

Citizens Advice Scotland Response to 'Investing and paying for your water services from 2021: Final Consultation'

Scotland's Citizens Advice Network empowers people in every corner of Scotland through our local bureaux and national services by providing free, confidential, and independent advice. We use people's real-life experiences to influence policy and drive positive change. We are on the side of people in Scotland who need help, and we change lives for the better.

Summary

Citizens Advice Scotland welcomes the opportunity to respond to the Scottish Government's *Investing in and paying for your water services from 2021* consultation. Citizens Advice Scotland is the consumer representative body for water, energy and post sectors in Scotland. We use research and evidence to put consumers at the heart of policy and regulation. We work with government, regulators and business to put consumers first, designing policy and practice around their needs and aspirations.

Citizens Advice Scotland calls for:

- A Scottish Government commitment to the principle of affordable charges for all.
- Responsive, robust and sustainable affordability policy that adequately protects low income households.
- The adoption of ethical principles by Scottish Water should extend to working with local authorities to ensure debt recovery achieves a balance between revenue collection and consumer protection.

Section 2 – Answer to consultation questions

1. Do you agree that the final draft Principles of Charging are appropriate for the next regulatory period

- We welcome the broad principles set out within the Principles of Charging section of the consultation paper. We note the points set out within WICS's letter to the Customer Forum (dated 17 February 2020), regarding the industry's need to respond to ambitious net-zero targets as well as to address infrastructure challenges to protect levels of service for Scottish Water's customers. We acknowledge that it has taken time to better

understand the range of funding required to adequately support investment during 2021-27, and the industry's commitment to keeping increases in customer charges stable and not delaying them.

- We note the Commission's conclusion that prices will have to increase by between CPI +1.0% and CPI+2.0% to meet the targets set out within Scottish Water's Strategic Plan. We also note the Commission's recommendation that the Customer Forum and Scottish Water should agree annual charges between CPI+1.5% and CPI+2.0% to meet net-zero emissions, which is at the upper range of previously discussed increases.
- However, in addition to the Principles of Charging set out on page 10 within the consultation document, Citizens Advice Scotland believes that the Scottish Government should also commit to the principle of affordable charges for all. This principle is already stated on page 8 under Policy Framework: '*charges for all customers should ensure the sustainable funding of the water industry, whilst remaining affordable and broadly stable*'. A commitment to affordability is also embedded within the new industry vision: '*We will keep services affordable by innovating and delivering the greatest possible value from our resources, helping those who need it most.*' Therefore 'Be affordable' should be included as a principle.

2. Do you agree that the level of financial support provided for households that receive Council Tax Reduction should be increased?

- Given that charges will rise above inflation, the need for responsive, robust and sustainable affordability policy for water customers is imperative in order to adequately protect low income households in the longer term.
- During 2018-19, Citizens Advice bureaux across Scotland dealt with 1232 water debt related issues. This represented 5% of all CAB debt cases. 87% of water debt cases were attributed to those aged between 25 and 65 years old, which is higher than the average for this age group (65%). This reflects that those seeking advice for water debt are more likely to have demographic characteristics associated with financial hardship, including being out of work, living in a single adult household and renting their home. Clients advised on water debt are more likely to have children. Only 4% of clients advised on water debt are likely to be over 65 years of age. 'Difficulty making payments' was the most commonly recorded client inquiry.
- We acknowledge the need to ensure customer charges generate sufficient funding for the industry to deliver against its commitments. However, we are concerned that included amongst the groups of consumers being asked to pay for the industry's targets, in achieving a just transition to net-zero, are society's most vulnerable. We do not think this is reasonable and does not support Just Transition Commission's findings¹ which

¹ Just Commission Interim Report 4.1 'The imperative of a just transition is that Governments design policies in a way that ensures the benefits of climate change action are shared widely, while the costs do not unfairly burden those least able to pay, or whose livelihoods are directly or indirectly at risk as the economy shifts and changes' 4.2 'policies to reduce emissions could impact consumer bills in ways that are unfair to those on lower incomes'

states that the poor should not carry the burden of a transition to net-zero. Flat rate increases often fall disproportionately on those on lower incomes, resulting in significant detriment. Many households are already in debt for water and sewerage charges and we anticipate that more will become indebted, or indeed fall further into debt, if prices rise beyond any increase in their income, particularly for those on social benefits. Transition to net-zero within Scotland's water industry needs to be just in order to protect society's poorest and retain policy credibility.

