



**Independent Walker Review of Charging and Metering for Water and Sewerage services**

Water UK response

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## **1. Introduction**

These comments are made by Water UK to represent the views of its members. These are the statutory water supply companies in the UK that, together, supply more than 25 million customers with water and waste water services.

Water UK members' views on the Walker recommendations and interim findings differ in some respects and many water companies will respond individually to the Walker Review (WR) consultation. However, the industry is of a common view in a number of key areas, on which this response focuses.

We think that a response to the WR interim report should cover the following issues:

- fairness and affordability
- charging system and metering
- tariffs
- water efficiency
- debt
- sewerage

In particular, it is important to highlight the fact that affordability is fundamentally different from the issue of debt. Some people who have serious affordability problems still manage to pay their bills while others who do not have such problems still incur debt with water companies. Affordability is better dealt with as part of a discussion on fairness.

Our comments, based on the broad consensus mentioned above, highlight three of the WR recommendations we support and three concerns we have on the overall thrust of the report. We then make a few high-level comments on the specific issues noted above. This general section is then followed by comments on the specific recommendations and questions included in each of the Interim Report chapters.

### **Three particular recommendations we support**

#### *i. The costs for which water customers pay*

We think that the WR is right to ask whether water customers should pay for all the activities that are now included in their bills or could be

included if legislation or regulation changed. Assessing what the water charging system should pay for is indeed a correct first step for the Review.

We therefore think that the interim report is right to refer to the polluter pays principle. This is an important concept, enshrined in the Water Framework Directive, which provides an overarching framework for Government activities in connection with the water environment.

It is important that the WR should emphasize the importance of the polluter pays principle at a time when the Government is considering whether to approve River Basin Management Plans (RBMPs). A number of stakeholders (including Water UK and the RSPB) are calling for them to be modified so that water industry customers do not bear the brunt of RBMP costs but polluting sectors take greater responsibility for their actions and impacts on the water environment. [The polluter pays principle also informs our comments below on sewerage.]

While the industry supports the WR emphasis on the polluter pays principle, we do not support the WR proposal of a national fund for environmental improvements. On practical grounds, such a fund would be too complex to administer without large bureaucracy costs. On principle, the areas where water pollution occurs and where the benefits of reducing such pollution are felt should be the areas responsible for paying for action that reduces or eliminates such pollution. If an area is of national interest, we believe that visitors to this area, as well as local inhabitants, should be responsible for paying to avoid or reduce local pollution.

While we do not think that there should be a national environmental fund (or equivalent), we think that the proposal that water poverty should be dealt with national taxation is, in principle, correct. We think that the proposal of a water benefit, which varies between water company areas with the size of the average water bill in each area, should be strongly supported.

We fear, as the WR accepts, that such a benefit is unlikely to be implemented by Government, even if it is justifiable by the same arguments that apply to housing benefits. Without access to a water supply, no property is legally habitable by anyone.

*ii. Regional pricing*

We strongly support the WR recommendation that each water company should be able to set charges that reflect its own costs. In other words, we think that the WR is right to insist that charges can differ markedly from one water company area to another and regional pricing should continue. Such differences, which are unique to the water industry, correctly reflect the fact that water and waste water services are strongly dependent on the area's geography, physical and human, as well as its history and customer base.

We think that the continuation of regional pricing is an important Walker recommendation in a context in which the determination at local level of tariffs and tariff policies could be eroded by more centralised decision-making. In the case of water, and within parameters set by Parliament, regional pricing should be maintained because it gives water customers the best outcome.

*iii. Geographic averaging*

We also strongly support the WR recommendation that, within a water company area, prices should continue to be averaged and be identical for all household customers in similar circumstances, even where the cost of supplying such customers can be shown to differ (geographical averaging). We also think that the WR is right to draw attention to the fact that competition for business customers, if it is not introduced correctly, could have some undesirable and, perhaps, unintended consequences for the charging arrangements which apply to domestic customers. We think it important that competition in business markets should not be introduced in such a way as to introduce pressures for the geographical de-averaging of household charges.

**Three Main Concerns**

- i. We are concerned that the WR, after proposing a 'first-best' or 'ideal' solution' to a particular issue, retreats too soon towards practical but second-best solutions. We think it should spend longer exploring 'first-best' solutions and identify the obstacles that, then, cause it to move to second-best ones. Our members have different views on the value of 'second-best' solutions to the affordability problem, but there

are areas where we agree that the WR settles for second-best solutions unduly.

These include the implementation of the polluter pays principle (see above) and highway drainage (see below). These issues may not be revisited again for some time and Walker must put more emphasis on the right answers.

- ii. The WR analysis in a number of areas very much depends on the notion of 'true value of water' but it is very vague about how it could be assessed. It is also very vague on whether customers would see higher bills as a result and how that would be avoided, particularly for the customers with affordability problems. There is a number of fundamental issues of principle and implementation with the notion of 'true value of water' and we think that the WR should not rely on it without a much more thorough discussion.
- iii. The WR asserts that improved water efficiency by low-income customers could, by-and-large, solve the affordability problem. The idea seems to be that low-income water customers could save so much money on their current bill that affordability would cease to be a problem. We think that this is a mistake and is unjustified. Low-income customers are often those who indulge least in discretionary uses of water (like gardening), which is the form of water use that water efficiency measures are trying to limit. Moreover, if the 'true value of water' is to be used to create incentives towards water efficiency, we cannot see how this could help reduce the affordability problem as it is more likely to exacerbate it.

## **2. Issues of central importance**

### **Fairness and affordability**

We support the eight principles of fairness identified by the WR. Our members differ on the extent to which the fourth principle (on affordability) requires trade-offs with the others, or should take precedence, or should be a concern for Government and not for water companies.

Addressing affordability cannot be limited to high cost areas

We agree with the general principle that the water charging system, in any case, should not be concerned with general poverty. However, we fundamentally disagree with the conclusion the WR draws from this principle, namely that the water charging system, on a pragmatic basis, should address affordability only in areas of above-average water bills and, in any area, only for customers with an above-average consumption. Affordability is a concern for water companies generally as they all have areas of deprivation where customers with low incomes have genuine affordability problems even where water bills themselves are low.

We therefore think that the WR recommendations on affordability – including that on the role of water efficiency – fundamentally fail to address the issue even on practical grounds, let alone on principle.

To truly address the water affordability issue, Water UK does not believe assistance can be provided only to low-income households in high cost areas. It should be available to all eligible low income households in England and Wales.

#### *Funding help for low income/vulnerable customers*

It is difficult to separate out water affordability from the wider issue of poverty generally. For many customers struggling to pay their household bills, water is likely to be just one smaller debt that they owe. And since water is an essential public service – affirmed by Government when it removed the right to disconnect – there is a logic that Government, i.e. the national taxpayer, should fund the costs of a scheme to help low income / vulnerable customers meet the cost of their water service. Poverty generally is beyond the means or remit of water companies to address.

The alternative, i.e. payment for such benefit from the national water customer would require national cross-subsidies across company boundaries. Apart from the complexities of a system to handle transfers, there is a real risk that low income customers in one area end up subsidising low income, but potentially better off, customers in another area. The whole concept would also weaken the link between customers in an area and the service that they receive and pay for from their water company.

Cross subsidy within company areas should be acceptable, where there is customer support for this. However cross subsidy across company boundaries is likely to find little favour with customers. Cross subsidy outside company regions is not a funding requirement discussed with customers, or included in company business plans for the current Periodic Review of prices or in the Draft Determinations recently announced by Ofwat.

#### *Water Direct*

We are surprised that the report gives little mention to the third party deduction scheme Water Direct, and gives little emphasis to it in the emerging recommendations. This scheme already provides help to the most vulnerable and could easily be extended to provide greater support.

Water Direct is currently used by nearly 175,000 customers. There is however real potential for it to play a much greater role in helping customers to help themselves in these challenging times.

It is interesting to note recent comments from Ofgem<sup>1</sup> on the equivalent scheme for energy charges – Fuel Direct:  
“Fuel Direct can provide an excellent tool for low income customers, facilitating manageable debt repayment and budgeting for ongoing consumption. We will continue to highlight the importance of Fuel Direct as a payment method with suppliers and DWP”.

We discuss the application and the benefit provided to customers by Water Direct further in our responses to Chapter 9 – Prevention, management and recovery of bad debt.

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<sup>1</sup> Ofgem report 109/09 Domestic suppliers’ social obligations: 2008 Annual Report (published 28 August 2009)

### *WaterSure cap*

Setting the WaterSure tariff cap at the national average bill rather than the individual companies' average bill would benefit those customers in higher bill areas, but other vulnerable or low income customers in lower bill areas would no longer be eligible.

Water UK therefore supports a revision of the WaterSure tariff but with the cap set at the lower of either the company's average bill or the national average bill.

### *Guidance on social tariffs*

Neither companies nor the regulator, Ofwat, should be the decision maker on social policy. Guidance on the development and application of social tariffs should be given by Ministers – if Government it is not willing to provide support to low income or vulnerable customers through the tax credits and benefits system

### *Data sharing*

Without companies knowing which customers are receiving specific benefits, and therefore may need help with water charges, it is difficult for companies to be more proactive. Sharing of data from DWP or local authorities would allow companies to identify their vulnerable and/or low income customers and hence help those customers.

In the past companies have found that some local authorities will not share data even when a customer could benefit through moving to WaterSure or Water Direct, citing Data Protection requirements. The issue of data protection and its application to the water industry needs therefore to be clarified and reviewed in this context so that more vulnerable and low income people can be helped with their water bills, not just their energy bills.

## **Charging and metering**

Concerning metering, we support the WR recommendation that the overall direction of travel for charging should be toward universal metering but that each company should be able to increase meter penetration at its own speed. Metering has costs as well as benefits. The net benefit of metering (or its net cost) can be maximised (minimised) if companies are free to choose the rate and method by which meter

penetration is increased. Companies are best judge of the most efficient metering programme and its acceptability by their customers.

We would like the WR to insist more on the need for co-operation between regulators on metering and water efficiency. With the Water Resource Management Plans (WRMPs) now on a statutory basis, it is important that Ofwat should allow companies to obtain the revenue from their customers which is required to finance agreed metering programmes. It is also important that other regulators do not cause companies to engage in inefficient metering or water efficiency programmes. In this respect, we are concerned that, apparently, Ofwat's draft price determinations are inconsistent with companies' approved WRMPs.

We disagree with the WR and do not think that there should be metering targets or water efficiency programmes (see below) focussed on low-income customers. Some companies may choose to have programmes targeted at such customers but others may find that such focus causes them to behave inefficiently and incur unnecessary costs. The reason is that low-income customers may be least able or willing to respond to the incentives created by metering (particularly if they are on the WaterSure scheme); they may hardly reduce their water consumption in response to metering and, therefore, there may be little water efficiency benefit to balance the costs incurred in targeting them. The WR should recommend that each water company be free to choose how to implement their metering programmes and water efficiency activities.

## **Tariffs**

Proposals on tariffs in part depend on the notion of 'true value of water' but we do not agree that the WR has sufficiently discussed the concept of 'true value of water' and has defined it enough to be able to recommend its use in any context. The WR, moreover, is also very vague on whether customers would see higher bills as a result and how that would be avoided, particularly for the customers with affordability problems. There is a number of fundamental issues of principle and implementation with the notion of 'true value of water' and we think that the WR should not rely on it without a much more thorough discussion. We would be happy to be engaged in and contribute to this work.

## **Water efficiency**

We very much support the WR's general approach that the imperative need for increased water efficiency – arising from climate change and the pressures of an increased population with increased expectations – should be one of the drivers of a review on water charging. We also support a number of related recommendations, such as the need to make housing more water efficient and to link activities on water efficiency with others focussed on energy efficiency and carbon reduction.

We think that the WR's proposal for a national education campaign is very important. Education on water efficiency and on protecting the environment generally is a national issue and it is illogical for individual water companies to develop separate strategies and educational materials. We need consistent messages from concerted activity by all parties through a range of channels and would welcome a national education strategy along with national advertising of the key messages.

Concerning the role of Ofwat in supporting water efficiency activities, we believe that water customers should not pay for inefficient water efficiency activity on the part of water companies and Ofwat is right, in principle, to apply efficiency criteria to water efficiency activity.

For this reason, we do not agree with the WR's recommendation that there should be a minimum percentage of water efficiency targets and activity directed at households (as opposed to business customers) and at low-income households in particular. In principle, water efficiency expenditure and activity should be targeted in a most cost-effective way since, otherwise, all customers lose eventually (see also our comments below on affordability and water efficiency). However, Ofwat's regulation should allow more than one objective for water efficiency activities if convincingly argued by an individual water company.

We think that Ofwat's sustainability duty includes a duty to take account of climate change. However, we are concerned about a disconnect between the various regulators in the industry which, too often, results in Ofwat not providing customer funding for investment (climate change, metering, environment protection...) which other industry regulators deem necessary. The WR should recommend that Government guidance to Ofwat provide that Ofwat does not rule out climate change investment, in principle, on basis of lack of up-to-date information (as it did with climate projections in PR09) or lack of synergy with regulated business (as it has done with renewable energy).

The WR should also recommend that other regulators do not encourage companies to engage in inefficient metering or water efficiency activity. For instance, with the Water Resource Management Plans (WRMPs) now on a statutory basis, the metering programmes they contain should be agreed by all relevant regulators before they are made binding. In this way, the activities contained in the WRMPs can receive funding from Ofwat because Ofwat agrees that they are a good use of customer funds.

There is one aspect of the WR's thinking with which we strongly disagree. The WR asserts that improved water efficiency by low-income customers could, by-and-large, solve the affordability problem. The idea seems to be that low-income water customers could save so much money on their current bill that affordability would cease to be a problem. We think that this is a mistake and is unjustified. Low-income customers are often those who indulge least in discretionary uses of water (like gardening), which is the form of water use that water efficiency measures are most trying to limit. Moreover, if the 'true value of water' is to be used to create incentives towards water efficiency, we cannot see how this could help reduce the affordability problem as it is more likely to exacerbate it.

