Sink or Swim: Consumer experiences of water and sewerage debt
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Executive summary

One in five Scottish consumers is in debt for their water and sewerage services. Previous research has looked in depth at the affordability of water and sewerage charges in Scotland, and studied various aspects of this debt including the factors that may lead to indebtedness for water and sewerage. However, previous research has not asked consumers themselves about their experience of this type of debt or examined the impact on consumers of current debt collection policies and practices. In particular, there has been little in depth examination of the experiences of low income consumers.

This report provides the ‘missing link’ and provides qualitative, in depth evidence from low income consumers who are in debt for water and sewerage charges. It sets out what can trigger debt and how debt impacts on consumers. It also looks at the choices people must make when they fall into debt for water and sewerage charges or are at risk of falling into debt. The report provides an insight into consumers’ experiences of the debt recovery practices used by local authorities, the level of consumer awareness of their responsibility to pay for water and sewerage charges in Scotland, and the impact that owing this money has on the precarious financial situations that may exist within households on low incomes.

In this research we found that the way in which local authorities apply billing and collection rules can be overly literal and legalistic. Our evidence shows that very little effort has been made to consider more innovative debt recovery methods that offer support and protection to consumers in debt.

We are calling for a debt recovery system that protects the most vulnerable, does not additionally burden those paying their bills, and allows agencies to work together to deliver better outcomes for consumers and the water industry. We believe that there is ample room within the existing debt recovery framework to do more for consumers who may be struggling to pay for their water and sewerage charges.

In recent years, other utility providers such as energy suppliers and water companies in England and Wales have recognised that they have an ethical duty, beyond the delivery of services, to support their more vulnerable customers.

Now, more is required from both Scotland’s local authorities and Scottish Water to help those in water and sewerage debt to swim rather than allow them to sink.

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Key Findings

- Because consumers in Scotland receive one bill containing two invoices for council tax and water, many people with a 100% reduction for council tax assume that the same discount applies to water, do not pay and subsequently find themselves in debt.

- Once low income consumers fall into debt for their water and sewerage charges, they often struggle to repay the debt on top of their ongoing usage.

- For those struggling to pay, local authority debt recovery practices for water and sewerage charges only succeed in displacing other debt commitments or the means to purchase essential provisions such as food. The actions of a local authority can make the difference between an individual managing financially and being left destitute.

- Case evidence demonstrates that negative impacts of debt recovery practices are particularly apparent in Fife where additional deductions are taken for current water and sewerage charges through the Water Direct scheme.

- Disengagement from normal debt recovery processes as a result of circumstances such as chronic indebtedness, insufficient funds or ill health, makes it difficult to have effective consumer engagement and debt recovery.

- An increased collection rate for water and sewerage debt does not in itself indicate a successful recovery system. Debt recovery that is practised in isolation, uninformed by a person’s circumstances, may result in a local authority receiving payment, but it can and does trigger negative consequences for the individual.

- Earlier intervention and a debt recovery framework that recognises a person’s ability to pay are more likely to achieve a debt-free status for the debtor. Additional services that inform and educate, such as the provision of advice on money or debt management, could help consumers from further indebtedness or protect them from getting into debt in the first place.

- Evidence from this research suggests that debt recovery practices could have unintended consequences for local authorities. Additional costs to local authorities could include legal fees for recovering debt, legal costs for eviction, rehousing costs, emergency accommodation and additional care costs. More informed and holistic debt recovery practices would support better outcomes for all by supporting those with particular needs, recovering outstanding arrears and more effectively utilising public resources.

- While it is right to expect consumers to pay for the services they use, payment should not take priority over personal financial security and wellbeing. Ultimately, debt recovery practices should aim to help consumers recover from indebtedness.
Summary of Recommendations

Short Term Measures

1. Water Direct – clearer overview of the aims, timescales and evaluation of the pilot

There is a need for the Water Direct Steering Group to provide information on how the pilot will develop. Prior to any further roll out, it would be helpful if the Scottish Government and associated stakeholders could address the following:

- Provide an update to key stakeholders on the development of the pilot
- Provide a recommendation on the future of the pilot to Ministers
- Confirm how and when the pilot will be evaluated and by whom
- Confirm how an evaluation will capture the experiences of vulnerable consumers.

CAS has begun dialogue with the Scottish Government on issues around the Water Direct pilot and we would welcome engagement with the Water Direct Steering Group to review and to address the above issues and concerns.

2. Preventing debt - innovative multi-channel communications to engage with ‘difficult to reach’ groups in receipt of Council Tax Reduction and / or on low income

Multi-channel communication will be more effective at engaging with ‘difficult to reach’ consumers using alternative media and should contain clear, simple information on:

- levels of reduction for both council tax and water and sewerage charges, and why they differ
- the principle of one invoice, two bills
- the relationship between Scottish Water as the water and sewerage provider and local authorities for billing and collection of water and sewerage charges
- accessible and suitable payment options
- signposting to available debt advisory services to support improved debt and money management.

CAS recommends that Scottish Water and local authorities should agree a minimum standard of communication for difficult to reach groups. CAS would welcome the opportunity to engage with stakeholders to support the development of this work.

Further consideration should be given to local authorities issuing separate bills for water and sewerage and for Council Tax.
Longer Term Measures

3. Developing a more supportive debt recovery framework

Principles of debt recovery applied by local authorities for water and sewerage charges should promote measures that protect the most vulnerable members of our society, and help them recover from debt and meet their obligations. Measures should include:

- A commitment to develop a clearly defined Scotland-wide debt management framework that sets out clear principles of debt recovery to be applied across Scottish local authorities
- Pre-legal steps that consider an individual’s wider personal and financial circumstances, their needs and means, and what they can afford to pay; legal action should be a last resort
- Partnership working between Scottish Water and local authorities to consider what is required to identify and support vulnerable consumers.

