Title: Non-owner occupier liability for water bill payment **IA No:** 1181 **Lead department or agency:** Defra **Other departments or agencies:**	Impact Assessment (IA) **Date:** 11/05/2011 **Stage:** Consultation **Source of intervention:** Domestic **Type of measure:** Secondary legislation **Contact for enquiries:** Kathryn.holdsworth@defra.gsi.gov.uk

Summary: Intervention and Options

RPC Opinion: AMBER

Cost of Preferred (or more likely) Option (Option 2)				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANCB on 2009 prices)	**In scope of One-In, One-Out?**	**Measure qualifies as**
£97.2m	N/A	N/A	No	NA

What is the problem under consideration? Why is government intervention necessary?

Water and sewerage companies have a statutory duty to provide services to domestic properties. Customers do not have contracts with companies so they do not need to provide their details to secure services. Debt in the water industry is disproportionately higher than in other utility sectors, particularly from tenanted properties, the cost of which is borne by other customers. Provisions in the FLOWMAN Act 2010 enable companies to request details of tenants (as set out in regulations) which landlords must provide to avoid becoming jointly or severally liable for bills, so that companies have information to successfully contact and bill customers. This IA explores the impacts of draft regulations, and a voluntary alternative on which we plan to consult.

What are the policy objectives and the intended effects?

The objective is to reduce the problem of bad debt in the water sector which arises from non-payment of bills. We want to enable water companies to obtain the information they need to be able to bill customers living in rented accommodation, in a timely manner. This is so that they can bill customers as soon as possible after they move into a property, to ensure that the customer is aware of their liability for charges and to maximise the prospects of recovering revenue in the case of non-payment of bills. Bill impacts will be reduced by enabling companies to collect revenue more effectively from those who should pay which will be reflected in Ofwat's periodic reviews of water price limits.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Options initially identified include: Do nothing, secure voluntary agreements with landlords' representative bodies and encourage landlords to voluntarily comply, regulatory options which introduce enabling powers for water companies to request details of tenants from landlords. Variants of the regulatory option consider timing of notifications and required details (including provision of a meter reading). Options taken forward for further impact analysis are:

- Regulation requiring provision of basic + additional details **(Option 1)**
- Regulation requiring provision of basic details **(Option 2** – this regulatory option has the lowest costs)
- Regulation requring provision of basic + additional details + a meter reading **(Option 3)**
- Non-regulatory voluntary compliance option **(Option 4)**

We are taking options 2 and 4 forward for consultation to improve our understanding of the costs and benefits of each.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date: 04/2018**

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** Yes	**< 20** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:** N/A	**Non-traded:** N/A	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible SELECT SIGNATORY: .... Date: ....

Summary: Analysis & Evidence

Policy Option 1

Description:

Regulatory: require provision of basic details plus additional details

Price Base Year 2010	PV Base Year 2010	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: £-11.7m	**High:** £253.8	**Best Estimate:** £87.9m

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£7.9m	10	£13.2m	**£117m**
High	£7.9m		£13.2m	**£117m**
Best Estimate	£7.9m		£13.2m	**£117m**

Description and scale of key monetised costs by 'main affected groups'

Landlords (including social housing): Additional cost of notifications, £8.2m average annual cost.
Water Companies: Cost of inputting data, notifying landlords of their liability, £2.2m average annual cost.
Tenants: Cost of providing details to landlords, £2.7m average annual cost.

Transition costs incurred by all groups, relating to information provision for properties with no existing details. Landlords - £4.2m; Water companies - £2.3m, Tenants - £1.4m.

Other key non-monetised costs by 'main affected groups'

Cost of water companies advertising to landlords, identifying landlords - primarily incurred as transition costs.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	N/A	N/A	£12.8m	**£105.2m**
High	N/A		£45.3m	**£370.8m**
Best Estimate	N/A		£25m	**£204.8m**

Description and scale of key monetised benefits by 'main affected groups'

Reduction in overall debt and therefore other, paying customers' bills; avoided costs for tenants currently paying their bill of providing details to water companies (£4.6m average annual). Range represents reductions in economic cost of tenant debt of 10% (low), 25% (best) and 50% (high).Switching value for positive NPV is 12% reduction in tenant debt - only 1% more compared to Option 2.Assumed that Option 2 delivers same benefits as 1&3.

Other key non-monetised benefits by 'main affected groups'

Fairness principle of other, paying customers not subsidising non-payers. Encourages tenancy agreements, safeguarding both parties' rights and potentially saving money by avoiding disputes. Reduction in time/money used by companies attempting to identify and pursue unidentified customers for payment. NPV doesn't capture the greater debt reduction expected from Option 1 compared to Option 2 due to better ability to trace tenants - NPV for 2 thus overestimated relative to NPV for 1.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5%

All companies choose to use the available enabling powers. Assumes customers are incentivised to pay because they can be held accountable for non-payment and water companies can locate landlords to notify them of their liability. Access to customers' information enables companies to pursue debtors. Full compliance assumed - landlords discharge liability by supplying details. Micro-businesses are included. The benefits are uncertain - the range represents views from industry of what might reasonably be expected in terms of reductions in tenant debt but this doesn't vary between options.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: N/A	**Benefits:** N/A	**Net:** N/A	No	NA

Summary: Analysis & Evidence

Policy Option 2

Description: Regulatory: require provision of basic details

Price Base Year 2010	PV Base Year 2010	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -£2.4m	**High:** £263.1	**Best Estimate:** £97.2m

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£7.6m		£12.1m	**£107.6m**
High	£7.6m		£12.1m	**£107.6m**
Best Estimate	£7.6m		£12.1m	**£107.6m**

Description and scale of key monetised costs by 'main affected groups'

Landlords (including social housing): Additional cost of notifications, £7.6m average annual cost.
Water Companies: Cost of inputting data, notifying landlords of their liability, £2.2m average annual cost.
Tenants: Cost of providing details to landlords, £2.2m average annual cost.
Transition costs incurred by all groups, relating to information provision for properties with no existing details. Landlords: £3.9m; Water companies: £2.3m, Tenants: £1.1m.

Other key non-monetised costs by 'main affected groups'

Water companies: advertising to landlords, identifying landlords' housing - primarily incurred as transition costs.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	N/A		£12.8m	**£105.2m**
High	N/A		£45.3m	**£370.8m**
Best Estimate	N/A		£25m	£204.8m

Description and scale of key monetised benefits by 'main affected groups'

Reduction in overall debt and therefore other, paying customers' bills; avoided costs for tenants paying their bills of providing details to water companies (£4.6m average annual). Range represents reductions in economic cost of tenant debt of 10% (low), 25% (best estimate) and 50% (high). Switching value for positive NPV is 11% of the economic cost of tenant debt. Benefits estimates are indicative and do not vary across options - Option 2 benefits expected to be lower in reality than other options.

Other key non-monetised benefits by 'main affected groups'

Benefits expected to be lower than Options 1&3 since water companies are less able to pursue outstanding payments. The monetised benefits do not reflect this. Fairness principle of other, paying customers not subsidising those who don't pay. Encourages landlords to enter into tenancy agreements with tenants, safeguarding both parties' rights and potentially saving money by avoiding disputes. Reduction in time/money used by companies attempting to identify and pursue unidentified customers for payments.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5%

All companies choose to use the available enabling powers. Assumes customers are incentivised to pay because they can be held accountable for non-payment and water companies can locate landlords to notify them of their liability. Access to customers' information enables companies to pursue debtors. Full compliance assumed - landlords discharge liability by supplying details. Micro-businesses are included. The benefits are uncertain. The range presented represents views from industry of what might reasonably be expected in terms of reductions in tenant debt. Due to the uncertainty no estimate has been made of the lower benefits expected from this option. Options 1 and 3, so benefits of Option 2 are overstated relative to 1 and 3.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: N/A	**Benefits:** N/A	**Net:** N/A	No	NA

Summary: Analysis & Evidence — Policy Option 3

Description: Regulatory: require provision of basic details, and a meter reading

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
2010	2010	10	**Low:** -£53.4m	**High:** £212.1m	**Best Estimate:** £46.2m

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£12.2m	1	£17.7m	**£158.6m**
High	£12.2m		£17.7m	**£158.6m**
Best Estimate	£12.2m		£17.7m	**£158.6m**

Description and scale of key monetised costs by 'main affected groups'

Landlords (including social housing): Additional cost of notifications and meter readings, £12.7m average annual cost. Water Companies: Cost of inputting data, notifying landlords of their liability, £2.2m average annual cost. Tenants: Cost of providing details to landlords, £2.7m average annual.
Transition costs incurred by all groups, relating to information provision for properties with no existing details. Landlords: £8.0m; Water companies: £2.3m, Tenants: £1.4m.

Other key non-monetised costs by 'main affected groups'

Water companies: advertising to landlords, identifying landlords' housing - primarily incurred as transition costs.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	N/A	N/A	£12.8m	**£105.2m**
High	N/A		£45.3m	**£370.8m**
Best Estimate	N/A		£25m	**£204.8m**

Description and scale of key monetised benefits by 'main affected groups'

Reduction in overall debt and therefore other customers' bills; avoided costs for tenants paying their bills of providing details to water companies (£4.6m average annual). Range represents reductions in economic cost of tenant debt of 10% (low), 25% (best estimate) and 50% (high). Switching value to get positive NPV is 15% of economic cost of tenant debt. Benefits estimates are indicative only and do not vary across options - Option 3 benefits expected to be equal to Option 1, greater than 2.

Other key non-monetised benefits by 'main affected groups'

Fairness principle of other customers not subsidising those who don't pay. Encourages landlords to enter into tenancy agreements with tenants, safeguarding both parties' rights and potentially saving money by avoiding disputes. Reduction in time/money used by companies attempting to identify and pursue unidentified customers for payments.

