem show that debt in the energy sector is broadly stable, with around 1 million customers for both gas and electricity paying back a debt, for water, revenue outstanding has increased by 13%, with over 5 million customers affected. And let's not forget that overall debt levels are much higher in water, despite having much lower bills.

So those are the headline figures – how is this affecting companies?

[s7]

In short, less money is being chased by more creditors – and companies are noticing the effects – doubtless made worse by water’s status as a non-priority debt. Customers’ payment patterns have worsened, and previously good payers are now struggling. Unsurprisingly, credit stress amongst customers has increased, as have personal insolvencies.

So what are companies doing to manage these tough circumstances? Firstly, I’m going to look at affordability, before turning to debt.

[s8]

Companies continue to have a wide range of measures to help those who have difficulty in paying.

Companies offer flexible payment methods, contribute to charitable trusts which provide assistance, and support local Citizens Advice Bureaux. Looking to the medium term, we are continuing to support the Saving from Poverty proposal, which we think could make a real difference. In addition, to complement the Water Sure tariff that all companies offer there are now a growing number of social tariffs in operation – although some are pilots.

[s9]

To highlight the help with paying for water that companies provide, Water UK has produced this website, which shows details of the assistance given by each company. We originally targeted the website at debt advisors rather than the general public, but it has exceeded our expectations.

It is the number 1 non-sponsored link on Google for some key search terms (water debt help and water debt advice) and is linked to from money saving expert.com. The link is on the slide – please do have a look.

I’m now going to turn to what companies are doing on debt.

[s10]

Faced by the challenging environment, companies are varying their approaches:

- trying to contact customers before problems have built up
- varying how and when they contact customers
- and using a range of approaches to collect outstanding revenue.

Companies are working hard to make the best use of Water Direct, of which more later.

Companies are also learning from each other. The Water UK Debt Good Practice Members Network, chaired by Nick Carney from Veolia Water Three Valleys, meets regularly to share good practice on the whole range of debt issues – covering far too many topics to mention here.

The industry has also funded research through UKWIR to investigate the link between debt and deprivation at a local level to build its knowledge base.

So the industry is doing a lot, but what is the overall impact?

[s11]

To summarise what companies are experiencing, they are working ever harder, but debt continues to rise year after year after year.

The recession is accelerating existing trends – and current limited processes and tools are getting more difficult or more costly to use. For example, court fees have just increased significantly, and charging orders are becoming harder to get.

At the same time, there are new challenges to face in seeking to recover outstanding revenue – debt relief orders, debt management plans, and maybe a reduction to the time limit for action under the statute of limitation.

So has the industry got the right tools to cope?

[s12]

My answer is no – the industry desperately needs new powers and new tools to recover outstanding revenue.

Without this, the burden on bill paying customers – who include many customers who are struggling to pay in these difficult times – will continue to rise – from £11 to £12 this year, and still growing.

So what help does the industry need?

[s13]

I'm going to highlight three key areas:

- Water Direct
- Liability for charges and provision of information
- And incentives to encourage payment

But first a word on how change can be delivered.

[s14]

We heard earlier this morning from Anna Walker, whose review provides the opportunity to change the unsustainable status quo.

I've highlighted here two quotes from the Interim Report:

“the estimated additional £11 on paying customers' bills to cover the debt issues essentially punishes the reliable bill payer, which is unfair and must be tackled”

And remember that the burden is now £12 per customer. And the second quote neatly summarises the situation:

“something is fundamentally wrong here”

So what are the solutions?

[s15]

Firstly, a change that could be a quick win, as it doesn't require a change of legislation – just a change of policy.

Water Direct – the water version of the Third Party Deductions scheme – is already used and valued by many customers. Because of limited tools the water industry has, it is a key measure to recover water charges.

The scheme is valued by customers – UKWIR research from 2007 showed that over 80% of customers say that:

- it is a useful way of managing finances,
- it helps them to manage their finances better,
- and that it should be available to those on benefit but not in arrears.

There are currently about 175,000 water customers using Water Direct – an increase of about 20,000 on last year.

Companies are proactively seeking to use Water Direct – as can be seen from the increased uptake year on year – but the scheme could help many more customers than at present – but only with changes in the way it is administered by the Department for Work and Pensions.

In short Water Direct shouldn't be seen just as a scheme of last resort – it should be actively promoted its scope increased:

- the range of applicable benefits should be widened
- customers who are not in debt should be allowed to use it
- eligible customers should be targeted through data sharing

We understand that the DWP has longer term plans to improve the administration of the scheme, and we welcome this. But we are seeking more immediate changes so that more vulnerable customers can be helped in these challenging times.

[s16]

A second area where we are pressing for change is on liability for charges – which is an area where legislation is needed.

Currently the “occupier” is liable for charges – but who exactly is “the occupier”? This question could be the topic for a 20 minute presentation by itself – for today it is enough to say that it is complicated, and greater clarity is badly needed.

This is particularly important for private rented accommodation, where “the occupier” frequently changes and it is hard for companies to know who to bill. It is therefore not a surprise that, as shown by UKWIR research, a high proportion of debt comes from rented accommodation – and that “leavers” are a major source of debt.

We welcomed the three proposals in the Interim Report to address this problem:

- to clarify and widen who is liable for paying the bill
- for the property owner to be liable for charges for houses in multiple occupation
- to ensure that water companies know who is liable for charges

As ever when it comes to charging issues, the devil will be in the detail

[s17]

There are a number of practical questions to consider:

- what information needs to be provided, when and how?
- when would the owner be liable for charges?
- what incentives are there to ensure that:
 - Information is provided
 - Bills are paid

We are continuing to discuss these questions with the review team and landlord representatives, and we look forward to Anna’s conclusions in her final report.

[s18]

The final area I’m going to highlight is incentives to encourage payment of water charges. Water is in a unique situation:

- companies have a duty to supply customers
- but there are very limited incentives to encourage payment.

This ultimately results in non-payment adding £12 and rising to everyone else's bill, which cannot be a sustainable situation.

The Interim Report from the Walker Review suggested that “trickle-valves” – which are perhaps more accurately called reduced flow valves – should be investigated.

We agree that all options should be investigated **objectively** – and I stress the word **objectively**.

We know that reduced flow devices are used in other parts of the world, such as Australia, but at present there is little, if any, UK-based information on which to make a decision either way.

To assist, the industry – via UKWIR – will be sponsoring a research project into reduced flow devices starting in April 2010. To ensure that a broad range of views are represented, we are inviting Ofwat and CC Water to join the steering group for the project, and would also welcome the participation of other interested parties.

What is clear to us is that there does need to be a real incentive for those who can pay to do so.

So in conclusion

[s19]

Water debt continues to increase, and as Anna Walker has said, “something is fundamentally wrong here”.

The water industry will help those **willing**, but **unable** to pay. However - we do also need help to tackle those that are **unwilling**, but **able** to pay.

The review led by Anna Walker shows the direction – but we will need Government to deliver the changes.

For more information please contact

Water UK Communication
020 7344 1809 (out of hours 07833 450544)