Additional support beyond existing ‘affordability’ measures is required; this would include the provision of discretionary direct financial relief, for example:

- grant schemes
- assistance funds
- a debt write-off scheme.

4. Creating a more flexible governance framework for vulnerable consumers

Greater flexibility in debt recovery, through legislation, could more effectively protect and support those struggling to pay:

- Legislation should be amended to reduce the statute of limitation that allows local authorities to recovery water and sewerage charges from 20 years to 6 years in line with other utilities
- Legislation should set out the development of a debt management framework (as in point 3 above).

5. Reforming taxation, reforming debt

CAS recommends that the ongoing Local Taxation Commission gives consideration to the following areas in relation to water and sewerage charges:

- Any new system for local taxation needs to consider the arrangements for water and sewerage charges and their impact on low income consumers
- Any new system for local taxation that remains linked to water and sewerage charges needs to consider what more is required to improve consumer awareness of their liability to pay

If billing for Council Tax and for water and sewerage charges are to remain together or to be separated, Ministers should consider whether those assessed as unable to contribute towards Council Tax should receive a 100 per cent reduction in water and sewerage charges.
Areas for further discussion

The Scottish Government needs to take a lead in mitigating water and sewerage debt in line with other poverty mitigation targets. CAS would welcome further discussion on the need for additional research into:

- The extent to which water and sewerage debt recovery practices support the Scottish Government’s poverty mitigation and debt alleviation targets.

Research has highlighted some big questions that need to be answered. CAS proposes that further discussion is required as part of a roundtable event to consider issues such as:

- How can greater support for vulnerable consumers be built into future policy and practice without causing detriment to paying consumers?
- Should future charging and reductions in water and sewerage charges align with future reductions in Council Tax charges?
- Who should pay for further measures to support vulnerable consumers: Scottish Water or the Scottish Government?
1. Introduction

Background
Citizens Advice Scotland (CAS), our 61 member Citizen Advice Bureaux (CAB), the Citizen Advice consumer helpline, and the Extra Help Unit, form Scotland’s largest independent advice network. Advice provided by our service is free, independent, confidential, impartial and available to everyone. Our self-help website Adviceguide provides information on rights and helps people solve their problems.

In 2014-15 the Citizens Advice Service network helped over 323,000 clients in Scotland alone and dealt with over one million advice issues. With support from the network clients had financial gains of over £124 million and the Scottish zone of our self-help website received approximately 5.4 million unique page views.

CAS aims to ensure that individuals do not suffer through ignorance of their rights and responsibilities with respect to the services available, or through an inability to express their needs. In addition, it aims to exercise a responsible influence on the development of social policies and services, both locally and nationally, which help to improve outcomes for consumers across Scotland.

It achieves these aims by:

- being the voice of citizens and consumers in Scotland, and representing their views to government, regulators and service providers
- supporting the network of 61 citizens advice bureaux in Scotland; and
- operating a helpline to provide confidential and impartial advice on consumer issues and an Extra Help Unit to help consumers who have complex problems with their energy and postal services.

In April 2014, the statutory responsibilities as the representative of consumers in Scotland in the regulated markets of energy and post were transferred from Consumer Futures to CAS, which also became the recognised consumer representative body in the water industry.

CAS’s aim within the water industry is to challenge and shape policy to ensure it reflects the needs of consumers. This includes a focus on the extent to which consumers are able to pay for their water and sewerage charges, what happens when they get into debt for these charges, and the impact this debt has on them and on other paying water consumers in Scotland.
Previous Consumer Futures research into water and sewerage debt

Previous research by Consumer Futures\(^2\) showed that consumers are often not aware of how they pay for their water and sewerage charges. It also showed that consumers are keen to see a fair system of charging implemented, which takes into account customers’ ability to pay, and supports those who struggle to pay their water and sewerage charges.

Desk based research and interviews with Local Authority officials indicated that water and sewerage debt has a variety of origins. It can result from cumulative or immediate financial shocks to personal finances and/or from low income, and/or from lack of awareness of ongoing liability for water and sewerage debts\(^3\).

Cases see by citizens advice bureaux reflect these findings.

Independent research

Direct engagement with consumers provides an opportunity to explore and understand the reality of life for those that are in debt for water and sewerage charges, what decisions they have to make and how debt and debt recovery practices impact on their lives and wellbeing.

Research was commissioned using mruk Research to explore consumers’ understanding and awareness of water charges, and their attitudes towards payment, on a one to one basis. Research was designed to better understand the circumstances and experiences that cause low income consumers to get into water and sewerage debt, and their experiences of being in debt and to compare the results with bureaux evidence.

Evidence from citizens advice bureaux

Historically water and sewerage debt has been under-recorded in citizens advice bureaux. Furthermore, issues related to water and sewerage debt have not always been viewed as, or been recorded as, distinct from those related to Council Tax debt.

Since the consumer representative role was transferred from Consumer Futures to CAS in 2014, CAS has worked with bureaux across Scotland to develop the recording and monitoring of water and sewerage related cases. New case coding has been introduced to facilitate the separation of water debt cases from those of

\(^{2}\) “A Matter of Principles: Research into household attitudes towards paying for water in Scotland”, Consumer Futures, 2014

\(^{3}\) “Keeping your head above water – A study into household water debt in Scotland”, Consumer Futures, February 2014, p.8
Council Tax debt. Cases that have been sent to CAS by bureaux across Scotland have formed the evidence base for this report. CAS continues to work with bureaux to refine the quality of information we receive related to debt and sewerage issues, including debt.

How water and sewerage charges are billed and collected in Scotland

In Scotland domestic consumers are supplied with their water and sewerage services by Scottish Water which is a single, public provider and was formed in 2002. Scottish Water is a Public Corporation and is accountable to the public through the Scottish Parliament.