Key assumptions/sensitivities/risks — **Discount rate (%)** 3.5%

All companies choose to use the available enabling powers. Assumes customers are incentivised to pay because they can be held accountable for non-payment and water companies can locate landlords to notify them of their liability. Access to customers' information enables companies to pursue debtors. Full compliance assumed - landlords discharge liability by supplying details. Micro-businesses are included. The benefits are uncertain. The range presented represents views from industry of what might reasonably be expected in terms of reductions in tenant debt, but doesn't capture difference in benefits expected from different options (Option 3 benefits expected to be equal to Option 1, greater than Option 2).

BUSINESS ASSESSMENT (Option 3)

Direct impact on business (Equivalent Annual) £m:						In scope of OIOO?	Measure qualifies as
Costs:	N/A	**Benefits:**	N/A	**Net:**	N/A	No	NA

Summary: Analysis & Evidence

Policy Option 4

Description: Non-Regulatory, Voluntary Option

FULL ECONOMIC ASSESSMENT

Price Base Year N/A	PV Base Year N/A	Time Period Years N/A	Net Benefit (Present Value (PV)) (£m)		
			Low: N/A	**High:** N/A	**Best Estimate:** N/A

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate	N/A		N/A	N/A

Description and scale of key monetised costs by 'main affected groups'

Mindful of the burden that regulation can impose, we also wish to consult on a voluntary option – asking landlords to voluntarily supply details to water and sewerage companies. This will improve our understanding of and inform our assumptions about the costs and benefits of a voluntary approach. At present, we would assume that the costs imposed by a voluntary approach would be lower as no one would be obliged to comply. Post-consultation we will have further information about the percentage of landlords likely to voluntarily comply and the costs to them of doing so.

Other key non-monetised costs by 'main affected groups'

This is a voluntary option and asks landlords to voluntarily submit details to water companies. Benefits will only be received if landlords do comply. Costs of voluntary compliance would include: landlords: additional cost of notifying; water companies: cost of inputting data and advertising scheme; tenants: costs of passing details to landlords. Post-consultation we will have further information about the percentage of landlords likely to voluntarily comply and the costs of them doing so.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate	N/A		N/A	

Description and scale of key monetised benefits by 'main affected groups'

Mindful of the burden that regulation can impose, we also wish to consult on a voluntary option – asking landlords to voluntarily supply details to water and sewerage companies. This will improve our understanding of and inform our assumptions about the costs and benefits of a voluntary approach. Post-consultation we will have further information about the percentage of landlords likely to voluntarily comply and the corresponding benefits of them doing so.

Other key non-monetised benefits by 'main affected groups'

This is a voluntary scheme and pre-consultation it is difficult to assess how many landlords would be likely comply with a scheme. Benefits of compliance would be the same as for the regulatory options: reduction in bad debt and other customers' bills; fairness principle of other customers not subsidising those who don't pay. We would expect both overall costs and benefits to be lower commensurate with the numbers of landlords opting to comply as comparedwith a regulatory approach.

Key assumptions/sensitivities/risks — **Discount rate (%)** N/A

That fewer landlords would comply with a voluntary scheme than with a regulatory option so the costs would be lower, as would the corresponding benefits. We will assess this further using evidence from the consultation.

BUSINESS ASSESSMENT (Option 4)

Direct impact on business (Equivalent Annual) £m:			**In scope of OIOO?**	**Measure qualifies as**
Costs: N/A	**Benefits:** N/A	**Net:** N/A	No	NA

Evidence Base

Introduction

Powers were created in the Flood and Water Management Act 2010, that require landlords to provide information (as specified in secondary legislation) to water and sewerage companies on receipt of notification from the company. Failure to provide those details would result in the landlord of a property becoming jointly and severally liable for bill payment. This measure is not yet in force.

This impact assessment considers the impact of bringing this measure into force and issuing regulations specifying the details to be supplied. It considers three versions of the regulatory measure and a voluntary option. We have decided to take forward two of the options for consultation. We will consult on a regulatory option (**Option 2** above) and a voluntary version (**Option 4** above). The regulatory option we are consulting on is the one with the lowest costs as assessed here.

Because this policy is untested, we have made a variety of assumptions around the likely impact of both a number of regulatory options and a non-regulatory alternative and the range of benefits we might expect to see. However, the information available is limited. Some landlords are micro-businesses and it has been assumed that these are included within the options.

With this in mind we have made conservative estimates about the range of benefits, based on debt levels remaining the same as they are now, though the trend in recent years has been increasing levels of debt – something that we would expect to see continue.

Because of the limitations around the available information, we propose to seek views on the assumptions and information set out in this IA, alongside consultation on the regulations and the voluntary approach.

We have not monetised the costs and benefits of the voluntary approach (**Option 4**). We have assumed that the costs and the corresponding benefits would be lower, but are seeking more evidence on this through consultation.

The problem

1. Disconnection of domestic properties from water supply has been banned since 1999 because of the obvious serious health and safety risks associated with this.

2. Since the ban on disconnection for domestic properties in 1999, water companies have seen a disproportionate rise in bad debt in the industry, which costs paying household customers approximately £15 per year. The level of bad debt in the water industry is approximately three times higher than that of the energy sector (where energy companies are able to withdraw their services for non-payment or require the installation of pre-payment meters), despite water bills being around a third of the cost of average energy bills.

3. Amongst utilities, water companies are in a unique situation in that they have a statutory duty to supply customers, but they have no statutory power to insist that occupiers, owners or managing agents provide information on the identity of those liable to be charged for water and sewerage services, or to require a contract to supply the service to be made between the company and the customer. Customers of energy services are required to enter into a contract with a new energy supplier in order to secure service and could consequently be disconnected by a supplier if their details had not been provided and bills had not been paid.

4. Under the Water Industry Act 1991, it is the occupier of a property that is liable for charges, although the water company cannot require an occupier to provide their details in order to bill them. Before 1999, companies were able to manage this situation as they had the option of withdrawing their services for non-payment, which was an effective incentive to encourage customers to make contact regarding payment.

5. However, since the coming into effect of the Water Industry Act 1999, withdrawal of service, whether through disconnection, reduced flow devices or pre-payment meters, has been prohibited, so this incentive to make contact has been lost. Companies are now only able to take action for non-payment through the courts, which has limited effect and can only be taken against a named individual – so is not a route to obtaining the information on who is liable for charges. It can also be a time-consuming and expensive process.

6. At present, when customers do not inform water companies of their occupation of a property or respond to attempts by the company to contact the “occupier”, the companies rely, in the first instance, on seeking to obtain information from the owner of the property, which may first involve buying information relating to the property owner from the Land Registry.

7. However this is only successful for properties which have changed ownership since 1990 when compulsory registration was introduced. Even then, if the property is occupied by someone other than the owner, water companies rely on the goodwill of the owner to provide details of the occupier – there is no obligation on the owner to provide any details. Contacting the Land Registry and property owners has been found to be a timely and expensive process with limited success. In addition to this, if a water company does not know who the occupier of the property is it is unable to pursue charges, as action to recover revenue through the courts can only be taken against a named occupier.

8. As they cannot require the provision of information, companies may be unaware that the occupier of a property has left and a new occupier has moved in. In the case of rented properties, particularly if there are short term lettings, tenants may both move in and move out without the company being aware and able to bill them.

9. The combination of the statutory duty to supply without a requirement for customers to provide their details and the lack of consequences of non-payment have contributed to a sharp increase in the level of outstanding revenue from domestic customers from £705 million in 1998-99 , to £1.585 billion in 2009-10. Of this, £922m is more than 12 months old and hence harder to collect because it tends to be attributed to either habitual debtors, customers who have moved on and cannot be traced or because of mounting debts becoming less affordable to customers who may already have had affordability concerns .In addition in the last year companies spent £76m on debt collection activities and wrote off £161m of household bad debt.

10. This increases the total cost to the industry of collecting revenue, and these costs are ultimately paid for by all paying customers at a cost of around £15 per year (or almost 4% of the average water bill) – a burden that has been rising over recent years.

11. This is because the constraints the current legal regime imposes on water companies allow a minority of customers to avoid paying their water bills with no real consequence, imposing costs on other customers. To this extent, there is a limit to the actions companies can take to remedy the situation under the current legislative framework.

12. This burden on customers who do pay their bills is both unreasonable in itself, and there are concerns that unless more effective action is taken to require customers who are able to pay their bills to do so, public acceptance of water bills may be compromised.

13. This issue was highlighted in the final report of Anna Walker's independent review of charging for household water and sewerage charges, which recommended that *"As a priority, the Water Industry Act 1991 should be amended to provide for a named customer and clarify who is responsible for paying the water bill".*

14. With this in mind, enabling powers were made in the FLOWMAN Act 2010 to allow companies to request information about tenants from landlords, which they must provide on request, or become jointly and severally liable for water and sewerage bills if they fail to provide specified details within a timeframe, to be set out in secondary legislation. This impact assessment sets out options for required details to be included in regulations that would give effect to the legislation rather than whether or not the policy should be implemented.

15. The provisions made in the FLOWMAN Act 2010 are designed for address the information problem faced by water companies as a result of their statutory duty to supply, which means that on moving into a property, a customer does not need to contact the water company in order to receive a water supply, and does not need to sign a contract with the water company or provide any kind of personal information. Whilst companies take a range of measures to try to obtain this information, such as calling on properties that appear to be vacant because no information has been provided or buying information from credit reference agencies, these methods are costly and often do not yield satisfactory results.

16. Water companies can only pursue a named individual for charges through the courts, but have no statutory powers to gather this information. They are reliant on receiving information from the customer.

17. As the customer (the occupier of the property) is the person who would be liable for charges, they have an incentive not to provide their information to the water company, an incentive which is strengthened by the limited consequences of non-payment of water charges.

18. This dependence on receiving information primarily from the customer who would be liable for charges results in delays or prevents the water company knowing who is occupying a property (and hence being able to send an enforceable bill in a timely manner).

