

Explanatory Memorandum to the Water Industry (Undertakers Wholly or Mainly in Wales) (Information about Non-owner Occupiers) Regulations 2014

This Explanatory Memorandum has been prepared by Water Branch, Energy, Water & Flood Division, Department of Natural Resources and is laid before the National Assembly for Wales in conjunction with the above subordinate legislation and in accordance with:

Standing Order 27.1

Minister's Declaration

In my view, this Explanatory Memorandum gives a fair and reasonable view of the expected impact of the Water Industry (Undertakers Wholly or Mainly in Wales) (Information about Non-owner Occupiers) Regulations 2014 and I am satisfied that the benefits outweigh any costs.

Carl Sargeant
Minister for Natural Resources
DATE

1. Description

The Water Industry (Undertakers Wholly or Mainly in Wales) (Information about Non-owner Occupiers) Regulations 2014 ('the Regulations') will place a duty on owners of residential properties (who do not live in those properties) to provide basic information about the occupiers of those properties ('non-owner occupiers') to the relevant water and sewerage undertaker. This enables the undertakers to identify the relevant persons (the non-owner occupiers) responsible for charges in respect of water and sewerage services provided to the property therefore developing and maintaining a personal customer relationship with customers. This will enable more accurate billing and decrease the amount of unpaid water bills for non-owner occupied properties. It will also help the undertakers to better identify empty properties.

2. Matters of special interest to the Constitutional and Legislative Affairs Committee

There are no matters of special interest to the Constitutional and Legislative Affairs Committee relating to the Water Industry (Undertakers Wholly or Mainly in Wales) (Information about Non-owner Occupiers) Regulations 2014.

3. Legislative background

Section 144C of the Water Industry Act 1991, as amended by section 45 of the Flood and Water Management Act 2010, places a duty on owners of residential properties (who do not live in those properties) to provide information about those occupying such properties ('non-owner occupiers') to water and sewerage undertakers. Section 144C(3) provides that if an owner fails to provide the information, the occupiers' liability for charges becomes shared jointly and severally with the owner. The section also gives powers to the Welsh Ministers to make regulations about the information to be provided, the timing and the procedure for providing it (section 144C(4)). The Welsh Ministers' power to make regulations under this section was commenced on 1st October 2010. The remainder of the section will be commenced by order of the Welsh Ministers (with a coming into force date of 1st January 2015).

The instrument is subject to annulment (the negative procedure) pursuant to section 213(1) of the Water Industry Act 1991.

4. Purpose & intended effect of the legislation

Under the Water Industry Act 1991, the occupier of a property is liable for any charges in respect of water supplies and sewerage services provided to the property. However, water and sewerage undertakers (from here on referred to as "undertakers") cannot compel/demand an occupier to provide their details in order to bill them. Prior to the Water Industry Act 1999, undertakers were able to withdraw/disconnect water and sewerage services from households in the event of non-payment of bills. However, the Act (which amended the Water Industry Act 1991) prohibited the withdrawal of services to residential properties, so this deterrent to non-payment has now been lost. Undertakers are now only able to take action for non-payment through the court, where any judgement for charges will be shown on a person's credit score. As this

action can only be properly taken against a named individual, and undertakers have no direct route for obtaining information about who is liable for charges at a residential property, collection of water and sewerage charges can be time consuming and expensive.

Over the last decade, undertakers have seen an increase in the amount of bad debt as a direct result of households not paying their water and sewerage bills. The lost revenue from this non-payment of bills, plus the costs involved in chasing payment, ultimately leads to an increase in water charges across the customer base and is currently adding approximately £20 per year to the average bill.

Research by Ofwat (the economic regulator for the UK water industry) showed that 80% of those reporting themselves as being in debt for water services were customers living in rented properties (classed as 'non-owner occupiers'). Analysis by UK Water Industry Research has also shown that on average, non-owner occupiers have more significant debt for water services, they are higher risk, have higher total debt and higher average debts.

Having the details of non-owner occupiers will enable undertakers to identify the relevant individual and correctly bill and if necessary, pursue the named individuals who are not paying their bills. Providing for a time period within which the information is to be given (i.e. 21 days from the commencement of occupation) also allows for early communication, intervention and co-operation between undertakers and customers to avoid the build up of bad debt (by allowing relevant agreements to be made). Owners and managing agents of rented properties are generally aware of who is occupying their properties. Information on who is occupying the property and is therefore responsible/liable for charges in rented/let properties can be passed on to the undertakers by the owner or managing agent. The Regulations require the owner to supply the full name of a non-owner occupier, the date the occupation commenced and a date of birth (if known) for the occupier. Requiring the date of birth is a measure of data quality assurance e.g. this is helpful in identifying individuals or occupiers with similar names; however, it is not crucial for the purpose of billing, or if necessary, taking legal action.

The objective of the Regulations is to reduce the amount of unpaid bills (i.e. bad debt) within the water industry. The Regulations specify the basic (but necessary) information undertakers need in order to identify and correctly charge occupiers for water and sewerage services. It specifies a period of time for providing the information and section 144C(3) of the Water Industry Act 1991 provides the incentive for owners to provide the information by making them jointly and severally liable with non-owner occupiers for failing to provide this information.

5. Consultation

A Regulatory Impact Assessment was completed and details of consultation undertaken are included in Part 2 below.

PART 2 – REGULATORY IMPACT ASSESSMENT

Problem Under Consideration

1. Since the prohibition on disconnection for domestic properties in 1999, water companies have seen a rise in bad debt in the industry. This problem has arisen because water companies have a statutory duty to supply. The absence of a contract means that occupiers are not required to reveal their details to water companies in order to secure a water and sewerage supply. Nor are owners or occupiers of properties required to provide information on the identity of those liable for the water and sewerage bills.
2. The majority of households in Wales are served by Dŵr Cymru Welsh Water¹. Severn Trent Water² and Dee Valley Water³ also serve a proportion of households in Wales. Dŵr Cymru Welsh Water and Dee Valley Water operate wholly or mainly in Wales, whereas Severn Trent Water operates wholly or mainly in England. As the Welsh Ministers' powers in relation to water and sewerage undertakers are limited to those who are wholly or mainly in Wales, the policy proposals will therefore only apply to Dŵr Cymru Welsh Water and Dee Valley Water.
3. Water companies face the need to strike a balance between affordability for customers and quality/reliability of service. Increasing costs of debt recovery for the water industry as a whole mean increases in the average bills of **all** customers if permitted through the price setting process.
4. Bad debt arises in some cases because of genuine issues with affordability; in other cases, the water companies simply do not possess enough information about the occupier of a property to bill them for their water usage (generating 'unbilled revenue' which accumulates over time). Lack of occupier information is a problem in the rented (non-owner occupier) sector in particular, since it is often difficult for water companies to determine who the occupier of a property is. Sometimes water companies send out bills addressed to 'The Occupier' where occupier details are unknown, although this practice has proven to be ineffective in obtaining a satisfactory response and, as a result, bills often go unpaid.
5. Owing to the uncertainty in the current economic climate, water companies anticipate that they could face increasing levels of non-payment of bills, with higher levels of debt arising as a result. Increasing debt levels risks increasing customers' bills and, at its most extreme, the financial sustainability of companies.

¹ Dŵr Cymru Welsh Water is a water and sewerage company operating **wholly or mainly in Wales**.

² Severn Trent Water is a water and sewerage company operating in Wales but which is **wholly or mainly in England**.

³ Dee Valley Water is a water-only company operating **wholly or mainly** in Wales.

Rationale for Intervention

6. The Water Industry Act 1991 made the occupier of a property liable for water and sewerage charges, but water companies cannot require occupiers to provide their details in order for them to be billed. The prohibition on disconnection of domestic properties for water supply, introduced across the UK in 1999, meant that water companies could no longer manage this situation since they have a statutory duty to provide services to households; they are not permitted to withdraw their services where non-payment occurs. This has led to a substantial increase in bad debt in the UK water industry in the last decade.
7. Ofwat (the economic regulator for the water industry) incentivises improvements in efficient debt management in order to protect paying customers to some extent from water companies' costs. Water companies have an incentive to outperform their efficiency targets since this generates a time-limited benefit to them. Ofwat allows water companies to recover the costs of debt from their customer base via bills to domestic and non-domestic customers. It is estimated that the cost of debt now adds the equivalent of around £20 per year to the average bill of paying household customers in Wales. Both customers and water companies can therefore benefit from future reductions in the level of debt and increases in revenue collected.
8. Despite existing codes of practice for managing debt in the water industry, the level of outstanding revenue for water companies operating wholly or mainly in Wales has increased by 31% in real terms since 2007/08⁴. Water companies often find it difficult to collect revenue for outstanding water and sewerage bills since some customers do not provide their details to water companies. In some cases, water companies will 'write off' (no longer actively pursue) outstanding revenue when they have exhausted all attempts to recover it, for instance:
 - if a customer has left the property and trace agents cannot successfully locate them;
 - if it is uneconomic to pursue the customer; or
 - if the customer has deceased or has been declared bankrupt.

