

With the threat of disconnection removed, water companies have to rethink how they approach customers in multi-debt situations • Susan Jordan reports

Slippery customers

There appears to be a certain lack of clarity about how a debt makes it on to money advisers' priority payment list. This has become a major issue for water companies since the relegation of water debt on to the non-priority list after the ban on disconnections in 1999. An overview of priority debts is necessary to address common misconceptions of many water company representatives, particularly those who are still hoping to get water debt promoted back up to a higher division.

Priority debts are those that, if unpaid, pose a real threat to home, liberty, essential goods and services or a place in the community (see box).

It is the ultimate sanction available to the creditor that determines the status of a debt. Until 1999 water debt was included on the priority list, as non-payment could result in disconnection of the essential water supply. As that is no longer possible, water debt has taken

its place alongside, but not below, credit cards, unsecured loans and the like.

However, water debt is unique among other non-priority debts because the supplier has an obligation to maintain supply. In all other non-priority cases, goods can be repossessed, credit cards discontinued and so on.

Government clearly considers water to be a priority (hence the ban on disconnections) but money advisers can only treat it as a non-priority. Therefore, with the ban on disconnections here to stay and imprisonment not an option, the industry needs to accept the fact and find alternative methods to deal with escalating domestic water debt.

Despite common misconceptions, money advice workers share similar ambitions to the



Water debt: implications beyond finance

water companies. They too want their clients (companies' customers) to be able to meet their financial obligations as far as is practicable. The fundamental difference is that money advisers have an over-riding duty to assist their clients in identifying and meeting those debts that carry serious risk for them and their family

– their priorities. Once that has been achieved, all other non-priority debts are dealt with in a consistent manner by a pro-rata distribution of the remaining disposable income (if clients are fortunate enough to have any).

It is not, and never will be, a money adviser's role to 'decide' what is or is not a priority debt. They are mere messengers of fact and are therefore unable to place water in the priority category as it no longer carries an ultimate sanction that threatens home, liberty, essential goods or services or a place in the community.

Guidance for money advice workers states that they should 'allow a realistic amount for current consumption' on their clients' financial statements. They are also advised that help may be available from one of the water industry's trust funds to help with clearing outstanding arrears. If such help is not available in their region, arrears should be treated along with other non-priority debts.

Looking to the future, it would be wise for companies to accept the new found position and to think laterally about how they are going to approach debt collection in the light of reduced priority before things get much worse. The time is long overdue for a radical rethink of debt collection in the water industry. Until the industry recognises its own limitations in dealing with customers in multiple debt situations, progress will be muted and debts will continue to rise. Debt is an issue that often extends far beyond finance. It has implications on the health and well-being of individuals and families and poses a threat to physical and emotional stability.

Treating one debt in isolation may bring about temporary relief by shifting the problem elsewhere. By assisting the customer to achieve financial sustainability by a process of support and education, companies would be investing in the customers', and their own, future. ■

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Where's the money?

Debt	Sanction available to creditor
Rent or mortgage arrears	Non-payment could lead to repossession/eviction and homelessness. Goods can be seized for rent arrears.
Secured loans	Non-payment could result in repossession and sale of property to recover outstanding amounts.
Council Tax (and Community Charge arrears)	Non-payment could result in local authorities using bailiffs to seize debtors' property and could lead to imprisonment.
Fines, maintenance and compensation arrears	Unpaid fines could result in loss of essential items to bailiffs or, ultimately, to imprisonment.
Gas and electricity charges	Suppliers have the power to disconnect for non-payment of bills (though this does not apply to non-fuel items which would be treated as non-priority)
Tax and VAT	Inland Revenue and Customs & Excise can seize goods from the debtor to cover a debt without the requirements of a court order. Either can instigate bankruptcy proceedings and the Inland Revenue can take court action in the magistrates' or county court. If the debtor defaults on the court order it could lead to imprisonment for contempt of court.
National Insurance contributions	Class 4 National Insurance contributions for self-employed earners are assessed and collected by the Inland Revenue along with unpaid income tax.
Hire purchase/conditional sale	To prevent repossession of goods considered essential to the debtor – for example, a car for work where there is no access to suitable public transport. The creditor would have the power to repossess goods if payments were not met.
Debts to family and friends	Only possible in exceptional circumstances – for example, where a family member has acted as guarantor for a loan or a partner's family have loaned money which, if unpaid, may result in the breakdown of the relationship.