## **Debt**

### *Liability for charges and provision of information*

The industry is very pleased that the WR recognizes that domestic customer debt is a very serious issue for the industry and that legislative changes are needed to enable water companies to recover money owed them and reduce the debt burden on paying customers (estimated at £11 per annum on every customer's bill).

We also agree that the much higher level of outstanding revenue in the water industry than in the energy sector is striking, particularly given that water bills are typically significantly lower. This pattern is continuing to get worse – while the overall amount of debt owed by domestic energy customers has remained broadly stable this year<sup>2</sup>, preliminary figures from Ofwat show a year on year increase of over 12% in the amount of water debt that has been outstanding for more than three months.

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<sup>2</sup> Ofgem press release R/32 "Fall in domestic energy disconnections"

We support the WR recommendation that legislation be changed to clarify and modify the definition of a 'liable person' for water charges along the lines of that used in Council Tax legislation, including making property owners liable for water charges for houses in multiple occupation, and to ensure that information on who is liable for charges is provided to water companies.

In view of the size of the problem, and the fact that 44% of debt comes from the rented sector, we believe that the WR recommendation could be extended to allow the recovery of water charges from property owners in other circumstances. In particular, it is important to ensure that there are appropriate incentives on both those who are liable for water charges, and those who are responsible for providing information to water companies on who is liable, so that the proposals have the desired impact in practice.

We are in the process of developing detailed proposals on how these incentives could be introduced into the recommendations in the Interim Report, and we will share these proposals with the Review team and other stakeholders shortly.

We recognise that a new requirement to provide information, and the other changes proposed in the Interim Report, would require a communication programme to ensure that all parties were fully aware of their responsibilities. Water UK would be happy to work with the Review team, landlord representatives and other stakeholders to develop this communication programme.

#### *Water Direct*

Water UK and companies are surprised that the report gives little mention to the third party deduction scheme Water Direct, and gives little emphasis to it in the emerging recommendations. This already provides help to the most vulnerable and could easily be extended to provide greater support. As we have previously discussed with the review team, it is currently used by many more customers than the 78,000 quoted in the report, and we are surprised that the positive current impact of Water Direct – and the potential for it to play a much greater role in helping customers to help themselves in these challenging times - appears to be being downplayed. The latest figures we have, from earlier this summer, are that nearly 175,000 customers are using Water Direct.

Research for UKWIR in 2007 showed very high support from customers for the scheme, with for example:

- 91% of respondents found the scheme useful as a way of managing their household finance
- 82% stated that they were able to manage their household finances better or much better as a result of being on the scheme.
- 88% indicated that the scheme was useful/very useful in helping them to clear the debt arrears owed to their water company,

Customers can request the scheme but only when already in arrears. However it is not well promoted by DWP or Job Centre Plus so many customer receiving benefits are unaware of it.

Most companies are proactive in recommending customers on eligible benefits and in arrears to participate in the scheme. However companies are limited in how proactive they can be as they have no way of knowing whether customers are on eligible benefits unless customers volunteer this information.

CCWater, Water UK, the Chartered Institute of Environmental Health and the Disability Alliance have recently written to the Rt Hon Yvette Cooper MP, Secretary of State for Works and Pensions, recommending the Water Direct scheme could be modified to provide flexibility for people to take control over their own finances, in accordance with Government's wider financial inclusion agenda, by opting to participate in the scheme, whether or not they have an existing debt. This would remove the anomaly which currently exists for customers that requires them to get into debt so they can become eligible for the scheme.

We would also like to note that the energy sector equivalent, Fuel Direct has recently been praised by Ofgem<sup>3</sup>:

*“Fuel Direct can provide an excellent tool for low income customers, facilitating manageable debt repayment and budgeting for ongoing consumption. We will continue to highlight the importance of Fuel Direct as a payment method with suppliers and DWP”*

Without changes to the way in which Water Direct is operated, we fear that the recommendation that companies should pursue the option of

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<sup>3</sup> See Ofgem report 109/09, Domestic suppliers' social obligations: 2008 Annual Report, 28 August 2009

Water Direct more pro-actively will have little effect, as there is little more that companies can do without changes to the scheme and the way in which it is operated.

We have attached a briefing note on Water Direct at Appendix A.

### *Incentives for customers to pay*

The Walker Review highlights the need to address the problem of “won’t pay” customers, and suggests that trickle-valves (or more accurately, reduced-flow valves) to reduce supply might provide a suitable incentive for these customers to pay. We believe that further research and piloting should be carried out to investigate this option, and we agree that such a measure should only be used after rigorous independent safeguard conditions have been met. We note that the House of Lords Science and Technology Committee published a report in June 2006 on “Water Management”, which included (par 3.84) a recommendation that Government examine the evidence from Australia (Melbourne) on reduced-flow valves “with a view to introducing more effective strategies for reducing the number of people who can afford to pay their water bills but refuse to do so.”

Reduced-flow valves, also, could be used in combination with pre-payment meters to encourage payment. The recent experience of water companies is that, without a direct incentive to pay such as a reduced-flow valve, pre-payment meters are an ineffective and costly payment mechanism for water bills.

## **Sewerage**

We think that the WR should be more clear in what it recommends for highway drainage:

- Looking forward, it is important that highway authorities do not use water companies’ sewers for highway drainage. The WR recommendation should be simple and clear-cut – there should be no more connection – with a timetable for implementing this prohibition
- Looking backward, there are large amounts of combined sewers where foul water, surface water and highway drainage are mixed. It would be an expensive programme to rebuild this network of

combined sewers. Separation of pipes should take place only where it is cost-efficient.

This can be determined by charging highway authorities for highway drainage. This will create the correct incentive for highway authorities to determine when to replace connections to existing combined sewers with their own infrastructure.

We support the WR recommendation that the charging basis for waste water services should continue to be the same as that for water services.

We do not believe that it is possible to develop a charging basis for surface water from domestic properties that creates incentives to reduce the amount of surface water drained to sewers beyond the existing rebate arrangement which some companies have. Anything else would be administratively too complex and expensive.

## **Chapter 1: The big issues**

We very much agree with the WR's emphasis on the upward pressures that are likely to continue to apply to water charges, whether they result from more stringent environmental standards or from the impact of climate change and population changes.

At the same time, we also think that the WR is right to ask whether water customers should pay for all the activities that are now included in their bills or could be included if legislation or regulation changed. Assessing what the water charging system should pay for is indeed a correct first step for the Review.

We therefore support the emphasis that the interim report puts on the polluter pays principle. This is an important concept, enshrined in the Water Framework Directive, which provides an overarching framework for Government activities in connection with the water environment.

It is particularly important that the WR should emphasize the importance of the polluter pays principle at a time when the Government is considering whether to approve River Basin Management Plans (RBMPs). A number of stakeholders (including Water UK and the RSPB) are calling for them to be modified so that water industry customers do not bear the brunt of RBMP costs but polluting sectors take greater responsibility for their actions and impacts on the water environment. [The polluter pays principle also informs our comments below on sewerage.]

With its concern on upward pressures on bills, its recognition of the impact of climate change and other environmental factors and its emphasis on the pollute pays principle, we think that the WR has set a most effective and appropriate framework for its work. And we very much value its thoughtful discussions of a number of issues. However, we are concerned that the WR, after identifying, correctly in our view, a 'first-best' or 'ideal' solution' to a particular issue, retreats too soon towards second-best solutions on the ground that they may be more practical. We think the WR should spend longer exploring 'first-best' solutions and identifying the obstacles that, if not surmounted, might justify its move to second-best ones. Our members have different views on the value of 'second-best' solutions to the affordability problem, but there are areas where we agree that the WR settles for second-best solutions unduly. These include the implementation of the polluter pays principle (see above) and highway drainage (see below). These issues

may not be visited again for some time and the WR must put more emphasis on the right answers.

### **Water UK response to questions and recommendations**

- 1. The true value of water should be used for decision making in the regulatory system. The Environment Agency and Ofwat should continue to work on a methodology for valuing water so that this can be taken into account in future investment and operational decisions as quickly as possible;*

The WR analysis in a number of areas very much depends on the notion of ‘true value of water’ but it is very vague about what it is and how it could be assessed. It is also very vague on whether customers would see higher bills as a result and how that would be avoided, particularly for customers with affordability problems. We are concerned that the WR does not appear to acknowledge the fact that the true value of water is likely to differ not only between parts of the country but also between different parts of the year and day, and between different years according to climactic conditions. There is a number of fundamental issues of principle and implementation with the notion of ‘true value of water’ and we think that the WR should not rely on it without a much more thorough discussion.

In particular, its recommendation that the true value of water be used in decision-making implies that the use of such notion could lead to different decisions from that taken on the basis of the current valuation of water. Such decision will be more expensive for customers, at least for the time being. The WR should discuss the implications of causing customer bills to rise as a result of its recommendation that the true value of water be used in decision-making.

It should also be noted that Water Resources Management Plans already include environmental and social costs wherever they can be quantified in economic assessment of options. Companies also carry out strategic environmental assessments to undertake a qualitative appraisal of wider environmental issues for which the costs cannot be quantified, and thereby include these in WRMP decisions.

- 2. The Environment Agency should be asked to revise its water stress map for England and Wales on the basis of catchment areas or water resource zones, to fully reflect water resource pressures (both water availability and ecological) and the latest (2009)*

*climate change projections. These revised maps should be used to identify where compulsory metering may be justified (see Chapter 5).*

We believe that the EA water stress maps should be revised in their fundamental conception. They are currently based on rainfall and population – ignoring, for instance, aquifers under more than one region and water flowing in or out of a region. Such an approach is insufficient to be of use in water resource planning. Water stress is actually over-proportionate abstraction compared to available supply in a particular area.

However, trying to add more complexity by applying the concept to individual water resource zones or adding climate change predictions cannot provide a sound basis for new water stress maps. This is because there is no sound basis for applying the current approach to water resource zones. Moreover, we have consistently said that water stress maps should not be used to dictate metering policy or water resource planning – the Water Resource Management Plans already provide an adequate planning framework.

## **Chapter 2: Current system of charging**

### **Water UK response to questions and recommendations**

- 1. Ofwat should explore the variation in the composition of the sewerage bills between companies in England and Wales to see if it is justified. The review team would like to understand better the rationale for these differences in the composition of sewerage bills across England and Wales. We would welcome evidence on what might explain the differences (for example, household water consumption, population density, and amount of rainfall). We believe that Ofwat should explore this variation to see if it is justified;*

We agree that variations in the composition of waste water bills may be unsatisfactory unless there are explanations, such as the relative importance of highway drainage in a water company's area. We are not sure of the extent to which such variations merely reflect differences in company methodologies and Ofwat's own analysis of company data. We agree that the matter should be reviewed collaboratively between Ofwat and water companies, perhaps in the context of developing a sound cost

allocation methodology to distinguish highway drainage costs from other costs (see below).

2. *In addition, as the infrastructure used by the three sewerage services is largely shared, the review team would welcome views on the basis on which costs can be allocated fairly between the three services;*

We believe a methodology to costs between the three sewerage services should be developed collaboratively between Ofwat and water companies.

3. *The review team would welcome further information on what type of customer remains unmetered and why.*

To our knowledge, there is no national socio-economic analysis of unmetered customers. However, analyses by water companies indicate that unmetered customers are mainly in poorer socio-economic groups and live in low RV properties. Possible other reasons, beside customer apathy, include that some customers do not trust metering in principle and cannot be metered in practice. Also, some companies believe that powers for companies to meter compulsorily are too vague and unenforceable. Moreover, where local authorities and housing association collect water bills, for efficiency reasons and to reduce the burden of water debt, they do not collect meter water bills but RV-based bills only.

### **Chapter 3: Fairness principles**

While we discuss affordability in Chapter 8, following the WR report structure, we think that affordability is better dealt with as part of the discussion on fairness in this chapter. We feel, on principle, that it is important to highlight the fact that affordability is fundamentally different from the issue of debt. Some people who have serious affordability problems still manage to pay their bills while others who do not have such problems still incur debt with water companies. We would like the WR to distinguish affordability issues from that of debt.

We support the eight principles of fairness identified by the WR. Our members differ on the extent to which the fourth principle (on affordability) requires trade-offs with the others, or should take precedence, or should be a concern for Government and not for water companies.

We agree with the general principle that the water charging system, in any case, should not be concerned with general poverty. However, we fundamentally disagree with the conclusion the WR draws from this principle, namely that the water charging system, on a pragmatic basis, should address affordability only in areas of above-average water bills and, in any area, only for customers with an above-average consumption. Affordability is a concern for water companies generally as they all have areas of deprivation where customers with low incomes have genuine affordability problems even where water bills themselves are low.

We therefore think that the WR recommendations on affordability – including that on the role of water efficiency – fundamentally fail to address the issue even on practical grounds, let alone on principle.

In any case, to the extent that dealing with affordability involves certain customers paying more in order to provide reduced bills to others, we strongly believe this cross-subsidy should take place within a company area. There should be no transfer from customers in one water company to customers in another company.

### **Water UK response to questions and recommendations**

1. *The review team recommends that while the first four principles involve trade-offs that may have to be balanced against each other, the last four principles should apply in all circumstances; that is, charges should be fair to future generations and to companies, clear to customers, and not too expensive to administer;*
2. *The review team recommends that a fair charging system should:*
  - *charge according to the costs imposed upon the system;*
  - *incentivise the efficient use of water by charging by volume;*
  - *embrace the ‘polluter pays’ principle wherever possible;*
  - and*
  - *be affordable where affordability is a problem.*

Our members support the eight principles identified by the WR. Views differ as to the relative importance of the fourth principle on affordability.

3. *Costs should reflect regional differences and that water prices should continue to be regionally based and geographically averaged within regions;*

We support these recommendations very strongly. We think that the WR is right to insist that charges can differ markedly from one water company area to another and regional pricing should continue. Such differences, which are unique to the water industry, correctly reflect the fact that water and waste water services are strongly dependent on the area's geography, physical and human, as well as its history and customer base.