19. This is a particular problem for rented properties, where average occupancy periods are lower. In some cases a customer will move in and out of a property without the water company being able to send a bill to a named individual. Whilst companies do attempt to recover revenue by sending bills to "the occupier" of a property, they have found that this approach yields unsatisfactory responses and recovery.

20. Once a customer has moved out of a property, it is also considerably harder to recover revenue as they first need to be traced – which is challenging if their identity is not known. These factors reduce the ability of water companies to recover revenues, and increase their revenue collection costs, both of which increase costs to other customers.

21. Analysis of the Family Resource Survey by Ofwat showed that 80% of cases that reported themselves as being in water debt were from customers living in rented properties, and analysis by UKWIR has also shown that on average, tenants are worse debtors – higher risk, higher total debt and higher average debts.

22. For rented properties, information on who is liable for charges could instead be provided by the landlord or managing agent. The landlord or managing agent will be aware of who is occupying the property and when they moved in, and do not have the same disincentive to provide this information as the occupier.

23. However, at present they have no reason or incentive to provide this information. Given that providing information to water companies involves a small degree of time and cost, some incentive would be required for this information to be provided. We have considered alternative options to address this issue, such as offering an incentive to customers to provide details rather than shifting the burden to landlords. However, given that by not providing details a customer can avoid payment of their water and sewerage bills (£356 on average in 2011/12), the incentive would have to be a significant amount and this would be paid for by other customers. In addition to this, we consider that "rewarding failing to provide information automatically" in such circumstances would send out the wrong message, given that occupiers of properties are legally required to pay for water and sewerage services. The intention is to enforce this policy better.

Rationale for intervention

24. We do not propose to reverse the existing ban on disconnection, due to the obvious health and safety implications of this (this was confirmed in the Government's recent consultation on water affordability following the recommendations of the Walker Review). However, the existing legislative framework has removed the appropriate incentives for occupiers of properties to provide their details to water companies and water companies' ability to tackle the problem. In such circumstances, these customers are able to avoid their legal obligation to pay water companies for services provided and this is a problem, particularly in the private rented sector where occupation changes frequently and companies are unable to obtain up to date information about occupiers, because they are not available through sources such as the land registry or credit reference agencies.

25. Water companies operate under a regulatory regime which is designed to incentivise them to manage debt efficiently by allowing them to profit if they recover more debt than they are allowed to pass on to customers within a price review period. They undertake a wide range of measures in attempting to manage customer debt.

26. For example, all companies seek to make it as easy as possible for customers to pay by offering a wide range of payment options including weekly / fortnightly methods that allow small amounts to be paid at frequent intervals at accessible locations (such as Post Office or PayPoint outlets) for no additional charge.

27. All companies have debt codes of practice which are approved by Ofwat under license condition I and all comply with Ofwat's debt guidelines which set out a number of principles / expectations that companies are expected to follow when undertaking their debt recovery activities, which aim to strike a balance between allowing companies to recover revenue whilst assisting those with genuine affordability concerns. Whilst companies are sympathetic to customers who are unable or struggling to pay bills and offer a range of assistance to those customers, such as financial assistance from charitable trusts or restart schemes, they are legally entitled to recover payment for services received.

28. In addition, the water industry, through Water UK, has a Debt Good Practice Members Network to share good practice in approaches to managing debt. In recent years the network has shared practice on a wide range of topics, including for example approaches to recovering debt from previous occupiers, purchasing customer information from external sources, incentivising debt collection agencies and processes for managing customer moves.

29. Despite this sharing of good practice, over the last 5 years outstanding debt has increased by more than 50%. While debt is a problem for all companies, the absolute level of debt varies between companies for a number of reasons, including due to varying levels of deprivation between company operating areas.

30. Continuing to share best practice by Ofwat and water companies in tackling bad debt is welcomed and encouraged by the Government. However, we believe that more needs to be done to tackle the problem of bad debt in the water industry and that this needs to go beyond sharing best practice. We are now consulting on both a regulatory approach to tackling this issue and a non-regulatory voluntary alternative.

Policy objective

32. The policy objective is to ensure that water companies are able to obtain the information they need to be able to contact and bill all their customers who live in rented accommodation, in a timely manner, and that they can uniquely identify the customer in order to be able to take action to recover outstanding revenue if this becomes necessary. This is so that they can bill their customers as soon as practical after they move into a property, to ensure the customer is aware of their liability for charges and to maximise the prospects of recovering revenue.

33. Having this information would enable water companies to bill the right customer, at the right time, and to take enforcement action to recover outstanding revenue if necessary. This will encourage those customers who can afford to pay their bills to do so as there will be financial (such as low credit score or possibly a CCJ against them) consequences of non payment.

34. By the landlord informing the company on change of tenant, the company can ensure that bills are sent to the occupier at an appropriate time to ensure that occupiers do not miss bills and subsequently payment. Ultimately this is expected to reduce both the amount of outstanding revenue and the costs of recovering revenue, and therefore reduce the costs that are borne by other water customers.

35. Where the water company has requested information on who is occupying the property, but this has not been provided, the homeowner/landlord may be pursued for payment.

36. In addition to this, because of the financial consequences and possible civil action taken against a customer for non payment, to the measure is expected to encourage customers with genuine affordability concerns to engage with water company in order to arrange repayment and/or assistance in paying their bills (via hardship funds or eligibility for the vulnerable groups tariff. These consequences should similarly incentivise payment by customers who can afford to pay.

37. We cannot make a meaningful estimate of the amount of customers who will begin to pay bills (who currently do not, whether by design or in error) given that this is a new policy and the assumptions that we have made around the available information. However, we will publish this IA as part of the consultation and will be seeking views on the accuracy and reliability of the information we have used.

Issues considered and options development

38. Having defined the issue and problem under consideration, the next stages (in keeping with the policy making cycle) undertaken were to understand the situation and develop and appraise possible options. This section of the IA sets out the regulatory and non-regulatory options, and considers some of the key issues that any regulatory option would have to address.

Non-regulatory options

i) Do nothing: Average water and sewerage bills are likely to continue to increase above the rate of inflation and general levels of indebtedness also increase or remain at the same level (however, for the purposes of this IA, costs and benefits figures assume that debt level remains at 2009/10 level – see para. 44). In this case customers will continue to fall into arrears in their bill payments and those who do not pay continue not paying bills. Outstanding debt in the industry will continue to increase with water companies still having insufficient information about tenanted customers to be able to routinely bill them in a timely manner, or be able to pursue debts. This will increase the cross-subsidy borne by customers who do pay their bills and ultimately could compromise public acceptance of water bills.

ii) Secure voluntary agreements with landlord's representative bodies and landlords: A voluntary option that has been considered is for water companies to seek voluntary agreements with landlords and organisations representing landlords for landlords to provide information on who is liable for charges. This agreement could be made with individual landlords or with landlord representative industry bodies.

This approach would have the benefit of not introducing a mandatory requirement for landlords, who would only participate on a voluntary basis if they did not regard providing information to water companies as an unacceptable additional burden. It would ask landlords to voluntarily comply but not face liability for bills for not doing so.

We have not monetised the costs and benefits of this approach. We assume that the costs would be lower as landlords would have a choice whether to comply and less landlords would be likely to comply. We assume that the corresponding benefits would also be lower. We are consulting on this option to improve our understanding and inform these assumptions and to see if respondents think this can provide a workable and effective but non-regulatory solution. It is likely to be less burdensome but reap fewer benefits. **This measure is called Option 4 in the summary sheets above.**

As this option is not regulatory, there would be some specific challenges to overcome if we pursued this option. There would be no incentive for landlords to comply (or disincentive for landlords to not comply). The landlord sector is disaggregated and consists of around 1.2 million landlords with few members of representative bodies. This will make communication with the sector more challenging.

Some companies have already attempted to reach voluntary agreements with landlords (or managing agents) and local authorities, such as "Water Collect", whereby local authorities, housing associations and registered social landlords (RSL) collect charges on behalf of companies in their rent in exchange for a small discount for the customer and a small commission for the RSL.

Communication to the sector would be a challenge, but, if done effectively, this option has the potential to be a joint industry-led approach without the need for burdensome regulation and unnecessary to costs. Government and the water industry would need to widely communicate the measure as an important "duty" for responsible landlords for this approach to work effectively.

To date we have not been able to fully assess the costs and benefits of this approach and we are seeking more information on these as part of the consultation. We believe there may be merit in pursuing this policy on a voluntary basis. Even a relatively low proportion of landlords passing the details of their tenants to water companies may help to reduce levels of bad debt by allowing water companies to pursue those tenants. Whilst we are unable to provide a full cost benefit analysis for this option, it is unlikely to impose significant costs and would almost certainly result in some monetary benefits. **<u>We are consulting on this option</u>**.

<u>Regulatory option</u>

39. If brought into force, provisions in the FLOWMAN Act 2010 enable companies to request specified information from owners of their tenants and allows the Secretary of State to make regulations setting out the specified details and the timescale for providing them. If the owner fails to provide details within the specified timescale, they become jointly and severally liable for the tenant's water bill. We have considered three different versions of this regulatory approach, considering the impact of specifying varying level of detail to be provided. We are consulting on the regulatory option with the least associated costs (**Option 2**).

40. Because the legislation provides that this power comes into force upon the receipt, by owners, of notification from a water company and the onus is on the company to request details from property owners. We would therefore only expect that companies would request information from owners of a property about which they had no details of customers or for which they were receiving no payment.

41. The following options assume that, as per the Walker Review's recommendations, details would be provided within 21 days of receipt of notification. This timescale was agreed between the water industry and landlords' representative bodies during Anna Walker's review because it is long enough to allow for most periods of absence, for example if the landlord or tenant were on holiday, and prompt enough to ensure companies receive information in sufficient time to bill tenants before significant, if any, debt arises. The options also assume that companies' power to request details would come into effect on receipt of notice served to landlords, as per the legislation in the FLOWMAN Act 2010.