Most water companies do not write off debts from existing occupiers. Debt will only be written off when all avenues for chasing payment have been explored and there is no other option left. In total, water companies operating wholly or mainly in Wales wrote off **almost** £12m of household revenue⁵ during 2010-11 – a substantial increase of around 430% in real terms since 2007-08. This £12m is equivalent to 2.4% of household revenue billed during 2010-11⁶.

⁴ Source: Ofwat, June Returns. Trend up to 2010-11. From 2011-12 onwards Ofwat no longer collect June Returns.

⁵ Source: Ofwat, June Returns. This includes revenue from both measured and unmeasured households.

⁶ Household revenue billed calculated by multiplying average water and sewerage bill by number of households.

9. The number of properties for which tenant details are unknown to water companies in Wales is estimated to be in the region of 6,550⁷. The potential uncollected revenue associated with these properties is estimated to be around £2.8m per annum⁸. This equates to around 0.5% of total household turnover for water companies in Wales and around 2% of total debt (i.e. revenue outstanding for greater than 3 months plus revenue written off). If the water companies held details for the occupiers of these properties this revenue could potentially be collected, in turn generating a benefit to existing paying customers over the long run through potential reductions in their water bills. However, this uncollected revenue from unknown tenants is clearly only a part of the problem of total debt in the water industry.
10. The Flood and Water Management Act 2010 inserts Section 144C into the Water Industry Act 1991 which makes provisions to allow water companies to be provided with specified information from landlords relating to the tenants of their rental properties, so that they can bill named customers, and if necessary pursue them for unpaid bills. Landlords are not currently required to provide this information to water companies and don't necessarily have an incentive to do so. Many landlords are also cautious of the Data Protection Act 1998 and are not willing to provide tenant information to water companies for fear of breaching Data Protection laws; however, the Information Commissioner's Office has published guidance⁹ for landlords which indicates that it is within their rights to disclose the names of tenants to utility companies.
11. It is intended that the Regulations will facilitate the obligation on landlords to make their tenants' data available to water companies, by specifying what information is to be provided and to require landlords to provide the relevant information within a specified timeframe. Provision of tenant information to water companies as soon as possible after they move into a property will help to maximise the prospects of recovering previously unbilled revenue. Failure to provide the specified information would lead to the landlord becoming jointly and severally liable for the water and sewerage bill of their tenanted property. Landlords will not be liable for unpaid bills if they have provided the required information to water companies.

Options

12. Two policy options have been considered, the costs and benefits of which are presented in this impact assessment:

- 1) **Do nothing** (baseline) – level of outstanding and uncollected revenue continues to increase at current rate as undertakers have insufficient information about non-owner occupiers to pursue charges.

⁷ Based on water company estimates that 1.8% of rented households have unknown occupier details.

⁸ Based on average annual water and sewerage bills.

⁹ ICO guidance available at:

http://www.ico.gov.uk/for_the_public/topic_specific_guides/housing/landlords.aspx

- 2) **Regulate** to require provision of basic information about non-owner occupiers to undertakers (preferred option).
13. Policy option 2, to introduce regulations to require owners of residential properties (who do not live in those properties) to provide information about the occupiers to undertakers, is the preferred option since it is aligned with the objectives of the policy and is estimated to generate a net benefit to society.
14. It is assumed that, under the 'do nothing' option, there is already a form of 'voluntary' provision of information from owners of properties (e.g. landlords), hence a voluntary approach has not been included as a separate policy option. The current approach has not been effective in alleviating the problem of bad debt in the water industry. Even though some undertakers already engage with property owners to encourage them to share information about occupiers (e.g. tenants), this has had little impact on the size of the debt problem.
15. Option 2 is intended to go some way towards reducing the level of uncollected revenue in the water industry, through reducing the obstacles faced by undertakers in the pursuit of unknown debtors. However, in order for this option to achieve the objectives of the policy it will require a robust and effective approach to debt prevention and recovery by undertakers, along with efficient administration of their customer records.

Assumptions Used in the Analysis

Void and Billed Households

16. Ofwat requires water companies to issue bills to properties receiving a service, or to list properties as 'void' where no service is being received (i.e. where the property is unoccupied). Void properties should not be billed; as a result, no debt can accumulate against these households and they have no revenue impact on the water companies.
17. If a property listed as 'void' is metered, water companies will be readily able to tell when consumption is occurring, and should bill the property and remove it from the 'void' category. If a property is classified as 'void' and is unmetered, it will be more difficult for the water companies to determine when water is being consumed and to establish whether a property is actually occupied and should be billed. For properties incorrectly classified as void (i.e. they are in fact occupied), their water and sewerage services are being paid for by paying customers, who face upward pressure on their bills as a result.
18. For 2014/15 the overall number of voids for household customers in Wales is estimated to be around 54,410 properties, or about 4% of households served by Dŵr Cymru Welsh Water and Dee Valley Water. Based on data matching work undertaken with a number of Registered Social Landlords,

a sample indicated that around 2.9% of properties that had been classified as void were actually occupied, and that 2.2% of properties that were still being billed were actually void. It is therefore estimated that there is an 'error rate' of approximately 5% in the classification of void properties. This error rate leads to impacts on the revenue of water companies – i.e. properties that are being billed but are actually void contribute to uncollected revenue that may eventually have to be written off, whereas water companies are missing out on potential revenue from properties that are occupied but not billed.

19. The proposed regulations will therefore create a benefit to paying customers in the form of lower average bills, since they should enable water companies to identify unknown occupiers and as a result to bill more households for services that are being consumed. Water companies will also benefit from reduced debt recovery costs, reductions in bad debt and capital borrowing requirements, and improved cash flow.

Identifying unknown Occupiers

20. There are assumed to be three different categories of properties served by water companies in Wales. Firstly there are those properties which are known to be in receipt of water services but for which the name/details of the occupier are unknown to the relevant water company. Water companies sometimes address the water bills for these properties to 'The Occupier' in the absence of specific details. This practice, however, is not very effective in securing a positive outcome in terms of bill payment. Methods for attempting to identify the occupier are often undertaken alongside this.
21. Secondly, there are some properties for which water companies estimate they have incorrect or out of date details for, possibly owing to a change of occupancy. Water companies will also undertake actions to attempt to identify the correct occupier in these cases.
22. Finally, there are some properties that the water companies record as 'void' or empty but which are actually believed to contain occupiers using the unmetered water supply. Since these properties are (incorrectly) considered 'void', they are not billed and no debt can accumulate against them - they therefore have no revenue impact on the water companies.
23. Water companies in Wales are estimated to have around 54,410 properties classed as 'void', but it is estimated that approximately 1,580 of these could in fact be occupied. If these wrongly categorised properties could be billed effectively the water companies could potentially collect more revenue, which in turn could reduce the bills of the rest of the customer base. This would not have an impact on the overall level of bad debt in the industry, since unbilled revenue is not recorded as debt, but would improve company cash flow and reduce capital borrowing requirements. It would also have an impact on the bills of all customers,

since the majority of costs relating to servicing the debt are assumed to be directly transferred to all customers.

24. The number of households currently served by water companies operating wholly or mainly in Wales is approximately 1.4 million¹⁰. Approximately 27%¹¹ (around 380,000) of those households are in the rented sector, either private rented or social rented. Water companies estimate that around 20% of tenanted customers in Wales are currently in debt, amounting to around 76,000 tenanted households at current, as indicated in Table 1.

Table 1 - Total Households and Tenanted Households Served by Dwr Cymru Welsh Water and Dee Valley Water

Number of Households Served	1,402,350
Number of Tenanted Households	378,635
Number of Tenanted Debtor Households	75,727

Source: Ofwat Analysis of Family Resources Survey, and Dwr Cymru Welsh Water and Dee Valley Water WRMPs

Water Bills in Wales

25. The average household water and sewerage bill of Dwr Cymru Welsh Water customers was £434 per annum for 2013/14 and £403 for Dee Valley Water customers¹². Dwr Cymru Welsh Water estimates that the equivalent of £20 of the average customer bill goes towards covering the operating costs of recovering outstanding revenue. However, there could be some variation in this figure between companies, since the methodologies used to calculate this amount are sensitive to companies' individual write-off policies. The £20 figure is therefore considered to be an upper estimate and should be treated with some caution.
26. Keeping water bills affordable for households in Wales is a key priority; therefore, if the proposed regulations can go some way towards reducing the cost of debt recovery this could potentially reduce the level of costs that are transferred (directly or indirectly) to customers.

