

Guidelines for water companies in supporting residential customers pay their bill, access help and repay debts: a consultation

StepChange Debt Charity response

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Introduction

StepChange Debt Charity is the largest specialist debt advice charity operating across the UK. In 2019, over 630,000 people contacted us for advice and information on problem debt.

Last year nearly a third of our clients (32%) were behind on their water bill, up from under a quarter in 2019 (24%). This can partly be explained by the pandemic related financial support in place over the last 12 reducing demand for debt advice, so those people who did seek debt advice were more likely to be in more severe hardship. 30% of clients we helped last year had a deficit budget meaning they did not have enough to cover essentials. Clients with water arrears were slightly more likely to have a deficit budget with 32% stuck in this predicament. Notably, clients with water arrears were disproportionately likely to be facing an additional vulnerability on top of their financial difficulty. 61% of clients with water arrears had an additional physical disability or mental health vulnerability compared to 50% of all clients.

We welcome the updates to Ofwat's guidelines for supporting customers with paying their bills and dealing with debts. To reflect the demographics of people facing water arrears we believe there should be an emphasis on matching services with the needs of the most vulnerable. In some areas we feel the guidance could be more prescriptive to ensure this, particularly on the use of High Court Enforcement Officers (HCEOs). Otherwise, if combined with effective management information requirements and monitoring, the guidance should improve the experience of customers struggling with their water bills.

Do our guidelines strike the right balance between offering sufficient protection and support for individual customers, while allowing companies flexibility to recover revenue for the benefit of all customers?

What impact do you think our guidelines will have on customer experiences in terms of payment, help and debt?

If compliance is consistent these guidelines should have a positive impact on the experience for consumers paying water bills and for those who fall behind. They establish minimum standards which draw on best practice examples from other sectors where we have seen consumer experiences improve because of similar interventions. Given that clients we see with water arrears are disproportionately likely to have additional vulnerabilities, the guidelines' provisions on signposting and working with external agencies will have the biggest impact for people we see.

It's welcome to see guidance encouraging data sharing with other bodies to identify vulnerability, similar guidance should encourage closer collaboration with advice providers so customers can be transferred to support seamlessly. Clause 4.8 suggests that companies should direct consumers to free debt counselling in their first communication. This is a positive step which will raise consumers awareness of the availability of third-party help. However, the impact on consumer experiences would be even greater if there was encouragement for companies to establish closer links with

advice sector organisations. The disproportionately vulnerable nature of consumers with water debt means they are likely to need additional support beyond just debt advice. It also means they may struggle to make contact themselves with organisations they are referred to. The guidelines should encourage firms to establish close links with local advice organisations which allow them to make direct warm referrals of consumers in need of additional support who make contact by phone or online. At StepChange we partner with Mental Health UK and can pass clients directly to them when advisers identify severe issues while we have recently established a partnership with Trussell Trust to refer clients to food banks in cases of food poverty. There are several water companies who already have warm referral arrangements in place with debt advice and so guidance across the sector would help bring consistency across the sector.

How can we encourage consistency of approach across the sector?

The consultation document states that principles-based regulation is intended to give flexibility to companies to innovate and provide better services. Relying on principles alongside non-prescriptive guidelines allows for this flexibility but may come at the expense of consistency between suppliers. We think there are some areas where the guidelines could be stronger to ensure consistency. A strong monitoring regime will allow Ofwat to ensure minimum expectations are maintained and outcomes for consumers do not vary widely between suppliers. This can be achieved by requiring specific pieces of management information across all companies so that a proper assessment can be made of progress towards key outcomes.

Two clauses where we feel the guidelines could be more prescriptive relate to the use of the SFS and the instruction of enforcement agents. Clause 6.6 states that companies should ‘consider aligning affordability assessments to the SFS where possible.’ This is the debt advice industry standard budget assessment form endorsed by MaPS and the FCA. To fulfil CCW’s recommendation that Ofwat guidelines should reflect best practice and establish a consistent means of assessing customer’s ability to pay the guidelines should be more strongly worded. Companies should be required to use the SFS as a method of assessing ability to pay.

We feel the guidance could also be more prescriptive on the use of enforcement agents in order to ensure consistency of practice in this area. We have concerns about the use of High Court Enforcement Officers (HCEOs) by water and other utility companies. Enforcement by taking control of goods can be a fierce, invasive debt recovery method. It can add stress and considerable extra costs that make debt problems even harder for financially vulnerable people to deal with. Because bailiff conduct is not currently overseen by an independent regulator, Ofwat should require firms instructing bailiffs to have specific policies to ensure affordability and protection for those with vulnerabilities. Ofwat’s guidance recommends that enforcement action should be a last resort and that customers in vulnerable circumstances should be excluded from enforcement action where appropriate. We do not believe there are any circumstances where a vulnerable consumer should be subject to bailiff enforcement while they remain unregulated given the evidence of harm caused.¹ Ofwat should consider telling firms not to use high court bailiffs at all unless there is exceptional

¹ Taking Control (2018), [Review of the enforcement agent reforms: Call for evidence response to the MoJ](#)

justification for doing so. Making the guidance more prescriptive on this point would ensure consistency of conduct from water companies and ensure vulnerable consumers do not find themselves more at risk because of who provides their water.