42. Water UK has recently committed to provide a single, national website for all landlords to provide their information wherever their properties are and wherever they happen to live (see paragraph 114). This will minimise the burden on landlords the analysis in this IA does not currently include the cost savings that will accrue to landlords by virtue of this website.

43. The options below set out the preferred option for the amount of notifications and timing for sending them and the details to be provided including an additional meter reading option.

Timing of notifications

44. The following options have been identified as the circumstances in which companies may request details from landlords/property owners.

i) <u>Allow companies to request details only from landlords where information has not been provided by occupiers, rather than landlords being required to proactively provide information</u>:

   Under this option, landlords would not be required to proactively provide information to water companies, but water companies would be able to require that landlords provided information where it had not be provided by the occupier of a property after a specified amount of time had passed.

In theory, this would allow the regulatory measure to be targeted on the specific properties where water companies do not have information, reducing costs to landlords and to companies.

However, a significant disadvantage has been identified with this option that outweighs the benefit of reducing costs. Whilst a company often holds information about the occupiers of a property, the information in the case of rental properties is frequently not up to date, so bills can be sent to the wrong “named occupiers” and therefore payment is not sought and therefore not received from the current named occupiers.

They may have details of a previous occupier who moved out some time ago, but not the current occupier – but would not know that this information is out of date and therefore would not know when they needed to request information from landlords.

It is the tenant and the landlord who has the current, up to date information – but the tenant has an incentive not to provide this to the company – hence the landlord should be required to do so, proactively.

We believe that the costs of implementing this option would be similar to those of the preferred option. This is because we expect companies will only contact owners of properties about which they have no details or from which they are not receiving payment for services, on commencement of the legislative powers. However, because this option allows a window of time before companies would be enabled to contact property owners and does not impose provision of further information about new tenants until the same window of time had passed, the benefits would be reduced. <u>This option is therefore not preferred.</u>

ii) <u>Require provision initially of details for at least one occupier of all rented properties, and then subsequently at the start and end date of each tenancy</u>: This will ensure that water companies have details of at least one of the current occupiers of all rented properties so that they can be billed, and that when occupation changes, water companies are provided with information to enable them to bill the new occupier soon after they move in. Requiring information at the end of each tenancy will enable companies to send final bills, but would significantly increase costs for landlords. We observe that once details of a tenancy have been provided to the water company, when tenants move out they have a natural incentive to tell the water company, as this ends their liability. We therefore do not think that additional burden that providing details at the end of each tenancy places on landlords can be justified. This option may result in slightly higher monetary benefits than the preferred option but would impose almost double the costs to landlords and, we believe, would be disproportionately burdensome. <u>This option is not preferred.</u>

iii) <u>Require provision initially of details for at least one occupier of rented properties and then subsequently if a new occupier moved in or if the duration of the tenancy changed, but not at the end of the tenancy if the duration of the tenancy did not change</u>: This will ensure that water companies have details of the current occupier of all rented properties, so that they can be billed, and that when occupation changes, water companies are provided with information to enable them to bill the new occupier or the owner of the property as appropriate. At the start of the tenancy, the landlord would provide information on the planned start and end dates of tenancy. If the tenancy ended as planned, then we do not believe that it is necessary for the landlord to communicate this to the water company, given the cost implications of additional notifications. Instead, it would be assumed that the tenant had vacated as planned and the landlord would become liable for charges at the property unless they informed the company that either 1) the tenant had extended their tenancy or 2) a new occupier had moved in. <u>This option is therefore preferred</u>. The costs and benefits of this option are outlined in detail in the costs and benefits section of this IA.

Specified details

45. This sets out in addition to the preferred number/timing of notifications, the options for information that may be requested by the company.

iv) <u>Require provision of basic details for at least one tenant of all rented properties</u>: Basic details that a company would require would be the name, address, the date from which the tenant becomes responsible for bill payment plus their date of birth. These are details that a landlord would almost certainly already have about tenants (from a tenancy agreement) and would not require any additional work to obtain on the landlord's part. Water companies have told us that these basic details would allow them to pursue debtors (date of birth helps identify an individual). <u>This option is preferred</u>.

v) <u>Require provision of basic details plus additional details for at least one tenant of rented properties</u>: In addition to those details set out above, it was agreed between landlords representative bodies and the water industry during Anna Walker's review that further information could be required by water companies. This information would include date of birth, telephone number (where applicable), email address (where applicable), previous address, start and end date of tenancy and name and address of the property owner. This additional information enables companies to better identify tenants who have absconded without bill payment and pursue them for costs as a date of birth and previous address will enable companies to link customers with information held by credit reference agencies and a telephone number and/or email address will provide additional assistance in pursuing those customers for owed bill payments. However, we are mindful that the provision of more than the bare minimum of detail will impose a bigger burden on landlords. <u>This option is therefore not preferred.</u>

Additional meter reading

46. In addition to the preferred timing for notification and the specified details, set out in iii) and v) (above), the Walker Review recommended that meter readings should also be provided by landlords. The costs and benefits of requiring this is discussed in Option 3 below. However, mindful of the additional burden this would place on landlords, we have not included this requirement in the draft regulations. This is not preferred.

<u>Conclusion</u>

47. In considering the possible non-regulatory and regulatory approaches to the policy objective, including the do nothing option, we have assessed the benefits achieved by each option against the costs it would impose and we see merit in all of the options identified, with the exception of the do nothing option.

48. We do not regard the do nothing option as being viable as the current situation whereby a minority of customers are able to avoid paying their water bills and pass the costs on to other customers is not acceptable and is projected to get worse over time.

49. We have considered a regulatory and non-regulatory approach. For the regulatory approach, while the provision of information at both the start and end of tenancies, and the provision of meter readings, would enable the policy objective to be met more reliably, as the additional information would make it easier for companies to bill customers in a timely manner, we are not convinced that the benefits of requiring this degree of information to be provided would outweigh the costs. We have therefore decided to take the most simple regulatory option for further consultation – **Option 2.**

51. We have monetised the impact of 3 regulatory options:

Option 1: Require provision of basic plus additional details (options (iii) and (v))

Option 2: Require provision of basic details (options (iii) and (iv))

Option 3: Require provision of basic plus additional details, and a meter reading (options (iii), (v) and (vi)).

We have not monetised the costs and benefits of the non-regulatory approach. However, mindful of the burden that regulation can impose, we now wish to consult on both a regulatory option plus a voluntary alternative to gather more evidence about the costs and benefits of both. Further, as we would like to minimise the burden of the regulatory approach, we are consulting on the regulatory option which has the least costs.

We are therefore now consulting on:

Option 2: Regulation requiring provision of basic details from landlords

Option 4: A voluntary scheme asking landlords to voluntarily submit details

Regulatory Options development: assessment of costs and benefits of regulatory options

Baseline for the analysis

52. Conservative assumptions have been used to calculate the benefits outlined in this IA. Whilst, in reality, we expect to see water bills rise above the rate of inflation therefore increasing the level of bad debt (as has been the trend in recent years), it should be noted that for the purposes of this IA, in the absence of a robust figure for the rate of the increase in bills and household debt, the analysis assumes that levels of debt remain at their 2009/10 level. While levels of debt in the water industry have been increasing in recent years, there are no projections for the rate at which it may continue to grow. In addition, information about the extent to which increases are due to more people not paying their bills or more debt accumulating from the same debtors would be needed to assume increasing levels of debt. Consequently debt is assumed to remain at £316m per annum. The effect of this is therefore that benefits are lower than they would be under a profile of rising debt.

Costs

53. Costs of the regulatory options affect three main groups: landlords (including housing associations and managing agents), tenants, and water companies. Landlords incur costs gathering the required information from their tenants, and passing it on to the water company, though we would expect landlords to already hold at least some of the required details about their tenants. Tenants incur costs providing the information to their landlord. Water companies incur costs notifying landlords of the need to provide information, and recording the information

that is then provided. They will also incur costs identifying landlords and communicating the policy change, although these have not been monetised.

54. Transition costs are incurred by all affected groups. Water companies will have to notify all landlords of their new obligations and will request details from those properties they do not currently hold details for. The landlords of these properties will have to gather and provide these missing details, which will require tenants' input. The transition cost estimates capture all of these costs (further detail available in Annex 2).

55. Full detail of how cost estimates have been developed is presented in Annex 2. Cost estimates for landlords result from the time taken for them to gather the required information and provide it to the water company. This may depend on the method through which water companies require landlords to provide this information. It is assumed that landlords provide the information by telephone. Estimates use the Better Regulation unit model to determine costs, which uses the following formula:

No. of actions x Time taken x Wage rate x Overheads allowance

In this instance the number of actions will be the number of times that landlords, managing agents and housing associations have to provide water companies with tenants' information. Wage rates come from BRE and are increased to 2009/10 values using the Average Earnings Index. Overheads are estimated at an additional 30% of costs.

56. Cost estimates for tenants use a similar approach, valuing the time assumed to be taken for tenants to provide the required details to their landlord. Cost estimates for water companies are based upon the time taken to receive data from landlords and input it onto their systems.

Table 1 – estimated *undiscounted* costs, £m 2010 price base (discounted equivalents are shown in Table 3) *Figures may not sum due to rounding*

Transition costs, £m (2010)			
	Option 1	**Option 2**	Option 3
Landlords	4.2	4.2	8.6
Tenants	1.4	1.1	1.4
Water companies	2.3	2.3	2.3
TOTAL	7.9	7.6	12.2
Annual average costs (excl. transition), £m (2010)			
	Option 1	**Option 2**	Option 3
Landlords	8.2	7.6	12.7
Tenants	2.7	2.2	2.7
Water companies	2.2	2.2	2.2
TOTAL	13.2	12.1	17.7

57. Option 2, which would require provision of basic details only, has the lowest estimated transition and annual average costs. Transition costs for Option 1 (provision of basic plus additional details) are £0.3m higher than for Option 2, although annual average costs are £0.9m greater. The estimated costs for Option 3 are significantly higher than for the other options, since this option requires landlords to also provide a meter reading. The information required under Options 1 and 2 could be collected by landlords over the telephone but a meter reading will require the landlord to visit the property, which increases the cost estimates.