We think that the continuation of regional pricing is an important Walker recommendation in a context in which the determination at local level of tariffs and tariff policies could be eroded by more centralised decision-making. In the case of water, and within parameters set by Parliament, regional pricing should be maintained because it gives water customers the best outcome.

We also strongly support the WR recommendation that, within a water company area, prices should continue to be averaged and be identical for all household customers in similar circumstances, even where the cost of supplying such customers can be shown to differ (geographical averaging).

We also think that the WR is right to draw attention to the fact that competition for business customers, if it is not introduced correctly, could have some undesirable and, perhaps, unintended consequences for the charging arrangements which apply to domestic customers. We think it important that competition in business markets should not be introduced in such a way as to introduce pressures for the geographical de-averaging of household charges.

- 4. The review team is minded to recommend that, in the long term, the net benefits are likely to be limited of moving to national or taxpayer charging for some environmental benefits. However, the review recognises the complexity of the interactions between different fairness principles here and would welcome views on which environmental improvements, if any, should fall to either water customers nationally or the national taxpayer;*

We think that the WR should recommend that Government fully implement the polluter pays principle, particularly in its implementation of the Water Framework Directive and in its assessment of the Water Basin Management Plans subject to the Secretary of State approval. We believe that the costs of dealing with pollution which is genuinely due to water companies' activities and that of their customers should be borne

by the same customers. There should not be a national fund to pay for local pollution and its impact.

- 5. the review team would welcome views on a potential recommendation that in future the UK Government and Assembly Ministers should make clear in all impact assessments associated with new legislation the effect of changes on water customers' bills. All impact assessments should quantify the additional cost on the national average bill and those of each water company area. Formal and informal consultations must make specific efforts to engage water customers in the debate on proposed improvements and take the views of customers who will pay. Additions to bills must be taken into account in final decisions.*

We think that an assessment of the impact of new legislation on water customer bills should already be part of any relevant impact assessment. We like the proposal that customers should be consulted more than now. We note that the Water Framework Directive already provides that the process of developing River Basin Management Plans should engage customers and it would be useful if the WR could assess this engagement and comment on whether it was appropriate for its purpose.

## **Chapter 4: Future charging system**

We support the WR recommendation that the overall direction of travel for charging should be toward universal metering but that each company should be able to increase meter penetration at its own speed. Metering has costs as well as benefits. The net benefit of metering (or its net cost) can be maximised (minimised) if companies are free to choose the rate and method by which meter penetration is increased. Companies are best judge of the most efficient metering programme and its acceptability by their customers.

### **Water UK response to questions and recommendations**

- 1. An alternative basis for charging must be found in the near future, as the system is so outdated;*

See comment under item 4 below.

- 2. Neither council tax nor rateable value identifies those who need help with bills sufficiently accurately; nor does it incentivise the*

*efficient use of water. Therefore, neither should form the long-term basis for charging for water;*

See comment under item 4 below.

3. *There is a close relationship between occupancy and water use, but occupancy rates are not collected nationally and could be open to deception. Therefore, the review team does not recommend it as the basis for a national charging system. Number of bedrooms would be a poor proxy for water use and is also not recommended for a national charging system. We have also considered property type and a possible flat rate per household as basis for charging. However, neither incentivise the efficient use of water nor do they reflect income;*

See comment under item 4 below.

4. *The basis of water charges should continue to move away from the current mix of rateable value and volume consumed (the current system) towards volume consumed. The speed at which this is achieved depends on the costs of metering and finding solutions to the issues of affordability. Measures outside the main charging system will be needed to address the difficulties low-income households may face in paying their bills.*

We support the four conclusions above and agree that the long term charging basis for the water industry has to be the amount of water consumed although some of our members note that this does not preclude the simultaneous use of other charge bases that might help achieve an appropriate balance between the fairness principles identified by the WR.

We believe that the speed and the methods by which water companies increase meter penetration must be left to water companies within parameters set by Parliament. Water companies are best able to assess the costs and benefits of moving from one charging basis to metering, as well as its acceptability to its customers.

## Chapter 5: Metering

### Water UK response to questions and recommendations

- 1. Until the abstraction regime reflects the true value of water, this value should be built explicitly into investment and operational decisions.*

While the WR's analysis in a number of areas very much depends on the notion of 'true value of water', we do not agree that it has sufficiently discussed the concept of 'true value of water' and has defined it enough to be able to recommend its use in any context. The WR, moreover, is also very vague on whether customers would see higher bills as a result and how that would be avoided, particularly for the customers with affordability problems. There is a number of fundamental issues of principle and implementation with the notion of 'true value of water' and we think that the WR should not rely on it without a much more thorough discussion. We would be happy to be engaged in contribute to this work. See also our comments under Chapter 10.

- 2. The process of bringing the true value of water into decision making will need to be driven by the regulatory framework. Both Ofwat and the EA have a central role to play in identifying the right values for environmental and social benefits, and in making sure that these are incorporated into the water companies' decision-making processes. Both the EA and Ofwat should concentrate on establishing the true value of water in those areas already identified by the EA as being or coming under resource pressure. Establishing a true value for water should become a requirement on both regulators, so they accomplish this quickly.*

See item 1 above and our comments under Chapter 10.

- 3. Companies have quoted a wide range of meter installation costs, raising a question of whether installation costs deserve greater regulatory scrutiny.*

We do not agree that the issue behind the wide range of meter installation costs is lack of regulatory scrutiny. We note that different types of meter installation have genuinely widely differing costs. Reasons for this includes differences in meter location, which ranges from installation at the boundary of a property (with and without an existing box) to internal

installation, and differences in installation programmes – whether meters are installed at widely-dispersed points, for instance under a ‘change-of-occupier’ policy, or sequentially in a street subject to compulsory metering. Therefore, we believe that differences in average installation costs reflect different mixes of installation types as well as a lack of regulatory clarity on how installation costs should be assessed. Collaboration between Ofwat and water companies should ensure that water companies’ meter installation costs are better defined and, hence, more comparable.

4. *Where optant metering is the driving force behind the increase in metering penetration, it may be appropriate for companies to be under an obligation to ensure that low-income customers are supplied on the lowest possible tariff.*

Water companies try and ensure that low-income customers understand and take up the most advantageous tariffs. However, we do not agree that this could be an obligation for them as they do not have access to information that would enable them to identify low-income customers. Many commentators doubt whether water companies should have, or seek, this information at all.

5. *The right to opt for a meter should continue to be offered to all customers.*

We agree that the right to opt for a meter should continue to be offered to all customers. However, we note that this recommendation is not consistent with that there should be compulsory metering in some circumstances. And we note that some of our members would not wish to engage in compulsory metering.

6. *Water companies must ensure that their low-income customers who are low users and would benefit from being metered are identified and encouraged to apply for a meter.*

See our response under item 4.

7. *Compulsory metering should be introduced:*
  - *for high discretionary water users;*
  - *where the true value of water is high; and*
  - *where levels of metering are already high and running two charging systems is inefficient.*

*The review team invites views on what the level should be.*

We do not agree that there should be compulsory metering except where Parliament has provided for it and a water company believes it is the appropriate way forward. No water company should be forced to introduce compulsory metering.

8. *The review team concludes that it is both fair and advantageous to compulsory meter properties which have high discretionary use. It also believes that the current Regulations are too limited, and that the current Regulations need to be extended to cover other circumstances of high discretionary use. In particular, we would like to explore further whether the powers to compulsory meter households should be extended to all properties with an outside tap.*

We agree that current Regulations are not helpful, do not give water companies who want to use them the powers that the WR considers they should have, and create too much uncertainty. We would be happy to work with the WR and Defra to identify better Regulations.

As most properties except flats have an outside tap, we believe that metering all properties with outside tap is akin to compulsory metering. We do not support this recommendation.

9. *Now that the government has committed to roll out smart energy metering to all households by 2020, the incremental cost of adding water meters to the smart energy communications system needs further examination. Ofwat and the water companies need to take action now to assess the costs and benefits.*

We agree. However, we understand that energy companies are not sure themselves of their costs in this regard.

10. *In support of Ofwat's leadership on metering issues, we recommend that Ofwat sets up a smart meter group, including the Environment Agency and water companies, to determine the costs and benefits of smart meters to inform any decisions on approach and potential roll-out of smart meters. This group should also direct the data strategy and analysis for smart meter trials and exploit any potential synergies.*

We do not believe that leading on metering is consistent with Ofwat's duties to customers and companies, including that with regard to

sustainability. Metering is not justified in a blanket way and, in furtherance of its duties, Ofwat cannot promote metering in an uncritical way. Promotion of metering should be a task for Government to the extent that universal metering is its policy. Meanwhile, Ofwat should ensure that this is done in a way that protects customers' interests.

We would like the WR to insist more on the need for co-operation between regulators on metering and water efficiency. With the Water Resource Management Plans (WRMPs) now on a statutory basis, it is important that Ofwat should allow companies to obtain the revenue from their customers which is required to finance agreed metering programmes. It is also important that other regulators do not cause companies to engage in inefficient metering or water efficiency programmes, or in programmes that Ofwat would not agree should be paid for by customers. In this respect, we are concerned that, apparently, Ofwat's draft price determinations are inconsistent with companies' approved WRMPs.

*11. When designing metering programmes that use dumb meters, water companies should consider how to minimise the costs of any potential future transition to smart metering.*

If water companies anticipate a possible move to a form of smart metering later, they are likely to incur more costs now. The WR should acknowledge its recommendation could increase costs now and discuss when such an increased cost is justified.

*12. The detailed design of assessed tariffs is for Ofwat and the companies, but we recommend that they select charging bases that provide as good a proxy for use as possible without being open to deception by unscrupulous householders.*

We agree that assessed tariffs are needed since universal metering is not likely in the near future; we agree with the proposed criteria for assessed tariffs.

*13. Strong leadership in achieving the transition to metering will be needed. The UK Government and Assembly Ministers should set out their policies on metering and make any necessary changes to the regulatory framework; and the regulatory agencies should work together to achieve the desired outcome efficiently.*

See our response under item 10.

*14. We recommend that Ofwat is asked to lead the delivery of metering in a proactive way, publishing a report on progress every one or two years.*

We disagree. See our response under item 10.

*15. At the moment meters can be installed in three locations: the property boundary, on the external wall of a building, and internally. Some 80 per cent of metered properties have their meters located externally, but we do not know what proportion has been fitted at the boundary. We would welcome information on the proportion of meters that are located at the boundary;*

Water companies do not usually collect this information.

*16. We would welcome information on the cost of leak repair in a form that allows us to include it in the cost–benefit analysis;*

For companies to respond individually.

*17. We would welcome comments on the cost–benefit analysis, on our assumptions, the evidence we have used and on the merits of our recommendations. Further details are set out in Annex E;*

No comment

*18. The presence of an outside tap enables households to have high external, discretionary use and we suspect that the tap is a good indicator of this behaviour. If this is the case, then there is a case for extending the Regulations to cover outside taps. We would welcome evidence on the use of outside taps and views on whether the powers in the Prescribed Conditions Regulations should be extended, including to cover properties with outside taps;*

We disagree. See our response under item 8.

*19. The review team believes the trigger for compulsory metering should be when 60 or 70 per cent of households are metered. The review team would welcome views on what the appropriate percentage to trigger a compulsory metering programme for the remaining unmetered properties should be;*

We agree that, for the companies who wish to do, there should be a legal provision allowing them to move to compulsory metering. We would support the WR in asking for a change of legislation to make such a move possible.

However, we do not believe that water companies should be forced to engage in compulsory metering. The moment when this move is justified will depend on water companies' policies, their customers and other circumstances companies should be able to determine themselves.

*20. Given the potential synergies with the roll-out of smart metering technology in the energy sector there is some urgency to this to ensure that the maximum long-term benefits can be achieved for water customers. We would welcome views on whether this could evolve from the current Intelligent Metering Initiative;*

We think that the potential synergies should be further developed and used in a project involving all water companies and their regulators.

*21. In the case of apartment buildings, individual meters should be the preferred option as with all other properties. The multi-occupied building is a type of property where meter installation costs are often relatively high. In this case a single meter could be used to measure consumption by the whole building and the water company could distribute the measured volume across the households in the building when preparing their bills. We would like to hear views on this proposal.*

We believe that the WR should consider putting more effort into researching and discussing the charging principles and arrangements that should apply in blocks of flats and other similar groups of premises. The issue is important because the population pressures which are one of the WR's drivers are likely to lead to higher settlement density (and more blocks of flats); this trend may be re-enforced by population ageing (more sheltered accommodation) and the increased number of single adult households.

Moreover, moves towards community heating – and other services provided in a communal way - will require a charging mechanism appropriate for water that is used for communal purposes, which invalidates any charging model focused exclusively on the principle of charging each flat or unity of habitation independently.

We think it may well make sense to meter a whole block of flat or group of sheltered accommodation unit, and this could become a practice in increasing use. However, in such a case, the entity responsible for paying the water bill associated with the meter should be the collective body of all the flats or living units, which could often be represented by the managing company, or the freeholder. Water companies believe that allocating a bill between flat dwellers is not something that they can do and the allocation of an overall bill is best done locally.

Similarly, even where individual flats can be metered and charged independently, there is still a need to allocate a bill for water used communally, which is also best done locally, not by a water company.

## **Chapter 6: Tariffs**

### **Water UK response to questions and recommendations**

- 1. With metered tariffs a high proportion of the company's revenue should be collected through the volumetric charge, and that the unit price of water should be no less than the true value of water.*

See item 1 in Chapter 5 above and our comments under Chapter 10. We do not believe that the true value of water has been usefully discussed and defined and can be used in any policy context at the moment.

