

**Utility Week Consumer Debt conference
23 October 2008**

Water companies' progress on debt management
Phill Mills

NB: [S#] refers to slide numbers in associated presentation.

Thanks you Nick, and welcome back everyone.
I'd also like to thank Utility Week for inviting me back to speak at their second conference on this critical issue.

Its no surprise that debt in general, and hence water debt in particular, has increased since last year. But there have been some new developments - in tackling water debt and addressing water affordability - that I'd like to share with you.

[S2]

So first of all – where are we now?
What do the latest household debt numbers look like for the water industry?

There's also now a changing political (with a small p) landscape – which provides opportunities. I'll cover this and then set out industry progress, both on debt and affordability, since last year.

[S3]

So the headline numbers.

It's disappointing but not surprising that household revenue outstanding broke the 1 billion Pounds mark last year.
Companies continue to write off around £100M each year. But they only write off debt when they've exhausted all attempts to recover the outstanding revenue.
The harder to recover debt – that's been outstanding for more than 12 months also increased – to over £670M. Operating expenditure was around £70M

And the cost of debt management, the loss of capital and the write off adds on average around £11 to every customer's water bill.

Water debt now affects around 5 million households. This is not an exact figure as some households will owe money to different companies for sewerage bills and for water bills. There may also be some recent bills in this figure.

[S4]

So how does this compare with previous years?

This shows the increasing debt position from 2003/04 to 2006/07 – corrected to 2007-08 prices. Debt increased from just under £800M to £968M over the 4 years to 2006/07.

The third column shows the latest position for 2007/09 - when revenue outstanding in the 3-12 month category increased by 7.5% to just under £400M. More worrying though was the increase in the (harder to collect) debt over 12 months old, which increased 12.5% to £674M.

[S5]

Moving on – I just wanted to touch on the changing political landscape.

First of all there's the independent review of metering and water charging announced by Defra back in August. This is being led by Anna Walker and we expect to see a call for evidence in the next week or two. I've highlighted here one of their terms of reference. Water UK and I believe Ofwat and CCW have already provided initial information to the Walker team, but there will be opportunities for others to meet with them shortly. They expect to publish their initial findings in late January with a full report in April.

One of the aims of the Review is to feed any required legislative changes into the forthcoming Floods & Water Bill.

The Bill will major on the legislative changes needed following the Pitt Review into the flooding events of 2007. But it also gives Government, and us, the opportunity to address other bits of water legislation. We're hoping for changes around responsibility for water charges – amongst other things. But I'll come back to that later.

On timing - we expect to see a draft bill around Easter 2009 with a public consultation and an EFRA Committee Inquiry. There won't however be a bill in Parliament till around this time next year. Problem is - the latest date for an election is May 2010 - so the bill may be cut short or cut down in content.

[S6]

I now wanted to move on and look at affordability - what the industry is doing and where it could do with some help - and then what it's doing with debt and again - where it could do with help.

So first of all Affordability.

The current position is down to several factors but key are lack of household funds and lack of ability to budget - coupled with an overstretched advice sector

Current banking and budgeting solutions don't serve the vulnerable or those on low incomes well.

Basic Bank Accounts are regarded with mistrust by vulnerable customers and banks do not welcome such customers with open arms! Over 50% BBA users actually withdraw all their income in cash each week.

The Post Office Card Account provides a more acceptable alternative for vulnerable people. But it's functionality is deliberately limited by Government. Around 4 million people have one, but again most go for cash budgeting and withdraw their money each week.

[S7]

This reflects the current position. The slide shows income on the left and typical outgoings on the right. The customer has to try and juggle bills for their essential services from a range of suppliers – each chasing the customer for any outstanding payments. The result is a unilateral trading revenue and debt collection model.

There are no winners in this game – only losers. Creditors increase their costs and the customer ends up harassed, confused and insecure. The customer has little control and the financial burden increases - in many cases building up even more debt.

Recent research by the consultant AT Kearney showed that for utility companies the cost to serve indebted customers is 2.4 times that of the cost to serve those not in debt.

We believe there's a better way to help the poor and vulnerable budget for their essential services – and save costs for suppliers.

We are proposing to Government a new type of account, with the working title “Saving from Poverty”. This will collect income, not just benefits, and make direct payments for essential services on an agreed customer – creditor basis – without penalty payments.