Non-monetised costs

58. Water companies may incur transition costs identifying landlords from the Land Registry. In cases where an address for the landlord is not found the notification letter will be sent to the tenanted property. The costs of notification included in the transition cost calculation do not include any costs of identifying landlords. However water companies currently undertake activities to identify people in a property, the costs of which are likely to reduce under the options considered. On balance, therefore, additional costs are not anticipated to be significant.

59. Water companies may also incur one-off costs if they set up new systems to facilitate information provision by landlords. Over time such systems could deliver cost savings, both to water companies and landlords. It is uncertain at this stage the extent to which such systems will be established, although it has been reported by Water UK that a number of water companies are developing systems that would enable landlords to provide details online.

60. The analysis also assumes that only one request for information is sent to landlords and that there is 100% compliance with this request to provide details. If the rate of compliance were lower, water companies might incur additional costs chasing landlords for this information. This 100% compliance assumption relates to compliance by landlords with the information requested by the water company. Since non-compliance would result in landlords becoming liable for outstanding water bills, it seems reasonable that landlords will discharge their liability by providing the requested details.

<u>Benefits</u>

61. We have made an assessment of the likely range of benefits, based on the analysis set out below. However, we recognise that we cannot make any meaningful assumptions about the amount of customers who currently do not pay their bills that are likely to start paying as a result of the preferred policy option. In light of the limitations of the available evidence, we propose to seek views on the accuracy of information and likely benefits outlined in this IA, alongside the consultation. We also propose to review the effectiveness of this policy.

62. Further evidence around the robustness of the estimated range of benefits is outlined in the sensitivity analysis (para. 71-9) Annex 2.

63. The estimated total cost of bad debt as provided by Ofwat is £316m for 2009/10. This can be split into three broad types of cost: chase, financing and write-off:

Cost type	Amount, 2009/10	Explanation
Chase costs	£76m	Expenditure of water companies to try to recover bad debt
Financing costs	£79m	Interest payments water companies have to make on the money borrowed to cover the bad debt they hold
Write-off costs	£161m	Amount of debt that water companies absorb as costs due to an inability to track down or enforce repayment of water debt

64. Chase and financing costs represent the economic cost of bad debt and amounted to £155m in 2009/10. Reducing debt will reduce the associated chase and financing costs, reducing all water bills and resulting in a net benefit to society. Debt that is written off is not an additional cost, but represents a transfer from non-payers to payers.

65. The increase in tenants who pay their water bills will benefit water companies because levels of household revenue outstanding will reduce. This will in turn benefit their customers since the cost of this debt is no longer passed on to customers in their bills.

66. At this stage there remains considerable uncertainty around the likely benefits of the options. The consultation process will be used to try to develop expectations about the scale of the benefits that might be realised. Because of the large uncertainty about the level of tenant bad debt and the reduction that might be expected, a range for the % reduction in bad debt is presented here. Informal discussions with industry have suggested that three scenarios of 10%, 25% and 50% reductions in the level of tenant debt are reasonable. This assumes that 60% of debt is attributable to tenants.

67. Table 2 below provides the age profile of water industry debt, as reported to Ofwat by the water companies.

Table 2: Age profile of water industry debt, 2008/09

	Age of debt in 2008/2009					
	<3months	<1year	<2years	<3years	<4years	>4years
% of debt	12.15%	31.07%	20.90%	13.35%	8.76%	13.77%
Cumulative	12.15%	43.22%	64.12%	77.47%	86.23%	100.00%

Souce: Ofwat

68. The benefits estimates are based only on avoided debt arising in the future – no assumptions are made about existing debt being paid as a result of the measures. The age profile of debt is used to estimate the profile for when reductions in debt feed through into the system. No disaggregation is available for debt older than four years so it is assumed that bad debt reaches its maximum reduction after five years.

69. So, for the central scenario of a 25% reduction in tenant debt:

It is assumed that total cost of debt each year is £316m. The economic cost of this debt is £155m (see paragraph 61).
It is assumed that 60% of this is attributed to tenants. The economic cost of tenant debt is therefore £93.4m.

70. Assuming the measure reduces this by 25% each year, after the first year there will be a 25% reduction in debt which is less than 12 months old – which represents 43% of debt in the system. After the second year, there will be 25% reduction in debt which is less than 2 years old – 64% of debt in the system. Of this, 43 percentage points (approximately 2/3) will be debt that arose in the past 12 months, and the remainder will be 'carry-over' from debt that arose the year before and remains outstanding. Table 3, below, sets out the benefits assumed under each debt reduction scenario.

Table 3: Assumed benefits based on each debt reduction scenario (undiscounted, £m)

Year		0	1	2	3	4	5	6	7	8	9
Cumulative % of debt		43	64	77	86	100	100	100	100	100	100
Reduction in debt	10%	4.0	6.0	7.2	8.1	9.3	9.3	9.3	9.3	9.3	9.3
	25%	10.1	15.0	18.1	20.1	23.3	23.3	23.3	23.3	23.3	23.3
	50%	20.2	29.9	36.2	40.3	46.7	46.7	46.7	46.7	46.7	46.7

Total economic cost of tenant debt	*40.4*	*59.9*	*72.3*	*80.5*	*93.4*	*93.4*	*93.4*	*93.4*	*93.4*	*93.4*

See Annex 2 for further discussion of the assumptions use to derive the debt reduction scenarios.

71. These debt reduction scenarios are applied to each of the options being considered in this IA. With limited information at this time about the likely reduction in debt that might actually occur, it was felt that this represented the most conservative approach. Varying the benefits assumed under each option would risk introducing spurious accuracy to the analysis. Three debt reduction scenarios were considered: a 10%, 25% and 50% reduction in the economic cost of tenant debt. The scenarios were chosen through discussion with industry, with a 25% reduction in the economic cost of tenant debt selected as a best estimate.

72. Water companies suggested that overall debt may reduce by 10% (equating to almost 20% reduction in tenant debt), and anecdotal evidence provided by one water company suggested that perhaps 30% of tenant debtors may repay once they are tracked down. The best estimate of a 25% reduction in tenant debt is estimated to represent a 15% reduction in total debt. It is considered to strike a prudent balance between the water companies' estimates of possible overall debt reduction and repayment rates of identified tenants (20% and 30% respectively). It implies that 1 in 4 tenants not currently paying their bills would start paying them as a result of the measure.

73. The sensitivity analysis presented in paragraph 61 onwards demonstrates that even if the debt reduction were considerably less, the policy would still have a positive NPV, benefits could be halved to 12.5% and, all else equal, there would still be a net benefit.

74. We would expect that the provision of additional information (Options 1 and 3) would result in greater benefits compared to the provision of basic information (Option 2) however in the absence of robust evidence at this stage the benefits are the same across the three options being considered. The monetised benefits are expected to overstate the benefits from Option 2 relative to Options 1 and 3. The greater costs associated with Options 1 and 3 (of providing the additional information) have been monetised. The NPV figures therefore capture the cost differentials between options to a greater extent than the benefit differentials. Whilst the lower costs of Option 2 are monetised, the lower benefits that are expected to accompany them are not reflected in the analysis, so in reality its NPV would be lower. Option 3 is not expected to deliver more benefits than Option 1 – the debt reduction would be the same since provision of a meter reading is not expected to influence tenants' willingness or ability to pay their bills.

75. There is a final element to the benefits which has been estimated. In the baseline, most tenants are assumed to supply the necessary details to their water company. These tenants benefit under the options considered. This is an avoided cost equivalent to the cost of contacting the water company, which their landlord now does on their behalf. Whilst they must now give their details to their landlord, this is assumed to take slightly less time (they will avoid, for instance, having to navigate through the water company's telephone system, and waiting to speak to an operator) so there is a net benefit for these tenants. This benefit is small per tenant but when aggregated it amounts to £4.7m per year. Annex 2 details the assumptions underlying this estimate.

76. Table 4 presents the estimated undiscounted benefits associated with the three debt reduction scenarios. The benefits that accrue to tenants represent the avoided costs for tenants who provide their details to water companies in the baseline so benefit under options where this is now done by their landlord. The benefits to water companies are from the increase in bills being paid corresponding to each debt reduction scenario.

Table 4 – estimated *undiscounted* benefits, £m 2010 price base (discounted equivalents are shown in Table 4)

Annual average benefits (excl. transition), £m (2010)			
% reduction in tenant debt	10%	25%	50%
Tenants	4.7	4.7	4.7
Water companies	8.1	20.3	40.7
TOTAL	12.8	25.0	45.3

77. The benefits in this analysis should be considered conservative for each of the scenarios since a constant level of debt is assumed. However, in recent years water debt has increased substantially in real terms and we expect this trend to continue. Including future growth in water debt in the baseline scenario would mean larger future benefits from each option as they would mitigate the build up of a greater amount of future bad debt. In view of the lack of evidence around the reduction in debt that might be expected for each of the options, it was considered that assuming a constant level of debt represented a prudent approach to estimating the benefits.

Non-monetised benefits

78. Options that place liability on landlords may encourage landlords to enter into tenancy agreement more often, safeguarding both parties' rights and potentially saving money through avoided disputes. This is in line with DCLG's wider policy agenda. Written tenancy agreements between landlords and tenants are widely regarded as best practice, in order to avoid potential disputes, particularly around things such as responsibility for bill payment. Such disputes can lead to both tenants and landlords incurring costs for legal services and courts. Encouraging more landlords to voluntarily enter into agreements safeguards the rights of both landlord and tenant and may save both parties money by avoiding such disputes.