The water industry in Scotland is regulated. Regulators include the Water Industry Commission for Scotland (economic regulation)\(^4\), Drinking Water Quality Regulator (water quality), Scottish Environment Protection Agency (environment regulation) and Citizens Advice Scotland (recognised consumer body). Scottish Water provides drinking water to 2.45 million households and 154,000 business customers in Scotland\(^5\). Consumer awareness of Scottish Water as Scotland’s drinking water provider is high, at 79 per cent\(^6\).

Paying for water

Water and sewerage charges are levied on the basis of full cost recovery which requires all costs associated with providing water and sewerage services to be recovered through customers’ charges.

Scotland has a unique set of arrangements for billing and collecting domestic water and sewerage charges. Consumers are charged based on a flat rate tariff for their water usage\(^7\), based on the Council Tax band of the property. Council Tax bands are used as a proxy for affordability i.e. lower Council Tax band properties pay less and are subsidised by higher Council Tax band properties that pay more. Water and sewerage charges are billed and collected by the consumer’s Local Authority on Scottish Water’s behalf and local authorities receive a payment from Scottish Water as set out in legislation\(^8\).

**In effect, there is one invoice but two bills.**

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\(^4\) Water Industry Scotland Act 2002, Water Services etc. (Scotland) Act 2005

\(^5\) “Annual report and accounts: 2013/14”, Scottish Water, retrieved 8 September 2014

\(^6\) “Report of baseline study of household customers’ views of water and waste water services” prepared for the Water Customer Consultation Panel, May 2003

\(^7\) Only around 500 households in Scotland have metered water usage.

\(^8\) The Water and Sewerage Services to Dwellings (Collection of Unmetered Charges by Local Authority) (Scotland) Order 2014
Overall awareness of how much, and on what basis people pay for water and sewerage charges, is typically low. Some local authorities send out the reminder notice and final demand in one letter.

Water and sewerage are billed as separate charges from Council Tax on the same Council Tax notification. In effect, there is one invoice but two bills. Consumers in particular circumstances are entitled to a reduction in their water bills, as follows:

- Single occupants receive a 25 per cent discount;
- Consumers in receipt of Council Tax reduction can receive a reduction of up to a maximum of 25 per cent;
- Households with no occupants chargeable for Council Tax (for example, students) or void premises are exempt and pay no water and sewerage charges.

Local authorities are required by statute to issue notification to the householder to pay what is due within a given timescale. Water payments are generally requested in 10 or 12 instalments, together with council taxes and most local authorities encourage householders to pay by direct debit. Local authorities have a legal duty⁹ to follow up unpaid instalments, although as indicated in previous research¹⁰ this may have consequences for the householder:

Some local authorities send out the reminder notice and final demand in one letter.

- Issue a reminder notice – failure to pay, by law, can result in the removal of right to pay in instalments, and the full amount automatically becomes due
- Issue a final demand notice – if payment does not follow the final demand notice, local authorities can then engage in formal legal action by applying to the Sheriff Court for a summary warrant.

Some local authorities send out the reminder notice and final demand in one letter.

Overall awareness of how much, and on what basis people pay for water and sewerage charges, is typically low.

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⁹The Council Tax (Administration and Enforcement) (Scotland) Regulations 1992 (amended 2012), Section 23.
¹⁰“Keeping your head above water – A study into household water debt in Scotland”, Consumer Futures, February 2014
Previous research\textsuperscript{11} also indicated that consumers may not generally consider water and sewerage charges to be a priority bill, in the same way as they might view their energy bills or rent/mortgage. One reason may be that they know that they cannot be disconnected for non-payment.

\textit{People in receipt of Council Tax Reduction….. may not realise that they are still liable to pay a proportion of their water and sewerage charges}

Another reason is that water and sewerage charges are billed on the same notification as Council Tax, giving these charges low salience. This means that people in receipt of Council Tax Reduction, particularly if their Council Tax bill is zero, may not realise that they are still liable to pay a proportion of their water and sewerage charges to their local authority or that charges continue to be billed on the same invoice as their Council Tax. This perception may affect how they respond to correspondence from their local authority that relates to Council Tax / water and sewerage.

Overall awareness of how much, and on what basis people pay for water and sewerage charges, is typically low.

\section*{Water debt}

In relative terms, water and sewerage debt has decreased as a result of increased collection rates. However, the number of indebted households in Scotland for water and sewerage charges is high at around 20 per cent\textsuperscript{12} although this may be due to how debt is calculated as this number will also include those on repayment plans, with only one missed instalment, etc.

Consumer Futures reported that the rise in debt levels correlates with real term\textsuperscript{13} increases in the cost of water and sewerage charges in the first years after the creation of Scottish Water. This equates to approximately 480,000 households, and had risen to this level in 2012 from approximately 200,000 in 2002.

Water and sewerage debt impacts on all water customers. Those that pay their water and sewerage bills may face increasing charges to make up for the shortfall caused by those that do not pay their bill. In England and Wales, the cost to the paying customer of those not paying for their water and sewerage services adds about £12 per year to each household bill. The figure per Scottish household is not known.

\textsuperscript{11} “Keeping your head above water – A study into household water debt in Scotland”, Consumer Futures, February 2014, p.8
\textsuperscript{12} “Keeping your head above water – A study into household water debt in Scotland”, Consumer Futures, February 2014 p23
\textsuperscript{13} ‘Real terms’ means that the increases have been adjusted to remove the effect of inflation from the calculations.
there are strong geographical links between water and sewerage debt and areas of deprivation

Households in debt for water and sewerage charges are more likely to be in receipt of benefits: 39 per cent of households on full benefit and 64 per cent of households on partial benefits are in debt for water and sewerage charges.

Benefit claimants and households in low Council Tax banded properties represent the majority of households with arrears: 60 per cent of all households in debt for water and sewerage charges live in Band A and Band B properties. Furthermore, there are strong geographical links between water and sewerage debt and areas of deprivation:

Consumer Futures reported that in 2011/12 Glasgow, the most deprived local authority in Scotland, represented 21 per cent of all outstanding charges but only 11 per cent of the total amount of water and sewerage charges billed.

