

Paying for water services 2010-2014: A consultation on the principles of charging for water services

A response from Citizens Advice Scotland



Based on the evidence of
Citizens Advice Bureaux
clients across Scotland

by Lindsay Isaacs
Social Policy Officer

February 2008

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By Lindsay Isaacs, Social Policy Officer

Citizens Advice Scotland and its 71 CAB offices form Scotland's largest independent advice network. CAB advice services are delivered through nearly 200 service points throughout Scotland, from the islands to city centres.

The CAB service aims:

to ensure that individuals do not suffer through lack of knowledge of their rights and responsibilities, or of the services available to them, or through an inability to express their need effectively

and equally

to exercise a responsible influence on the development of social policies and services, both locally and nationally.

The CAB service is independent and provides free, confidential and impartial advice to everybody regardless of race, sex, disability or sexuality.

Citizens Advice Scotland
Spectrum House, 2 Powderhall Road
Edinburgh EH7 4GB
Telephone: 0131 550 1000
Fax: 0131 550 1001
Email: info@cas.org.uk
Web: www.cas.org.uk

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Introduction

1. Citizens Advice Scotland (CAS) is the umbrella organisation for Scotland's network of 71 Citizens Advice Bureau (CAB) offices. These bureaux deliver frontline advice services throughout nearly 200 service points across the country, from the city centres of Glasgow and Edinburgh to the Highlands, Islands and rural Borders communities.
2. Citizens Advice Scotland is pleased to have the opportunity to respond to the Scottish Government document 'Paying for water services 2010-2014: A consultation on the principles of charging for water services'.
3. Our response is based on the actual experiences of CAB clients, anonymised and presented as client case evidence. This is made possible by the service's social policy feedback mechanism. Bureaux throughout Scotland highlight the problems in their area by sending in specific case examples that are indicative of wider issues. This information is collated and analysed by CAS, in conjunction with statistics from each bureau detailing the issues about which their clients are seeking advice and assistance.
4. Issues relating to council tax debt and council tax benefit are of significant concern for Scottish bureau clients, as the figures below demonstrate. This is relevant because domestic water and sewerage charges are currently billed and collected by local authorities alongside council tax, and the current system of relief for water and sewerage charges is linked to council tax benefit.
5. In 2006/07, Citizens Advice Bureaux in Scotland handled a total of 13,501 new issues related to council tax benefit, accounting for one in ten of all social security benefits enquiries. Furthermore, a large proportion of the 8,363 issues related to tax debt concerns council tax debt. In 2004, CAS conducted research into our Scottish debt clients in order to explore the extent and types of debt as well as the reasons behind it. This revealed that one in four had a council tax debt.
6. Although no further breakdown of our statistics is available to demonstrate how many queries specifically related to the water and sewerage charge aspect of council tax debt, case evidence highlights this as an important underlying issue. CAS is therefore well placed to comment on this issue.
7. CAS has commented previously on issues relating to the affordability and administration of water and sewerage charges, including responding to the Scottish Executive's 2004 consultation on the subject¹, and providing a briefing for the Scottish Parliament stage one debate on the Water Services etc (Scotland) Bill². CAS has also provided evidence and briefings to the Scottish Parliament on the Abolition of Council Tax and Service Tax

¹ Paying for water services 2006-2010: A consultation paper response by Citizens Advice Scotland, CAS 2004

² Briefing for the stage one debate on the Water Services etc (Scotland) Bill, CAS, November 2004

Introduction (Scotland) Bill³. We have also been involved in highlighting the harsh effects of debt enforcement on low income debtors in Scotland, and are in a strong position to comment on the role water and sewerage charges play.

8. In responding to this consultation, CAS will confine its comments to features relating to the domestic sector. Whilst we appreciate that the domestic and commercial sectors are interdependent, the CAB service predominantly deals with individual clients as opposed to representatives of commercial organisations. Issues connected with the workings of the domestic sector are therefore far more likely to be reported by, and of concern to, bureau clients.