We believe such an account could - and should - be run as a social enterprise model - with a Board of Trustees.

Such a model is already working successfully, albeit on a smaller scale - as CAP or Christians against Poverty.

[S8]

The big difference to the current situation is that “Saving from Poverty” adopts a shared service approach rather than a unilateral trading model. As such it removes duplication and adversity - and cuts out costs.

It's based on development of the Post Office Card Account – using additional functionality already built into the card. It's just switched off at the moment!

The account would take in a range of incomes – by electronic transfer and it would make cash available at the Post Office or at ATMs. However - its key component is its budget account facility that would ensure payments are made for essential services – reducing the risk of debt and cutting out the chasing calls and contacts from multiple creditors. Each creditor would have an agreed payment plan with the customer through their “Saving from Poverty” account.

In effect we’re moving to managing the customer, not the individual bill or debt.

We believe this could help a wide range of lower income customers, not just those on benefits or in debt. It could also promote financial inclusion through the linked provision of benefit checks and other financial, budgeting or savings advice.

The result for the customer is greater control of their finances, reduced pressure and less stress. It can also directly improve affordability by linking to more favourable tariffs - such as direct debit discounts or discounts like Welsh Water already provides for Water Direct payments.

Three water companies and one energy company provided data to AT Kearney who carried out the business case feasibility study on the "Saving from Poverty" model. Extrapolating their findings suggests that the current debt collection practices across the electricity, gas and water sectors cost utilities nearly £600M.

The integrated and shared service model that "Saving from Poverty" provides can reduce those costs significantly and improve collection rates - whilst helping low income and vulnerable customers.

The funding for “Saving form Poverty” would not come from customers but from an annual charge on service providers for each customer paying a bill through their "Saving from Poverty" account. Any surplus funds would be reinvested in the business – to improve the service offered.

The Future Foundation has estimated the potential market at around 8 million.

[S9]

This illustrates how the budgeting sub account would work.

The account allows payments in from different sources. Following an assessment of income and outgoings, part of the funds are ‘ring fenced’ in the budgeting sub account for essential services. Much like an electronic jam jar. Bill payments are then made on a predetermined and agreed basis, using existing protocols such as the Common Financial Statement - to allocate payments fairly.

The account will also allow emergency withdrawal of funds from the budgeting sub account – but only at a Post Office.

Moving on then....

[S10]

What else is the Industry doing now? – to help the vulnerable and those struggling to pay their water bills.

Several companies are now offering social tariffs, albeit some on a pilot basis. Here are some examples....

However there are different views on social tariffs – amongst stakeholders, customers and water companies. They are not universally supported!

Welsh Water operates slightly differently in that it offers discounts to those paying charges through Water Direct – the third party deduction scheme – and those who pay through their Local Authority with their rent.

All companies provide a range of other measures to help customers pay their water bills. I've listed some examples here. As well as helping customers directly - we could also do with some help from Government.

[S11]

There's really two areas.

The first is getting DWP support for "Saving from Poverty" as part of the next Post Office Card Account.

DWP is currently reviewing returned tenders but their aim is to minimise their costs and hence the number of users. "Saving from Poverty" builds on the DWP specification but without adding to their costs. It would actually reduce other departments' costs. And HMRC have already shown keen interest.

We've also had support from Ministers and the Opposition. Phil Woolas said it was *"a significant proposal for addressing fuel poverty and water affordability"*. More recently Alan Duncan said something very similar *"a significant weapon for attacking the growing pain of fuel poverty"*

The second area is getting help from the DWP to identify those customers who would benefit from the WaterSure tariff - or even from moving to Water Direct payments.

There is a read across here to the Fuel Poverty Action Programme – Theme 1 and the sharing of pensioner data with the energy companies. We understand there's a need to demonstrate a positive benefit for the customer and we're discussing this with Government and with Ofgem.

Moving onto Debt – what is the industry taking forward?

[S12]

Because of the limited measures available to the industry we have to consider (outside of the Court Service) Water Direct as a key measure to recover water

payments. But it is very limited in the range of eligible benefits and it's requirement that customers have to already be in debt.

We are lobbying DWP for improvements to the scheme – to make it more widely applicable and not to be just a 'scheme of last resort'

Many companies are also becoming more proactive in their approach and their contacts with local DWP offices. So the numbers of customer on Water Direct has increased to around 155,000. DWP also seem to be responding with more regional and coordinated responses to companies. However the basis of the scheme hasn't changed.