Local Authority Enforcement

Local Authorities enforce payment for water and sewerage debt using the same powers that are in place for recovering Council Tax debt. Enforcement powers are set out in a number of regulations, including the Local Government Finance Act 1992, the Council Tax (Administration and Enforcement) (Scotland) Regulations 1992, and the Dwellings (Collection of Unmetered Charges by Local Authorities) (Scotland) Order 2014. Normally, local authorities must apply for a summary warrant before they can take further action such as a bank arrestment, arrestment of earnings, or deductions from benefits to recover debt. The granting of a summary warrant automatically causes the debt to increase by 10 per cent through the application of a surcharge.

Although the debtor has no recourse to court before the summary warrant is granted, they can use the Charge for Payment to make a repayment offer via the Sheriff Officers, or apply to the court for a Time to Pay Order, or apply for sequestration.

14 “Keeping your head above water – A study into household water debt in Scotland”, Consumer Futures, February 2014, p.24-31 (Fig 10) ‘Glasgow City Council comprises 10.7% of Scottish data zones but 26.2% of the most deprived data zones (i.e. in the 0–20% SIMD range). Accordingly, almost half of Glasgow data zones are in the most deprived class (0–20%), the highest proportion of all local authorities. One-third of all Glasgow City Council households is in debt for council tax and water/sewerage charges (interview)’

15 Individuals must own at least £1500 in unsecured debt; charges for sequestration are set out in The Bankruptcy Fees etc. (Scotland) Regulations 2012 Section 14. Sequestration can be applied for using...
In addition, across Scotland local authorities’ debt recovery practices vary. This means that consumers in debt within one local authority may be supported to a greater or lesser degree than someone from another local authority. As a result they may experience a more positive or negative impact.

Significantly, local authorities can invoice for water and sewerage charges up to 20 years after the amount was incurred. They can also pursue debts for up to 20 years. This is 14 years longer than the statute of limitations allows other types of organisations to pursue household debt (e.g. energy, telecommunications, mortgage, etc.).

**Direct Deductions from Benefits**

Local authorities can apply to the Department for Work and Pensions (DWP) for a direct deduction from a person’s benefits in order to recover outstanding water and sewerage charges. Direct deduction schemes in the UK allow the DWP to deduct amounts to pay for arrears.

Priority debts are limited to three at any one time. Water charges are deducted after housing costs / rent arrears and fuel debts, but take priority over child support maintenance, repayment of eligible loans and Council Tax payments.

Consent only has to be given by a consumer if the combined cost of deductions for arrears and current consumption for rent, fuel water or repayment of certain loans exceeds 25 per cent of benefits. Up to and including this point, consent is not required.

For consumers in receipt of Universal Credit, deductions can be made provided the recipient is left with one penny of benefit, and no more than three priority debt deductions can be taken at any one time. The overall maximum amount that can be deducted (including not just third party deductions but also sanctions and recovery of overpayments etc.) is equal to 40 per cent of the claimant’s universal credit standard allowance.

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16 [https://www.gov.uk/bills-benefits](https://www.gov.uk/bills-benefits) ‘Help paying bills using your benefits’
17 Social Security (Claims and Payments) Regulations 1987 Schedule 9
18 The Universal Credit, Personal Independence payment, Jobseekers Allowance and Employment and Support Allowance (Decisions and Appeals) Regulations 2013 Schedule 6 Paragraph 4
Water Direct

A Water Direct pilot scheme is currently underway in Fife and Inverclyde. Similar to Fuel Direct, this is a scheme that allows local authorities to take separate third party deductions to cover water and sewerage debt, and an additional deduction to cover current charges if the customer is not keeping up with payments, without having to take legal action. Deductions for water and sewerage charges are in addition to Council Tax deductions and other debt repayments, such as rent. It supports the principle that consumers should pay for the services they use, and claims to protect consumers from spiralling debt.

For some, Water Direct may provide a means by which consumers can pay off debt in a way that is more affordable and less intimidating than local authority enforcement.

However, the way in which it is currently applied in Fife does not take personal circumstances into account or if they can afford further deductions from their benefits. There is no legal onus on local authorities\(^\text{19}\) to assess a person’s ability to pay before applying for Water Direct deductions. This can result in arrangements that are detrimental to consumers in debt for water and sewerage services.

Alternative approaches to debt recovery

Previous research\(^\text{20}\) set out different approaches to debt recovery. It concluded that earlier, proactive and innovative pre-legal engagement with consumers in debt is more likely to result in debt recovery in a way that delivers benefit to service providers whilst also protecting those that have fallen on hard times.

Compared to debt recovery for water and sewerage charges in Scotland, other industries and organisations in the UK are following a more rigorous framework, as specified by regulators or in legislation, to define or identify vulnerable individuals and to effectively engage with them prior to taking legal action (Appendix One):

- Many local authorities are already engaged in a more detailed and proactive approach to consumer engagement as part of their debt recovery process for social housing as prescribed within the Housing (Scotland) Act 2010\(^\text{21}\)
- Ofgem has set out a detailed series of consumer engagement measures and timescales to which energy companies must adhere when recovering debt

\(^{19}\) Local Authorities can apply directly to the DWP in order to set up a Water Direct arrangement, and it can be implemented without the individual’s consent as long as direct deductions from benefits do not exceed that which is prescribed within legislation as set out in this chapter.

\(^{20}\) “Keeping your head above water – A study into household water debt in Scotland”, Consumer Futures, February 2014

\(^{21}\) Housing Act 2010 Part 16 Para 155 (b)
from customers. They are designed to more effectively engage with those that have not paid bills, and to identify appropriate repayments.

