Support Measures in Response to the COVID-19 Pandemic

LP Working Group – Proposal Update

19th March 2021

In February 2021, the LP members of the Working Group established for this purpose, proposed a package of measures designed to address the challenges posed by the Commission in its November consultation paper on the impacts of COVID-19 on the NHH water market. WICS subsequently published its response on 1st March, setting out objectives, guiding principles and timescales for the implementation of new support measures, and invited the Working Group to discuss and finalise proposals within this context.

This paper provides an update to the February proposal. There is clearly alignment on a number of objectives and principles as set out in the WICS paper, but there are several issues that remain to be resolved, including the mechanisms for implementation, but we anticipate that these will be addressed through further collaboration between all parties over the coming weeks.

The focus of this paper is on three elements of the proposal:

(i) The charging deferral support scheme;
(ii) The future financial resilience of the NHH market; and
(iii) Disconnections.

1. Deferral Support Scheme

The February paper proposed the introduction of a support scheme for customers that would allow LPs to provide tailored support to those SME customers worst affected by COVID-19. This would allow customers an extended period of time over which to pay their water and waste charges, recognising that many customers will have accrued up to 12 months of unpaid charges, which they will be asked to repay at the same time as paying new bills that become due, placing increased pressure on them as they attempt to rebuild their businesses. The scheme proposed in February included a reciprocal scheme which would allow LPs to defer payment of the wholesale charges associated with this customer support, over the same period, on a like-for-like basis.

We are pleased that the Commission was generally in agreement with the proposal. For the most part we are aligned on the objectives and principles for the scheme as set out in Section 4 of the WICS paper, but there are two further points noted below, where we would welcome further discussion with WICS and Scottish Water to ensure a shared understanding and agreement on how to move forward:

- Support measures for customers with existing deferred debt who are not enrolled in the existing WCDS; and
- The applicability of the scheme for customers who have not engaged with their LP to date.

The intent of the LP proposal was that support would be available to all customers affected by COVID-19 – i.e. those who have experienced difficulty paying and have accumulated debt during 2020/21, as well as those customers who may need support in the future, as the Government support schemes come to an end (as set out in the February paper).

Whilst the Commission's document agreed that support should be available to all customers, it refers (page 5) to LPs being able to apply to Scottish Water for a deferral of "*future wholesale charges*" only. In seeking clarity from Scottish Water on this point, it is apparent that Scottish Water misunderstood the intent of the February proposal, and has concerns about including customers with existing debt who are not currently enrolled in the WCDS.

The difference in interpretation between what the LP Group proposed initially and Scottish Water's understanding of those proposals, was only confirmed earlier this week and we have not yet been able to explore and agree alternatives ahead of the deadline for this submission. However, all parties remain aligned in their desire to provide continued support to those customers who need it most, so we believe that there is scope to work towards a shared and agreed outcome.

We also want to explore further our proposal to seek a limited period of wholesale charge deferral for customers who have not engaged despite repeated attempts by their LP, but who have stopped paying. The propensity to pay of these customers will most likely have been reduced as a result of debt recovery being largely suspended. For these customers the deferral would be for a shorter time period, aligned to the debt recovery process and timescales set out in the Disconnection Document, to allow LPs to restart and complete their debt recovery cycle.

Implementation mechanism

Since the submission of our proposal, some members of the Group have had initial discussions about the implementation of the charging deferral scheme. We would now welcome a wider discussion with all parties to consider how the proposal could be operationalised in a way that allows LPs to meet the needs of their customers, is easy to administer, and transparent.

2. Financial Resilience

COVID has highlighted the vulnerabilities of the NHH market and the need to ensure that going forward, the market is well placed to meet future challenges.

We are supportive in principle of a new licence condition requiring LPs to demonstrate their financial strength to WICS and Scottish Water, in order to help ensure the market is sustainable and customers are protected. Scottish Water has since shared their early thinking on possible resilience criteria that would give each LP a financial resilience RAG-rating. The key issue for LPs is to understand the implications of being rated red, amber or green, which is not yet clear, but which we understand Scottish Water will be developing over the coming weeks.

LPs main concerns will be to ensure that the resilience requirements are proportionate and evidence-based, and that any resilience criteria are applied consistently and transparently in relation to all LPs. To that end we would welcome Scottish Water developing the framework in collaboration with LPs. We would view this as adhering to the principles of ethical business practice in driving innovation and forging trust through co-design. Similarly, we look forward to working with WICS on the new licence condition.

3. Disconnections

Since our proposal was submitted in February, Scottish Water has run a workshop to review a range of potential technical options to mitigate the increased debt risk to LPs resulting from their proposal to cease disconnection for non-payment.

Although there were several suggestions that could be applied in limited circumstances (e.g. where customers have multiple supply points to a premises), it was acknowledged that for the bulk of customers, there was no cost-effective solution that would have the effect of both encouraging customers to engage and pay their bills, and limiting the LP's liability for wholesale charges.

Given the criticality of debt recovery over the coming months, and the fact that many LPs have suspended some or all debt recovery over the lockdown period, the loss of a key debt and risk management tool will be felt particularly hard. We believe that this change and the associated increase in bad debt risk, constitutes a material change in circumstance, and would propose that the next step is to review the financial impact, with a view to adjusting default charges to reflect the increased risk.