Something new is the sharing of defaulters' data.

Unlike almost all other services - water companies do not have a contract with their customer - but a statutory duty to supply. There is therefore no pre-contract credit check like you get for a mobile phone or Sky TV contract.

We've been in discussions with Equifax and the Information Commissioners Office and there are ways water companies can share 'black data' or defaulters' information with the credit databases such as "Insight".

This does not require the customer's consent - when that customer has broken the 'implied' contract by not paying – provided they've received written warnings that their data may be shared.

Companies aren't doing this yet but two plan to start pilots next year.

We believe this will provide an additional incentive for some customers who can pay - to pay.

It will also provide valuable information to the company on whether the customer has the ability to pay or not – from their credit history and status. This will help companies tailor their debt recovery actions to the customer's specific circumstances. There are likely to be other benefits too – but the pilot will need to demonstrate these.

I've included text billing and text payments. There's some innovative work going on now by the technology providers working with VocaLink (operator of the ATM switch), the banks and the phone operators.

Most people, even those on low incomes, have a mobile phone, even if they don't have a phone at home. Text messaging can therefore reach a wide customer base. Text billing can be an additional way of communicating a monthly, or even weekly, bill payment to some customers. This coupled with a secure way of paying from a mobile phone could be another way to help those that have trouble budgeting or remembering to pay.

Finally we're carrying out further research around debt and sharing good practice. The latest project, just about to start, will help us understand the differences in companies' debt recovery performance related to the levels of deprivation in their regions.

I'd now like to pick up where we need help tackling the increasing levels of water debt.

[S13]

I mentioned earlier the forthcoming Floods and Water Bill and how we wanted to see changes to the legislation around responsibility for water charges. Current legislation allows companies to levy charges on 'occupiers' but doesn't define the term.

Companies' customer bases are changing and without a clear definition, companies are having increasing difficulties in imposing charges in many situations. Typical examples are homes in multiple occupation, void properties and mixed use premises.

In addition we know from Equifax research that debt from tenants (around 34% of the customer base) accounts for around 44% of total household debt. Leavers also account for around 23% of debt.

To help address this we're putting forward 4 proposals for the Floods & Water Bill and to the Walker Review. These proposals reflect the more sophisticated local authority legislation for the recovery of Council Tax – adopting the hierarchy of the 'liable person'.

The first proposal is therefore to adopt the "liable person" approach of Council tax legislation.

[S14]

The second proposal is a requirement for residents, owners or managing agents to supply information to the water company to identify the "liable person" for the property.

The seven categories of liable person – from Council Tax legislation - are listed here. The last and residual category is that of owner, and that category would not be reached if another person was resident in the property as a lessee or licensee.

[S15]

The third proposal is to require the owners of specific classes of properties to be liable for water charges. For Council Tax, such properties are set out in Regulations, and cover residential care homes, houses in multiple occupation, religious communities and asylum seekers' accommodation.

The fourth and final proposal is to permit sharing of information between utilities and public bodies on the "liable person" and their past or present address. This

would help trace those 'leaver' debtors that currently account for around 23% of total debt. We understand Local Authorities would also value such powers.

[S16]

Other areas where we need help are with Water Direct. The slide sets out the three key areas where we believe the scheme can be improved. And we're not alone in wanting these changes. There's wide support from consumer advocates for improvements.

We also believe that the scheme could be more proactively targeted. I mentioned this earlier in connection with data sharing and the read across from the Fuel Poverty Action Programme.

So in conclusion:

[S17]

Water debt is increasing – despite more efficient and innovative approaches by companies - and is likely to continue to increase in the current economic climate.

Water affordability is a growing issue.

There are solutions - or at least measures - that would help. But there needs to be a range of options tailored to customer's individual circumstances.

Water UK and the industry are working on a range of measures, especially to help those customers that are willing, but are unable to pay.

However - we do also need help from Government to tackle those other customers that are unwilling, but are able to pay.

Thank you.

S11 - Note:

WaterSure' - Vulnerable Groups tariff – available for customers in receipt of CT Benefit, Housing Benefit, Income Support,
Plus Either - 3 or more children under 19 and in F/T education in property
Or – qualifying medical conditions

S12 - Note

Qualifying benefits are:

- Income Based Jobseeker's Allowance
- Income Support
- Pension Credit