Specified Information Requirement

27. In order to minimise the regulatory burden on both landlords and water companies, the level of detail required by landlords about their tenants should be kept to a minimum. Ofwat¹³ has recommended the following specification to ensure that the Information Commissioner's Office (ICO) requirements for data quality are met, and that water companies are able to bill and pursue debts more accurately:

¹⁰ Source: Dwr Cymru Welsh Water and Dee Valley Water Water Resource Management Plans

¹¹ Ofwat: Analysis of Family Resources Survey 2011

¹² Average water bill amounts for 2013/14. Source: Ofwat. Average water and sewerage bill is calculated by summing the average water bill to the average sewerage bill. For Dee Valley Water, a water only company, this is calculated by summing their average water bill to the average Dwr Cymru Welsh Water sewerage bill.

¹³ Source: Ofwat's response to Defra's consultation on tackling bad debt in the water industry, 2012

- 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 (i.e. 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; and
- The owners' opinion on the accuracy and completeness of the information provided.

Ofwat recommends that a detailed information requirement such as that listed above is thought to be more likely to enable water companies to pursue outstanding tenant debt more effectively.

28. However, the Welsh Government is committed to minimising the burden on landlords of additional regulation. Requiring landlords to provide this level of detail may incur a relatively high cost since landlords are likely to hold only a basic level of detail about their tenants. Collecting additional information is likely to require an additional communication between the landlord and tenant, incurring time and costs to both groups. For landlords with a very large number of tenants, gathering this information could prove overly burdensome and costly. Hence, in order to minimise the burden on landlords it is recommended that only a basic level of detail is required.

29. Following Defra's recommendation in their Final stage Impact Assessment we are proposing that the information requirement consists of the following:

For Occupiers

- Full name of occupier;
- Occupier's date of birth; and
- The date that the occupancy commenced

Defra's communications with water companies have indicated that this would be the minimum level of detail they would require in order to effectively bill (and, if necessary, pursue) a customer. Enabling water companies to require the basic details listed above would go some way towards improving the effectiveness of debt recovery, although there would also need to be a commitment from the water companies to follow a robust and effective approach to pursuing outstanding debt.

30. It is envisaged that the proposed regulations should allow 21 days for landlords to provide the required information to water companies. This

period would initially begin when the regulations are issued – whereby landlords will be required to supply the details of existing tenants – and thereafter whenever there is a change of occupancy in their rental properties.

Water UK National Website

31. Water UK has committed to providing a national website for all landlords to provide the specified tenant information to water companies. It is anticipated that this would go some way towards making the proposed regulations less burdensome for some landlords and managing agents than if they had to provide the information by post or by telephone. A survey of landlords by the National Landlords Association indicated that 85% would be interested in using the proposed Water UK web portal.

Appraisal Assumptions

32. For the purpose of analysis, a 10-year appraisal period has been used. This is deemed to be a reasonable time period for comparing the options since there is uncertainty regarding changes in the industry over any time period beyond that. There are likely to be changes over the coming decade as a result of the forthcoming Water Strategy for Wales. Hence, it is considered prudent to assess the impacts of the options over a 10 year period rather than a longer time period.

33. In line with HM Treasury Green Book¹⁴ guidance, a 3.5% discount rate has been applied to all costs and benefits arising over the appraisal period.

34. The level of outstanding revenue is assumed to increase at a constant rate, based on the actual real increase between 2009-10 and 2010-11. A 5% annual rate of interest is also applied to this.

Costs & benefits

Option 1 – ‘Do nothing’ (baseline)

35. Under option 1 (the baseline) the current situation would continue. With no regulatory intervention, it is anticipated that the level of outstanding revenue and unbilled revenue in the water industry would continue to grow. Outstanding revenue (‘debt’) can be attributed to customers who don’t / won’t or can’t pay their water and sewerage charges. Unbilled revenue is attributed to occupiers who are using water and sewerage services but whose details are unknown to the relevant company.

¹⁴ http://www.hm-treasury.gov.uk/data_greenbook_index.htm

Identifying Unknown Occupiers

36. Unbilled revenue can be attributed to properties which are consuming water and sewerage services but for which the relevant undertaker has no occupier details for so cannot bill. Undertakers currently incur costs on an annual basis to identify unknown occupiers, through a variety of means. These include desktop investigations conducted internally and mail-shot campaigns to prompt contact with unknown occupiers. Void properties (i.e. where the property is unoccupied) are also inspected, sometimes by a third party contractor and sometimes by the undertakers' own meter readers, to help determine whether the properties are correctly or incorrectly considered 'void'. For tenanted properties it is often harder to identify the occupier than for owner-occupied properties, and hence the costs incurred are typically relatively higher. Costs are often incurred by undertakers to try and identify the occupier of a tenanted property without success.
37. Currently, the cost of identifying an unknown occupier is typically around £18 per visit for properties in Wales. Data check searches via external financial service providers cost an average of £3 per check, which would typically be incurred once every 12 months on a continuously void property. The cost of sending letters in an attempt to identify unknown occupiers is circa £0.20 per letter. Where a 'void' property is resolved without a visit (i.e. the occupier is identified or the property is confirmed void) the cost could be between £1 and £5; where a void is resolved with one visit this could cost between £5 and £25; and where a void property requires several actions and visits this could cost upwards of £100.
38. It is estimated that there are approximately 54,410 'void' properties in Wales. Water undertakers estimate that approximately 2.9% of void properties (around 1,580 properties) are wrongly categorised, i.e. they are actually occupied. If it is assumed that all of these voids are resolved without a visit, the minimum cost to undertakers of resolving them could be between £54,410 and £272,050 per annum. If all void properties required at least one visit, the annual cost to undertakers could be up to around £1.36 million. However, a proportion of the void properties could run into several hundreds of pounds to resolve, which could add to this figure (although there is likely to be a threshold above which it would be inefficient for undertakers to continue to pursue the debt).
39. Identifying occupiers means that properties can be billed for the services they are using, increasing potential revenue in the water industry. However, identification of occupiers does not necessarily lead to this unbilled revenue actually being collected. Whilst water undertakers will be able to bill these properties, there is no guarantee that the bills will start to be paid. Unpaid bills contribute to the level of outstanding revenue in the water industry, and lead to 'chase' and 'finance' costs being incurred by water undertakers. Where all potential avenues for pursuing payment of water bills have been exhausted and the bills remain unpaid, undertakers may 'write off' this revenue (incurring costs in doing so).

Level of Outstanding Revenue

40. The statutory duty to supply water, along with the lack of requirement for customers to provide their details and the lack of consequences of non-payment has contributed to a sharp increase in the level of outstanding revenue in the water industry. Despite existing codes of practice for managing debt in the water industry, outstanding debt for undertakers operating in Wales has increased by around 31% since 2007/08.
41. The total level of household revenue outstanding in the water industry in Wales in 2010-11 was £119 million¹⁵, of which £19.4 million was more than 48 months old. Outstanding revenue that is more than 12 months old (£78.5 million in 2010-11) is currently less likely to be collected. Revenue that is written off (i.e. bad debt) is 'transferred' from those who do not pay their water bills to those that do pay, since the written off revenue forms part of undertakers' costs and is then recouped through customer bills.
42. Undertakers estimate that outstanding revenue costs paying households the equivalent of £20 per year. The three components¹⁶ of bad debt consist of:
- the costs that undertakers incur on debt recovery activities, e.g. through sending out reminder letters or outsourcing accounts to debt collection agents;
 - the revenue that is written off as bad debt when the undertakers deem it to be unrecoverable; and
 - the interest costs associated with revenue that is not recovered (this is assumed to be 5%).
43. Table 2 shows the current outstanding debt for undertakers operating wholly or mainly in Wales (Dŵr Cymru Welsh Water and Dee Valley Water). The level of outstanding revenue written off has substantially worsened since 2007-08, increasing by over 400% in real terms between 2007-08 and 2010-11.

Table 2 - Level of outstanding debt for Dwr Cymru Welsh Water and Dee Valley Water, 2010 prices

£m	2007-08	2010-11	Increase
Total household revenue outstanding	90.9	118.9	31%
Including non-households	114.5	141.5	24%
Revenue written off	2.3	12.0	427%

Source: Ofwat, 2011 June Returns for Dŵr Cymru Welsh Water and Dee Valley Water.

