

WATER CHARGES COLLECTION: PROPOSED CONTRACT RENEWAL.**Report of the Director, Place Management****1.0 Executive Summary**

- 1.1 The current contracts to collect water charges on behalf of United Utilities expire at the end of March 2025. The collection of water charges continues to be a success for Stockport Council and Stockport Homes. This report outlines the positive outcomes achieved under the latest agreements. The ER & CC Scrutiny Committee is asked to recommend that the Council agree to a newly negotiated five-year contract extension with United Utilities.

2.0 BACKGROUND

- 2.1 Payment of water charges has been a tenancy condition for all Stockport Council and Stockport Homes tenants since 6th April 2009, when these charges (set by United Utilities) were first included in the weekly gross rent. The primary contract for collecting water charges from tenants in Council owned properties is between the Council and United Utilities, with Stockport Homes handling the collection. A separate contract exists between Stockport Homes and United Utilities for collecting charges from tenants in Stockport Homes owned properties.
- 2.2 Since April 2009, there have been three five-year contracts. The current contract, covering April 2019 to March 2024, was extended by 12 months through a clause allowing a one-year extension.
- 2.3 United Utilities pay Stockport Council commission for collecting water charges. This commission is based on a fixed management fee per property and a percentage of total net water sales.
- 2.4 The collection of water charges aligns with Stockport Homes' Supporting Customers Strategy objectives. It offers customers a discount on their water charges and generates additional income, which, in addition to providing a fee income to the Council, Stockport Homes reinvests in social inclusion activities.
- 2.5 Extensive customer consultation was conducted before the first agreement was recommended and approved. During this process, the key benefits to tenants through the collection agreement were highlighted and remain as follows:
- An annual reduction of £10.00 applied to every tenant's water bill.
 - A further £5.00 annual reduction given to all tenant's paying their rent/water charges by direct debit.
 - Payment of two regular household bills in one single transaction.
 - Commission monies earned for collecting water charges used to improve housing services and invested in a range of Social and Financial Inclusion initiatives.
 - Tenants pro-actively assisted to move to the lowest cost water charge tariff based on their property and household circumstances.

2.6 A protocol for approving evictions in cases with arrears made up of just water charges remains. To date and since the collection has been in place, no Stockport Council or Stockport Homes tenant has been evicted as a result of non-payment of water charges.

3.0 OUTCOMES OF COLLECTION AGREEMENT TO DATE

3.1 Over the past fifteen years, despite the added challenge of collecting water charges alongside weekly rent and service charges, collection rates have consistently surpassed expectations. This success has been achieved despite the impact of significant welfare reforms, the pandemic and cost of living crisis. The proactive, preventative, innovative, and supportive collection strategies employed by the Customer Finance Team have ensured that Stockport Homes continues to perform at a high level, maintaining high collection rates and low levels of rent and water charge arrears as a percentage of the annual debit raised.

3.2 High collection rates and low arrears levels have meant that commission monies earned from water collection will be circa £12.1m over the fifteen year period since collection started. These have been used to cover fixed cost expenditure such as funding additional Rent Collection and Money Advice salaries as well as covering extra costs arising from the collection of water charges such as increased payment transaction costs.

3.3 Over the first ten years of the collection agreement commission monies funded a range of projects under various social inclusion themes, including:

- **Tenancy Sustainment** – Money and Debt Advice, Water Charge Reduction, Rent deposit scheme.
- **Digital Inclusion** – Digital Champions scheme, Free Wi-Fi Installation, digital training for customers
- **Young People and Learning** – Employment and volunteering officer funded; housing projects delivered to local schools.
- **Environmental Projects** – Funding for ex-offenders to undertake environmental works & funding to SMBC to support Economic Inclusion projects.
- **Employment Support** – Employment partnership with Remploy & supported employment programme
- **Fuel Poverty and Recycling** – Provision of energy advice and furniture vouchers.
- **Food Poverty** – Funded development of first Pantry at Penny Lane and development of Your Local Pantry scheme.

3.4 Since 2019, the commission monies have continued to support social inclusion projects and salaries relating to health, cookery, holiday clubs and digital inclusion. From the financial year 2021/22 some costs from this budget were transferred to the charitable arm of SHG (initially known as Foundations, latterly renamed SKylight), which included holiday clubs.