- Ofwat has issued a set of best practice principles for debt recovery to support a more effective, proactive and pre-legal approach to engaging with customers in debt. If applied to water customers in Scotland, Scottish Water would have to consider measures to ensure its customers were treated fairly in billing and debt recovery by local authorities, beyond the provision of water and sewerage services.

‘Customers whose accounts are managed by debt recovery agents or some other form of billing agent should wherever practicable receive the same level of service and care as those whose accounts remain with the water company. The potential consequences of having their debt managed by a third party should be no more severe than if the service was provided directly by the company.’ (Ofwat)

**Alternative models of support for consumers in debt**

Helping customers to recover from debt and remain debt free is addressed by other industries through the offer of additional measures:

- Energy customers can receive support in a variety of ways:
  - some energy companies and local authorities work in partnership with Charis, using a grant system to deliver financial relief schemes that are tailored to meet the needs of vulnerable customers
  - some grant schemes will support debt write-off provided the customer meets their current charges
  - a warm home discount is available to consumers in receipt of the Guaranteed Credit element of pension credit.

- Water and sewerage companies in England and Wales have set up a range of support mechanisms to support customers that are unable to pay their bills:
  - charitable trusts and assistance funds can provide debt relief to customers on a ‘one off’ basis
  - payment matching or ‘restart’ schemes help to clear customers’ arrears within a reasonable timescale
  - low tariff schemes are available to those with a water meter who qualify; Wales has a separate scheme that is available to both metered and unmetered households.

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22 Charis is part of Advice UK, a registered charity [http://www.charisgrants.com/](http://www.charisgrants.com/)

23 [https://www.gov.uk/the-warm-home-discount-scheme/eligibility](https://www.gov.uk/the-warm-home-discount-scheme/eligibility)

Changes to local taxation

A Commission on Local Tax Reform has been set up by the Scottish Government to review how consumers pay for local services. Any changes to the way in which local taxation is collected as a result of the review may impact on the way in which water and sewerage charges are currently billed and collected.

This could alter the how the financial relationship between Scottish Water and its customers is managed, which may result in a need to reconsider how water and sewerage charges should be billed and collected, and by whom, and whether or not this should remain with local authorities as at present, or for example, move to Scottish Water as the service provider.

\[25\text{ In receipt of either tax credits or one of a number of benefits; either have three children at home under the age of 19, and in full time education or where someone in the household is suffering one of a number of medical conditions that results in extra water being used}\]
2. Methodology

Two approaches to evidence gathering have been used to inform the findings and recommendations within this report: independent research using an external agency (mruk Research), and evidence from the citizens advice bureaux network.

Together the evidence illustrates the experiences of consumers who are struggling to pay for water or who are in debt and of those who sought help and those who did not.

Independent research: mruk Research

Independent research provided CAS with the opportunity to explore in more detail, the actual experiences of consumers who have arrears for water and sewerage charges and how existing debt recovery practices affect their personal circumstances.

74 consumers from across Scotland were interviewed face to face and over the phone using a structured interview process, during March and April 2015.

Consumers had to be wholly or partly responsible for paying for the water and sewerage charges/Council Tax for their household, in social grades C2 – DE and with a household income of less than £16,500 per year.

Bureaux Evidence

CAS is able to engage with difficult to reach groups of consumers i.e. those on low income or who are in some way disadvantaged rarely contact service providers and yet circumstantially may be experiencing detriment. Other stakeholders can struggle to engage with these groups in research when gathering evidence. Bureau evidence captures real time case studies that illustrate both the presenting issues that are brought into bureaux by members of the public, as well as highlighting additional, and often hidden, circumstances that may also impact upon the person’s ability to pay.

From 1 April 2014 to 26 June 2015, there were 14,817 new cases of advice being sought regarding council tax arrears, accounting for approximately 13 per cent of all new debt-related advice being sought and 2.5 per cent of advice sought overall. These cases include an element of water and sewerage charges.

In relation to water and sewerage in particular, there were 287 new cases recorded between 1 April 2014 and 26 June 2015. 34 detailed cases were sent to CAS by bureaux; this has formed the basis of Chapter 4 of this report.

During the course of 2014-15, CAS worked with bureaux to create stronger links and raise awareness of water related issues to promote evidence gathering. New advice codes were introduced to record, and to provide greater transparency of, water related issues, in particular, those related to water and sewerage debt. Calls for

26 A detailed breakdown of methodology can be found in the full mruk Research report “Consumers’ experiences of water and sewerage debt” 2015
evidence were placed with bureaux to escalate water issues to policy level; this has helped to identify specific and common issues impacting on consumers, and to provide greater distinction between council tax and water related debt.

A total of 21 of the 34 detailed cases are from Fife and directly relate to the application of Water Direct. The remaining 13 cases are from other Scottish local authority areas.
3. MRUK evidence – findings of independent research into consumers’ experience of water and sewerage debt

The following section summarises the main findings from the mruk Research focusing on the causes of water and sewerage debt and its impact on consumers.

Consumers’ awareness of Scottish Water and paying for water

Most consumers are aware of Scottish Water, and know a little about what they do. Where consumers do know about Scottish Water, however, their knowledge is patchy and uncertain, and is rarely connected to Council Tax or their Local Authority in terms of billing for their water and sewerage charges.

Consumers’ stated their awareness of Scottish Water came from TV, leaflets, mains work and home insurance for burst pipes. Consumers’ relationship with Scottish Water is non-existent, distant, or associated with very specific functions such as insurance and leaks.

None of the consumers interviewed, either in debt or not in debt, made any connection between Scottish Water and water debt or arrears. This illustrates a complete disconnect between Scottish Water and its paying customers based on what they pay for water each year.