- 2. Ofwat should review the division between volumetric and standing charges in metered tariffs and continue to evaluate the advantages (and disadvantages) to customers of varying the relationship between the standing charge and the volumetric charge.*

We wonder how consistent this recommendation is with the polluter pays principle and the objective of using tariffs that somewhat reflect the costs of the services for which charges are raised.

- 3. In respect of more innovative tariffs, the review team's view is that:*
  - rising block tariffs have complex effects in redistributing the burden of costs between households, which may merit further consideration in specific circumstances. However, rising block tariffs cannot be recommended as a general tool to address affordability, as there is no robust data on household occupancy.*

- *the declining block tariff is not appropriate for a general national household charging system as it weakens incentives to reduce discretionary use of water.*
- *seasonal tariffs appear to show potential for controlling summer-time peak demand.*

We support these views. We note that the water industry is already engaged in a number of trials of seasonal tariffs.

4. *Ofwat should work with the companies to ensure that the tariff trials provide robust and detailed information on the behavioural response to innovative tariffs.*

We agree.

5. *Wherever distributional consequences from the introduction of changes to tariffs are likely, they should be assessed and considered against the review's fairness principles.*

We agree.

6. *The review team's work suggests that some tariffs will be seen as fairer, and more effective in promoting efficient water use, than others. Given these differences in outcomes for customers, there is a question as to what guidance the government should give the regulator on how metered tariffs should look, and what principles Ofwat should observe in considering the acceptability of different metered tariffs. We present the results of this analysis here and invite views on how the guidance to the regulator on metered tariffs should be cast.*

We note (see also our comments in Chapter 10) that the incentive effect of tariffs is limited. Some of the discussions in the WR imply that energy tariffs are insufficient to encourage enough energy efficiency behaviour. As water bills are usually smaller than energy ones, the incentive effects of water charging are also likely to be insufficient.

## Chapter 7: Sewerage

We think that the WR should be more clear in what it recommends for highway drainage:

- Looking forward, it is important that highway authorities do not use water companies' sewers for highway drainage. The WR recommendation should be simple and clear-cut – there should be no more connection – with a timetable for implementing this prohibition
- Looking backward, there are large amounts of combined sewers where foul water, surface water and highway drainage are mixed. It would be an expensive programme to rebuild this network of combined sewers. Separation of pipes should take place only where it is cost-efficient. This can be determined by charging highway authorities for highway drainage. This will create the correct incentive for highway authorities to determine when to replace connections to existing combined sewers with their own infrastructure.

### Water UK response to questions and recommendations

1. *Defra, the Assembly government, the Environment Agency, Ofwat and sewerage companies should consider how the future charging system could better incentivise householders to minimise the amount of rainwater run-off from existing and new households, including incentives to install small-scale sustainable drainage systems. We would welcome views on how this could be achieved;*

We do not believe that it is possible to develop a charging basis for surface water from domestic properties that creates incentives to reduce the amount of surface water drained to sewers beyond the existing rebate arrangement which some companies have. Anything else would be administratively too complex and expensive.

2. *Ofwat should look at the variation in charging households for surface water drainage as part of its work on the future charging system for this service. The aim must be to ensure that the distribution of the surface water drainage costs between customer types is fair, and that the right financial incentive is in place to install alternatives to rainwater drainage;*

We fully support this recommendation, which should be read alongside that to develop a methodology for assessing the costs of highway drainage. We believe that the recommendation should make it clear that, with Ofwat leading, the project to analyse costs between the three services which use water companies' sewerage systems must involve water customers and other stakeholders potentially affected by the proposal.

3. *The use of greywater recycling does not justify adjusting the sewerage charges upwards;*

We agree for the time being.

4. *Rainwater harvesting should continue to be charged as now;*

We agree for the time being.

5. *Foul sewerage should continue to be charged for on the same basis as water supply;*

We support this recommendation.

## **Chapter 8: Affordability**

### **Key points**

#### **1. Addressing affordability cannot be limited to high cost areas.**

There are households with water affordability problems in areas other than those with bills above the national average. Providing benefit or a discount to only customer in those regions with higher than average charges would therefore miss out a large number of deserving households.

To truly address the water affordability issue, Water UK does not believe assistance can be provided only to low-income households in high cost areas. It should be available to all eligible low income households in England and Wales.

Water UK has therefore been working with others on the "Saving from Poverty" proposal, which is designed to help poorer consumers budget

and manage debt and at the same time promote financial inclusion and social justice.

Saving from Poverty has been developed by a project team including members from SAS, AT Kearney and independent consultants, and is supported by a wide range of stakeholders including Water UK, EdF Energy, United Utilities and Citizens Advice Bureaux.

Saving from Poverty would be delivered using the infrastructure currently used to deliver the Post Office Card Account (POCA) to 3.8 million consumers. It would add the following services onto the same processes and infrastructure used for POCA:

- Allowing consumers to make additional payments into the account, such as other central and local government benefits and weekly wages
- Sub accounts for weekly budgeting and debt repayment across a wide range of public and private sector service providers. This facility is the equivalent of a weekly direct debit or an ‘electronic jam jar, and would help low income customers to stay out of debt.
- An ‘honest broking’ facility across all the bills that vulnerable consumers have, focussing on the consumer holistically rather the individual bill or debt and ‘refereeing’ to ensure both that too much is not deducted overall or by individual service providers.
- A ‘first stop shop’ for information and advice in areas such as lower tariff rates available, additional benefits and grants the consumer may qualify for and tips on reducing energy and water efficiency.

We would be happy to provide further information on the Saving from Poverty proposal and how it could help low income customers stay out of debt.

## **2. Funding the help for low income / vulnerable customers**

It is difficult to separate out water affordability from the wider issue of poverty generally. For many customers struggling to pay their household bills, water is likely to be just one smaller debt that they owe. And since water is an essential public service – affirmed by Government when it removed the right to disconnect – there is a logic that Government, i.e. the national taxpayer, should fund the costs of a scheme to help low income / vulnerable customers meet the cost of their water service.

Poverty generally is beyond the means or remit of water companies to address.

The alternative, i.e. payment for such benefit from the national water customer would require national cross-subsidies across company boundaries. Apart from the complexities of a system to handle transfers, there is a real risk that low income customers in one area end up subsidising low income, but potentially better off, customers in another area. The whole concept would also weaken the link between customers in an area and the service that they receive and pay for from their water company.

Cross subsidy within company areas should be acceptable, where there is customer support for this. However cross subsidy across company boundaries is likely to find little favour with customers. Cross subsidy outside company regions is not a funding requirement discussed with customers, or included in company business plans for the current Periodic Review of prices or in the Draft Determinations recently announced by Ofwat.

### **3. Water Direct**

We are surprised that the report gives little mention to the third party deduction scheme Water Direct, and gives little emphasis to it in the emerging recommendations. This scheme already provides help to the most vulnerable and could easily be extended to provide greater support.

Water Direct is currently used by nearly 175,000 customers. There is however real potential for it to play a much greater role in helping customers to help themselves in these challenging times.

It is interesting to note recent comments from Ofgem<sup>4</sup> on the equivalent scheme for energy charges – Fuel Direct:

“Fuel Direct can provide an excellent tool for low income customers, facilitating manageable debt repayment and budgeting for ongoing consumption. We will continue to highlight the importance of Fuel Direct as a payment method with suppliers and DWP”.

We discuss the application and the benefit provided to customers by Water Direct further in our responses to Chapter 9 – Prevention, management and recovery of bad debt.

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<sup>4</sup> Ofgem report 109/09 Domestic suppliers’ social obligations: 2008 Annual Report (published 28 August 2009)

#### **4. WaterSure cap**

Setting the WaterSure tariff cap at the national average bill rather than the individual companies' average bill would benefit those customers in higher bill areas, but other vulnerable or low income customers in lower bill areas would no longer be eligible.

Water UK therefore supports a revision of the WaterSure tariff but with the cap set at the lower of either the company's average bill or the national average bill.

#### **5. Guidance on social tariffs**

Neither companies nor the regulator, Ofwat, should be the decision maker on social policy. Guidance on the development and application of social tariffs should be given by Ministers – if Government it is not willing to provide support to low income or vulnerable customers through the tax credits and benefits system

#### **6. Data sharing**

Without companies knowing which customers are receiving specific benefits, and therefore may need help with water charges, it is difficult for companies to be more proactive. Sharing of data from DWP or local authorities would allow companies to identify their vulnerable and/or low income customers and hence help those customers.

In the past companies have found that some local authorities will not share data even when a customer could benefit through moving to WaterSure or Water Direct, citing Data Protection requirements. The issue of data protection and its application to the water industry needs therefore to be clarified and reviewed in this context so that more vulnerable and low income people can be helped with their water bills, not just their energy bills.

## **Water UK response to questions and recommendations**

### **Customers on low incomes in high-cost areas**

#### **Paragraph 8.14.7**

The review team would like further views on the value of using receipt of Council Tax Benefit to identify low income households for targeted support;

#### *Response*

From an operational point of view, using a single “passport” that already exists to identify customers for targeted support would be more practical than either using a combination of measures or trying to invent a new measure.

Council Tax Benefit would meet this criterion of providing an easy to identify target group – CTB is available to those in receipt of Income Related Job Seekers Allowance, Income Support or Pension Credit. These are the same ‘passport’ benefits that give eligibility to Water Direct, so there is some logic in selecting CTB.

However, we are not clear that Council Tax Benefit would be an adequate determinant of eligibility for a water benefit or water bill discount. Any method that passports eligibility on criteria such as benefits/tax credit groups (other than actual water poverty) is going to suffer targeting problems. We would therefore be guided by the recommendations of consumer bodies and debt adviser, e.g. CABx, MAT, CAP in this respect.

#### **Paragraph 8.14.9**

The review team has identified that one possible option for tackling water affordability for customers on low incomes could be a regional ‘water benefit’, perhaps added as an element of housing benefit, which would allow the variation in water prices to be better reflected in benefit levels.

#### *Response*

Water UK agrees that there should be support for water charges from the tax credits and benefits system. We have covered this in our previous response to a similar question. This benefit should reflect the variations in water charges since they show similar high regional variations as housing costs that already enjoy a regionally varying benefit. The

benefit should not just be restricted to those regions where costs are higher than the average. Any change to the system should not reduce benefit levels in areas where water charges are below the national average.

#### **Paragraph 8.14.10**

In order to model the potential impact of a regional benefit the review team has assumed in the absence of further information from DWP, that benefits currently cover the national average water bill. In high-bill areas, people on means-tested benefits would therefore require additional benefit to cover the difference between the regional average (metered and unmetered) bill and the national average (metered and unmetered) bill. The difference in the South West Water region between the regional average bill and the national average bill was £171 in 2007/8. The total cost of such a scheme to rebalance this difference for high-bill areas (looking at water and sewerage companies only – see Table 7 Annex G) could be around £45m in the first year. If the scheme provided for existing metered customers only, the cost would be around £17m in the first year. **The costs of such a scheme would fall to the national taxpayer, allowing the funding to be on a progressive basis. We would like views on this suggestion;**

#### *Response*

Water UK welcomes the suggestion that benefit levels should, in principle, reflect at least minimum essential living costs wherever someone lives. Housing costs vary significantly across the country, and this is taken into account in benefits – but the variation in water costs is not and should be.

However Water UK believes that it is difficult to separate out water affordability from the wider issue of poverty generally. For many customers struggling to pay their household bills, water is likely to be just one smaller debt that they owe (as confirmed by recent research from Citizens Advice). And since water is an essential public service – affirmed by Government when it removed the right to disconnect – there is a logic that Government, i.e. the national taxpayer, should fund the costs of a scheme to help low income / vulnerable customers meet the cost of their water service. In assessing the level of such benefits there should be account of the regional differences in income before and after housing costs.

Poverty generally is beyond the means or remit of water companies to address.

## **Bill discounts for low-income customers in high cost areas**

### **Paragraph 8.16.7**

The review team would like views on the proposal to apply a percentage discount on bills as a means of assistance for low-income households in high cost areas in receipt of Council Tax Benefit or in debt. The review team would also like views on whether this should be funded by national water customers or national taxpayers;

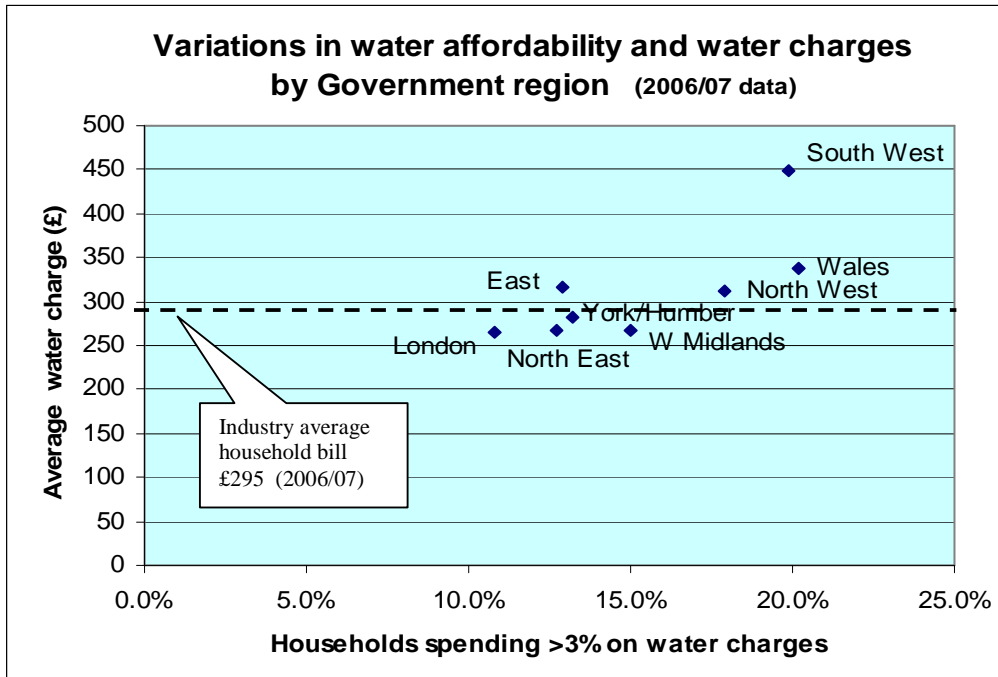
### *Response*

As we state above, to truly address the affordability issue, Water UK does not believe assistance should be provided only to low-income households in high cost areas, but should be available to all eligible low income households in England and Wales.