3.5 Significant efforts have been and continue to be made to help tenants reduce the cost of their water charges. This includes promoting and assisting with applications for water meters where appropriate, as well as supporting customers in accessing various alternative support tariffs based on their household financial circumstances.

As of early April 2024, 28% of household charges were based on a water meter or an assessed charge where a water meter could not be installed, with an additional 16% of households benefiting from affordability-based tariffs. This is notably higher than the 5% of customers benefiting from such affordability based schemes across the entire United Utilities customer base.

- 3.6 Where customers have been supported to apply for an affordability tariff based on their financial circumstances, the average savings are around £202 per year for each household supported. This means that Stockport Council and Stockport Homes tenants are currently saving approximately £355,000 per year as a result of this support.
- 3.7 The requirement for all tenants to pay a weekly charge has fostered a strong payment culture across Stockport Homes. This has resulted in a high proportion of customers (69%) using Direct Debit, the preferred and most cost-effective payment method. Every tenant has a payment method in place for their rent, and support is provided to those who fall into arrears or face difficulties in maintaining payments.
- 3.8 The in-house Money Advice Team, which is largely funded from water commission monies, has been crucial in providing annual support. As an example, in 2023/24 the team helped 2,104 tenants secure over £6.7m in income gains, averaging of £3,184 additional income per assisted household.
- 3.9 As cost-of-living pressures continue to impact many tenants, the support and assistance provided to help them reduce their water costs have been, and will remain, crucial in maintaining high collection rates.

4.0 PROPOSAL

- 4.1 In preparation for the expiry of the current collection agreement, negotiations have taken place with United Utilities regarding the terms of a future agreement to enable Stockport Homes to continue collecting water charges on behalf of the Council.
- 4.2 Detailed negotiations over a new agreement have resulted in a proposal being received from United Utilities to extend the current agreement for a further 5 years until 31st March 2030.
- 4.3 United Utilities initially proposed to keep the management fee per property unchanged but suggested lowering the commission on total water charges from 8.75% to 7.25%.
- 4.4 After further negotiations, United Utilities offered improved terms. The fixed management fee per property remains the same, but the commission on total water charges is now proposed to decrease by 1.25%, from 8.75% to 7.50%.
- 4.5 The industry regulator, Ofwat, is still deciding how much water companies can increase charges over the five-year period starting in April 2025, however, reports suggest that average United Utilities water bills are expected to rise by 21% (an increase of £96 to the average annual bill) from 2024 to 2030. This increase in total water charges during the proposed contract will help minimise the financial impact of the reduced commission rate. The commission, based on the proposal and anticipated water charge increases, is estimated to be around £4.7 million over the new five year contract period.
- 4.6 It should be noted that United Utilities developed their proposal with consideration for the total commission value to be paid to Stockport Council/Homes over the five-

year contract period. As set out above, United Utilities are aware that water charges are expected to rise by around 21% over the next five years, subject to OFWAT's final determination. The estimated commission value over the next five years is approximately £4.732 million, just £50,000 less than if the same annual commission amount received in 2024/25 were maintained. Negotiations resulted in a 0.25% increase in their initial offer, amounting to approximately £75,000 over the new contract's duration. The proposal reflects United Utilities' efforts to address cost challenges across their business while ensuring value for money for all customers. Over the past five years, they have reclaimed some long-standing collection agreements from a number of registered housing providers. United Utilities have also noted that their cash collection processes, and performance have significantly improved compared to when collection agreements with registered providers were first introduced. Their proposal aims to balance the commission paid as a percentage of billed charges with the potential cash collection performance if these accounts were managed in-house.

- 4.7 In summary, United Utilities have significantly improved their collection systems over the last fifteen years making the collection arrangements through housing providers far less attractive to them. As a result, in recent years, a number of these collection arrangements have not been renewed/taken back: Stockport is one of the few remaining. The commission arrangements outlined in this report, therefore, represent the best that could be achieved.
- 4.8 United Utilities has announced the introduction of a new low-income discount scheme starting in April 2025. While the exact qualifying criteria for customers have yet to be specified, the continuation of this agreement will allow Stockport Homes to maximise the number of customers benefiting from any such discount on their annual bills.