Fairness benefits

79. The cost of writing off debt is passed onto customers in the form of higher bills. This means that paying customers are subsidising water use by those customers who do not pay their bills. This cross-subsidy represents a transfer between groups so reducing write-off costs is not a net benefit. Write-off costs are 51% of the cost of debt so the policy options being considered are likely to result in large reductions in bills for paying water customers, which are not included in the net benefits. Where tenants start paying their water bills as a result of the options being considered, significant fairness benefits are expected because this will mean that water users are now paying for that use, rather than other paying water customers.

<u>Summary of options: net impacts by affected group</u>

Table 5 – Estimated net impact by affected group; £m (PV)
Figures may not sum due to rounding

£m, PV	Option 1	Option 2	Option 3
Landlords	-72.5	-67.9	-114.1
Tenants	18.7	18.7	18.7
Water companies	141.5	146.4	141.5
TOTAL	87.9	97.2	46.2

Note: Net impacts reported in Table 5 are based on the total, discounted, costs and benefits to each affected group. They use the central benefits scenario of a 25% reduction in (the economic cost of) tenant debt. The benefits scenarios do not vary across options, but in reality Option 2 would be expected to result in lower net benefits to water companies than Options 1 and 3. Benefits for Option 2 have been set at the same level as for 1 and 3 in recognition of the lack of robust evidence about expected benefits at this stage.

Present values of monetised costs and benefits

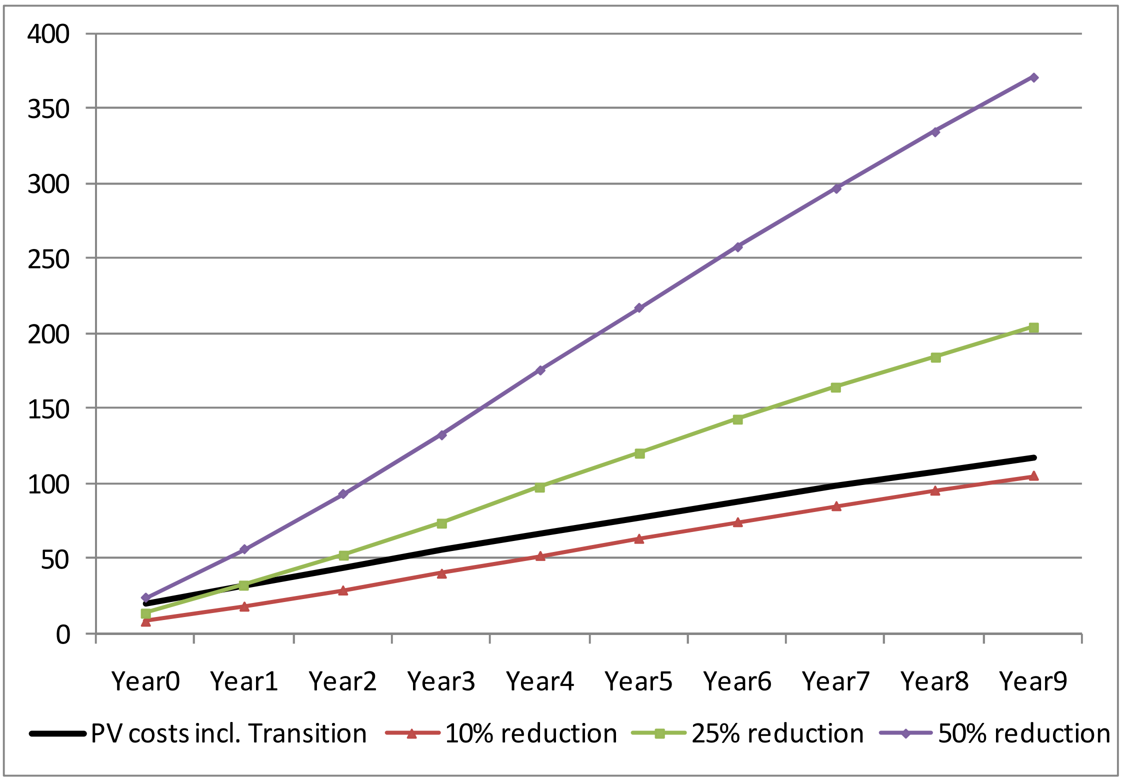
Table 6 – Estimated PV costs, £m; (2010 price and PV base year)

Year	1	2	3	4	5	6	7	8	9	10
Option 1	20.3	12.2	11.8	11.4	11.0	10.7	10.3	9.9	9.6	9.3
Option 2	18.9	11.2	10.8	10.5	10.1	9.8	9.4	9.1	8.8	8.5
Option 3	28.9	16.5	15.9	15.4	14.9	14.4	13.9	13.4	12.9	12.5

Table 7 – Estimated PV benefits, £m; (2010 price and PV base year)

	Year	1	2	3	4	5	6	7	8	9	10
Reduction in tenant debt, %	10%	8.4	9.9	10.7	11.0	11.8	11.4	11.0	10.6	10.2	9.9
	25%	14.2	18.3	20.5	21.6	23.5	22.7	22.0	21.2	20.5	19.8
	50%	24.0	32.3	36.8	39.1	43.2	41.7	40.3	39.0	37.6	36.4

Chart 1 – Cumulative PV of monetised costs and benefits of Option 1 over 10 years, discounted to 2010 price base, £m



80. The tables and chart above demonstrate that for Option 1, the PV of benefits under a 25% tenant debt reduction scenario outweighs the PV of costs after two years to produce a positive NPV. There is a net benefit to Option 1 under a 50% tenant debt reduction scenario

from the start, but the NPV remains slightly negative under the 10% tenant debt reduction scenario for the whole period.

Table 8 – Best estimate PV costs and benefits, £m; (2010 price and PV base year)

	Option 1	**Option 2**	**Option 3**
Total PV costs	117.0	107.6	158.6
Total PV benefits	204.8	204.8	204.8
NPV	87.9	97.2	46.2

81. Table 8 summarises total discounted costs and benefits for each option, using the best estimate benefits scenario of a 25% reduction in tenant debt. The estimates suggest that all options will deliver a net benefit, which is greatest for Option 2 and smallest for Option 3. It is important to note that the benefit scenarios do not vary across options. It is expected that Option 2 would deliver fewer reductions in debt compared to Options 1 and 3 since water companies will hold fewer details of tenants, restricting their ability to pursue outstanding payments – and potentially reducing the incentive for tenants to pay their bills in the first place.

<u>Sensitivity analysis</u>

82. Sensitivity analysis has been conducted to test the vulnerability of the conclusions drawn from the analysis to uncertainties around the key variables.

Benefits

83. The largest uncertainty in the analysis presented is the level of debt reduction that can be anticipated as a result of the options. The options will mean that water companies have details of tenants and (under Options 1 and 3) the ability to trace them after they move. This is expected to create an incentive for tenants to pay their bills. The extent to which they do pay their bills (and therefore the extent to which water company debt reduces) will depend upon the behavioural response of tenants, which is uncertain.

84. It is anticipated that the analysis can be refined during the course of the consultation, which may enable more accurate assumptions about debt reduction to be made. For the purposes of this IA, however, three scenarios cover the likely range of values that debt reduction may take. These are 10%, 25% and 50% reductions in the economic cost of tenant debt. Tenant debt is split between tenants who are known to water companies but are not paying their bills, and those tenants that the water companies do not hold correct details for. The proportion of tenant debt held by this latter group is not known. The scenarios were set based upon recommendations from the water industry.

85. Switching values have been calculated to help understand how sensitive the analysis results are to changes in the level of reduction in tenant debt. The switching value shows by how much the level of reduction would have to fall to make the NPV for each option negative.

	Switching value	NPV by debt reduction scenario (£m)		
		10%	25%	50%
Option 1	12% reduction in tenant debt	-11.7	87.9	253.8
Option 2	11% reduction in tenant debt	-2.4	97.2	263.1
Option 3	18% reduction in tenant debt	-53.4	46.2	212.1

86. The switching values for Options 1 and 2 suggest that requiring additional details (Option 1) need only deliver an additional 1% reduction in tenant debt to counter the extra costs imposed compared to requiring only basic details (Option 2).

87. The switching values are significantly lower than the best estimate scenario of a 25% reduction in tenant debt, for all options. Given the uncertainty around the level of debt reduction that might be expected, this provides greater confidence that, even with a lower level of debt reduction, the policy may still deliver net benefits. Indeed, if the debt reduction delivered by Option 1 was halved (i.e. a 12.5% reduction), the policy would still be net beneficial.

Costs

88. The cost estimates depend on a number of variables:

- the number of unknown tenants;
- the time required for required information to be collected, provided to water companies; and processed by the water companies; and,
- the cost of this time.

89. The switching values calculated here represent a change in any or all of the variables. They represent the increase in costs that is required to make a positive NPV become negative, all else equal. The best estimate benefits scenario (a 25% reduction in tenant debt) is assumed.

	Switching value
Option 1	75% increase in costs
Option 2	90% increase in costs
Option 3	50% increase in costs

90. For all options the switching values suggest that even if costs have been substantially underestimated, the policy may still deliver a net benefit. The time estimates are conservative so it is most likely that any underestimate of costs would be due to an underestimate in the number of unknown tenants.

<u>Conclusion</u>

91. Following the initial options development, three options were taken forward for further consideration:

Option 1: Require provision of basic plus additional details;
Option 2: Require provision of basic details; and,
Option 3: Require provision of basic plus additional details, and a meter reading.