We are far from clear that benefits do still cover the costs of the average water bill as there is no indication what the element for water is, or was. Whilst benefits may have been increased in line with RPI, water bills have increased at a greater rate,

We are aware that there are households with affordability problems in areas other than those with bills above the national average, e.g. in the West Midlands and the North East. Chart 1 below compares the percentage of households (by Government region) spending more than 3% on water charges with the actual average water charges for the main water and sewerage company covering that region. This demonstrates that, e.g. water affordability problems are potentially a bigger issue in the West Midlands than they are in the East of England despite charges being lower than average in the West Midlands and higher than average in the East. Providing benefit or a discount to only customer in those regions with higher than average charges would therefore miss out a large number of deserving households.

Chart 1



[Source: Office of National Statistics for household data. Ofwat for level of water bills for 2006/07  
NB Graph annotations only shown in Word print view]]

Chart 2 shows the Government regions and their overall contribution to the households in England & Wales spending more than 3% on water charges.

The regions to the left of the vertical dotted line had charges below average and the regions to the right had charges above average. (in 2006/07)

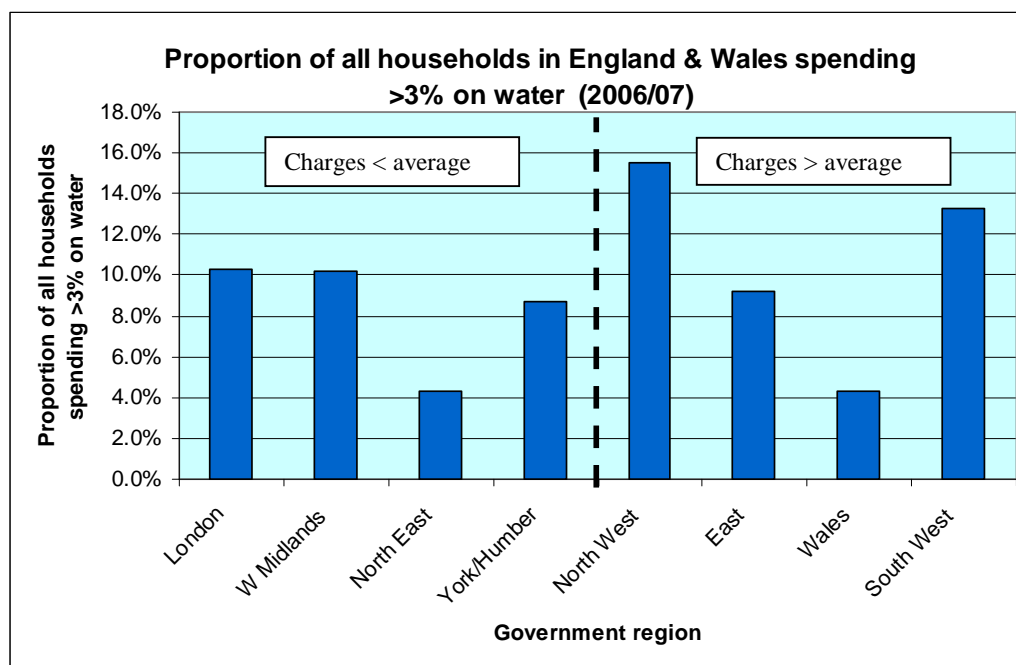
The impact of excluding those regions with charges below average can be clearly seen. Excluding London, the West Midlands, the North East and York/Humber would deny any support to around 33% of those households in the UK spending more than 3% on their water charges.

Water UK does not believe therefore that help with water bills should be limited to only those areas where bills are above the average,

We agree that the costs of such a scheme should fall on the national taxpayer. The alternative, i.e. payment for such benefit from the national water customer would require national cross-subsidies across company boundaries. Apart from the complexities of a system to handle s transfers, there is a real risk that low income customers in one area (e.g.

Northumbria) end up subsidising low income, but potentially better off, customers in another area (e.g. South West). The whole concept would also weaken the link between customers in an area and the service that they receive and pay for.

Chart 2



[Source: Office of National Statistics for household data. Ofwat for level of water bills for 2006/07  
NB Graph annotations only shown in Word print view]

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*NB Both charts use data from the Office of National Statistics Expenditure and Food Survey (EFS) provided by Government region for 2006/07. These regions do not match water company boundaries. The chart therefore uses water company charges from the major water and sewerage companies within that region. We have excluded the South East from this assessment because of the multiple water only companies in this region.*

This benefit should be funded by the national taxpayer and not by national water customers. If the proposal was adopted there is a real danger that low income households in an area of deprivation in an average or lower bill area would be funding relatively better-off households in a higher than average bill area.

Cross subsidy across company boundaries is also likely to find little favour with customers. There is already a threshold value above which cross subsidy starts to lose favour with customers (see our later response).

Cross subsidy outside company regions is not a funding requirement discussed with customers, or included in company business plans for the current Periodic Review of prices or in the Draft Determinations recently announced by Ofwat.

There would be significant administrative procedures and costs in setting up a national scheme to identify the required amounts and collect funding from “lower bill” companies and distribute the appropriate amounts to “higher bill” companies.

### **Paragraph 8.16.8**

We believe that as this measure is designed to address the affordability issues that arise because of the mismatch between the tax and benefits system and regional price variations, eligibility should also be restricted to those in high-cost areas (regions where the average water bill is above the national average). The review team would like views on this restriction and the administrative implications of such a scheme;

#### *Response*

Water UK does not believe water affordability can be addressed by limiting support to high cost bill areas. We have set out our reasons in our response to paragraph 8.16.7 above

### **Eligibility and take-up of WaterSure**

#### **Paragraph 8.18.3**

CCWater tracking survey in 2008 found that awareness of the WaterSure tariff had fallen from 12 per cent in 2007 to 7 per cent in 2008. The review team feels that these figures show that awareness is too low and recommends that CCWater and companies carry out further work to promote the scheme, including providing more information on bills as discussed in chapter 11.

#### *Response*

Following the joint development by CCWater and Water UK of the national brand name “WaterSure” for the Vulnerable Groups tariff there was a significant increase in customer uptake of the scheme. Whilst companies and CCWater could carry out further promotion of the scheme, it really requires active promotion by those working in the community, e.g. health visitors who know the customer’s unique circumstances and have a trusted relationship with the individual.

There is an argument that the industry could work more closely with the Department of Health and Strategic health Authorities.

## **Possible refinements to WaterSure**

### **Paragraph 8.19.2**

We propose that:

- the bill is capped at a national (England or Wales) average bill, rather than a regional bill;
- the eligibility criteria relating to dependents in full-time education or training and living at home should be brought into line with those used for Council Tax;
- Government guidance should make clear that eligible medical conditions include mental health conditions, as well as any other medical condition that necessitates high essential use of water, and that doctors should have the flexibility to sign certificates for those they believe need water for medical conditions; and
- applicants should not have to pay for medical certificates.

### *Response*

Water UK agrees that the WaterSure scheme could provide greater help to metered customers on benefits who have to use larger quantities of water for medical reasons or because of the number of other occupants living in the property.

We do not support the proposal that the WaterSure tariff should be capped at the national average bill rather than the individual companies' average bill. Whilst more customers in higher bill areas would benefit, it would also mean some vulnerable customers in lower bill areas, e.g. London, West Midlands, the North East would no longer be eligible. Water UK therefore supports a revision of the WaterSure tariff to be set at the lower of either the company's average bill or the national average bill.

Water UK generally supports the extension of WaterSure scheme to families with older children in education or training who are disregarded for Council Tax purposes. However Water UK believes the Review Team should carry out an impact assessment of the change.

We support the extensions to eligibility on medical grounds. Please see our response to paragraphs 8.22.1 and 8.23.1

## **Cap WaterSure at the national average bill**

### **Paragraph 8.20.8**

As a result, the review team recommends that the costs of the current WaterSure system and the cost of an extended WaterSure scheme (around £1m) should be paid for by the national water customer. The review team would like views on this, both in terms of the principle and the administrative practicalities of running such a scheme.

### *Response*

Funding for such an amended scheme should be from other customers in the company's region not from the national water customer. This is for reasons both of principle and of practicality. The principle that within each region, the charges for water and sewerage services are for the services provided in that region, providing a strong link between customers and the companies that supply them, is an important one. For the relatively low costs involved in the proposed changes to WaterSure, there would seem to be no reason to depart from this principle, and in addition no reason for the administrative complexity of a scheme to transfer revenues between companies.

As the interim report notes, the level of transfer within regions that retaining the regional basis of WaterSure would imply is "more or less within the bounds of customers' general willingness to pay for providing help".

## **Medical conditions requiring significant use of water Free medical certificates**

### **Paragraph 8.22.1 and 8.23.1**

We received evidence in response to our call for evidence that there are potentially people with other medical conditions and, in particular, mental health conditions, who might require high water use and are not explicitly covered by the WaterSure Regulations list of medical conditions other than the general provision covering 'any other conditions'. This may discourage people from applying to the scheme, and GPs and companies might face difficulties in taking decisions on applicants. The review team intends to take advice from the Royal College of General Practitioners (RCGP) on what advice might be necessary for GPs and companies in future on the medical conditions that should qualify under 'any other conditions'. Any system should make it clear that doctors have the appropriate flexibility to sign certificates for any person receiving

benefits they believe requires extra water as a result of a medical condition and that these certificates should be free. The review team would welcome views on this proposal;

*Response*

Water UK agrees that there may be customers outside of the current specific criteria, including those with mental health problems that could benefit from the extension of WaterSure. We therefore support the proposal to make full use of the general provision covering “any other conditions” and the suggestion that medical certificates should be provided by GPs, who believe the person’s medical condition requires the use of extra water, at no cost to the customer or water company. The cost will be though be borne by the NHS and hence the national taxpayer.

**Ofwat’s role**

**Paragraph 8.25.2**

Ofwat, building on its current duties, should be more pro-active in terms of helping companies tackle affordability problems. The review team would like views on whether the scope and detail of Ofwat’s current duties are sufficient to tackle affordability issues, or if something further is necessary;

**Paragraph 8.25.3**

Ofwat should produce an annual report on affordability and debt issues, and where it is not clear that it is possible to solve the affordability problems within the current regulatory framework, should provide advice to the Secretary of State and Ministers on what action is necessary and why;

*Response*

Water UK supports the recommendation of an annual report to draw attention to the linked issues of debt and affordability.

However, we are concerned that any additional reporting could require even more submission of data and become a regulatory burden on companies. There is already much information provided that is not published. There can also be variations in some interpretation of the information required. Any additional requirement must ensure consistency in understanding and reporting before any benchmarking amongst companies.

Water companies already share good practice measures through UKWIR research and the Water UK Debt Good Practice Network. Companies have recently contributed to an UKWIR project to 1) investigate the correlation between debt collection performance and income deprivation across the industry and 2) investigate outliers and where possible, provide explanations for differences in relative performance. The researchers developed two new measures – Debt Penetration (the proportion of properties with debt of 3 months or more) and debt Intensity (the average amount of debt per indebted household).

Such measure should be developed in any new Ofwat report on affordability and debt issues.

### **Increase the range of tariffs**

#### **Paragraph 8.26.2**

The review team proposes that Ofwat takes a much more proactive role in addressing affordability issues, including through the use of social tariffs. We encourage companies to be innovative in proposing schemes that meet their local circumstances and Ofwat to be more ready in accepting schemes that are acceptable to the company's customers as a whole. We suggest that, within a new consolidated set of guidance on charging, social and environmental issues, new guidance should be provided to Ofwat by UK Government and Welsh ministers on social tariffs, with the aim of companies being encouraged to develop local social tariffs acceptable to their bill payers.

#### *Response*

This recommendation seems to presuppose that the other recommendations made in the report will not be developed and that the only affordability relief for low income or vulnerable customers will come from company developed social tariffs.

There are varying views in the industry on social tariffs and Ofwat is currently not minded to approve any further such tariffs unless there is a clear cost benefit, i.e. that the tariffs lead to a reduction in overall debt management costs of the company and therefore incur no cross subsidy from other customers.

Customers views on cross subsidy were researched by ORC International for CCWater in 2007. Their findings suggest that whilst most customer were prepared to pay an additional £1 to help those customers on the

existing WaterSure tariff, this number declined rapidly when the suggested cross-subsidy was increased to £2 and then £5.

We agree – neither companies nor Ofwat should be the decision makers on social policy. This is a decision for Government to make and provide guidance – if it is not willing to provide alternative means of support to low income or vulnerable customers through the tax credits and benefits system

### **Water efficiency and benefit entitlement check scheme**

#### **Paragraph 8.27.6**

What is required we suggest, is a statutory requirement on companies to have a water efficiency scheme targeted at defined low-income metered customers and for that scheme to be approved by Ofwat in line with new guidance from UK Government and Welsh ministers. The review team would like to invite views on the principle of such a scheme, where the costs of such a scheme should fall, and the powers necessary to put it into place.

#### *Response*

Water UK does not share the view that water efficiency will play a significant role in helping to address water affordability.