5.0 Risk Implications

- 5.1 The greatest risk associated with the collection of water charges is that bad debt and associated recovery costs exceed the amount of commission paid. In the unlikely event that this were to happen and if other options to continue the agreement have been exhausted, both the current and proposed agreements contain a six-month break clause for early exit should either party require it.
- 5.2 The migration of all remaining working age legacy benefit claimants over to Universal Credit along with continuing cost of living pressures, means that rent collection will continue to be challenging over the period of the contract extension. It should be noted however that the current collection agreement has already helped Stockport Homes mitigate some of the impact of reforms as outlined above and on-going commission earned from the agreement will continue to fund those staff that are enabling early support to be provided to any tenants experiencing financial difficulty.
- 5.3 Having a payment culture in place and all tenants already set up with methods to pay their rent will undoubtedly provide an advantage and help mitigate the impact of direct payment of housing costs to tenants.
- 5.4 Safeguards remain in place where landlords can request that housing cost payments are switched back to paying the landlord where Universal Credit claimants are in arrears by eight weeks or more, or where there are vulnerability issues.

- 5.5 It is unlikely that Stockport Council and Stockport Homes would wish to pull out of their agreements where it is continuing to cover essential fixed costs. There is a risk however that United Utilities may at some point in the future wish to end the agreement and revert to collecting charges in-house. It is felt that continuing with the collection agreement still provides the best mix for both parties for the foreseeable future and the Customer Finance Team will work hard to ensure the attractiveness of that joint working package remains agreeable to United Utilities.

6.0 CUSTOMER VOICE & CONSULTATION

- 6.1 Consultation has taken place with United Utilities to negotiate the terms of the proposed agreement. The approval route includes the Council Leadership Team meeting on 29th October 2024 and Scrutiny Committee meeting on 28th November 2024. This will provide an opportunity for Officers and Members to consider this proposal in detail.
- 6.2 The Stockport Homes' Customer Aspire Panel was consulted during the meeting on October 16, 2024. Positive initiatives were highlighted, and feedback was sought. The Panel responded favourably, praising the annual discount, the efforts to assist customers in applying for affordability tariffs, and the variety of established social inclusion projects funded by commission monies.
- 6.3 The Council's legal team will be reviewing the new contract variation from a legal perspective.

7.0 Regulatory compliance

- 7.1 The continuation of the arrangements to collect water charges on behalf of United Utilities supports Stockport Council and Stockport Homes in demonstrating compliance with regulatory standards, specifically: The Regulator of Social Housing's Economic Standards, specifically making best use of resources within the Value for Money Standard.

8.0 Environmental impact and sustainability

- 8.1 The collection agreement sets out a commitment for Stockport Homes and United Utilities to use water usage data to identify properties that may have been affected by a water leak. In these circumstances Stockport Homes contact the customer in order to urgently investigate and fix the leak.
- 8.2 During 2023/24 a joint pilot was undertaken to identify households with high water consumption and undertake a water audit. The audits looked to identify and fix any leaks and see if any water efficiency measures could be installed in the property to reduce high water consumption within the household.

9.0 CONCLUSION

- 9.1 The collection of water charges by Stockport Council and Stockport Homes has proven to be highly successful over the past fifteen years, despite various challenges such as welfare reforms, the pandemic, and the cost-of-living crisis. The proactive and supportive strategies employed have resulted in high collection rates and low arrears, benefiting both the organisation and its tenants.
- 9.2 The proposed five-year extension of the contract with United Utilities, set to run until March 2030, offers a continuation of these benefits, albeit with a slight reduction in commission. This extension aligns with the strategic objectives of Stockport Council and Stockport Homes and supports its commitment to social inclusion and financial support for tenants.

9.3 Given the positive outcomes achieved to date and the ongoing support provided to tenants, it is recommended to approve the extension of the contract with United Utilities. This will ensure the continued success of the water charge collection agreement and the associated benefits for the customer base.

10.0 RECOMMENDATIONS

10.1 That the ER&CC Scrutiny Committee note the content of this report and provide comments on the proposal to extend the collection agreement until 31 March 2030, prior to a formal decision being made by the Cabinet.

BACKGROUND PAPERS

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Andy Kippax on telephone number Tel: 0161 474 4319 or alternatively email andy.kippax@stockport.gov.uk