Consumers’ awareness and understanding of how water and sewerage is charged

Although consumers had a high level of awareness and understanding that they pay for their water and sewerage charges through their Council Tax bill, one third of consumers (33 per cent) were unaware of the fact that water and sewerage are billed as separate charges, distinct from Council Tax, on their Council Tax bill, indicating that many consumers do not know how their bills work. Some consumers found their bills to be confusing.

Consumers demonstrated a lack of awareness that they are still liable for water and sewerage charges even if they are in receipt of 100 per cent Council Tax reduction. This was a particular concern for people in water and sewerage debt.

“\textbf{I wasn’t aware it was on the bill, it wasn’t itemised. It should be made clearer either by sending two sheets, one for Council Tax and one for your water.}”

“I wasn’t aware that there was a water charge until I went to Citizens Advice.”

A majority of consumers knew that their water and sewerage costs are directly related to the amount of Council Tax that they pay. However, a substantial proportion (33 per cent), including people in debt for their water and sewerage charges and people not in debt...
debt for these charges, were not aware of this. Taken together, this indicates that many consumers lack a proper understanding of how their water and sewerage charges are calculated, administered, and paid for.

Consumers’ understanding of how to pay for water and sewerage charges, and reductions
Consumers were asked about their current payment arrangements to establish the extent to which they understand how they pay for their water and sewerage charges, the amount they currently pay, and the relationship between Council Tax Reduction and reductions to their water and sewerage payments, and their views on this.

Over a half of consumers were unaware that they need to pay most of their water and sewerage costs even if they receive 100 per cent Council Tax reduction. Many in debt for water and sewerage charges felt that this is an unacceptable arrangement. They were of the view that deductions should apply equally to Council Tax and Water and Sewerage charges, as making payments for water and sewerage charges when in receipt of 100 per cent Council Tax reduction created further financial pressure.

A third of consumers did not know how much they pay for water and sewerage charges, and some gave no indication that they would know where to look to find this out. There was an even split between consumers preferring to pay for water and sewerage charges by cash instalments, and by direct debit.

Most were of the view that local authorities should do more to inform people about ongoing liability for water and sewerage bills.

Consumers’ views on prioritising payments for their water and sewerage charges
Consumers attached a low amount of importance to paying for their water and sewerage charges. They consider their rent and energy bills to be more important, whether or not they are in debt. Those in debt for water and sewerage charges indicated that being able to buy food is more of a concern to them.

Some consumers related their prioritisation of spending directly to the outcomes for their children for example, having a warm home, indicating that those in debt are more aware of the direct consequences of their spending than people who are not in debt.
Consumers only very infrequently mentioned choosing not to prioritise water as it cannot be disconnected.

Factors that lead to water and sewerage debt for consumers

Around a third of the consumers included in this research were in debt for their water and sewerage. This was something that they were either aware of directly, or it could be inferred from them being in debt for their Council Tax.

54 per cent of consumers in water and sewerage debt had thought that a Council Tax reduction of 100 per cent equally applied to water and sewerage charges, and had only became aware of their situation when they were notified of their debt. This indicates that more needs to be done to inform consumers about what they need to pay.

Debt is often caused by complex, compounding negative life events. For those interviewed these were often complicated by bureaucratic processes, such as changes to benefits or overpayments.

For myself it was quite depressing, not opening letters, I put it up on a counter, I was drinking alcohol quite a lot, I was blocking it out until the next day.

Not having enough money to live from was described by some as being the root cause of their debts. It was much less often a specific, lone cause but was most often bound up with other complex causes as indicated above. Some consumers admitted that they did not claim all that they were entitled to.

Consumers stated that where debt has occurred brought about by poor decisions in the past, this has been difficult to recover from, and consumers can often end up living with the consequences for a long period of time.

In addition to the above causes, consumers attributed water and sewerage debts to decisions they specifically made to prioritise other payments, and to ignore Council Tax bills, either to alleviate worry or because they believed that they did not have to pay anything towards them.

"[...] if I had a choice of that £3.70 coming to me to this household or paying Council Tax I know where it would be going. My priority is my child first. My second thing is to keep the roof over her head, so the rent. So that's why that always gets paid and that's fine. So then it's obviously heating gas and electricity and food. Anything else is just not a priority."
The impact of water and sewerage debts on consumers and their families

Consumers are generally confused about water and sewerage payments and charges, and are not necessarily aware of the longer term consequences of not paying them. They highlighted a number of inter-related and negative impacts that their debts had on their health, emotional well-being, family and in particular on their children, and made multiple references to stress, worry and anxiety.

Descriptions of their situations indicated the precariousness of their financial circumstances and the extent to which tiny changes to their income had multiple, complex consequences.

Consumers frequently mentioned that their debts caused them to become unwell, either by exacerbating existing conditions, or causing new ones. They also mentioned that being in debt had consequences on how they were looking after themselves, in terms of sleeping or eating properly. And, that this had an effect on the extent to which they were able to attend to their finances. Consumers' sometimes indicated that their debts had a negative impact on their ability to socialise, causing them to feel isolated.

The impact of debt recovery on consumers and their families

Consumers find that current approaches to water and sewerage debt recovery i.e. direct deductions, sheriff officers and court proceedings, are stressful.

Although some were able to come to an agreement with sheriff officers for repayment, the process itself was difficult. Not all consumers could come to a repayment agreement that reflected what they could afford to pay and felt that the local authority did nothing to assess their ability to pay.

Additional stress is caused by consumers’ awareness of the effect of severe sanctions if they do not pay, and to avoid this outcome, they agreed to payments that were beyond what they could afford.

None of the consumers interviewed said that a full financial assessment was carried out as part of the debt recovery process. This strongly suggests that local authorities focus solely on maximising payments received for water and sewerage charges without considering the impact their actions could have on vulnerable consumers.
Debt Recovery via benefit deductions

Those whose benefits had been reduced to make payments for their pay water and sewerage charges were asked about their experiences.