44. Table 3 below outlines the age profile of current outstanding debt as reported to Ofwat. It indicates that 34% of outstanding revenue is less than a year old, 57% is less than two years old, 73% is less than three years

¹⁵ Source: Dŵr Cymru Welsh Water and Dee Valley Water June Returns, 2011. This includes all household revenue outstanding, including revenue more than 48 months old.

¹⁶ Source: Ofwat

old and 84% is less than four years old. 10% of revenue outstanding in 2010-11 was written off as uncollectable.

45. The level of outstanding revenue has increased substantially since 2007-08 and is expected to continue increasing over time as unpaid bills continue to accrue. If Section 144C is not commenced and no regulations are implemented to reduce the level of outstanding revenue in the water industry it is likely to continue increasing, with a continuing impact on customer bills. The rate of increase of outstanding revenue is based on a number of different factors, including: increase in number of households served by undertakers, number of tenanted properties, number of unidentified occupiers and number of households unwilling or unable to pay. There is considerable uncertainty surrounding all of these factors, and it is therefore difficult to predict the rate of future increase of outstanding revenue.

Table 3 - Age Profile of outstanding revenue in the Water Industry in Wales, 2010-11

Age of Outstanding Revenue	£m	% of Total
<3 months	13.7	12%
3-12 months	26.7	22%
12-24 months	27.0	23%
24-36 months	19.0	16%
36-48 months	13.0	11%
Total <48 months	99.5	84%
>48 months	19.4	16%
Total revenue outstanding	118.9	
Including non-households	141.5	
Revenue written off	12.0	

46. However, it is possible to make some assumptions about the rate of increase based on the historic rate of growth of outstanding revenue, for the purpose of analysis. Outstanding revenue (greater than 3 months) in the water industry is estimated to have amounted to the equivalent of around £80 per billable household in Wales in 2011. If outstanding revenue continues to increase at the same level as it is currently rising¹⁷, under the 'do nothing' option it could, if not written off, increase to the equivalent of around £144 per household served in Wales over the next decade (in 2010 prices)¹⁸. Note, however, that this £80-£144 is not actually added to customers' bills, it is just total revenue outstanding divided by the number of households. What is actually added to customers' bills consists of outstanding revenue that is written off, and the cost of servicing the outstanding revenue. As the level of outstanding revenue increases, the level of revenue written off and the cost of servicing the outstanding revenue would also increase, and could add the equivalent of £30 (2010

¹⁷ Assumed to be 5% per annum.

¹⁸ This calculation assumes that the level of outstanding revenue will continue to grow at the same rate as seen between 2009-10 and 2010-11 (i.e. a 5% real increase per annum over the appraisal period), with an indicative annual interest rate of 5%. It also assumes that the number of households served increases at the rate identified in undertakers water resource management plans. All figures are in 2010 prices for comparison.

prices) to the bills of all customers by 2023 compared with the cost of around £20 per bill in 2013¹⁹.

47. Due to the considerable uncertainty surrounding these estimates it is considered prudent to consider a range of values for the scale of benefits that could be realised under the proposed regulations compared with the 'do nothing' option.

Cost of debt recovery

48. To recover outstanding debt, undertakers incur operating expenditure relating to debt collection, including:

- Issuing reminder bills;
- Staffing costs;
- Commission payable to local authorities or debt collection agents; and
- Legal and court fees.

49. It is estimated that undertakers in Wales currently spend an average of £5 per non-paying household where minimal debt recovery action is required. For late payers this figure increases to an average of £30 per non-paying household, and for persistent non-payers the cost of debt recovery action could be £100 or more, going into several hundreds of pounds for the worst non-paying households. Table 4 sets out the operating expenditure of Welsh Water and Dee Valley Water for outstanding revenue collection in 2010-11, as reported to Ofwat.

Table 4 - Operating Expenditure on Debt Collection, 2010-11

£m	DCWW	DVW	Total
Chase Costs	6.4	0.3	6.8
Financing costs	5.8	0.1	5.9
Write-off costs	11.8	0.2	12.0

Note: 'Chase' costs are those incurred by undertakers for chasing non-payers for outstanding bill payments. 'Financing' costs include the cost of borrowing. 'Write-off' costs are costs absorbed by undertakers as a result of an inability to determine who is liable for unpaid water bills (bad debt).

50. Table 4 indicates that debt collection costs for undertakers in Wales are around £25m per year, although these costs are estimated to have increased since 2010-11. This is an increase of approximately 90% since 2007-08. This increasing cost of debt collection is unsustainable in the long run because of the conflicting demands on undertakers, to both improve efficiency and keep water and sewerage bills at an affordable level for customers.

¹⁹ The total cost of debt is assumed to consist of the revenue written off and the cost of servicing the debt (chase and financing costs). Revenue written off is assumed to remain at the 2010-11 proportion of outstanding revenue over the appraisal period, i.e. 10% of outstanding revenue. The cost of servicing the outstanding revenue is assumed to remain at 11% of outstanding revenue over the appraisal period.

Option 2 – Require provision of basic details by owners (e.g. Landlords)

51. Option 2 is a regulatory option to commence Section 144C of the Water Industry Act 1991, as amended by Section 45 of the Flood and Water Management Act, which will require owners of residential properties (who do not live in those properties) to provide specified information relating to occupiers to undertakers.. If owners fail to supply this information they will become jointly and severally liable with the occupiers for the water and sewerage bills.
52. Under the proposed regulations, the details which owners must supply to avoid liability are the names, dates of birth of the occupiers (if known) and the date that the occupancy started. In response to Defra's consultation on this issue, undertakers responded that this would be the minimum level of detail they would need in order to effectively bill and, if necessary, pursue a customer. Some organisations representing landlords said that collecting these details should not be onerous and would be a normal part of referencing for a new tenant. However, date of birth may not be routinely collected and may need to be obtained via additional communications between landlords and existing tenants. In order to avoid any onerous burdens on owners, the regulations provide that a date of birth is to be provided, only if known. It is anticipated that under the proposed regulations these details would then be incorporated into future tenancy agreements.
53. Owners would have 21 days from the date of their duty beginning to provide the required information for their existing occupiers (e.g. tenants). It is assumed that the duty to supply the details would operate as a general duty so owners would have to supply the details of their non-owner occupiers 21 days from the regulations being issued, and thereafter 21 days after any change of occupancy. Most respondents to Defra's consultation indicated that 21 days was an acceptable length of time.
54. The requirement to provide information is proposed to cover households for which the undertakers do not currently hold any details for. It is assumed that the main affected groups will fall into the following categories:
- Undertakers operating wholly or mainly in Wales;
 - Landlords (including Registered Social Landlords, Local Authorities and private landlords);
 - Tenants of rental properties;
 - Customers.

These groups are all anticipated to incur costs and/or benefits that are additional to the baseline as a result of the proposed regulations.

Costs

Transition Costs –Undertakers

55. Undertakers will incur transition costs through having to inform property owners (e.g. Landlords) of the new requirements. It is expected that undertakers will inform landlords (including Registered Social Landlords, Local Authorities and private landlords) by writing to them to inform them of the regulations and how it affects them. It is anticipated that there will be no additional costs associated with this lettering, compared to current voids processes. However, where owner details are unknown to undertakers there will be costs incurred with identifying them (e.g. through letting agencies) and sending them introductory letters and advice sheets. This is likely to be more expensive for owners of properties in Wales that live in other parts of the UK.
56. Liaising with Community Housing Cymru could also help in communicating the changes and the impacts arising. Such communication could also act as an opportunity to promote improved partnering arrangements between Registered Social Landlords / Local Authorities and undertakers, which could prove beneficial for all involved. Communicating the changes could also be undertaken through targeted advertising towards landlords in the private rented sector, since these landlords are likely to be more difficult to identify and obtain details for. Alternatively, additional information pages could be set up on the undertakers websites, though these costs are anticipated to be minimal since they are likely to be integrated into existing IT services.
57. Transition costs could also be incurred by undertakers through setting up systems and/or training employees to enable effective receipt of information provided by owners . However, some undertakers have already made certain changes to systems in anticipation of the proposed regulations, which will keep transition costs to a minimum. It is envisaged that receipt of information will be processed by existing call advisors who will be trained to deal with new landlord contacts. New data capture requirements are likely to be included in updates to customer billing systems, with processes automated wherever possible (for instance when there is a change in occupancy). This is likely to minimise the initial costs associated with the introduction of the regulations. Some additional changes to systems may be required further down the line, although the costs of these are uncertain. However, it is not anticipated that additional costs would change the outcome of Option 2 i.e. a positive Net Present Value.
58. Table 5 sets out the estimated transition costs likely to be incurred by undertakers wholly or mainly in Wales as a result of the proposed regulations.