Whilst water efficiency measures are an important part of companies' overall efforts to balance supply and demand for water they are only likely to have a marginal impact on affordability for most low income or vulnerable customers. It would be best therefore for companies to focus their water efficiency measures on what would be most effective for demand management, with any impact on affordability being a bonus

This view is reinforced by the recent CCW research on Water Poverty ("Living with Water Poverty – Report of research findings by Creative Research – June 2009)

*“Encouraging customers who are struggling to pay their bill or already in arrears to switch to a meter is likely to be counter productive unless it can be guaranteed that this will lower their bill. The research has shown that current water efficiency practices are not seen as having a noticeable impact on the water bill and this suggests that there is limited scope to promote even greater water efficiency. People in metered properties are already engaging in the obvious water reduction*

*behaviour; other behaviours such as buying water efficient appliances are unlikely to be feasible due to the cost implications”*

It would therefore be difficult to deliver the differing objectives of promoting water efficiency and making water more affordable to specific customers

We provide further evidence on the application of water efficiency measures to water affordability in our response to Chapter 10 – Water Efficiency

## **Data sharing**

### **Paragraph 8.28.1 / 8.28.2 / 8.30.8**

At the moment, companies struggle to identify which of their customers might need help, relying on customers applying for assistance, or someone applying on their behalf. There is no automatic flag to trigger the consideration of assistance to an individual customer. Information from government (central or local) about low-income customers receiving Council Tax Benefit could make this process more efficient and reduce the risk of people not getting the help they need. However, data protection and human rights issues must be taken into consideration.

- Local government should consider sharing data on low income customers receiving Council Tax Benefit with water companies so companies can target assistance.

### *Response*

We agree. Without companies knowing which customers are receiving specific benefits, and therefore may need help with water charges, it is difficult for companies to be more proactive. Sharing of data from DWP or LAs would allow companies to identify their vulnerable and/or low income customers.

We understand the sharing of such personal data is conditional on the customer’s agreement or on the basis that the customer receives some direct benefit from that sharing, usually financial.

In the past companies have found that some LAs will not share data even when a customer could benefit through WaterSure or Water Direct, citing Data Protection requirements.

The issue of data protection needs to be clarified and perhaps reviewed in this context so that more vulnerable and low income people can be helped.

We comment further on this proposal in our response to paragraph 9.9.4

## **Chapter 9: Prevention, management and recovery of bad debt**

### **Summary of main points of Water UK response**

#### **1. Liability for charges and provision of information**

The industry is very pleased that the WR recognizes that domestic customer debt is a very serious issue for the industry and that legislative changes are needed to enable water companies to recover money owed them and reduce the debt burden on paying customers (estimated at £11 per annum on every customer's bill).

We also agree that the much higher level of outstanding revenue in the water industry than in the energy sector is striking, particularly given that water bills are typically significantly lower. This pattern is continuing to get worse – while the overall amount of debt owed by domestic energy customers has remained broadly stable this year<sup>5</sup>, preliminary figures from Ofwat show a year on year increase of over 12% in the amount of water debt that has been outstanding for more than three months.

We support the WR recommendation that legislation be changed to clarify and modify the definition of a 'liable person' for water charges along the lines of that used in Council Tax legislation, including making property owners liable for water charges for houses in multiple occupation, and to ensure that information on who is liable for charges is provided to water companies.

In view of the size of the problem, and the fact that 44% of debt comes from the rented sector, we believe that the WR recommendation could be extended to allow the recovery of water charges from property owners in other circumstances. In particular, it is important to ensure that there are appropriate incentives on both those who are liable for water charges, and

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<sup>5</sup> Ofgem press release R/32 "Fall in domestic energy disconnections"

those who are responsible for providing information to water companies on who is liable, so that the proposals have the desired impact in practice.

We are in the process of developing detailed proposals on how these incentives could be introduced into the recommendations in the Interim Report, and we will share these proposals with the Review team and other stakeholders shortly.

We recognise that a new requirement to provide information, and the other changes proposed in the Interim Report, would require a communication programme to ensure that all parties were fully aware of their responsibilities. Water UK would be happy to work with the Review team, landlord representatives and other stakeholders to develop this communication programme.

## **2. Water Direct**

Water UK and companies are surprised that the report gives little mention to the third party deduction scheme Water Direct, and gives little emphasis to it in the emerging recommendations. This already provides help to the most vulnerable and could easily be extended to provide greater support. As we have previously discussed with the review team, it is currently used by many more customers than the 78,000 quoted in the report, and we are surprised that the positive current impact of Water Direct – and the potential for it to play a much greater role in helping customers to help themselves in these challenging times - appears to be being downplayed. The latest figures we have, from earlier this summer, are that nearly 175,000 customers are using Water Direct.

Research for UKWIR in 2007 showed very high support from customers for the scheme, with for example

- 91% of respondents found the scheme useful as a way of managing their household finance
- 82% stated that they were able to manage their household finances better or much better as a result of being on the scheme.
- 88% indicated that the scheme was useful/very useful in helping them to clear the debt arrears owed to their water company,

Customers can request the scheme but only when already in arrears. However it is not well promoted by DWP or Job Centre Plus so many customer receiving benefits are unaware of it.

Most companies are proactive in recommending customers on eligible benefits and in arrears to participate in the scheme. However companies are limited in how proactive they can be as they have no way of knowing whether customers are on eligible benefits unless customers volunteer this information.

CCWater, Water UK, the Chartered Institute of Environmental Health and the Disability Alliance have recently written to the Rt Hon Yvette Cooper MP, Secretary of State for Works and Pensions, recommending the Water Direct scheme could be modified to provide flexibility for people to take control over their own finances, in accordance with Government's wider financial inclusion agenda, by opting to participate in the scheme, whether or not they have an existing debt. This would remove the anomaly which currently exists for customers that requires them to get into debt so they can become eligible for the scheme.

We would also like to note that the energy sector equivalent, Fuel Direct has recently been praised by Ofgem<sup>6</sup>:

*“Fuel Direct can provide an excellent tool for low income customers, facilitating manageable debt repayment and budgeting for ongoing consumption. We will continue to highlight the importance of Fuel Direct as a payment method with suppliers and DWP”*

Without changes to the way in which Water Direct is operated, we fear that the recommendation that companies should pursue the option of Water Direct more pro-actively will have little effect, as there is little more that companies can do without changes to the scheme and the way in which it is operated.

We have attached a briefing note on Water Direct at Appendix A

### **3. Incentives for customers to pay**

The Walker Review highlights the need to address the problem of “won't pay” customers, and suggests that trickle-valves (or more accurately, reduced-flow valves) to reduce supply might provide a suitable incentive for these customers to pay. We believe that further research and piloting should be carried out to investigate this option, and we agree that such a measure should only be used after rigorous independent safeguard

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<sup>6</sup> See Ofgem report 109/09, Domestic suppliers' social obligations: 2008 Annual Report, 28 August 2009

conditions have been met. We note that the House of Lords Science and Technology Committee published a report in June 2006 on “Water Management”, which included (par 3.84) a recommendation that Government examine the evidence from Australia (Melbourne) on reduced-flow valves “with a view to introducing more effective strategies for reducing the number of people who can afford to pay their water bills but refuse to do so.”

Reduced-flow valves, also, could be used in combination with pre-payment meters to encourage payment. The recent experience of water companies is that, without a direct incentive to pay such as a reduced-flow valve, pre-payment meters are an ineffective and costly payment mechanism for water bills.

### **Water UK response to questions and emerging recommendations**

In the section below, we provide responses to the questions and emerging recommendations on the prevention, management and recovery of bad debt in the Interim Report. For ease of reference, we follow the order of the Interim Report and provide references to the relevant paragraphs in the Interim Report.

#### **Further questions (paragraph 9.7.13 and 9.8.4)**

- the review team **would welcome views on the costs and value of prepayment meters compared to other mechanisms to help customers manage debt;**
- the review team would **welcome comments on the possibility of introducing trickle-valves to reduce supply to persistent ‘won’t pay’ customers. 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. The review team would welcome observations on this.**

#### *Response*

We are responding to these two questions together, as our view is that in combination, the two measures of pre-payment meters and reduced flow valves could prove to be an effective and acceptable means of preventing and managing debt.

## **Pre-payment meters**

Water UK does not believe that using prepayment meters under the current legislation would have any significant impact on customers' payment behaviour. Whilst there are over 5 million prepayment meters in the energy sector these are linked to the threat of "self-disconnection" (or even disconnection by the energy supplier) if payment is not maintained. The water industry would not be able to use this incentive to pay.

Experience by Dwr Cymru Welsh Water who had 25,000 customers using the 'Watercard' prepayment units before the ban on disconnection demonstrated that following the change in legislation customers gradually slipped into ignoring the prepayment devices. Once customers defaulted the concept of prepayment was then completely ineffective and the company had to revert to normal debt recovery processes.

More recent experience by South Staffordshire Water, who installed around 3,000 devices on a trial basis, confirmed that with no ultimate sanction there was little incentive for customers to maintain regular payment.

Water UK does not therefore believe that, **under the current legislative framework**, the considerable installation costs of prepayment devices could be justified against the likely additional revenue they could achieve. The Dwr Cymru Welsh Water experience also demonstrated the high operating costs covering the ongoing maintenance of the units to cover damage, repair and /or replacement. Those costs were prohibitive when the benefits derived, without a real incentive, are essentially no greater than a typical payment card

However if such prepayment devices could be linked to a real incentive, such as a reduction to a 'trickle flow' or reduced flow mode for non-payment, then there could be an economic case for installation. (We discuss "trickle flow" further in the following section)

## **Trickle or reduced flow**

Water UK agrees with the comments made by the Review team. There needs to be a clearer understanding of the benefits and risks of using so called "trickle flow" devices.

A first point we would note is that 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<sup>7</sup>, which specifies the minimum flow as 2 litres / minute. This is sufficient to maintain essential water availability and sanitary conditions within the building, but is far more than a "trickle". The phrase "reduced flow" would therefore be a more accurate description of this measure.

### **The need for stronger incentives to encourage payment**

Water companies' only existing resort to those who 'won't but can pay' is through the Court Service and using Charging Orders (where the customer owns property) or Attachment of Earnings (where the customer is in paid employment).

Water companies are consequently one of the largest users of the Court Service. The threshold value for use of Charging Orders is under review as part of the Tribunals Courts and Enforcement Act 2007. A number of sections of this Act have not yet come into force, but are likely to do so in 2009.

The Lord Chancellor is to set regulations for a threshold limit for making Charging Order applications and Orders for Sale. The thresholds may affect the ability to obtain a Charging Order on an unsatisfied judgement or Order of the Court, with the limit thought to be about £1,000, similar to the threshold set under the Council Tax Enforcement Regulations adopted by Local Authorities.

There is, however, likely to be some form of exemption for utility companies who tend to have lower value debts, although it is not yet clear what this reduced threshold will be. Even debts of half this amount, i.e. £500, could take 4 years to accumulate with current average bills from some water only companies at £133 or less.

The industry would therefore welcome other methods of recovering debt and incentivising those that can pay to do so. Reduced flow devices could fulfil this need.

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<sup>7</sup> For the current Customer Service Code, see <http://www.esc.vic.gov.au/NR/exeres/70FEED56-8ACE-477B-A0D4-7B2987D8AC0C.htm>

## **Reduced flow devices**

We believe that further research and piloting should be carried out to investigate the option of using reduced flow devices.

Water companies would not want to use this method for those that genuinely are struggling to or cannot pay. Companies can now determine to a greater accuracy the financial circumstances of their customers through credit reference and other commercial databases and so would be able to target only the ‘won’t but can payers’ Water UK agrees that there would have to be a robust independent safeguard to ensure companies were correct in their assessment of the appropriateness of this method for a particular indebted customer. This could be through the Courts Service and/or involve Ofwat or CCWater.

We note that the House of Lords Science and Technology Committee published a report in June 2006 on “Water Management”, which included (par 3.84) a recommendation that Government examine the evidence from Australia (Melbourne) on reduced-flow valves “with a view to introducing more effective strategies for reducing the number of people who can afford to pay their water bills but refuse to do so.”

The ‘reduced flow’ solution has worked well in Victoria, Australia, where the use of these devices is governed by the Customer Service Code approved by the state’s Essential Services Commission, the independent economic regulator of essential services supplied by the electricity, gas, water and sewerage, ports, grain handling and rail freight industries. The solution is only used in exceptions, but its ability to ensure payment and minimise debt accruing is in its threat rather than its actual use. We understand its use is well supported by customers at large.

We have recently produced a briefing note on the use of trickle or reduced flow devices, which is available on our website. For ease of reference, we have included this briefing note as Appendix B to this chapter.

As an additional benefit its use in England and Wales could change the status of water from a ‘non-priority’ debt to a ‘priority’ debt for debt advisors and restore the importance of water charges and arrears as necessary payments.

Reduced-flow valves, also, could be used in combination with pre-payment meters to encourage payment. As noted above, the recent

experience of water companies is that, without a direct incentive to pay such as a reduced-flow valve, pre-payment meters are an ineffective and costly payment mechanism for water bills.

Water UK would be happy to work with the Walker Review team or an independent body to review the use of reduced-flow devices as a means of reducing the increasing debt burden on companies and their paying customers.

## **Emerging recommendations**

### **Paragraph 9.9.1:**

As a priority, the Water Industry Act 1991 should be amended to clarify and widen the definition of who is responsible for paying the water bill, through a definition of 'liable person' along the lines of that used in Council Tax legislation; and ensure that water companies have named customers. Three statutory changes are necessary in order to improve the situation:

- clarify and widen who is liable for paying the bill;
- ensuring that the name of the person responsible for paying the bill has to be supplied to the water company; and
  - identifying the property owner as responsible for paying the bill when the property is in multiple occupation;

### *Response*

The industry is very pleased that the WR recognizes that domestic customer debt is a very serious issue for the industry and that legislative changes are needed to enable water companies to recover money owed them and reduce the debt burden on paying customers (estimated at £11 per annum).

We support the WR recommendation that legislation be changed to clarify and modify the definition of a 'liable person' for water charges along the lines of that used in Council Tax legislation, including making property owners liable for water charges for houses in multiple occupation, and to ensure that information on who is liable for charges is provided to water companies. We will look for them to be included in the Flood and Water Management Bill when it is published later in the year.