³ Council Tax Abolition and Service Tax Introduction (Scotland) Bill: Evidence to the Local Government and Transport Committee from Citizens Advice Scotland, August 2005; and Briefing on the Abolition of Council Tax and Service Tax Introduction (Scotland) bill, CAS, February 2006

Affordable charges for low income households

9. 'Paying for water services 2010-14' sets out the Scottish Government's proposed principles of charging for this time period. Our key concerns in this area are in relation to the water and sewerage relief scheme for low incomes households, both in terms of the structure of relief and the operation of the scheme. We therefore welcome the statement at paragraph 55 that "Ministers continue to regard the issue of affordability as significant and propose to explore how the present benefits can be maintained during 2010-14".
10. The current water and sewerage relief scheme is inextricably linked to the present systems of council tax and council tax benefits. Given that the Scottish Government is committed to the abolition of council tax and its replacement with a local income tax, we understand that detailed discussions of the future of the water and sewerage relief scheme are not currently possible.
11. We welcome the commitment from the Scottish Government to consulting further on the issue of water and sewerage affordability once it has a clearer idea of the impact of moving from council tax to a local income tax, and look forward to responding. In the meantime, we provide an overview of the key issues CAB clients are facing in relation to the current system of relief for water and sewerage charges. We look first at the structure of the relief scheme, and then at its operation.

Structure of the relief scheme

12. CAS believes that the most important principle in relation to charging for domestic customers should be that the charges are affordable and sustainable. In our 2004 response, we broadly welcomed the introduction of a new system of relief that would retain a link between water charges and council tax bands, with relief for water charges applied according to the household's eligibility for council tax benefit. Maximum council tax benefit would attract maximum water and sewerage relief, and partial council tax benefit would attract partial water and sewerage relief. We continue to believe that this represents a sound way of targeting the relief to those most in need.
13. However, there is a fundamental problem with the current relief system in that the *maximum* relief that is available for water and sewerage charges is 25% of the full bill. A household in receipt of 100% council tax benefit will only receive a reduction of 25% of their water and sewerage charges, whilst a household in receipt of 50% council tax benefit will only receive a reduction of 12.5% of their water and sewerage charges.
14. This means that vulnerable people on very low incomes are still liable for *at least* 75% of their water and sewerage charges – more if they are not in receipt of full council tax benefit. As the following cases demonstrate, relief rates of 25% and less are not sufficient to prevent people on low incomes from

accumulating council tax debts through an inability to pay their remaining water and sewerage charges.

A West of Scotland CAB reports of a client in receipt of income support and incapacity benefit. She was in receipt of full council tax benefit and therefore the maximum relief from her water and sewerage charges. However, she could not afford to meet the remaining 75% of the charges and had accrued council tax arrears. The client feels totally unable to meet these debts, as she is in receipt of the minimum income her family needs.

An East of Scotland CAB reports of a client who lost his job. Whilst on Jobseekers Allowance he became overdrawn and all of his benefit was being swallowed up by bank charges for failed direct debits and an unauthorised overdraft. This meant that he was unable to pay his water and sewerage charges, even after the maximum 25% discount had been applied. The local authority had applied for summary warrant, meaning that an additional 10% was added to the client's already unmanageable debts.

An East of Scotland CAB reports of a client in receipt of incapacity benefit and industrial injuries disablement benefit. He has depression and had recently had triple bypass surgery. The client did not receive full council tax benefit, and so had a weekly shortfall of £4.30 to pay towards council tax and water and sewerage charges. He was in such financial hardship that he could not afford to heat his flat.

15. As noted in our 2004 response, in order to better protect those on low incomes, we believe that there would be merit in the Scottish Government's adopting a definition of affordability similar to that used to identify, monitor and address the problem of fuel poverty. We note a suggested measure for water poverty is those households that pay more than 3% of their income (after housing costs) towards water services⁴ and would urge that the success of any relief scheme should be based on its ability to reduce expenditure on water services to this level or below. The following worked examples demonstrate problems with the current system.
16. In 2007/08, the combined water and waste water charges for a band A property was £243.90. With the maximum discount of 25% applied, this still left a balance of £182.93 or an average payment of £3.52/week over the year. For a couple (aged 25 or over) living in the property both in receipt of income support or income based jobseeker's allowance at a combined rate of £92.80,

⁴ Martin Fitch and Howard Price, Water poverty in England and Wales, Centre for Consumer Utility Law and Chartered Institute of Environmental Health, July 2002

the amount to be paid in water charges represents 3.8% of the household's weekly income.