Table 5 - Estimated Transition Costs for Undertakers in Wales, 2012

Transition Costs	£
Web information pages and Web forms	4,000
Staff Training	0
Lettering / Communication / Advertising	6,000
Systems/process automation	30,000
Total	40,000

Note: Staff training costs are anticipated to be absorbed into existing training programmes so there is no additional cost associated with this.

Transition Costs – Owners (e.g. Landlords)

59. Data from Rent Officers Wales indicates that there could be up to 10,000 landlords within the private rental sector in Wales. However, the Residential Landlords Association estimates that this figure is around 75,000. All landlords will incur transition costs in terms of taking time to familiarise themselves of the new obligations and informing relevant individuals (e.g. tenants, or other landlords within an organisation). The contact options available to landlords for provision of information to undertakers are likely to include telephone, web-based forms, email, the proposed Water UK web portal ‘Landlord TAP’, or standard letter.
60. It is anticipated that a majority of Landlords will choose to provide the specified information via online methods, potentially either through the Water UK website, via a company’s own website or via email, for example. Additional transition costs could therefore arise if owners decide to use the Water UK website to provide undertakers with the required information, through time taken to familiarise themselves with the website’s processes and possibly to set up an account on the website. It is anticipated that, owing to the minimal time and cost of doing so, a majority of Landlords would use this online medium for submitting details to undertakers as opposed to providing details by telephone or post. Based on 75,000 landlords each taking 5 minutes to register on the proposed Water UK website, the estimated total transition cost of doing so would amount to around £102,000²⁰. It is thought that a small proportion of landlords would continue to provide occupier/tenant details to undertakers by telephone.
61. Some landlords will also incur transition costs through having to provide undertakers with the specified details for their existing tenants where they have not already done so. It is assumed that most landlords already hold at least some, if not most, of the required details about their tenants, so gathering any necessary information should incur minimal time and cost per tenanted household. For landlords with large portfolios, such as Registered Social Landlords and Local Authorities, the additional one-off cost associated with collecting the unknown information (i.e. name of the occupier) could be fairly substantial if the details need to be collected for a large number of properties. However, it is not known exactly what proportion of Registered Social Landlord and Local Authority tenanted

²⁰ Median hourly pay of landlords taken from Annual Survey of Hours and Earnings (ASHE) 2013.

properties would need to provide these details (i.e. where they have not already provided them to undertakers). In addition, the regulations state that date of birth should only be provided if known. In order to estimate the cost of obtaining and supplying information where not already done, we shall assume that Landlords need to collect and supply information from all of the 6,550 tenanted households estimated as needing to provide their details. Based on landlords taking 5 minutes to obtain information from tenants, and 4 minutes to provide information to undertakers, the estimated total transition cost of doing so would amount to around £16,000²¹.

Transition Costs – Occupiers (e.g. Tenants)

62. Existing tenants in Wales will incur minor transition costs through having to provide their landlords with the required data where they have not previously done so. However, it is assumed that a majority of tenants would already have provided at least some of the specified information to their landlords as part of the tenancy agreement (whether formal or informal). It is anticipated that any data that the landlord doesn't already hold, such as date of birth, will be collected as part of other communications with tenants, hence the additional cost to tenants of providing the required information is expected to be minimal. Based on estimates of 6,550 tenanted households needing to provide their details, the estimated transition cost to tenants²² is around £4,000. Table 6 outlines the estimated total transition costs to all three affected groups.

Table 6 - Estimated Total Transition Costs, 2012 prices

	£
Undertakers	40,000
Landlords	117,000
Tenants	4,000
Total	121,000

Note: Figures may not sum due to rounding.

Ongoing Costs –Undertakers

63. Ongoing costs that are additional to the baseline are also anticipated to arise for all three groups (owners, occupiers and undertakers). Undertakers are expected to incur ongoing costs that are additional to the baseline, from having to inform and remind owners of the new regulations. This is expected to be carried out via the provision of information sheets and notices on all customer bills. Providing information sheets is expected to result in an additional cost for undertakers of around £20,000, and is likely to be incurred over a number of years following the introduction of the regulations.

²¹ Median hourly pay of landlords taken from Annual Survey of Hours and Earnings (ASHE) 2013.

²² Median hourly pay of tenants taken from Annual Population Survey (APS) 2011. Cost to tenants assumes it takes 5 minutes to communicate the necessary information to landlords.

64. Undertakers will also face additional ongoing costs from having to identify unknown owners e.g. landlords who still do not provide their own information, or that of their tenants, to undertakers. Undertakers already incur costs to identify unknown occupiers or owners of a property. However, the regulations will enable undertakers to follow through with identifying unknown occupiers and chasing them for payment of currently unbilled revenue, so it is anticipated that the Land Registry will be increasingly used as a source of data for identifying unknown property owners. Since it costs £4 per request to obtain the details about the registered owner of a specific property, this is currently assumed to be a 'last resort' option for undertakers. It is anticipated that the Land Registry will remain a last resort for identification under the proposed regulations, but is more likely to be used because the costs of doing so are more likely to be offset by collection of currently unbilled revenue. Undertakers estimate that Land Registry enquiries for properties in Wales could generate an ongoing cost over a number of years of around £40,000 per annum. Disputes (and lost income arising as a result of disputes) with landlords are estimated to cost undertakers in Wales approximately £15,000 per annum.

Table 7 - Estimated Ongoing Costs for Undertakers in Wales, 2012 prices

Ongoing Costs	£
Lettering	0
Information sheets	20,000
Land registry enquiries	40,000
Disputes with landlords	15,000
Lost income	20,000
Total	95,000

Note: Ongoing costs are expected to be incurred on an annual basis over the policy period. Figures may not sum due to rounding.

Ongoing Costs – Owners (e.g. Landlords)

65. Owners, such as formal landlords will incur additional annual costs from obtaining the required information from tenants and providing it to the relevant company where they have not already done so, via the necessary means (telephone, email or post). It is estimated that a majority of these landlords are likely to already hold at least some, if not most, of the specified information about their tenants. Where owners do not know the name of an occupier additional communication between the landlord and tenant may be required, although it is anticipated that this information will be collected as part of other communications (or in future as part of tenancy agreements) so the additional time and cost of obtaining the data is expected to be minimal. For the purpose of analysis, if it is assumed that the number of unknown tenanted households remains the same over the policy period (i.e. 6,550 unknown households per annum), and it takes 5 minutes to obtain information from tenants and 4 minutes to provide this to undertakers, the total estimated annual cost to landlords of collecting and passing on the tenants' information would be around £15,900.

Ongoing Costs – Occupiers (e.g. Tenants)

66. Some tenants will incur annual costs from having to provide the required information to landlords where they would not otherwise have done so. For the purpose of analysis it is assumed that the time taken for tenants to provide the information (estimated to be five minutes on average) is equal to the time taken by landlords to obtain that information. Again, based on the assumption that the number of unknown tenanted households remains the same over the policy period the total estimated annual cost to tenants of providing their information would be around £4,000. However, the proposed regulations are anticipated to reduce the number of unidentified tenants so this additional annual cost to tenants (and landlords) arising as a result of the regulations is likely to be an upper estimate.
67. The **total average annual cost** (to landlords, tenants and undertakers) is therefore estimated to be around **£114,000** (approximately £94,000 to undertakers, £16,000 to landlords and £4,000 to tenants).

Benefits

68. For the purpose of analysis it is assumed that there will be 100% compliance with the proposed regulations, to the extent that all owner (e.g. landlords) will provide the undertakers with the specified details relating to the non-owner occupiers of their properties. This is due to the fact that, under the proposed regulations, landlords will become liable for the payment of bills where tenant information is not provided within 21 days.. In reality, however, it is anticipated that there will still be a proportion of landlords who either don't comply, or whose details the undertakers are unable to determine. **The benefits are therefore upper estimates and the actual outturn is likely to be more conservative.**

Lower Costs of Identifying Unknown Occupiers

69. Undertakers estimate that approximately 2.9% of 'void' properties are actually occupied. This means that there could be around 1,580 properties for which the proposed regulations could lead to a positive impact on undertakers' identification costs. If there are indeed 1,580 'void' properties which are occupied, the proposed regulations might lead to landlords providing the relevant undertakers with the specified information, which in turn could reduce the costs incurred by undertakers in trying to identify the occupiers.
70. If it is assumed that these 1,580 occupied 'void' properties take one visit to resolve (i.e. identify and start billing) at a cost of between £5 and £25 each, the total benefit to the undertakers of the landlords providing the tenants' details could be between £7,900 and £39,500. However, a proportion of these may cost several hundreds of pounds to resolve, requiring several visits. The total benefit to undertakers of landlords providing the information in this case could be upwards of £100,000. However, this benefit is based on the assumption that all landlords will

comply with the regulations and will provide the information about occupiers for properties incorrectly classed as 'void'. In reality, there is likely to be less than 100% compliance and it could continue to be a problem for undertakers to try and identify occupiers of currently 'void' properties.