92. On the basis of the costs and benefits presented in Table 6, Option 2 has the greatest NPV. However the uncertainty around the debt reduction achieved under each option meant that these benefits do not vary across options. As a result the NPVs do not capture the difference in benefits that is expected between Options 1 and 3, and Option 2. Option 2 requires provision only of basic details, which means it has the lowest cost. These basic details would enable water companies to bill accurately, but not to trace non-payers once they have left a property. Options 1 and 3 require basic plus additional details, which would give water

companies greater ability to pursue non-payers. Consequently it is expected that benefits would be higher under Options 1 and 3 than under Option 2, but the monetised benefits do not reflect this. The monetised benefits of Option 2 can thus be considered an overestimate relative to Options 1 and 3.

93. Option 3 is felt to place too much burden on landlords by requiring a meter reading, for no additional benefit in terms of the policy objective – as is apparent in Table 3. As a result, it is not preferred.

94. The total costs of Option 1 are less than £10m greater than those of Option 2, but as stated above greater benefits would also be expected. The sensitivity analysis conducted demonstrated that Option 1 need only deliver an additional 1% reduction in tenant debt to counter the extra costs it imposes compared to Option 2. Given that the additional details will maximise companies' opportunity to identify tenants, we think that it is highly likely that additional benefits of more than 1% could be achieved under Option 1.

95. Government is mindful of the burden that requiring additional details to be supplied would impose on landlords. We want to minimise this burden, so the preferred regulatory option is **Option 2.** We also want to explore a non-regulatory option. That is why we are consulting on **Option 2** and **Option 4.** The costs and benefits of Option 2 are set out here. The costs and benefits of Option 4 have not been assessed as it is a voluntary scheme.

97. The regulatory approach we are including in our consultation has been designed to be consistent with the better regulatory principles:

Targeted

98. The regulations are targeted to improve the information that water companies have on the occupiers of rented properties, as the large majority of water debtors are tenants. This focuses the regulations on the approximately 30% of properties that are rented properties.
The information that is required is the minimum information that water companies would need to be able to identify, contact and bill customers and to be able to take action to recover outstanding revenue if required.

99. To improve the prospects of collecting charges, it is important that water companies have the information to be able to bill customers in a timely manner, and in particular that a customer can be billed soon after they enter a property. It is the landlord of a property that will be aware of when a new occupier moves into the property, so the regulations are targeted to require the landlord to provide information to the water company.

100. Furthermore, this targeting is appropriate as in many cases landlords will already have most of the required information through tenancy agreements and check-in reports. There is therefore unlikely to be very much further work involved in landlords obtaining information from one or more of their tenants.

Proportionate

101. The regulatory measure provides a proportionate incentive for the landlord to provide the information, in that if information is not provided within a specified timescale, the landlord would be jointly and severally liable for water charges.

102. The landlord can readily discharge this liability by providing the information. If the landlord does ultimately have to pay for the water service (ie he did not discharge his liability), there would be nothing preventing him from then recovering the money from the tenants (a

situation that does already happen in a small minority of landlord / tenant situations). In these situations the landlord is not able to profit from this as per the rules set out in Ofwat's resale order.

103. Costs on landlords will be limited by only requiring the provision of limited and readily available information. Furthermore Government would expect water companies to limit costs by designing easy to use processes and systems to collect the information

Accountable

104. The regulatory measure was subject to parliamentary scrutiny during the passing of the Flood and Water Management Act 2010, and the detailed regulations to implement the measure are being publicly consulted upon, prior to further parliamentary scrutiny.

Consistent

105. The regulations would apply consistently to all owners or landlords of rented properties, including social housing providers.

Transparent

106. The proposed regulations are the result of an extensive consultation process, initially during the Walker Review, involving water companies and landlord representative bodies, and are being consulted upon.

107. The regulations have the support of key water sector stakeholders, including Ofwat and CCWater and representatives of the private rented sector.

108. The regulations are to implement legislation that had broad cross-party support.

109. The obligations imposed by the regulations, and the consequences of non-compliance are clear and transparent.

<u>Risks and key assumptions</u>

- Whilst the measures considered deal with enabling powers for water companies, for the purposes of the analysis it has been assumed that all water companies choose to use these powers to require landlords to provide details of their tenants.
- It is assumed that the regulations lead to a reduction in tenant debt, either by equipping water companies with the information they require to pursue tenants for outstanding payments, or by creating a stronger incentive for tenants to pay their bills in the first place.
- It is assumed that water companies are able to trace landlords of properties in order to notify them of their liability.
- It is assumed that landlords fully comply with their obligations. Since the costs of providing the required details are much lower than the cost of the water bill they would stand to be liable for, this is considered reasonable.
- Tenant bad debt is assumed to account for 60% of water industry bad debt.
- Reductions in write off costs are not economic benefits but a transfer of costs from paying customers to those who previously avoided paying bills.
- The reduction in tenant bad debt will be in the range of 10%, 25% and 50% of bad debt.
- The baseline assumes that debt remains constant at its 2009/10 level, and the number of households remains constant at 22.0m.

- It is assumed that micro-businesses are included within the scope of the measure.

Direct impact on business and OIOO

110. The regulatory options considered in this impact assessment are based upon enabling powers, which would enable water companies to request information about tenants from landlords. For water companies to make use of these powers, they must notify the landlords of the properties they serve of their new obligations. After this, landlords would be obliged to provide the requested details, or become jointly and severally liable for the bills.

111. It is up to water companies whether they choose to use the enabling powers, and in this sense the measures being considered are voluntary. Consequently they are not subject to OIOO.

Wider impacts

112. These impact tests apply to all of the options identified.

Impact on small firms

113. We have carried out a Small Firms Impact Test and whilst we do recognise that this measure will have some impact on small firms, we do not consider this to be disproportionate to the potential benefits to water companies, which would deliver substantial gains to water bill payers. Higher costs may be incurred by small businesses (i.e. landlords, including those which are micro businesses) if they are not aware of the change in legislation and in relation to the time taken to provide information on their tenants to water companies.

114. We propose to ensure that a robust communications strategy is in place to make sure all landlords are aware of their new responsibilities and that small firms can quickly and easily provide the information required to water companies. To achieve this, Water UK (the representative body for water companies in England and Wales) has committed to provide a single, national website for all landlords to provide their information wherever their properties are and wherever they happen to live. This will be promoted by all water companies and will avoid the need for landlords to use different systems in different parts of the country. This commitment was made in April 2011 and the analysis in this assessment does not currently include the cost savings that will accrue to landlords by virtue of this website.

Moratorium exempting micro businesses from domestic regulation

115. In March 2011 it was announced that, as far as possible, micro businesses should be subject to no new regulation after 1 April 2011, for three years. Initial estimates suggest that 24% of the costs of the preferred option in this Impact Assessment would be borne by micro businesses. This is a preliminary estimate informed by data on tenant moves, the split of these between social and private housing, and the split of private landlords between those who use managing agents and those who don't. It was assumed that private landlords who don't use managing agents are all micro businesses, and that some housing associations may also employ fewer than 10 people, leading to an estimate that 24% of costs (for Option 1; see summary sheets for other estimates) would be borne by micro businesses.

116. The consultation process will be used to develop a more robust estimate of what proportion of the measure would fall on micro business. This will aid understanding of how the costs and benefits of the measure could be affected by excluding micro businesses from the regulations. The consultation will also invite views on the extent to which private amateur landlords might be deemed to be micro businesses and the implications of excluding micro

businesses from the measure. The analysis presented in this impact assessment assumes that all landlords, including micro businesses, are required to provide the details requested.

Statutory Equality Duty Impact Test

117. Under the Equality Act 2010 public bodies are required to ensure that policies do not disproportionately disadvantage people on the grounds of:

age;
disability;
gender reassignment;
marriage and civil partnership;
pregnancy and maternity;
race;
religion or belief;
sex; or
sexual orientation.

118. In effect, this policy enforces existing legislation which provides that the occupier of a domestic property is liable for payment of their water bill, regardless of circumstances. Because the proposed regulations also apply to all non-owner occupiers of domestic properties regardless of circumstances, we do not consider that this policy poses a disproportionate disadvantage on the grounds listed above.

Other impacts

119. We do not consider this policy to have any adverse effect on greenhouse gasses, sustainable development, the environment, the justice system, health and well being, human rights, or rural areas. The limited extent of competition in the water and sewerage sector means there is unlikely to be any effect on competition.

Annex 2 – Cost and benefit modelling detail

<u>Costs</u>
Costs to landlords
Costs are calculated by estimating the time that landlords will have to spend gathering the details required under each option, and providing the water company with them (Table A2.1). This time estimate is valued using labour (wage) rates taken from BIS (Table A2.2).

A2.1 Time per notification, all options

	Time (mins)			
	Obtain info	Obtain meter reading	Notify	Total
Option 1 – all details, no meter reading	5	0	10	15
Option 2 – basic details, no meter reading	4	0	10	14
Option 3 – all details, meter reading	5	22	10	37

A2.2 Landlord costs per notification – Option 1

	Time	Labour rate	Wage cost	Overhead	Total costs to

	(mins)	(£/hr) (2010 prices)	per notification (£)	costs (30%) (£)	landlords per notification (£)
Private renter	15	18.8	4.7	1.4	6.1
Managing agent	15	9.6	2.4	0.7	3.1
Social renter	15	14.7	3.7	1.1	4.8

These costs to landlords may be considered conservative because the notification time assumes that contact between landlords and their water company is by telephone. If instead landlords were to provide the details online, the notification time could be substantially reduced. Evidence from user testing of a system that Northumbrian Water are putting in place suggests that after initial registration is completed, it takes between 3 and 5 minutes for the information to be provided.

Costs to tenants

Costs to tenants are estimated using a similar approach, estimating the time they will spend providing details to their landlord (Table A2.3) and valuing this using labour (wage) rates taken from BIS.