- Recent work by our Financial Health team indicates that 46% of debt clients registered by the CAB network have no disposable income with which to make a payment towards their debts, and that this number is growing². Similarly, from our annual tracker survey in 2019 we know that 47% of Scottish people in work³ had run out of money before payday at least once in the previous year and of those workers, 35% had gone without food for their household at least once over the previous year as a result. In addition 25% of people who had run out of money before payday had missed a council tax payment and 8% had missed the payment 6 times or more⁴.
- The emerging impact of Covid19 on the economy and indeed on peoples' livelihoods is predicted to be severe. Even if this is short-lived, its effects in terms of debt burden on individuals may last for years, thereby creating greater pressure on the affordability of water and sewerage charges, which may require extraordinary albeit temporary support measures⁵.
- Based on projected price increases, and assuming other variables remain stable (CPI at 2%), customer charges could double by 2040.

% increase	Total increase in charges by 2040
CPI+1.5%	85.75%
CPI+1.75%	94%
CPI+2%	102.5%

- Unless more robust and targeted financial support mechanisms are put in place to help those struggling to pay, proposed price increases for water and sewerage over the next 19 years will have a significant and detrimental impact on low income households.
- Whilst we welcome the proposed increase in the Water Charges Reduction Scheme from 25% to 30% as set out within the consultation, we view this measure as a temporary

² This is based on data entered by CABx who use the debt advice hub provided by Citizens Advice Scotland. It excludes Fife and the Glasgow CAB. In 2017-18, 39% of clients had no disposable income or a negative disposable income.

³ 2.68M

⁴ All figures, unless otherwise stated, are from YouGov Plc.

Consumer Tracker Survey 2019: Total sample size was 2,078 adults, of which 983 are workers. Fieldwork was undertaken 12th – 23rd March, 2019. The survey was carried out online. The figures have been weighted and are representative of all Scottish adults (aged 18+).

⁵ CAS will respond to the Scottish Government separately on Covid19.

buffer against above inflation price shocks. We realise that this scheme is substantially less generous than was offered in 2018 (25% to 50% discount) at a level then seen as necessary. We believe that the smaller increase will only be effective in protecting low income households for an estimated 2 to 3 years at most. Furthermore, following a four-year benefit freeze by the UK Government, which will only be lifted in April 2020, there is no commitment by the UK Government to continue increasing benefits by a minimum of CPI. One option could be to automatically uprate the Water Charges Reduction Scheme in line with the rate of annual increases in charges. Therefore, we call for a timely review of the Water Charges Reduction Scheme to ensure that the protection it delivers to low income consumers is not short lived.

- Citizens Advice Scotland research⁶ showed that income is by far the most effective determinant of whether a household is likely to struggle to afford their water charges, rather than Council Tax banding. A recent UKWIR study into reducing water poverty identified two drivers of water poverty as absolute income and non-water living costs. We believe that in the longer term, a system that provides financial support to those most in need to pay for water and sewerage charges should be based on income and not Council Tax banding.
- A new system would be more likely to identify and offer financial relief to those struggling to pay but who not qualify for Council Tax reductions or discounts, such as those in work but finding it difficult to live on what they earn. However, we acknowledge that establishing such a system could be complex and costly.
- Longer term solutions to affordability may include an adjustment to how current charges are calculated and allocated amongst water customers. This may include a reallocation of charges to those that can afford to pay more, and a greater reduction in water and sewerage charges for those that struggle to pay.
- Moreover⁷, in our 2015 Sink or Swim report⁷, we highlighted short term and longer-term measures that Scottish Water could take towards the alleviation of water poverty in Scotland. These included Scottish Water doing more, to support those in debt and experiencing hardship as a result of local authority debt recovery methods, which do not check for ability to pay prior to applying for direct deductions from benefits.
- Under the current billing and collection regime for water and sewerage charges, Scottish Water has no direct responsibility for ensuring customers experiencing hardship receive financial support, unlike other utility companies that have a direct billing relationship with their customers. Currently, engagement between Scottish Water and local authorities focuses on debt recovery and not ensuring it is conducted in such a way as to mitigate hardship. Scottish Water has adopted to working within ethical regulation and practice, which translates, amongst other things, to 'doing the right thing' by its customers. We therefore believe that Scottish Water should take a more active role in driving better outcomes for low income customers. We believe that all parties involved in and

⁶ Citizens Advice Scotland (2018), *Charting a new course: a study in developing affordability policy for water and sewerage charges*

⁷ Citizens Advice Scotland (2015), *Sink or Swim: Consumer experiences of water and sewerage debt*

benefitting from debt recovery should be accountable for achieving the balance between revenue collection and consumer protection.