17. The situation is exacerbated for people living on their own, who are eligible for a 25% single person discount on their water and sewerage charges, but are not eligible for any further relief. This essentially means that discounts for single people are based on status rather than ability to pay – a single person earning an annual salary of £50,000 will attract the same 25% discount as a single person in receipt of full council tax benefit.
18. Taking the above example, a single person in receipt of income support or income based jobseeker's allowance (aged 25 or over) living in the same Band A property would be eligible for the same 25% discount as the couple (although it would be as a single person rather than via the relief scheme). They would therefore be liable to meet the same charges as the couple but from an income of only £59.15 per week, meaning that water and sewerage charges would account for 6% of their weekly income.
19. In light of our case evidence and the above illustrations of problems with the current system, CAS would like the structure of the relief scheme amended so that those people on very low incomes (at or below income support levels, which would mean likely entitlement to full council tax benefit) receive 100% relief from water charges. Relief could then be tapered thereafter, so that those on partial council tax benefits would then receive relief at a rate that reflects the level of council tax benefit they receive eg 90% relief for a household entitled to having 90% of its council tax paid by council tax benefit.
20. We would also like to see the relief scheme amended so that single people on low incomes would be eligible firstly for the single person discount, and then further relief according to their entitlement to council tax benefit. In other words, a single person having 50% of their council tax paid by council tax benefit would first receive a single person discount of 25% and then receive further relief at a rate of 50%.
21. We appreciate that there will be additional costs associated with these increased levels of support. However, we would contend that having a system of charges which is neither realistic nor sustainable for those on low incomes is not in the interests of those individuals, Scottish Water or the Scottish Government.

Operation of the relief scheme

22. One of the key issues for the Scottish CAB service in relation to the current relief scheme for water and sewerage charges is that many CAB clients in receipt of full council tax benefit simply do not realise that they remain liable for at least 75% of their water and sewerage charges. Communications from the Department for Work and Pensions (DWP) can be confusing as the system in Scotland is different from that in England. In addition, local authorities often do not make the remaining liability explicit to people in receipt of council tax benefit. We believe that more could be done by both the DWP and local authorities to address this problem.

A West of Scotland CAB reports of a client who had received a request for payment of overdue council tax. As the household was in receipt of full council tax benefit, she did not understand how she had accrued this debt and came to the CAB for an explanation. The bureau notes that the local authority had failed to include a breakdown of what was owed in the client's statement of arrears.

A West of Scotland CAB reports of a client in receipt of partial council tax benefit. His continued liability for council tax amounts to about £2 per week. The client came to the CAB for clarification of his annual council tax bill, which was about £300 – and therefore approximately £200 more than he was expecting. The CAB adviser explained that the extra amount was in relation to his water and sewerage charges. The client was shocked that his water and sewerage charges were roughly double those for his council tax.

An East of Scotland CAB reports of a client who came to the bureau with multiple debts, including outstanding council tax arrears for a number of previous years. The client did not understand how they had arisen, and was confused and tearful about her situation. The CAB adviser explained that the outstanding council tax balance each year was due to her having liability for water and sewerage charges, even though she was in receipt of full council tax benefit.

23. This lack of awareness is exacerbated by the fact that, due to local authority administrative delays, clients can run up arrears over a number of years before they become aware of the problem. People on low incomes who would have struggled to meet the charges at the time are then faced with large, cumulative debts which they are simply unable to service. Additionally, some clients may be making payments towards arrears from previous years, but be confused by the fact that these payments will not cover the current year's liability. This can lead to a cycle of debt from which clients can struggle to escape.
24. These issues have previously been highlighted by CAS in a number of different publications, including our response to the 2004 Scottish Executive consultation 'Paying for Water Services 2006-2010', an evidence report published in 2000, called 'Won't pay or can't pay? The real cost of Scotland's council tax debt' and written evidence we provided to the Local Government and Transport Committee in 2005 in relation to the Council Tax Abolition and Service Tax Introduction (Scotland) Bill.