71. The costs of identifying unknown occupiers may be transferred indirectly from undertakers to all customers, via the price setting process or through impacts to services. Going forward, the retail price control will be based on average cost to serve, which includes debt. If the costs of identification can be reduced under the proposed regulations, it is assumed that this will lead to an indirect benefit for customers.

Revenue Impacts on Undertakers and Customers

72. Based on estimates from undertakers, there could be in the region of around 2% to 3% of tenanted properties²³ in Wales that are consuming water and using sewerage services but have unknown occupiers (i.e. occupier details are not known to the undertakers). There are assumed to be approximately 380,000 tenanted properties in Wales served by Dŵr Cymru Welsh Water and Dee Valley Water. This means that there could be upwards of around 6,550 tenanted properties for which undertakers are currently losing potential revenue due to not being able to identify the occupier.
73. The benefits arising to undertakers from being able to identify the occupier are cumulative, i.e. the impact of debt from unidentified households continues to have an impact on bills each year until the company writes it off as uncollectable. The benefits from identifying the occupier are therefore cumulative to customers as well, where costs of outstanding revenue are transferred directly to customer bills.
74. Undertakers estimate that approximately 20% of customers in rented accommodation (approximately 76,000 households) are currently in debt to them; Ofwat analysis suggests this figure could be much higher (closer to 80%, or around 303,000 households). Since the proposed regulations will enable undertakers to identify and pursue tenant debtors more easily, they might also encourage more tenants to start paying their bills. This is because having the tenant's name and date of birth will make it easier for undertakers to pursue outstanding revenue through the courts. It will also be easier for undertakers to engage with tenants who are in debt because they cannot afford to pay their outstanding bills, which may enable and encourage more debtors to start paying.
75. There is an incentive for tenants to comply and pay their bills since, once they have the details of previously unknown tenants, undertakers will be better able to trace debtor tenants through credit referencing agencies when they move house. However, it could be the case that a proportion of

²³ Source: Ofwat communications with Northumbrian Water and the Welsh Government communications with Dŵr Cymru Welsh Water

tenants continue to avoid paying their bills even though they will receive a bill that is directly addressed to them. Outstanding revenue could therefore continue to accumulate, although the level of growth is expected to decline over time as more customers potentially start paying their bills.

76. As an upper estimate, assuming around 90% of tenanted debtors were to start paying, this could mean around 68,150 (at current) additional households start to pay their outstanding water and sewerage bills (based on undertakers estimates of 20% of tenanted customers currently being in debt). However, willingness to pay water and sewerage bills needs to be considered alongside ability to pay. Affordability is a key issue and a key concern for some of those customers who don't pay, but there is a 'can't pay' versus a 'won't pay' issue to take into consideration.
77. Due to the considerable uncertainty surrounding the baseline assumptions relating to current tenant debtors, it is considered prudent to use a range of values to estimate the benefits. For instance, we could assume that if 20% of tenanted customers are currently in debt, between 25% and 90% of these households²⁴ might start to pay their bills under the proposed regulations, with a central assumption of 50%.
78. If undertakers in Wales were able to identify and bill the additional circa 6,550 tenanted properties estimated to be currently unknown and unbilled then the revenue of undertakers could potentially be increased by approximately £2.8 million per annum. This represents approximately 0.5% of turnover for households in Wales. This unbilled revenue is also estimated to add the equivalent of approximately £2.10²⁵ to other customers' bills.
79. If the central case assumption of 50% of additional tenanted debtor properties (roughly 38,000 at current) were also to start paying their outstanding water and sewerage bills following the introduction of the proposed regulations, this could potentially reduce outstanding revenue by between £7.5 and £8.5 million²⁶ per annum (estimated at around 1.4% of turnover for households in Wales for 2013/14). This is assuming that each of those households were to pay one outstanding average water and sewerage bill (2013-14 prices) per annum. Some of these households may owe more than one annual bill and therefore the revenue impact could be higher.
80. If outstanding revenue was directly transferred onto other customers' bills this £13 million would be the equivalent of around £6 per bill. However, since not all outstanding revenue is directly transferred this would not necessarily equate to a direct reduction of £6 per bill for other customers; the actual level of reduction would depend on a number of factors. There

²⁴ Based on communications with water undertakers and analysis by Ofwat and Defra

²⁵ This average is weighted by the number of properties billed.

²⁶ This is an estimate based on the average water and sewerage bills of properties served by Dŵr Cymru Welsh Water and Dee Valley Water and weighted by the number of properties.

might also be indirect impacts for customers in addition to direct bill impacts.

81. Table 8 gives an indication of the estimated revenue impacts that could potentially arise if more tenanted debtor households were to start paying their outstanding bills, based on the assumption that outstanding revenue is directly transferred to the bills of all customers. A range of scenarios have been considered alongside the central 50% assumption. These are based on differing percentages of tenanted households likely to start paying their bills following the introduction of the proposed regulations. The potential annual reductions in outstanding revenue are additional to the potential revenue that could be billed if the circa 6,550 unknown tenanted households were identified (i.e. approximately £2.10 per household).

Table 8 - Estimated Annual Revenue Impacts from Increase in Tenant Rate of Payment, 2010 prices

No. of Households served in Wales	1,402,350			
No. of Tenanted Households	380,000			
No. of Tenanted Households in Debt	76,000			
Proportion that might start paying	90%	70%	50%	25%
No. that might start paying ²⁷	65,000	51,000	36,000	18,000
Potential Reduction in Outstanding Revenue, £m	25.4-27.2	15.4-16.5	7.8-8.4	1.9-2.1
Potential Bill Reduction for Customers, £	18.9	11.4	5.8	1.5

Note: Figures may not sum due to rounding. It is estimated that 20% of tenanted households are currently in debt to undertakers in Wales. Potential revenue reductions are estimated based on the average (2013-14) water and sewerage bills of households served by Dŵr Cymru Welsh Water and Dee Valley Water and weighted by the number of households²⁸. Other than for the Potential Reduction in outstanding revenue row, this table only contains estimated figures for 2013/14. All values other than the proportion that might start paying, are expected to increase in future years.

82. Table 8 indicates that if a proportion of current tenant debtors start to pay their bills as a result of the proposed regulations, there is likely to be a positive impact on bills for all customers. This is based on the assumption that outstanding revenue is currently directly transferred to the bills of all customers. These bill reductions are in addition to the £2.10 reduction that could potentially be realised through the identification of the circa 6,550 unidentified households.

²⁷ Calculated using number of billed households, rather than number of households served.

²⁸ These estimates are based on the level of outstanding revenue in 2013-14, and could be higher if outstanding revenue were to increase or if the percentage of tenant debtors were to increase over the appraisal period. The potential reductions are based on households paying one outstanding annual bill per annum. Potential bill impacts for customers are based on the assumption that outstanding revenue is directly transferred to all customers' bills. Owing to the number of uncertainties surrounding the level of outstanding revenue over time, the potential reduction in outstanding revenue is indicative only.

83. The more tenanted households that start to pay their bills, the more outstanding revenue will be able to be collected - which could indirectly benefit the bills of all customers. For instance, if 25% of tenant debtors started to pay their annual bills then this could lead to a potential reduction in the annual bills of all customers of around £1.50, whereas if 90% started to pay their unpaid bills then the saving to all customers could be approximately £19 per annum. In reality, not all costs associated with outstanding revenue are directly transferred to customer bills; there are often indirect impacts arising in the form of improved services for customers. Hence, the range of potential bill reductions shown in Table 8 are indicative only and will not necessarily be realised.
84. The potential annual reduction in outstanding revenue is also indicative and is derived from the reduction that is estimated to be seen in year one of the policy (2010 prices). This is due to the assumption that the number of households and hence number of tenants (along with tenanted debtors) is likely to increase over the appraisal period. The average water and sewerage bill per household is also likely to increase over the period. Since the majority of variables are assumed to increase, it is therefore the potential saving per household that is important rather than the overall potential saving to undertakers, since it is this benefit that will be considered for the purpose of analysis.