In view of the size of the problem, and the fact that 44% of debt comes from the rented sector, we believe that the WR recommendation could be extended to allow the recovery of water charges from property owners in

other circumstances. In particular, it is important to ensure that there are appropriate incentives on both those who are liable for water charges, and those who are responsible for providing information to water companies on who is liable, so that the proposals have the desired impact in practice.

We are in the process of developing detailed proposals on how these incentives could be introduced into the recommendations in the Interim Report, and we will share these proposals with the Review team and other stakeholders shortly.

Having the right information, at the right time, on who is liable for charges could make a significant difference to the debt problem, although by itself it will not solve it. At a recent meeting between the water industry and landlord representatives, helpfully arranged by the Review Team, landlord representatives expressed a willingness to work together on a proforma for the provision of information held by landlords on their tenants, to facilitate charging for water and sewerage.

In advance of legislation to make this a requirement, we agree that it would be helpful to trial this process with a group of landlords, to ensure that it provides all the required information, is practical and is not unduly onerous or costly. We look forward to working with bodies representing landlords in doing this. However, we would like to emphasise that a voluntary “best practice” arrangement with landlord representatives or others would not remove the need for making provision of information a statutory requirement, with appropriate incentives, as it is essential that information is provided routinely in a timely manner by all landlords, and not just the minority of landlords who are members of a representative body.

We recognise that a new requirement to provide information, and the other changes proposed in the Interim Report, would require a communication programme to ensure that all parties were fully aware of their responsibilities. Water UK would be happy to work with the Review team, landlord representatives and others stakeholders to develop this communication programme.

**Paragraph 9.9.2:**

Companies should be encouraged by Ofwat to move towards debt prevention and best practice approaches rather than concentrating on debt management;

*Response*

Companies do already share good practice through the Water UK Debt Good practice network and through the research projects carried out by independent consultants for UKWIR.

Companies' aspirations are to adopt debt prevention practices rather than concentrating solely on debt management practices. There is a clear business case for this. However, historically companies have had little information on their customers. The supply of water to customers is a statutory not a contractual duty, so there is no contract or information provision to the company (except for direct debits and other payment arrangements). That is why Water UK has proposed changes to legislation to require mandatory provision of information to water companies on the person liable for water charges, and we are pleased to see that this is one of the recommendations of the Interim Report (paragraph 9.9.1).

Without information on the customer, companies are not well placed to tailor their approach to individual customers and prevent them getting into debt in the first place. The improvements Water UK and others have suggested to the Water Direct third party deduction scheme and sharing of data from DWP and / or local authorities would help identify those in need of support (see below).

**Paragraph 9.9.3:**

Ofwat, together with CCWater, should be asked by government to monitor company performance on debt prevention, management and recovery against Ofwat's debt guidelines. Ofwat should produce a separate annual report on debt which makes clear which companies are performing well ('name and acclaim') and which should improve. It should also highlight good and poor practice. This annual report could be combined with the report proposed in Chapter 8 on affordability issues in the water industry;

*Response*

We support the recommendation of an annual report to draw attention to the linked issues of debt and affordability, as discussed in our response to the recommendation in Chapter 8.

We are however concerned about the potential for this being an additional regulatory burden on companies, requiring the submission of additional

data. There is already much information provided that is not published. There can also be variations in interpretation of some of the information required. Any additional requirement must ensure consistency in understanding and reporting before any benchmarking amongst companies.

Water companies already share good practice measures through UKWIR research and the Water UK Debt Good Practice Network. Companies have recently contributed to an UKWIR project to 1) investigate the correlation between debt collection performance and income deprivation across the industry and 2) investigate outliers and where possible, provide explanations for differences in relative performance. The researchers developed two new measures – Debt Penetration (the proportion of properties with debt of 3 months or more) and Debt Intensity (the average amount of debt per indebted household). Such measures should be developed in any new industry or Ofwat report.

**Paragraph 9.9.4:**

Local government should work with water companies to identify low income customers receiving Council Tax Benefit so that companies can better target assistance;

*Response*

As we noted in our response to the recommendations of Chapter 8, it would be helpful for both central government – in particular the Department for Work and Pensions – and local government to share information on those customers with benefit entitlement with companies. This information sharing could be facilitated by the Department of Communities and Local Government.

There would need to be an open and agreed process for this sharing. For example knowledge of those customers receiving Income Based Jobseeker's Allowance, Income Support or Pension Credit would enable companies to proactively target Water Direct applications to the appropriate indebted customers. With improvements to Water Direct, this could include customers not yet in debt but possibly struggling to budget their payments. This would go a long way in developing debt prevention approaches, rather than debt management measures.

**Paragraph 9.9.5:**

Companies should consider, as a way of helping customers pay their bills, developing more voluntary agreements with Registered Social Landlords and local housing authorities so that water bills are paid with rent for unmeasured customers.

*Response*

Many companies already have voluntary agreements with local housing authorities, registered social landlords and are seeking to develop more such arrangements. This shifting of responsibility for revenue recovery to an incentivised partner is one of the recommendations of the latest UKWIR research.

**Paragraph 9.9.6:**

There should be clearer bills and better information to customers from companies, clearly indicating methods of payment, contact details for third party debt advice agencies and written in plain English. Greater transparency will provide more information concerning the breakdown of charges and the reasoning behind bill increases (see Chapter 11);

*Response*

Water UK accepts that in some cases bills could be clearer. Companies are therefore already doing much to improve bill design and layout. However there is arguably already too much information on bills and much of the ‘ancillary’ information simply gets discarded by customers. Some indebted customers will also simply ignore bill reminders or other correspondence.

We have a specific comment to make on the recommendations for greater transparency on the breakdown in charges. We are concerned that when considering the appropriate way in which to communicate information about the breakdown of charges, care is taken not to cause an unintended customer reaction.

In particular, it is possible that highlighting on individual customer bills the cost of support to vulnerable customers could undermine customer support for provisions to address affordability, and highlighting the cost of bad debt could make collecting outstanding revenue even harder than it is at present.

**Paragraph 9.9.7:**

There should be more publicity on water debt advice and help from the companies and greater use and funding of third party advice organisations. This could be along the lines of current innovative schemes (such as Wessex Water's scheme) or might be a part of a company's water efficiency programme;

*Response*

There could be more publicity on water debt advice, but this is not just the responsibility of the water companies. Provision of information in bills is recognised as ineffective means of communicating to customers. Company websites generally have specific advice for those struggling to pay water bills or falling into debt. However not all such customers will have access the web or will think of looking at a water company web site.

Key channels to vulnerable or indebted customer are more likely to be through trusted intermediaries, such as Consumer Advice Bureaux, other debt advice agencies, health visitors or those with regular contact with the vulnerable person.

Water UK has worked with Citizens Advice and the Money Advice Trust (MAT) to develop a water debt advice micro-site specifically for debt advisers. This helps advisers identify their client's water company, their helpline contact details and what assistance arrangements they offer. This site has been promoted by both CA and MAT and can be found at <http://www.water.org.uk/home/resources-and-links/paying-for-water>

Whilst not specifically promoted to individual customers, at the time of writing this response it is the first non-sponsored link to come up on a Google search for "water debt advice" or for "water debt help"

**Paragraph 9.9.8:**

The option of current third party deductions scheme (Water Direct) should be pursued more pro-actively by water companies, where this would be more helpful to customers in debt.

*Response*

As noted above, Water UK and companies are surprised that the report gives little mention to the third party deduction scheme Water Direct, and gives little emphasis to it in the emerging recommendations. The scheme

already provides help to the most vulnerable and could easily be extended to provide greater support.

As we have previously discussed with the review team, it is currently used by many more water customers than the 78,000 quoted in the report, and we are surprised that the positive current impact of Water Direct – and the potential for it to play a much greater role in helping customers to help themselves in these challenging times – appears to be being downplayed. The latest figures we have, provided by our members earlier this summer, are that nearly 175,000 customers are using Water Direct.

Research for UKWIR in 2007 showed very high support from customers for the scheme, with for example:

- 91% of respondents found the scheme useful as a way of managing their household finance
- 82% stated that they were able to manage their household finances better or much better as a result of being on the scheme.
- 88% indicated that the scheme was useful/very useful in helping them to clear the debt arrears owed to their water company,

Customers can request the scheme but only when already in arrears. However it is not well promoted by DWP or Job Centre Plus so many customer receiving benefits are unaware of it.

Most companies are proactive in recommending customers on eligible benefits and in arrears to participate in the scheme. However companies are limited in how proactive they can be as they have no way of knowing whether customers are on eligible benefits unless customers volunteer this information.

CCWater, Water UK, the Chartered Institute of Environmental Health and the Disability Alliance have recently written to the Rt Hon Yvette Cooper MP, Secretary of State for Works and Pensions, recommending the Water Direct scheme could be modified to provide flexibility for people to take control over their own finances, in accordance with Government's wider financial inclusion agenda, by opting to participate in the scheme, whether or not they have an existing debt. This would remove the anomaly which currently exists for customers that requires them to get into debt so they can become eligible for the scheme.

We would also like to note that the energy sector equivalent, Fuel Direct has recently been praised by Ofgem<sup>8</sup>:

*“Fuel Direct can provide an excellent tool for low income customers, facilitating manageable debt repayment and budgeting for ongoing consumption. We will continue to highlight the importance of Fuel Direct as a payment method with suppliers and DWP”*

Without changes to the way in which Water Direct is operated, we fear that the recommendation that companies should pursue the option of Water Direct more pro-actively will have little effect, as there is little more that companies can do without changes to the scheme and the way in which it is operated.

We have attached a briefing note on Water Direct at Appendix A

**Paragraph 9.9.9:**

Companies need to have available and accessible schemes in place that help low income households who want to stay out of debt; this could include social tariffs (see Chapter on Affordability).

*Response*

We have discussed schemes to help low income households in our response to the recommendations for Chapter 8. We would also like to note that expanding the Water Direct scheme as discussed above would have real benefits to low income households who want to stay out of debt.

Water UK is also working with others on the “Saving from Poverty” proposal, which is designed to help poorer consumers budget and manage debt and at the same time promote financial inclusion and social justice.

Saving from Poverty has been developed by a project team including members from SAS, AT Kearney and independent consultants, and is supported by a wide range of stakeholders including Water UK, EdF Energy, United Utilities, Dwr Cymru Welsh Water and Citizens Advice Bureaux.

Saving from Poverty would be delivered using the infrastructure currently used to deliver the Post Office Card Account (POCA) to 3.8 million

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<sup>8</sup> See Ofgem report 109/09, Domestic suppliers’ social obligations: 2008 Annual Report, 28 August 2009

consumers. It would add the following services onto the same processes and infrastructure used for POCA:

- Allowing consumers to make additional payments into the account, such as other central and local government benefits and weekly wages
- Sub accounts for weekly budgeting and debt repayment across a wide range of public and private sector service providers. This facility is the equivalent of a weekly direct debit or an ‘electronic jam jar, and would help low income customers to stay out of debt.
- An ‘honest broking’ facility across all the bills that vulnerable consumers have, focussing on the consumer holistically rather the individual bill or debt and ‘refereeing’ to ensure both that too much is not deducted overall or by individual service providers.
- A ‘first stop shop’ for information and advice in areas such as lower tariff rates available, additional benefits and grants the consumer may qualify for and tips on reducing energy and water efficiency.

We would be happy to provide further information on the Saving from Poverty proposal and how it could help low income customers stay out of debt.

## **Chapter 10: Water efficiency**

### **General comments**

We very much support the WR’s general approach that the imperative need for increased water efficiency – arising from climate change and the pressures of an increased population with increased expectations – should be one of the drivers of a review on water charging. We also support a number of related recommendations, such as the need to make housing more water efficient and to link activities on water efficiency with others focussed on energy efficiency and carbon reduction.

We think that the WR’s proposal for a national education campaign is very important. Education on water efficiency and on protecting the environment generally is a national issue and it is illogical for individual water companies to develop separate strategies and educational materials. We need consistent messages from concerted activity by all parties

through a range of channels and would welcome a national education strategy along with national advertising of the key messages.

Concerning the role of Ofwat in supporting water efficiency activities, we believe that water customers should not pay for inefficient water efficiency activity on the part of water companies and Ofwat is right, in principle, to apply efficiency criteria to water efficiency activity.

For this reason, we do not agree with the WR's recommendation that there should be a minimum percentage of water efficiency targets and activity directed at households (as opposed to business customers) and at low-income households in particular. In principle, water efficiency expenditure and activity should be targeted in a most cost-effective way since, otherwise, all customers lose eventually (see also our comments below on affordability and water efficiency). However, Ofwat's regulation should allow more than one objective for water efficiency activities if convincingly argued by an individual water company.

We think that Ofwat's sustainability duty includes a duty to take account of climate change. However, we are concerned about a disconnect between the various regulators in the industry which, too often, results in Ofwat not providing customer funding for investment (climate change, metering, environment protection...) which other industry regulators deem necessary. The WR should recommend that Government guidance to Ofwat provide that Ofwat does not rule out climate change investment, in principle, on basis of lack of up-to-date information (as it did with climate projections in PR09) or lack of synergy with regulated business (as it has done with renewable energy). The WR should also recommend that other regulators do not encourage companies to engage in inefficient metering or water efficiency activity. For instance, with the Water Resource Management Plans (WRMPs) now on a statutory basis, the metering programmes they contain should be agreed by all relevant regulators before they are made binding. In this way, the activities contained in the WRMPs can receive funding from Ofwat because Ofwat agrees that they are a good use of customer funds.

There is one aspect of the WR's thinking with which we strongly disagree. The WR asserts that improved water efficiency by low-income customers could, by-and-large, solve the affordability problem. The idea seems to be that low-income water customers could save so much money on their current bill that affordability would cease to be a problem. We think that this is a mistake and is unjustified. Low-income customers are often those who indulge least in discretionary uses of water (like

gardening), which is the form of water use that water efficiency measures are most trying to limit. Moreover, if the ‘true value of water’ is to be used to create incentives towards water efficiency, we cannot see how this could help reduce the affordability problem as it is more likely to exacerbate it.