A2.3 Time per notification, all options

	Time to provide info (mins)
Option 1 – all details, no meter reading	5
Option 2 – basic details, no meter reading	4
Option 3 – all details, meter reading	5

In the baseline option, some tenants will have been providing their water companies with the necessary details when they move. As with landlords, it is assumed that this notification process would take tenants 10 minutes. Under Option 1, these tenants spend 5 minutes providing these details to their landlord but avoid spending 10 minutes notifying their water companies. Consequently tenants who would be 'known' to water companies in the baseline have a net time saving under the options being considered (equal to 5 minutes for Options 1 and 3 and 6 minutes for Option 2).

Costs to water companies

Ongoing water company costs are based upon the time taken to receive the data from landlords and input it onto their systems, valued at an appropriate wage rate. The necessary information was provided by industry, based upon landlords contacting their water company by telephone. It was assumed that the process takes 7 minutes.

Ongoing costs for water companies would be much lower if landlords provided details online – and a number of water companies are putting systems in place to enable this. Since it isn't guaranteed that such systems would be available in all areas, or that all landlords would choose to supply the information online, a conservative approach was taken in the analysis, assuming that all contact is made by telephone.

Transition costs
These are the costs associated with the initial notifications that are required. Water companies must inform all landlords of their new obligations and are able to request details for tenants of those properties for which they currently hold no details ('Dear Occupier' properties). It is assumed that these notifications and requests are sent by standard, second class delivery. Data from UKWIR suggest that 3-7% of all properties are 'Dear Occupier' (some will be owner-occupied but the water company won't know that in advance) so with 22.2m properties and using a central estimate of 5%, it is assumed that 1.1m properties will be sent requests for billing details. The proposed regulation will only require details in instances where the property is tenanted. It is estimated that tenants represent 80% of debtor households, so in 0.9m cases a landlord will have a duty to supply details to the water company. The costs to landlords and tenants of supplying these details under transition are based on the same calculation approach and set of assumptions and for their ongoing costs. There are estimated to be 6m tenanted households in total, meaning that 5.1m landlords will be notified of their new obligations but will not be required to provide information under transition because the water company has details for their tenant[1].

Benefits
Household revenue outstanding in 2009/10: £1.6bn
Costs of this debt have been estimated as:
    Write-off: £161.0m
    Chase: £76.3m
    Financing: £79.3m
Estimated total costs are therefore £316.6m; the economic costs (chase and financing costs) are £155.6m.
(source of the above: Ofwat)

It is assumed that 60% of debt is attributable to tenants. This implies that the total economic cost of tenant debt is 0.6*£115.5m, which is £93.4m. This adds £4 to households' water bills.

Three debt reduction scenarios were considered: a 10%, 25% and 50% reduction in the economic cost of tenant debt. A time profile of the age of debt from Ofwat was used to estimate a ten-year debt reduction profile for each of these scenarios. There is considerable uncertainty around the level of debt reduction that might be expected from the policies being considered. The scenarios were chosen through discussion with industry, with a 25% reduction in the economic cost of tenant debt selected as a best estimate. The sensitivity analysis presented from paragraph 61 demonstrates that even if the debt reduction were considerably less, the policy would still have a positive NPV – e.g. for the preferred option (Option 1), benefits could be halved to 12.5% and, all else equal, there would still be a net benefit.

The other element of the benefits estimates is the benefit to tenants who pay their water bills in the baseline. They benefit from an avoided cost of having to notify their water company when they move house. Whilst they still incur costs providing their details to their landlords, overall there is a slight time saving (5 minutes for Options 1 and 3, and 6 minutes for Option 2). The value of these time savings was estimated to be £4.7m under all options.

[1] It may be that these details are incorrect or incomplete but the initial provision of details is only proposed to cover those households that are 'known unknowns' in that bills are currently addressed 'Dear Occupier'.

Assumptions, risks and uncertainties

- For the purposes of the analysis, and in order to consider the total potential impact of the measures, it has been assumed that all water companies choose to use the regulations to require provision of tenant information by landlords. It is important to note that the proposed regulations are in fact voluntary, to the extent that they are enabling powers giving water companies the option to request details from landlords. Whether companies make use of this power will depend upon their own assessment of the likely debt reductions and whether they justify the additional costs to the company.

- Ongoing cost estimates use the number of tenant moves each year as the figure for the number of notifications that must occur. Housing and Planning Statistics 2009 (DCLG) provides a figure of 1.8m tenant moves per annum. The proposed regulations would also require notifications when tenancy agreements change – which would include, for example, instances where tenants extend their agreement for the same property. Such notifications are not captured in the figure of 1.8m moves. Since water companies would already hold the relevant details, costs of notification in these cases would pertain only to the time taken for landlords to tell the company of the extension. This time is expected to be minimal, so costs as presented are not felt to significantly underestimate the costs that would arise in practice.

- It is assumed that tenants are more likely to pay their bills when water companies hold their details and are better able to trace them when they move. This will then lead to reductions in the level of tenant debt, which delivers a benefit to water companies.

- It is assumed that water companies manage to successfully identify and notify all landlords, and that landlords choose to comply with the requirements and thus do not incur costs due to liability for their tenants' unpaid water bills. Costs to water companies of identifying landlords have not been monetised, although the costs of notification have been. There is a risk that if landlords do not comply their costs could be greater if they are held liable for any unpaid bills. Water companies may also face a risk that in such circumstances, landlords would claim they had not been notified of their responsibilities and thus were not liable. The suggestion from Water UK was that any notifications would still be sent by standard delivery (rather than registered, which could safeguard them from this risk) so standard delivery costs were assumed in the analysis.

Assumptions

Assumption	Value	Source	Comment
Household water debt figures	£1586m household revenue outstanding	Ofwat June returns, for 2009/10	Collated by Ofwat from data submitted by water companies. Equivalent to £14 additional per paying water customer. Age profile of this debt also from Ofwat *Sector information on household debt*, 2010, http://www.ofwat.gov.uk/publications/focusreports/prs_inf_baddebtsuppinfo.pdf
Proportion of debt attributable to tenants	60%	Estimates chosen through discussion with Ofwat, Water UK and water companies. Values chosen as most sensible given range. Informed by Ofwat analysis of the DWP Family Resources Survey.	FSR survey – 80% are tenants (self-reported) Supported by UKWIR research *Quantifying different types of water industry debt* (2005); one of the findings from this was high debted private renters account for 12% of the live debtor profile. Research by Equifax in 2006 (quoted by Water UK) showed that 23% of debt is 'leaver debt' where companies cannot trace defaulting customers when they move.
Proportion of debtors who are tenants	80%		
Wage rates	Landlord: £18.8/hr Agent: £14.7/hr Admin staff: £9.6/hr	BRE cost model	BRE cost model uses 2005 prices. Wages were uprated to 2010 using an uprate factor from the Average Earning Index, ONS (figures quoted here are the 2010 values). Wage rates are split into landlord, admin staff and estate agents. Landlord – for private movers with no agent, estate agent – for private movers using an agent, admin – for social housing. Tenants' wages are assumed equivalent to that used for their 'landlord' estimate. This was to provide consistency of sources (BRE cost model doesn't provide a median wage). ONS data for 2010 suggests that the median hourly wage is £12.50. A sensitivity test was conducted to test the impact that this has on the modelling when used to value tenants' time. The effect was minimal; for Option 1 (preferred), the best estimate NPV was reduced from £87.9m to £85.5m.
Time to collect details	Obtain – 15/14/15 (options 1/2/3); get meter reading (option 3 only) – 22; notify water	Based on discussions with Ofwat, Water UK, water companies and also results from the Residential	Tenant time to provide the information is assumed to be equal to the landlords' time to obtain the information (5/4/5 for options 1/2/3). Assumes economies of scale for larger organisations (larger property portfolio) http://www.rla.org.uk/questionnaires/water_charges.shtml

	company – 10 minutes.	Landlords Association survey: 'Water changes survey questionnaire'	
No. of 'Dear Occupier' properties – no.of unknown customers	5% of households	Mid-point of range from UKWIR research	UKWIR: 3-7% of households are sent bills addressed 'Dear Occupier'
No. of tenant moves per year	1.8m	DCLG *Housing and planning statistics 2009*	Also provided the split of movers between private rentals and social rentals.
		Rugg, J & Rhodes, D (2008) *The private rented sector: its contribution and potential*	Provided estimated split of private landlords into those using a management agent (60%) and those not (40%).
Discount rate	3.5%	HMT *Green Book for Appraisal and Evaluation in Central Government*	10 year appraisal period used, also in line with HMT guidance.
No. of households	22.0m	Ofwat	
Assumed range of debt reduction	10%, 25%, 50% reduction in economic cost of tenant debt	Discussion with water companies, Ofwat, Water UK	The economic cost of tenant debt includes the chase and financing costs but excludes the write-off costs which are a transfer between paying and non-paying water customers. Water companies suggested that overall debt may reduce by 10% (equating to almost 20% reduction in tenant debt), and their anecdotal evidence suggested that perhaps 30% of tenant debtors may repay once they are tracked down. A 50% reduction in tenant debt is estimated to represent a 30% reduction in total debt. This is not considered the upper end of the range of possible benefits, since only 1 in 2 people start to pay their bill as a result of the measure, but it is considered an optimistic scenario. A 10% reduction represents a 6% reduction in total debt and is considered a pessimistic scenario, whereby only 1 in 10 tenants start to pay as a result of the measure.

			The best estimate of a 25% reduction in tenant debt is estimated to represent a 15% reduction in total debt. It is considered to strike a prudent balance between the water companies' estimates of possible overall debt reduction and repayment rates of identified tenants (20% and 30% respectively). It implies that 1 in 4 tenants would start paying their bills as a result of the measure.
% of tenants who must provide details in transition	15%	Calculation uses assumptions above (no. households; % that are 'Dear Occupier'; % of debtor households that are tenanted)	This gives the number of tenants who are currently unknown to water companies, and whose details will be requested at the outset when water companies adopt their powers to require information. One water company estimates that 19% of its bad debt is from customers they've no details about; if 80% of debtors are tenants then this would support the assumption here (0.8*19% = 15.2%)