Benefits to Landlords and Tenants

85. Potential benefits to landlords may arise under option 2 if the information requirements of the proposed regulations indirectly encourage them to enter into tenancy agreements more often. This could lead to better safeguarding of both Landlords' and tenants' rights and could avoid potential disputes further down the line. This could prove beneficial to both tenants and landlords in terms of cost savings arising from avoided disputes. However, these benefits are likely to be marginal, and so have not been quantified in this impact assessment.
86. The development of the web portal to minimise the impact of the provision of tenants' information may also reduce the information burden on landlords who already provide details to undertakers on a voluntary basis.

Non-Monetised Benefits

87. Affordability issues are more likely to be prevalent in the rented sector, particularly in the social rented sector. It is estimated²⁹ that 60% of social rented households are likely to struggle to pay their water and sewerage bills, compared with 39% of private rented households.
88. The proposed regulations are anticipated to raise awareness of affordability issues, through enabling undertakers to potentially identify and hence communicate with occupiers who might struggle to afford their

²⁹ Source: Ofwat

water and sewerage bills. Undertakers will be able to assist better if they have the details for the bill payer; they may also be able to prevent large bills accruing by issuing the occupiers with smaller, more regular bills.

Summary of Preferred Option

59. The preferred and recommended option is option 2, to undertake regulatory action to require landlords to provide water companies with the specified information about their tenants. This is because of the substantial benefits that are likely to arise to customers and water companies as a result of potential reductions in the cost of servicing outstanding revenue. The total benefit to customers is anticipated to far outweigh the additional costs to landlords and water companies of having to implement the regulations.
60. Table 9 sets out the estimated costs and benefits (additional to the baseline) that could arise under option 2. Benefits are estimated to amount to around £10.5 to £11.5 million per annum over the 10-year appraisal period. Transition costs in year one are estimated to be around £120,000 and ongoing costs are estimated to be around £115,000 per annum. The present value of total costs over the appraisal period is estimated to be around £1.1 million, whilst the present value of benefits is estimated to be substantially higher at around £94 million under the central scenario.

Table 9 - Estimated Costs and Benefits arising under Option 2

	£m
Estimated Transition Costs	0.12
Estimated Average Annual Costs	0.11
Estimated Average Annual Benefits	10.5-11.5
PV Total Costs	1.1
PV Total Benefits	93.9
Net Present Value	92.8

Note: The estimated costs and benefits are based on the central scenario of 50% of tenanted debtors starting to pay their bills, and all 6,550 currently unidentified tenants being billed and paying for the services they are receiving. Figures have been rounded to nearest 100,000.

61. Table 9 indicates that option 2 is also estimated to generate a positive net present value³⁰ of around £93 million. This is based on the central scenario of 50% of tenanted debtors starting to pay their bills, and water companies being able to identify, bill and collect owed revenue from all 6,550 currently unidentified tenants.
62. The NPV is the primary criterion for deciding whether government action can be justified³¹. Hence, since the NPV for the central scenario is positive, option 2 is the preferred and recommended option over 'doing nothing'.

³⁰ Net Present Value (NPV) is the difference between the stream of the Present Value (PV) of total benefits and the PV of total costs. A positive NPV indicates an overall net benefit.

³¹ HM Treasury Green Book, http://www.hm-treasury.gov.uk/data_greenbook_index.htm

Assumptions and Uncertainties

Tenant Payment Rate

89. The estimated costs and benefits shown in Table 9, above, are based on the central assumption that 50% of tenanted debtor households in Wales start to pay their annual bills as a result of the regulations. However, without any robust evidence to verify the assumption that a 50% increase in the payment rate will be achieved, it is considered prudent to assess a range of values for the possible outcomes arising.

90. Table 10, below, therefore sets out the indicative costs and benefits that are estimated to arise under a number of different scenarios for increases in the rate of tenant debtor bill payments. As would be expected, the overall net benefit gets relatively larger as the proportion of tenants paying their outstanding bills increases.

Table 10 - Estimated Costs and Benefits of Differing Tenant Payment Scenarios

	£m			
Potential Increase in Tenant Debtor Bill Payers	25%	50%	70%	90%
Estimated Average Annual Benefits	4.4-4.9	10.6-11.2	18.1-19.3	28.2-30.0
PV Total Costs	1.1	1.1	1.1	1.1
PV Total Benefits	41.4	93.9	161.1	250.7
Net Present Value	40.3	92.8	160.0	249.6

91. The scenarios in Table 10 are based on the assumption that a proportion of tenanted debtor households will start to pay their outstanding bills if the proposed regulations were to come into force. However, should it be the case that the proposed regulations have minimal or zero impact on tenanted debtor households' outstanding bills, the total benefits arising would be relatively smaller.

92. It is estimated that if the proposed regulations only had an impact on currently unbilled revenue (for the circa 6,550 currently unidentified households) and had no effect on the 76,000 known tenant debtors, the average annual benefit could be around £2.8 million. The overall NPV is estimated to be around £23m million.

93. Table 11 indicates the average annual benefit arising under different scenarios for unbilled revenue. For instance, if only 25% of the 6,550 unidentified households started paying bills (with no reduction in known tenant debt), the annual benefit could be around £0.7 million and the NPV around £4.9 million. The NPV would still be positive if only 5% of those households started paying their bills, at around £0.1 million, but would become negative below this point since the costs of implementing the regulations would be relatively larger than the benefits arising.

Table 11 - Potential benefits arising from newly billed revenue alone

Proportion of the 6,550 to start paying their bills	Ave. Annual Benefit, £m	PV Total Benefits, £m	NPV, £m
100% (6,550)	2.8	23.9	22.8
50% (3,275)	1.4	12.0	10.9
25% (1,638)	0.7	6.0	4.9
5% (328)	0.14	1.2	0.1

Note: Calculations assume that the regulations have no effect on current tenanted debtor households, i.e. there is no impact on the level of outstanding revenue. Benefits arise from water companies being able to bill, and attempt to collect, previously unbilled revenue. Costs remain unchanged from the central scenarios, i.e. PV Total Costs is £1.2m.

Costs to Landlords

94. It is assumed that a majority of landlords already routinely collect most of the specified details required under option 2. However, where details are not routinely collected or are unknown, for example tenant date of birth, the transition cost associated with collecting this could be fairly substantial for landlords with very large portfolios. In the absence of better information, estimates of transition costs are largely assumption based. We use an upper estimate of all 75,000 landlords in Wales signing up for the Water UK website, and that landlords have to provide details for all 6,550 of the tenanted households that are estimated as having to provide some information.

95. Although there is uncertainty around the number of landlords that will have to provide some form of tenant details to water companies upon transition, it is not anticipated that this number would have an impact upon the outcome of option 2, i.e. it will still generate an overall net benefit to society with a positive overall NPV.

Level of Outstanding Revenue

96. For the purpose of analysis the level of outstanding revenue is assumed to increase at a rate of 5% per annum over the appraisal period under the 'do nothing' option (the baseline), based on the actual real rate of growth between 2009-10 and 2010-11. The number of households is also assumed to increase at the rate of growth witnessed over the same period (0.6% per annum), whilst the proportion of tenants and tenant debtor households is assumed to remain at its current level. An interest rate of 5% per annum on the outstanding revenue is also assumed.

97. The level of revenue written off is assumed to remain at the proportion of 10% of outstanding revenue and grows in line with this. Similarly, the cost of servicing the debt is assumed to remain at 11% of outstanding revenue, but will increase each year over the appraisal period as the level of outstanding revenue rises.

98. Based on these assumptions, under the 'do nothing' option the cost of servicing the debt is assumed to increase from around £20 per customer

bill in 2014 to around £28 in 2022 (2010 prices). However, if the rate of increase of outstanding revenue was based on an historical three-year average of 9% per annum, the cost of servicing the debt could add around £40 to £45 to every customer bill by 2022.

Owner-occupied Households

99. The proposed regulations will only impact upon the outstanding revenue related to tenanted households. There will not be any impact upon the level of debt associated with owner-occupier households. However, the majority of debtors are assumed to be tenanted households rather than owner-occupied households. Since the latter are more readily identifiable, for example via Land Registry enquiries, it is assumed that the number of unidentified households that are owner-occupied is relatively low compared with the number of unidentified tenanted households.