## **Water UK response to questions and recommendations**

1. *While the regulatory framework for water efficiency has improved in recent years, more can still be done to ensure that the right incentives are in place to encourage the use of water efficiency activity by water companies, customers and Ofwat. This includes:*
  - *the operational efficiency of a company’s water efficiency activity to be calculated separately by Ofwat, instead of included in the overall operational efficiency calculation;*
  - *the true value of water should be used in investment decisions and any evaluation of the costs and benefits of water efficiency measures; and*
  - *Ofwat to set a minimum percentage of water efficiency targets to be achieved through water efficiency activity targeted at defined low-income metered household customers to help them reduce their water use and, therefore, their bills. In the longer term, the UK Government and Assembly Ministers should introduce a statutory requirement for all water companies to implement a water efficiency scheme targeted at defined low-income metered customers;*

We support the first recommendation but we do not support the other two. We think that the concept of ‘true value of water’ is much too vague at this stage to be of use. The WR should not recommend the use of such a concept at this moment but it should invite further research and review of how such a concept should be developed and implemented.

We do not agree that water companies should have targets for applying their water efficiency activity to specific groups of customers. If water efficiency activity was targeted at certain groups of customers, it may cost all customers more than it should, as the WR recognizes (see par.10.2.8). We believe that water efficiency activity should be that which is most cost-effective, recognizing that water companies may pursue more than one objective with their water efficiency activities. It

should be up to companies to form a judgment on how best to achieve their overall water efficiency targets.

2. *The UK Government and Assembly Ministers should maintain progress on the water efficiency of new homes and ensure that synergies with existing refurbishment and retrofitting programmes of existing housing stock are fully exploited to ensure that the water efficiency of existing homes is achieved as economically as possible;*

We agree with this proposal but believe that more work by Government is needed before it can become practical. In particular, we are concerned that the Decent Homes (par 10.2.8) initiative specifically excluded water efficiency. We think that the WR should recommend changes to it. Also the Code for Sustainable Homes (par 10.3.2) has some major problems with respect to water. Big changes have had to be made to the Water Calculator, which was originally based on fittings and appliances rather than behaviour. And domestic rainwater harvesting is still included in higher Code levels despite overwhelming evidence that this is inefficient in both water and energy terms.

3. *Water and energy companies should be incentivised to work together to retrofit existing homes with energy and water efficiency measures and allocate the respective water and CO2 savings to their respective water and energy efficiency targets, especially for hot water efficiency measures accredited in the CERT scheme;*

We agree that, in principle, the CERT scheme could be amended so that water companies can claim/sell/trade carbon savings for water efficiency measures - although this would be quite complex and it has been tortuous to get just one product – Shower Smart – accredited. However, we think that the CRC cannot be amended in the way suggested. The CRC is a fairly straightforward cap-and-trade scheme focused on metered grid energy consumption. To try and bring in carbon savings from water efficiency measures would change the nature of the scheme fundamentally, go against the government's policy of keeping this simple and based on upstream energy use (not downstream consumption) and create a bias in favour of water companies over the other thousands of organisations in the scheme. A much simpler option would be to amend the Ofwat water efficiency target to give a greater weighting to hot water savings.

4. *Water companies should be incentivised to work together with social landlords and housing associations to improve the water efficiency of existing homes;*

We agree and some of our members are already working with social landlords to improve water efficiency. However, the efficiency of such water saving activity may be low and Ofwat does not usually agree that customer monies should be used on this. It is worth noting, indeed, that there are no particular incentives now for water companies and housing associations to work on improving the water efficiency of existing homes.

5. *Where water companies undertake retrofitting projects by themselves, the water companies should be able to accrue any CO2 savings for measures accredited in the CERT scheme, and then be able to sell the CO2 savings to energy companies to use against their targets, or to use the CO2 savings against their own Carbon Reduction Commitment;*

See our comments above for recommendation 3. Also, in view of the desire and need to tackle water and energy efficiency together, it might be worth amending the Ofwat water efficiency targets to give greater credit for (assumed) hot water savings. At present, companies get the same savings for, say, fitting a low flow showerhead that saves 10 litres/day (maybe half of which is hot water) as they do for a save-a-flush that saves 10 litres/day of cold water. The energy and carbon savings from the hot water are not considered.

6. *The UK government should encourage the use of more water-efficient fittings and appliances by:*
  - *ensuring that only water-efficient products can be sold on the UK market; and*
  - *reviewing the efficacy of the current and proposed labelling schemes and deciding what information consumers need as a matter of priority. Government should work with Waterwise, water companies, manufacturers and retailers to ensure voluntary schemes are effective or to decide whether a mandatory scheme is needed;*

We agree with these recommendations. The Water Industry has always argued for point of sale controls but the problem seems to be competition policy. The WR recommendation should be that Government needs urgently to develop its policy on how point of sale control should work.

Also, we are concerned about the emphasis given to dual flush cisterns. There is increasing evidence not only of leaking dual flush toilets but of button failures and misuse. These problems with manufacturers' claims that their appliances are water efficient when they are not also need to be addressed.

*7. The UK Government and Assembly Ministers should promote a national education strategy working with stakeholders to influence public behaviour on water use. Regional and local community-based campaigns on water efficiency should be developed, using the key national messages, but targeting local issues;*

We agree with this recommendation very strongly. See our introductory comments.

*8. Household customers' awareness of the links between hot water and energy savings should be raised by:*

- ensuring that the Act on CO2 calculator<sup>154</sup> includes a section on emissions linked to hot water use and advice on how to use hot water more efficiently;*
- the Act on CO2 campaign including dedicated messages on water efficiency; and*
- water companies including messages to customers on this link, providing information on potential energy savings linked to water efficiency*

We agree that these are all good ideas but we believe that activity to promote energy efficiency – with regard to the polluter pays principle – is not something for which water industry customers should pay. We also note that the WR assumes that energy prices are not sufficient to drive energy efficiency. This logic indicates that prices do not create sufficient incentives, which must be particularly true of water prices, since they are lower than energy ones. If prices are insufficient to drive water efficiency, the education of consumers is essential in ensuring that behaviours change.

*9. The review team would therefore welcome views on whether Ofwat's current sustainable development duty should be extended to make specific reference to consideration of climate change, in particular mitigation and adaptation measures; and*

See our response above in our general comments

*10. The review team calls on the UK Government and Assembly Ministers to promote a national education strategy working with stakeholders to influence public behaviour on water use. In addition, this sort of campaign will need national operational leadership; the review team invites views on who this should be.*

See our response above in our general comments

## **Chapter 11: Customer involvement and understanding**

### **Water UK response to Questions and Recommendations**

*1. The review team recommends that as companies are monopoly providers to household customers, the regulatory regime should include measures on customer experience in the Overall Performance Assessment which have a real and visible effect on companies and thus incentivise better handling of customers. It would welcome views on this recommendation and what the specific measure or measures should be to achieve this;*

Ofwat is now consulting on a replacement of the Overall Performance Assessment. We shall respond in due course.

*2. The review team recommends that Ofwat should publish an annual analysis of companies' responsiveness to their customers;*

See our response to item 1.

*3. The review team recommends that the 12 month limit within which Ofwat must pursue breaches and penalise companies is extended to 5 years;*

Regulation is also being developed in this area by Ofwat.

*4. The review team considers that water customers should be given more information on their bills.*

Ofwat, water companies and CCWater regularly review the information contained in bills, customers' responsiveness, and the benefits and costs of changing bill layouts.

One of the factors that is considered is the appropriate way in which to communicate information about the breakdown of charges, so as not to cause unintended customer reactions.

In particular, it is possible that highlighting on individual customer bills the cost of support to vulnerable customers could undermine customer support for provisions to address affordability, and highlighting the cost of bad debt could make collecting outstanding revenue even harder than it is at present.

5. *Building on best practice in some water, energy and council tax bills, it recommends water bills include the information set out in paragraph 11.8.2. It would welcome views on this recommendation;*

See response to item 4.

6. *The review team recommends that companies should consider whether best practice in some other companies or other sectors could help them engage better with their customers, such as ‘meet the manager’ sessions or going out into the community with local councillors and community representatives. Companies should strengthen their work to find out how their customers want to access the information they require, and use those channels in future.*

See responses to previous items.

7. *Companies should assess the effectiveness of their communication methods, particularly with their harder to reach and vulnerable customers, on a regular basis, and Ofwat should report on this activity;*

See responses to previous items.

8. *The review team welcomes further comments on the development of a UK model for a participatory budget approach by Ofwat and CCWater. This would have the aim of achieving better and earlier involvement of customers by companies in the formulation of company plans and proposals.*

16 September 2009

This issue could be considered by Ofwat and CCWater in collaboration with water companies when they carry out a review of how well the PR09 processes served the long-term interests of water customers.

**Water UK – 4 September 2009**

## **Appendix A: Water Direct – DWP third party deduction scheme**

- Companies believe this a key means to help people on benefits manage their household finances, pay their water bills and help get out of debt.
- Water UK, CCWater, CIEH, Disability Alliance and other organisations believe the Water Direct scheme could be extended and provide more support for more customers – and prevent low income customers getting into debt in the first place.

### **Supporting statements**

- Defra’s Cross-Government Review of Water Affordability (2004)  
*“Government, specifically Department for Work and Pensions, should work with stakeholders, including water companies, Ofwat and Ofgem to explore proposals for possible changes / extensions to the TPD scheme, including Water Direct”*
- HoC Treasury Committee – “Banking the unbanked” (2006)  
*“In the near term changes to the Third Party Deduction Scheme could provide an easy way of improving the ability of those on benefits to manage bill payment. We recommend that the DWP carry out a full review of this scheme with a view to its expansion.”*
- NCC Briefing on Third Party Deduction reform for John Hutton MP, SoS for Work & Pensions (Nov 2005)  
*“The financial inclusion agenda therefore needs to ensure the provision of weekly deductions that cannot result in consumers going overdrawn. The TPD offers the quickest route to achieving this.”*
- **To date, DWP has turned down any opportunity to work with industry and consumer organisations to review and develop the TPD scheme**

### **UKWIR latest research**

UKWIR recently commissioned research from Accent in 2007 to understand customer attitudes to the TPD scheme – Water Direct. The research identified very clearly that customers value the scheme greatly and would strongly advocate its extension

- 91% of respondents said they found the scheme useful as a way of managing their household finance

- 82%, stated that they were able to manage their household finances better or much better as a result of being on the scheme.
- 88% indicated that the scheme was useful/very useful in helping them to clear the debt arrears owed to their water company,
- 86% strongly agreed that the scheme should be made available to customers who are in receipt of one of the three qualifying benefits<sup>9</sup> but who do **not** have arrears on their water bill
- 78% thought that Water Direct payments should be able to be collected from other benefits, widening the appeal and/or ease of collection for respondents in arrears.

### **Changes sought by the industry and stakeholders**

- Water UK with the other stakeholders above would like to see DWP develop and improve the TPD scheme from just a scheme of ‘last resort’. Water Direct could then provide flexibility for people to take control over their own finances, in accordance with Government’s wider financial inclusion agenda
- There is great potential for extending the Water Direct scheme – the number of water customers in receipt of qualifying benefits but without arrears is estimated to be 5 times the current number who qualify. The number of customers in arrears but in receipt of non-qualifying benefits appears to be about 1½ times the current number who qualify
- Specific improvements we seek are
  - Offer Water Direct as a payment option of choice, rather than as a repayment arrangement of last resort for customers in arrears.
  - Allow customers on benefits to join and remain on the scheme when they are not in debt
  - Extend the scheme to include other income replacement benefits e.g. Incapacity benefits, Housing benefits, Council Tax Benefit and working tax credits.

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<sup>9</sup> Current qualifying benefits are Income based Jobseekers Allowance; Income Support; Pension Credit

## **Appendix B: 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 1999<sup>10</sup>, 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

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<sup>10</sup> 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.

2008/09<sup>11</sup>. 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% 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"<sup>12</sup>. 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 UKWIR<sup>13</sup> 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 more<sup>14</sup>. 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).

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<sup>11</sup> Unpublished draft figure from Ofwat email to Water UK Ofwat will confirm figures in an RD letter later in 2009

<sup>12</sup> For further information on which debts are regarded as "priority debts" see [http://www.direct.gov.uk/en/MoneyTaxAndBenefits/ManagingDebt/PlanYourWayOutOfDebt/DG\\_10013266](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.

<sup>13</sup> UKWIR report 04/CU/104/3 Water Industry Debt – Socioeconomic and Demographic Effects

<sup>14</sup> 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

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**

In 2006 the House of Lords Science and Technology Committee published a report on “Water Management”<sup>15</sup>, 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 Report<sup>16</sup> (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

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<sup>15</sup> House of Lords Science & Technology Committee. 8<sup>th</sup> Report of session 2005-06. Water Management. June 2006. See:

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

<sup>16</sup> See <http://www.defra.gov.uk/environment/water/industry/water-charging-review/interim-report.htm>, page 142

of 2 litres/minute at the first mains tap<sup>17</sup> 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.

In the state of Victoria, the urban water businesses are required to assist customers who have payment difficulties on a case-by-case basis<sup>18</sup> 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 2007-08<sup>19</sup>. 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

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<sup>17</sup> 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

<sup>18</sup> 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

<sup>19</sup> 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>

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.

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 years<sup>20</sup> – 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,

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<sup>20</sup> Source: Annual Reports from South East Water and Yarra Valley Water

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 Institute<sup>21</sup>, 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.*

In August 1996 the Department of Health said there was no evidence of a danger to health from disconnection<sup>22</sup>. 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.

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<sup>21</sup> Alicia Herbert and Elaine Kempson – Water Debt and Disconnection – Health and Environmental Health implications

<sup>22</sup> *The Independent* - Tuesday, 20 August 1996

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.

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 \$120<sup>23</sup> (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.

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<sup>23</sup> Exchange rate: \$Aus2 = £1 (average rate July/Aug 2009)