Most indicated that their Local Authority had not fully informed them about the deductions that were going to be taken from their benefits or sought their permission; this included additional deductions for current water and sewerage charges if on Water Direct. Consumers stated that due to the often precarious nature of their finances, unexpected further deductions, despite being small in cash terms, have significant consequences on their ability to pay for essentials such as food and rent. This approach to debt recovery also affects their ability to prioritise other debt commitments such as negotiated rent repayments.

Consumers felt that the amount that they received in benefits had been determined as a minimum amount to live on and should be protected from further deductions.

Mandatory deductions for debt and current charges, such as water and sewerage, without any attempt to better understand the person’s circumstances, remove any choice consumers have to prioritise spending on what they feel are more pressing essentials.

Some were unaware of the additional deductions until they sought help from a citizens advice bureau. Enquiries were triggered by consumers experiencing financial hardship which demonstrates that a lack of awareness can lead to escalating debt and detriment.

Some consumers did indicate that direct deductions could help them manage financially as they would be paying off the debt automatically and would therefore know how much they had to spend thereafter. However, this is not the case for everybody.

Money management and the consumer

For many consumers, difficulties in managing their money were more often the result of having a low income than of their financial capability.

“...before I even have any money in my account it's gone... I can understand why they've implemented this water reduction from the benefit but I just think it's leaving people in a worse situation a lot of the time”

“It's just not enough. They say you are entitled to £73 a week to live on but I'm not getting that on the deductions they're taking off.”

For some consumers, there are links between their debt and past financial decisions, although these choices could also be aggravated by a change of circumstances.
Some indicated that poor budgeting skills in the past had caused initial debt, which demonstrates that there is a need for education and training to help consumers on low incomes to identify how they can manage their budget more effectively.

Difficulties in managing money often resulted from unexpected changes in circumstances due to, for example, the loss of a job and the resulting challenges associated with having to adjust to living on less money.

Consumers indicated that successful financial management is hard when unexpected events arise that create additional demands on their limited resources.

Consumers’ views on how water and sewerage debt should be recovered
Consumers’ were asked for their views on how to improve the recovery of water and sewerage debts and highlighted a number of measures:

- local authorities should take their income into account when determining their water and sewerage payments
- there needs to be an improvement in education, advice and awareness on the relationship between Council Tax and water and sewerage payments to make it clear what people have to pay for
- additional support should be given to help people manage their finances, identify what they are entitled to, and help them avoid debt, or recover from debt
- payment plans need to be more effective and available to support those on weekly incomes e.g. payment by instalments
- separate bills would help consumers to better understand the relationship between Council Tax and water and sewerage charge, and what they need to pay, and would help to prevent debt
- greater support should be provided for people who are struggling to pay their water and sewerage debts similar to schemes in other sectors e.g. Warm Home Discount
- charges should take people’s ability to pay into consideration, not just their income.
4. Bureaux Case Evidence: The Impact of Water and Sewerage Debt on Consumers

Case evidence from citizens advice bureaux was analysed to determine the reasons for non-payment for water and sewerage charges and to evidence the impact that water and sewerage debt has on those in debt. There are strong parallels between bureaux cases and mruk findings.

Over 300,000 contacts from members of the public were received by bureaux during 2014-15. In general, most bureaux clients are classed as white Scottish in the age range of between 25 and 59 with over a third being between 45 and 59 years old. Just over 50 per cent are female. The largest group (34 per cent) are single and have no care responsibilities but over a quarter have children. 60 per cent live in rented accommodation, through social or private landlords.

One fifth of clients are employed for more than 30 hours per week. 47 per cent of clients are considered to have a disability although over a half of them are in employment. Only 21 per cent are unable to work due to long term ill health or disability.

Low levels of awareness lead to indebtedness

Most of the water and sewerage issues brought by clients to bureaux were motivated by the detrimental effects caused by debt recovery rather than awareness of the debt recovery process itself. On further investigation by bureaux advisors on behalf of their clients to find out why their available income had decreased and why they were experiencing detriment, it was revealed that additional deductions were being taken from their benefits for water and sewerage charges.

For some clients receiving full Council Tax Reduction, the amount of debt owed was significant related to their income: debts ranged from over £200 to over £6000; clients in receipt of Job Seekers Allowance (JSA) are earning approximately £72 per week. Many clients stated that they had been unaware of their liability to pay for water and sewerage charges which, for some, had resulted in mounting debt. This suggests that the current notification practices for ongoing water and sewerage liability do not effectively engage with those in receipt of full Council Tax Reduction.

Consumers do not understand that they need to pay

65 per cent of the cases analysed (22 of 34) either recorded that clients on full Council Tax Benefit were unaware of their ongoing liability to pay for water and sewerage charges or inferred that this was indeed the case from further investigation by bureaux advisors revealing what the deductions were for and why they were being taken. Most clients had assumed that as they were in receipt of Council Tax Benefit, they were not liable for water and sewerage charges. As a result, they had
not acknowledged the written correspondence they had received from their local authority, or hence, made any payments.

In Fife, clients had remained largely unaware of the additional deductions that were being taken from their benefits for outstanding water and sewerage debt and, where applicable, for current charges.

An East of Scotland CAB reports of a client who, like so many others, did not really read letters from the Council and did not understand that they need to pay towards sewerage and water even if on full Council Tax Reduction. The client found the Council letters were not easy to understand and felt that more publicity is required. The CAB felt that there is a widespread misunderstanding that being in receipt of Council Tax Reduction covers water and sewerage charges and that perhaps separate water and sewerage bills would help to make this clearer to those in receipt of benefits.

Consumers are unclear and confused about how much they owe

Charge notifications and correspondence from local authorities related to outstanding water and sewerage charges and Council Tax can be unclear and confusing for clients.

Many clients routinely ignore correspondence from their Council related to Council Tax because they are in receipt of full Council Tax Reduction and therefore feel that they do not need to worry about the content of letters they receive from the council.