Role of Water Companies

100. Historically, water debtors have been described by companies as ‘can’t pays’ or ‘won’t pays’ but the situation is more complex than those labels suggest. The ‘can’t pays’ may include customers on low income who struggle to pay their weekly bills, customers who have experienced a sudden fall in income and can no longer afford their bills, and customers with social and health issues that prevent them from managing their finances successfully.

101. The ‘won’t pays’ may include customers withholding money on principle: e.g. ex-partners withholding payment or customers who can afford to pay but choose not to. There is also a large group of transient debtors who may not have received a bill while occupying a property or been unaware of their liability.

102. The proposed regulations are intended to enable water companies to identify more of those tenanted households that are currently unidentified. However, it is anticipated that the regulations themselves will only go some way towards solving the problem of bad debt in the water industry; water companies must continue to ensure that they do everything within their powers to try and identify, bill and pursue payments from tenanted households.

103. The proposed regulations should enable water companies to identify and hence directly communicate with more tenanted households, which will go some way towards addressing concerns with affordability or payment of bills. Water companies should continue to ensure that affordability concerns are identified and addressed as early as possible in order to try and prevent further debt accruing.

104. The Welsh Government has worked closely with Dee Valley Water, Dŵr Cymru Welsh Water and Ofwat to ensure that this impact assessment fully takes into account the needs of Welsh customers.

Additional Impact Assessments

106. **Equality and Human Rights** – Consideration has been given to equality and human rights issues throughout policy development and the development of the Regulations. The provisions of the Regulations have been considered against the rights protected by the Human Rights Act 1998. Particular consideration has been given to the information required to be provided about the occupiers and article 8 right to respect for privacy and family life which we consider are compatible. It was therefore not considered necessary to carry out a full Equality and Human Rights impact assessment.
107. **Rights of the Child** – Children’s rights have been considered in developing the Regulations. The regulations include provision for disapplying the provision of information in relation to any child occupying a property and goes on to define a ‘child’ as being anyone under the age of 18. The Welsh Government Children’s Rights Scheme 2014 states that *“For the purposes of this Scheme however, ‘children’ and ‘young people’ refers to children and young people up to the age of 18 years to align with the UNCRC itself”*. Therefore, we believe that we have given due consideration to the rights of the child so do not need to complete a full CRIA.
108. **Rural Proofing** –The Rural Proofing Screening Tool and Checklist have been completed and submitted to the relevant team. No specific issues / impacts were identified and to date, no comments have been received from the team.
109. **Welsh Language** – There are 6 key questions which make up the Welsh Language Impact Assessment:
- a. *What aspects of the policy’s aims and objectives are potentially relevant to the Welsh language?* The policy’s objectives are aimed at reducing debt in the water industry in Wales, therefore are not directly relevant to the Welsh language other than taking into account the need to communicate bilingually when introducing the regulations and providing guidance.
 - b. *Could the policy affect service users, and therefore Welsh speakers wishing to use services in Welsh?* The Regulations and intended guidance will be available in both Welsh and English, and both water companies affected by the Regulations regularly communicate with customers bilingually. The online portal which has been set up for owners to provide occupiers details will be available in Welsh and English.
 - c. *Will the proposal potentially affect the use of the Welsh language, the numbers of Welsh speakers, the sustainability of Welsh speaking communities, or fluency and confident of Welsh speakers and learners to use Welsh?* No
 - d. *Will the proposed policy potentially affect Welsh medium education?* No

- e. *Will there potentially be positive or negative effects for the Welsh language or are there opportunities to promote the Welsh language or its use through this policy?* No

110. **Privacy** –There have been discussions had about the type of information asked for and it was agreed that only very basic information would be required. There is also justification for it - the enabling power allows the Welsh Ministers to prescribe the type of information, and we believe that this is the type of information envisaged when the power was provided. In line with recommendations from the Information Commissioner's Office the Regulations also provide that an owner inform the occupier, before the information is given to the undertakers, that such information will be given. Further, draft regulations were consulted upon and no privacy issues were raised in any response.
111. An Environmental Impact Assessment is not a mandatory requirement and we don't feel that it is appropriate to carry one out in this case.

Consultation

112. Draft regulations were consulted on between 17 July 2013 and 6 November 2013. A wide range of organisations were consulted including undertakers, regulatory bodies relating to the water industry, local authorities, housing associations, landlord associations, consumer advice organisations, and charities and third sector organisations. A full list of consultees is included in Annex 1 and a copy of the summary of responses is included at Annex 2.
113. The draft regulations were simplified following the consultation, taking account of several concerns raised by consultees. The summary of responses at Annex 2 contains the Welsh Government's response to issues raised by consultees.

Specific Impact Tests

Small and Micro Businesses

114. Approximately 80% of landlords could be classed as micro businesses in Wales. If all of these landlords were exempt from coverage by the regulations, a substantial proportion of the rented sector would be excluded. Since this is the sector at which the policy is primarily aimed, exempting micro-businesses is likely to prove ineffective in achieving the policy objectives. Furthermore, it is likely to prove difficult for water companies to identify which landlords are micro businesses.
115. It is anticipated that the additional costs to micro businesses (likely to be landlords with a relatively small portfolio) will be relatively minor. This is because it is assumed that a majority of landlords already hold at least some of the information required under the regulations. The substantial total benefit to customers arising under the proposed regulations is expected to far outweigh the additional small burden placed on micro businesses.

Competition Assessment

116. It is not anticipated that the proposed regulations will have any detrimental effects on competition (see competition filter test table, below).

The competition filter test	
Question	Answer yes or no
Q1: In the market(s) affected by the new regulation, does any firm have more than 10% market share?	Yes
Q2: In the market(s) affected by the new regulation, does any firm have more than 20% market share?	Yes
Q3: In the market(s) affected by the new regulation, do the largest three firms together have at least 50% market share?	Yes
Q4: Would the costs of the regulation affect some firms substantially more than others?	No
Q5: Is the regulation likely to affect the market structure, changing the number or size of businesses/organisation?	No
Q6: Would the regulation lead to higher set-up costs for new or potential suppliers that existing suppliers do not have to meet?	No
Q7: Would the regulation lead to higher ongoing costs for new or potential suppliers that existing suppliers do not have to meet?	No
Q8: Is the sector characterised by rapid technological change?	No
Q9: Would the regulation restrict the ability of suppliers to choose the price, quality, range or location of their products?	No

Post implementation review

117. We are currently in discussions with the relevant water and sewerage undertakers to establish suitable criteria and a baseline for reviewing the success / benefit of the regulations. Initial suggestions include the reduction in costs relating to letters being sent to suspected 'void' properties (i.e. unoccupied properties) and visits to these properties. It is anticipated that the regulations will result in more timely and accurate billing to non-owner occupied properties and therefore earlier establishment of customer relationship and identification of problems with paying bills. Actual debt reduction is likely to take 3 to 4 years so we propose that the regulations be reviewed after 3 years.

ANNEX 1 – Consultee List

Age Concern
Association of Residential Letting Agents
Association of Residential Managing Agents
Barnardos
Black Voluntary Sector Network for Wales
British Property Federation
British Water
Caerphilly County Borough Council
Cardiff University
Chartered Institute of Housing
Chartered Institute of Environmental Health
Chartered Institute of Water and Environmental Management
Citizens Advice Cymru
Community Housing Cymru
Confederation of British Industry Wales
Consumer Council for Water
Consumer Focus
Council of Mortgage Lenders
Cymorth
Dee Valley Water
Defra
Department for Work and Pensions
Drinking Water Inspectorate
Dŵr Cymru Welsh Water
Equality and Human Rights Commission
Federation of Small Businesses (FSB)
Federation of Small Builders
Gofal
Information Commissioner's Office
Institute of Directors Wales
Institute of Welsh Affairs
Joseph Rowntree Foundation
Liberty
MIND
Minority Ethnic Women's Network (MEWN) Cymru
Money Advice Service
National Association of Estate Agents
National Approved Letting Scheme
National Federation of Property Professionals
National Federation of Residential Landlords
National Landlords Association
National Offender Management Service
Newport County Borough Council
Ofwat
Older People's Commission for Wales
One Voice Wales
Oxfam
Public Health Wales
Residential Landlords Association
Royal Institute of Chartered Surveyors Wales
Severn Trent
Shelter Cymru

Society of British Water and Waste Water Industries
SSE Water
Tenant Services Authority
The Association of British Pharmaceutical Industry Wales
The Property Ombudsman
Torfaen Demonstration Project
TV Licensing
UKWIR
Unison
United Utilities
Wales Coop
Wales and West Housing
Water UK
Waterwise
Welsh Local Government Association
Welsh Tenants and Residents Federation

ANNEX 2 – Summary of Responses (attached)