Appendix

YKY50_Bad debt pressures on bill forecasts

YorkshireWater

Contents

1. Introduction

A provision for bad debt is included as part of our retail price control. This appendix complements the chapter on the retail price control, providing further detail on our bad debt analysis and forecasts, and our debt management strategies.

1.1 Background

During the 2020 to 2025 period, we've continued to be among the leading companies for our performance on bad debt, when calculated as a percentage of turnover. We also have one of the lowest bad debt management costs in the industry.

Following the start of the Covid-19 pandemic in March 2020, unprecedented levels of household water consumption were seen as the government imposed working from home for office-based staff during the lockdown periods. Remote and hybrid working is expected to continue into the 2025 to 2030 regulatory period (See Figure 1 'ONS Homeworking in the UK – regional patterns). Research shows an 81.5% change in Yorkshire homeworking post Covid-19. This transferred the debt risk from non-household to household customers.

Table 1c: Change between October to December 2019 and January to March 2022		
Region	**Homeworking change**	**Homeworking change %**
Yorkshire and The Humber	300,000	81.5

Figure 1: ONS Homeworking in the UK – regional patterns. Source: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/homeworkingintheukregionalpatterns

As the government restrictions were eased and eventually lifted, the hybrid model became more prevalent across the workplace, resulting in sustained increased levels of household consumption compared to pre-pandemic.

With this sustained increase in consumption, the level of debt has also increased in the first three years of the 2020 to 2025 period and is predicted to continue into the 2025 to 2030 period.

In addition to the Covid-19 impact on debt, we have also been impacted by government welfare reforms, increased billing on void properties and the ongoing cost of living crisis.

1.2 YWS debt analysis and performance

Increased consumption by household customers post Covid-19

Within our measured customer base, there are approximately 1.3 million measured customer accounts. Around 70% of these customers pay monthly, based on an arranged plan. The 'arranged plan' method predicts the consumption over the upcoming 12 months and schedules a payment plan in most cases by direct debit.

The remaining measured customers who don't have an arrangement in place 'pay by bill'.

Customers' debt initially increased at the start of the 2020/21 financial year, as increased Covid-19 billed consumption materialised. However, by the end of the 2021/22 financial year, the debt reverted to pre-pandemic levels. The increased cash was collected as the lag between billing, and cash 'balanced' out. The arrangement plan debt in 2022/23 has remained stable. (See Figure 2)

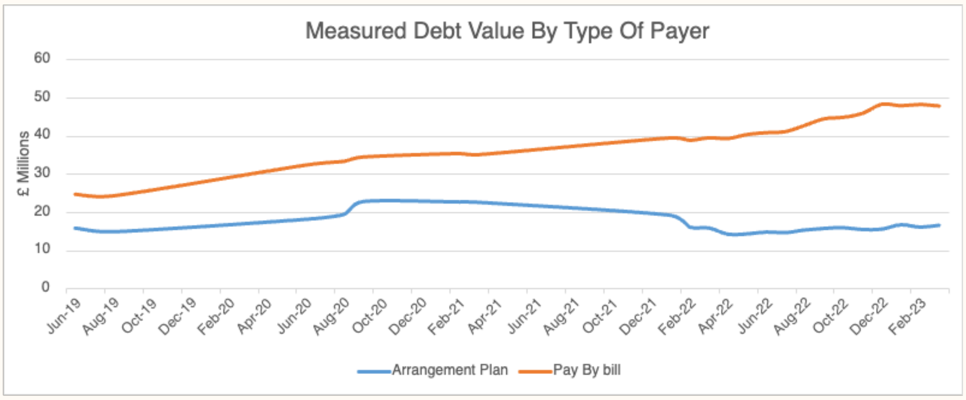

Figure 2: Measured Debt Value by Type of Payer

In contrast, the pay by bill customers' debt has continued to grow consistently since the start of the pandemic and is c £18 million higher in March 2023 compared to the start of the pandemic in March 2020, which equates to a 60% increase.

The impact of this increase in debt can be seen in the deterioration in the age of debt across the whole measured customer base (Figure 3). The trend we have seen is the volume of debtors has remained stable, but the non-payers have been receiving increased bills and are still not paying. This has resulted in debt older than five years growing significantly since the start of the pandemic in March 2020. It has become more prominent in the 2022/23 financial year, as the arrangement plan cash collections have stabilised.

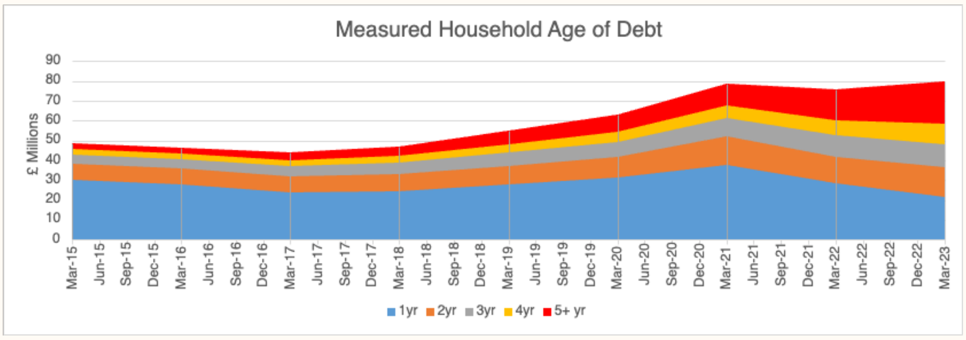

Figure 3: Measured Household Age of Debt

1.3 Welfare Reforms

At the end of the 2015 to 2020 regulatory period, a number of government welfare reforms were introduced, such as benefit cap and freeze, universal credit, single DWP payment and under occupancy charge housing benefit. These reforms impacted the ability of our hardest pressed customers to pay and reduced our ability to recover arrears. This meant our non-payers fell into more arrears.