- Following Citizens Advice Scotland's intervention in 2016, Fife Council and Citizens Advice and Rights Fife (CARF) agreed a 'good practice' system whereby Fife Council cancels any deductions from state benefits, where CARF is able to evidence that clients are clearly suffering severe financial hardship. We believe that more needs to be done between local authorities, Scottish Water and frontline agencies to work in partnership to identify and deploy fair debt recovery practices that will more effectively protect financially vulnerable customers.
- Additionally, Scottish Water should consider direct support for financially vulnerable customers who are in serious debt, as part of its corporate vulnerability strategy. For example, a hardship fund similar to fuel schemes.⁸

3. Do you agree that the eligibility criteria for this financial support should be extended to include all those in receipt of Council Tax Reduction and some other form of Council Tax discount?

- We welcome extending the Water Charges Reduction Scheme to include other income-based forms of Council Tax discount.
- However, as set out above, we believe that basing longer term affordability policy on income would more accurately target those on low income and struggling to pay, who may not qualify for additional financial support, for example those that are 'just about managing'.
- Scotland's water industry has agreed a longer-term vision and supported the publication of a 25-year Strategic Plan for Scottish Water. Similarly, longer-term affordability policy in the industry should be responsive, robust and sustainable, and able to identify and support those who need it most.

4. Do you agree with the proposals regarding charging at vacant dwellings?

- We agree with the proposals to bring vacant properties into charge and reiterate our earlier 2018 response:
- *'There is no convincing cost justification for the existing vacant property discount. The cost to the industry of serving vacant properties is the same as for an occupied property, and as such, vacant properties should pay a fair charge and not be cross subsidised by charges from occupied properties.'*

⁸ <https://www.citizensadvice.org.uk/consumer/energy/energy-supply/get-help-paying-your-bills/grants-and-benefits-to-help-you-pay-your-energy-bills/>

- *Furthermore, this will bring domestic charging in line with non-domestic policy for vacant properties, which were brought into charge during the 2015 – 2021 regulatory period.*⁹

5. Do the revised arrangements provide a suitable basis for financing the provision of additional capacity in existing networks assets to meet the needs of development?

- In accordance with our earlier 2018 response, we believe that the current split between developers' charges and Scottish Water liability is not based on an equal and fair basis. This leaves paying customers carrying the lion's share of development costs.
- We agree with the Government's proposal that the costs of enhancing existing networks assets to meet the needs of new housing and commercial development should all be met through Infrastructure Charges, up to a maximum limit. We believe this better ensures that developers pay their fair share.
- We acknowledge that Scottish Government's current policy is to accommodate development, but we do not believe that paying customers should disproportionately foot the bill. However, further insight is required to better understand and agree on cost apportionment and parity.
- We are of the view that the existing primary legislation (Provision of Water and Sewerage Services (Reasonable Cost) (Scotland) Regulations 2006), which determines what will be the Reasonable Cost Contribution from Scottish Water to developers, must be revised, to ensure costs are fairly allocated between developers and Scottish Water.
- As of 2021, the cost to upgrade Scottish Water's strategic capacity (Part 4), will increase from 25% to 30%. This will fund Scottish Water's ambitious targets, such as net zero carbon by 2040. However, Part 4 costs are currently funded through customer charges and there is no proposal by the Scottish Government to apply an upper cost limit on how much Scottish Water will spend to fund Part 4.
- Strategic capacity costs will increase during SR21 alongside a projected increase in property prices. In areas with low capacity and high demand (i.e. East Lothian, Edinburgh and Aberdeen), market prices for property can be substantial, yet developers only contribute towards a small proportion of capacity costs for Part 2 and Part 3. Even after the new Infrastructure Charge Fund is applied, developers may disproportionately benefit.
- A potential solution to a fairer arrangement of allocating costs between Scottish Water and developers could be the application of a regional levy for overdeveloped areas. This is similar to the Mayor of London's Community Infrastructure Levy 2 (MCIL2)⁹, in which developers pay a greater contribution to finance infrastructure enhancements.

⁹ <https://www.pinsentmasons.com/out-law/news/london-developers-gear-up-for-increase-in-mayoral-levy>

6. Do the key policy objectives provide a sound basis upon which to plan the delivery of services from 2021?

- In broad terms, we agree with the key policy objectives of the Scottish Government. It sets the course towards a Scottish water industry which aims to be financially sustainable, with excellent water services and demonstrates leadership.
- However, longer-term 'wicked' issues, such as the removal of lead piping, surface water flooding or private water supplies still exist within the industry. Wicked issues will be expensive to resolve, do not yield to conventional problem solving, and there are no immediate solutions. Issues such as surface water flooding and resilience of water supplies is predicted to worsen with climate change. Future charging policy will at some point require to address how these issues will be resolved and funded. However, the process of tackling some of these issues also opens up new possibilities such as Scottish Water working in community partnerships to address blue/green initiatives and catchment management. Explicit recognition of this by the Scottish Government would be welcome and support its aims of wider place making and community empowerment.

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