HCEOs can be more expensive than civil enforcement officers and put domestic customers through a more difficult court process. These bailiffs specifically have also been charging VAT on top of fees to debtors despite consistent calls from debt advice providers that it should be charged to creditors. Recent guidance published from the High Court Enforcement Officers Association stated that, where creditors are VAT registered, 'VAT should be charged to that creditor and no VAT should be charged to the debtor', suggesting that in the past people have been wrongly charged.² In addition to introducing more stringent guidelines on the use of HCEOs by water companies we also recommend that Ofwat calls on water companies to audit whether HCEOs they have been using have been charging VAT. We believe there has been widespread mischarging which will have added considerable sums on top of people's debts making them harder to repay.

Where the guidance gives space for companies to innovate and take their own approach, Ofwat should require management information from firms which will help it get a sense of consumer outcomes across water providers. This information will enhance the regulators monitoring capabilities and help ensure consistency in outcomes. For example, provision 6.17 calls for firms to monitor payment arrangements after they have been set up to ensure the customer is content with them. This gives scope for companies to monitor payment plans however they see fit, whether through regular check ins, data monitoring or other mechanisms. To ensure that consistently sustainable and affordable payment plans are being set up Ofwat could require firms to publish information on successfully completed payment plans alongside data on failed payment plans. There have been some positive steps towards a framework of this kind in Ofwat's 'Delivering Water 2020' price review where quantitative measures for assessing outcomes were agreed. This will enhance Ofwat's ability to identify poor practice and intervene to raise standards and consistency in consumer experiences of repaying water debts.

Our expectations for companies to 'Show customers how their views on billing, payment and support are encouraging improvements to services' (see expectations 1.24 to 1.30) include companies reporting on the findings of their customer research. We would welcome views on whether this is appropriate – and (if so) the format and frequency.

We support this expectation as a way of making companies responsive to customer experiences. An annual requirement seems reasonable to allow for any changes to be embedded and for an effective evaluation to be designed. The guidance states that where possible research should look at the experience of vulnerable customers. Given the disproportionately vulnerable nature of our clients with water arrears we think a requirement for specific focus on customer groups most at risk of harm

² HCEOA (2021), [HCEOA issues members with updated recommendation re: VAT on High Court enforcement fees](#)

would be helpful. Any changes to billing services should consider those most at risk first and therefore this group should be prioritised in any research seeking to understand experiences of new services.

We have had feedback and received customer testimonies that companies can sometimes quickly move from payment prompts to debt recovery action. Should companies give three prompts rather than two (see expectation 4.9) for customers to contact their company? We would also welcome views on whether companies should send prompts by different means to avoid errors in contact details causing customers to fall into debt unnecessarily.

While we think three prompts would be better than two, focussing on prompts misses a chance to tackle the root causes of disengagement from debt problems. The guidelines should encourage companies to understand the barriers to engagement and develop strategies to overcome them. The guidelines should place expectations on companies to better understand the profile of customers facing debt recovery action, segmenting them so that those who persistently struggle to afford their bills can be identified with specific strategies then developed for these customers. Like the provisions on research into customer experiences of new bill paying services there should be similar provisions on trialling new tools and methods of engagement with these struggling customers so that approaches can be improved over time.

The guidance refers to communications explaining next steps in enforcement, which is necessary, but the focus of communications should be on the support and help available to encourage engagement. People, particularly those with a similar profile to those who are more likely to have water arrears, respond better to communication that emphasises support rather than escalation. A study conducted by the Ministry of Justice found that a key determining factor for people engaging with creditors was a feeling that their debt was manageable or that there was a path to becoming debt free.³ Water companies communications should therefore emphasise the support available, helping to chart a route out of debt for people rather than threatening them with escalation. This study also found that when people have, or perceive themselves to have, no financial resources are likely to ignore any warning and accept the inevitability of court proceedings. Communication which emphasises support over the risks of escalation are therefore most likely to foster engagement.

We support provisions on making companies send prompts via a range of means as this increases the chances of prompts being picked up by those in arrears. People have a variety of preferences as to how they like to receive communications from creditors. Companies should know the preferences of their customers and use this means as the primary route for prompts. The guidelines could go further if there were expectations placed on companies to better understand the profile of customers facing debt recovery action and develop engagement strategies designed for their needs. With

³ Ministry of Justice (2007), [Evaluation of pre-action notice pilot](#)

further research and honing of these approaches, companies should be able to evidence improvements in engagement among groups facing the most difficulties paying their bills.