This was more noticeable in our performance on unmeasured debt, resulting in increased arrears, but the volume of debtors remaining stable. These are customers not impacted by Covid-19 consumption, but still struggling. Figure 3 shows the impact through reduced DWP cash payments.

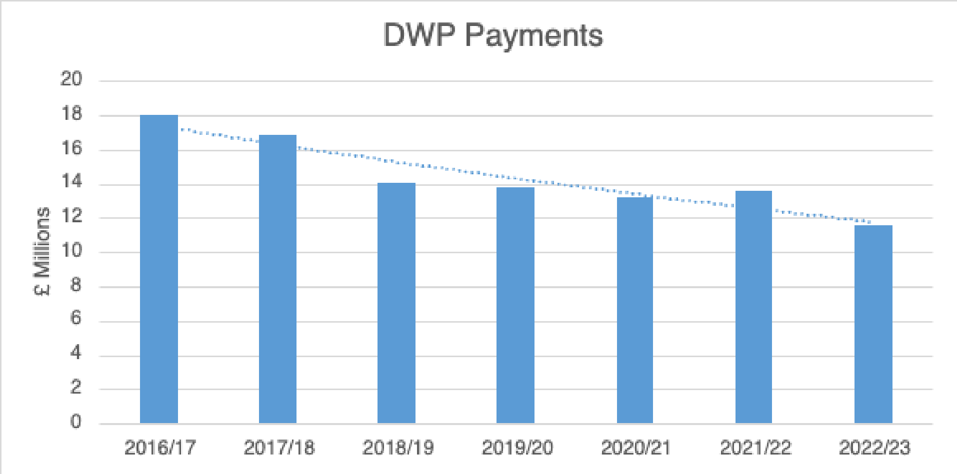

Figure 4: DWP payments

1.4 Void properties

As part of the drive to ensure the charges that our bill paying customers receive are fair, we have committed to reducing void properties across the 2020 to 2025 period. We have reduced unbilled by over 30 properties. This has helped keep bills as low as possible, but has resulted in additional billing initially and a subsequent increase in unpaid debt. The ageing of this debt is deteriorating, and will have an impact on our arrears and ultimately bad debt in the 2025 to 2030 period.

1.5 Operational Approach

Compliance with the Paying Fair guidelines is embedded within all our billing and collection processes.

Our billing and customer communication strategies are designed to ensure all customers are on the most appropriate payment arrangements, supporting debt avoidance and maintaining low cost to serve. Our direct debit penetration is regularly benchmarked and remains high, while alternatives – for example, counter payment services – are available to those that need them. In the 2025 to 2030 period, we plan to introduce monthly billing options to customers with smart meters. This new approach will enable better aligning billing cycles to customer circumstances. Our collection strategies are tailored according to customer circumstances. The aim is to deliver the best outcomes for customers, whilst efficiently transforming company resource into successful collection rates.

We are utilising information from customers alongside credit reference agency data in order to effectively allocate appropriate collection strategies, dependent on customer circumstance. To support this, we are currently replacing our existing Litigation Scorecard with a new Affordability Scorecard designed to better identify financially vulnerable customers across our billing portfolio.

Our Resolve scheme is designed to incentivise customers with over 12 months debt into making regular ongoing payments. On the first year anniversary all arrears are cleared if ongoing charges are maintained. 7,000 customers a year benefit from this support.

We see high success rates in appropriate enforcement action. Where activity is deemed most appropriate, pre-legal assessment of cases will be completed to ensure that legal action is the most appropriate recovery path. Performance is regularly monitored, and we see a high cash return on cases progressed.

Our greatest collection challenge continues to be our highest risk debt, which has increased throughout the 2020 to 2025 period due to increased consumption during Covid-19, welfare reforms, cost of living challenges and higher void billing. We work hard to engage with these customers through our own campaigns, doorstep affordability visits and the work we do with our partner network.

1.6 Future forecasts

From the information above, it is clear there is a need to focus on measured debt for the 'pay by bill' paying segment of the customer base. In addition, an allowance also needs to be made to cover the additional bad debt arising from the welfare reforms from the ongoing cost of living crisis, as well as additional void billing we have seen in the 2020 to 2025 period that will continue into the 2025 to 2030 period. In the 2020 to 2025 period we are forecasting to have about £65 million more debt than planned, and consequently around £20 million more bad debt. This increase in debt has resulted in us increasing our bad debt charge in the PR24 business plan to manage some of the legacy debt.

In the short term, we have seen a significant increase in the bad debt charge through an increased bad debt provision. As the debt is ageing, it is falling into the 'statute barred debt' (debt over six years old) which we are legally obliged to write off. It then creates an immediate pressure in the remaining two years of the 2020 to 2025 period. The operational approach referred to above will assist in driving efficiency on future debt in the 2025 to 2030 period, however there remains a challenge on the high-risk debt that has been built up in the previous period, and the bad debt charge has been forecast to reflect this in the 2025 to 2030 period. For more information on how we will support customers with bills and affordability, see Chapter 2 in the PR24 Business Plan.