



## Ofwat's response to the Welsh Government's consultation on tackling bad debt in the water industry

### Key messages

- Customer debt is a serious problem for the water and sewerage sectors. Companies must take responsibility for managing this. Most debtors are in the rented property sector. Having access to an appropriate level of tenant data will help companies to address debt more effectively.
- Customers in the rental sector are also at greatest risk of affordability problems. Improved access to appropriate information about tenants can help prevent debt by enabling the companies to identify and provide assistance to those tenants who are likely to struggle to pay their bills.
- Both affordability risks and debt are greatest among social tenants. 42% of social tenants and 32% of private tenants spend more than 3% of their disposable income on water bills. Most rental debtors are social tenants (59% against 22% private renters). Given this, we have suggested mandating the provision of tenants' data by social landlords to help companies to better prevent and manage debt.
- To support the effectiveness of this approach and improve the companies' debt prevention and recovery further, we would encourage water companies to seek to share data with local authorities, energy companies and credit reference agencies where this is in accordance with the legislation.
- Measures are also needed to protect indebted consumers from unfair practices. The companies are not currently required to meet a minimum standard of debt recovery practice. We are considering whether further consumer protection is required within debt recovery processes.
- These regulations should provide similar tools to those available in other sectors, where the existence of contractual relationships often makes it easier for companies to obtain new customer details.

## 1. Introduction

Debt is a significant problem for the water industry in Wales. In 2010-11, Dŵr Cymru and Dee Valley Water had £118.9 million of household revenue outstanding – an increase of 31% since 2007-08. Over the same period, the level of debt written off by the Welsh companies increased by over 400% to £12 million. It is estimated that debt collection costs the Welsh water companies around £25 million a year.

The companies must take responsibility for actively managing debt as it is in their and their customers' interests. We agree with the Welsh Government that more effective action is needed to require customers who are able to pay their bills to do so. This can best be achieved through:

- strong incentives on companies to manage debt effectively and efficiently;
- the improved use of existing debt recovery tools;
- improved debt prevention; and
- if companies are prevented from acting, the provision of new tools.

One such tool currently in development is an industry-funded database that will make it easier for landlords to provide information about their tenants to water companies, and assist with the management of debt in the industry.

We are reforming the way we take account of bad debt at the 2014 price review. In our approach to bad debt in PR14, which we set out in '[Setting price controls for 2015-20 – final methodology and expectations for companies' business plans](#)', we have outlined that we will not be making automatic adjustments for the effects of bad debt. Instead, companies will be able to seek an adjustment only if they can provide substantive evidence that their level of bad debt meets the following three criteria:

- it has a material impact on their costs;
- it is beyond management control (having taken all possible steps to control it); and
- it has impacted the company in a materially different way to other companies.

## 2. Responses to questions

### **Question 1: Do you agree with the estimated costs/ benefits arising from the implementation of these Regulations or otherwise wish to comment upon any area of the Regulatory Impact Assessment?**

We think the impact assessment may risk overestimating the potential gains to water companies and their customers and underestimating the costs, as there are considerable uncertainties in a number of the key assumptions.

In particular, we think it would strengthen the case if you presented more evidence on the following areas.

- **The assumption that 100% of landlords will comply with the regulations.** This seems overly optimistic. Although you acknowledge that this is a high-end estimate, it is not clear that you have attempted to adjust for this in the final cost benefit calculation.
- **The assumption that 20% of customers in rented accommodation are in debt to their water company.** A more in-depth explanation as to why you have chosen to stick with this 20% throughout the impact assessment would be useful, especially as you have acknowledged our own findings that this figure could be nearer to 80%.
- **The central estimate that 50% of debtors will begin to start paying their bills.** Our own work has suggested the figure is around 20%. We think it would be helpful to see more details around how you have factored in the different sources of analysis to come up with this 50% central estimate.
- **The methodology used for calculating the transition costs for water companies.** These costs make up the bulk of total transition costs (£40,000 of the £60,000 total), but the derivation of the £40,000 is not clear from the impact assessment document.
- **The set up and running costs of the Water UK portal.** It is not clear whether these costs have been factored into the assessment.
- We would also like to see more evidence in support of the assumption that outstanding revenue will continue to grow at a rate based on the real change seen between 2009-10 and 2010-11. It may be helpful to see how the balance of costs and benefits varies under a number of different growth scenarios.

**Question 2: Do you have any comments upon any of the provisions in Regulation 3 concerning the personal details being requested about occupiers?**

The consultation proposes that the following minimum set of personal details will need to be collected.

**For occupiers**

- Full name of occupier.
- Occupier's date of birth.
- The date the occupier began to occupy the premises.

**For owners**

- The owner's name and address (unless already provided to the water company).

We support the principle of minimising burdens, but suggest that collecting the following expanded list of details (as we proposed in our response to Defra's bad debt consultation) would improve the efficacy of the exercise without being disproportionately burdensome.

- The tenant's full name.
- The tenant's date of birth.
- Tenancy start date.
- Tenancy end date (where applicable).
- Start and end dates for periods of non-occupancy (where applicable);
- Start and end meter readings (where applicable).
- Bill responsibility (that is, whether landlord or tenant pays the bills under the terms of the tenancy).
- The owner's name.
- The owner's address.
- The owner's date of birth.
- The owners' opinion on the accuracy and completeness of the information provided.

**Question 3: Do you have any comments upon the provisions in Regulation 3 about communicating with occupiers of the provision of an owner's address?**

We agree that the provisions set out in Regulation 3 about communicating with occupiers concerning the provision of information are reasonable.

**Question 4: Do you have any comments upon any of the provisions in Regulation 4 concerning the timing of when the duty takes effect or the period when compliance is required?**

We agree that 21 days grace following notification and the following 21 days allowed to provide information are practical timescales for provision.

**Question 5: Do you have any comments about the requirement for an owner to inform an undertaker of any doubts concerning the information they are providing about occupiers?**

We agree that the requirement, outlined in Regulation 5, for owners to highlight doubts they may have with the information supplied by tenants is a sensible safeguard.

**Question 6: Do you have any comments upon the exemption from liability for charges accrued after the compliance date, where information has been supplied within 21 days of the date when the duty first applies?**

We agree with the inclusion of an exemption from liability in these circumstances.

**Question 7: Do you have any comments upon the exemption from liability, where the owner has provided the undertaker with the information required after the 21 day period when the duty first applied?**

We agree that owners should be exempt from liability after they have made reasonable efforts to provide the necessary information to the undertaker, even when this occurs after the initial 21 day period.

**Question 8: Do you have any comments upon any of the provisions in Regulation 6 concerning how an owner should provide occupiers' details to the undertaker?**

We agree that the methods of providing details outlined in Regulation 6 are reasonable.

**Question 9: Do you have any comments upon any of the provisions in Regulation 7 concerning change of ownership at an occupied property?**

We agree that proposed regulations concerning change of ownership are sensible and practical.

**Question 10: We welcome your views and comments on any aspect of the Regulations or Regulatory Impact Assessment, including anything you feel we may not have addressed.**

See response to question 1.

### **Welsh Language Policy**

A copy of this consultation response is available in Welsh.

**Ofwat**  
**November 2013**