A West of Scotland CAB reports of a female client in receipt of income support who was having the maximum amount deducted from her benefit to pay towards previous council tax arrears (made up solely of water and sewerage charges). She received a summary warrant letter from the local authority, and came to the bureau in quite a distressed state as she thought that the direct deductions from her income support were paying off her debts. She did not realise that they were paying her arrears, but that she was still liable for the current year's payments.

25. As water and sewerage charges are currently collected as part of council tax, this means that they are collected by the local authority. This is critical, as local authorities have access to different debt collection procedures from other creditors, such as summary warrant procedure which is a particularly harsh form of debt recovery. No distinction is made by local authorities between general council tax debt, and council tax debts relating purely to water and sewerage charges.
26. Summary warrant procedure gives the local authority access to court-based debt enforcement methods, but does not involve a court hearing. This means that a debtor can face enforcement action without being given the opportunity to challenge the alleged debt in court.
27. Summary warrant procedure also does not require the local authority to serve any formal court documents on the debtor. Although the local authority is obliged to communicate with the debtor, this happens via letters rather than a formal court summons. Consequently, some CAB clients do not realise the gravity of their debt situation. Other CAB clients dispute ever receiving these letters from the local authority.
28. In addition, when the local authority applies to court for a summary warrant, a 10% surcharge is added to the debt, thus increasing the indebtedness of someone already struggling with financial hardship.

A West of Scotland CAB reports of a client who was unable to meet her water and sewerage charges. The local authority had applied for summary warrant, meaning that a 10% surcharge was added on to a debt that she was already unable to meet.

29. Our case evidence shows that the current system of relief is complex and can be difficult for CAB clients to understand. Citizens advice bureaux and other independent advice organisations therefore play a critical role in helping people to make sense of the system and understand the nature of their ongoing financial responsibilities for water and sewerage charges.

Small organisation exemption scheme

30. Although the majority of this response is devoted to discussing the impact of domestic water charges on low income households, we also wish to comment briefly on the 'small organisation water services charges exemption scheme'. This was introduced as an interim scheme, to help organisations with modest financial resources - such as citizens advice bureaux - to adjust to the withdrawal of the previous system of reliefs and to prepare to pay for their water services. In 2004, the scheme was extended until 2010.
31. The Scottish Government now seeks opinions as to whether or not to continue with reliefs on water charges for small organisations and, if so, whether this should be by an extension or revision of the existing scheme. CAS cannot comment in detail on what shape such a scheme might take in the future. However, we would recommend that some form of exemption scheme should be included in the principles of charging statement for 2010-1014. The withdrawal of the relief scheme would have a significant impact on the ability of many charities and voluntary organisations to meet their water charges in an affordable and sustainable way.
32. Across Scotland, there are currently 57 member citizens advice bureaux delivering advice and information from well over 200 service points. Bureaux are still predominantly funded by local authorities, with additional project funding coming from a variety of sources. Bureau funding is often inadequate and insecure, and has to be re-negotiated on an ongoing basis. Consequently, many bureaux have no option but to operate at the very margins of their finances with no room for error. The withdrawal of the current exemption scheme would represent a financial problem for many bureaux, already struggling to cope in a challenging funding environment and make do with limited resources.

Conclusion

33. Although we welcome many aspects of the current system of relief for water and sewerage charges, CAB client case evidence indicates problems in relation to both the structure of relief payments and the operation of the relief scheme.
34. CAS recognises that the Scottish Government's intention to replace council tax with a local income tax will have a significant impact on the current relief scheme, which is inextricably linked to existing systems of council tax and council tax benefit.
35. We look forward to responding to a future Scottish Government consultation on the water and sewerage relief scheme, once it has a clearer idea of how the scheme might look following the move from council tax to a local income tax.
36. We recommend that some form of exemption scheme for charitable and voluntary organisations should be included in the principles of charging statement for 2010-14.

Lindsay Isaacs
Social Policy Officer
February, 2008

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