An East of Scotland CAB reports of a client who is being chased for a Council Tax bill from three years ago. Bills amount to £230.34, which he must pay by a certain date or arrestment of wages or seizing of bank account/assets will occur. The client felt that Council's bills are confusing and obscure in their calculations; they apply a single occupancy discount before charges for water and sewerage. They also fail to provide a total sum due before subtracting payments to date which makes the bill difficult to understand. The outstanding amount should be at the top, highlighted and Council Tax bills, like electricity and gas bills, should be simplified.

Poor consumer understanding of liability to pay leads to debt accrual

There can be a substantial delay between a person not paying charges for water and sewerage and them being notified by either the local authority or Sheriff Officers. There is clear evidence that some clients only realised they had an outstanding debt for water and sewerage payments when additional deductions were taken from their benefits and they sought advice from a bureau, or when they were contacted directly by a debt collection agency.

The build-up of arrears for water and sewerage services can reach significant sums before clients are notified of the outstanding amount. It remains unclear in some instances why it takes so long for local authorities to constructively engage with clients over unpaid charges.
In one extreme case, a client was issued a bill for over £6000 by their local authority for unpaid water and sewerage debts covering the period from 2004 to 2015. The client was in receipt of benefits and, after the bureau conducted an income and expenditure assessment, showed a budget deficit of £29 each week. The client was struggling to pay any more to address the outstanding water and sewerage debt.

For some clients, the actual amount of outstanding debt had become academic as they only focused on the weekly payments and struggled to manage with what they had left of a finite low income.

Water and sewerage charges are more likely to accrue for those whose employment status changes frequently and who, as a result of their liability status for water and sewerage charges correspondingly changing, are confused about when and how much they owe for water and sewerage services.

An East of Scotland CAB reports of a client who has been working part-time and then fulltime, claiming different benefits, receiving overpayments, getting into rent arrears and not realising that when on Council Tax Reduction, he still had to pay for water and sewerage charges. The bureau felt that this should be made more obvious on the forms and letters the Council sends to people.

Debt recovery practices aggravate existing indebtedness
The practice of debt recovery should aim to balance the recovery of payment for services used with ensuring that consumers that find themselves in a vulnerable situation are protected from further detriment. Unfortunately, evidence from bureaux has highlighted that not only are consumers on full Council Tax Benefit unaware of what they owe for water and sewerage services, they are also unaware of how debt will be recovered. This section sets out the detriment that debt recovery practices cause to consumers, in particular, where their management of income and expenditure is precarious.

Poverty Premium: Repayments come at a cost to consumers in debt
In 2013, a study by the Joseph Roundtree Foundation and Consumer Futures identified further instances of where people on low incomes often pay more for the services they receive from regulated industries, such as energy, financial services and water and sewerage provision. This factor has been called a ‘poverty premium’.

Case evidence has highlighted that for some clients, the actual process of making debt payments for water and sewerage charges can cost them more.

26 Joseph Roundtree Foundation and Consumer Futures “Addressing the Poverty Premium: approaches to regulation” Donald Hirsch March 2013
Direct deductions for water and sewerage prevent consumers meeting other debt arrangements

For clients with multiple debts, the effect of additional direct deductions for water and sewerage charges can result in the client becoming unable to meet other debt commitments. Local authorities that secure payments from clients without first undertaking an assessment of their ability to pay, can leave clients worse off with insufficient funds on which to live and incurring additional charges as a penalty for non-payment of other debts.

Paradoxically, one case reported that despite keeping up payments for current water and sewerage charges for five years, the client was no longer able to pay because of an additional direct deduction of £3.65 per week being taken from his benefit for water and sewerage arrears.

Another client in Fife was no longer able to meet an agreed rent repayment of £5 per week to his local authority because additional deductions for current water and sewerage charges and arrears of £7.20 took priority over his voluntary rent repayments.

In the vast majority of bureaux cases reported to CAS, the bureau has intervened with the local authority on the client’s behalf to negotiate and change payment arrangements to one that is more affordable. This clearly demonstrates that the assessment of a person’s ability to pay should be the first step in the road to debt recovery rather than additional deductions that threaten marginal financial stability.

Debt recovery practices do not support consumers to recover from indebtedness

The reality of living with multiple debts is that many consumers are left trying to cope with less income, but with just as many demands, and with no additional support. Good debt recovery practice would strongly suggest that, in order to ensure a person can recover from indebtedness i.e. they are able to pay off their outstanding debts
and undertake current charges, repayments need to reflect a person’s circumstances and ability to pay.

62 per cent (21 of 34) of the case studies from bureaux are clients living alone or as single parents. This would suggest that individuals in this situation, with no alternative or additional income, are more vulnerable to sudden changes in their circumstances or benefits. As a result, the consequences of additional deductions can be severe.

Additional deductions impact clients’ ability to meet the cost of living

Local authorities are not legally obliged to consult with those in receipt of benefits before they apply to the DWP for deductions however, it would be considered good practice to do so. At the point of application, without prior consultation, a local authority would have no understanding of what the person could afford to pay or how the deductions would impact their circumstances.

There was no evidence that clients had been consulted by their local authority to assess their ability to pay before deductions were taken for water and sewerage charges. In the absence of any informed understanding of clients’ circumstances before making deductions, it is probably fair to say that local authorities’ objectives are solely to maximise income.

An East of Scotland bureau reports of a client who is single and living in rented accommodation. She has recently had serious health issues. She is in receipt of a small occupational pension on which she is paying tax. The client is currently on Employment and Support Allowance (ESA) and is having deductions from her benefit for HMRC overpayments, Council Tax and Water Direct. This leaves the client very little to survive on. Water Direct deduction per week is £7.60 - no check on affordability was undertaken by the local authority beforehand. The client currently has two other benefit deductions and this additional deduction for water and sewerage has left the client in severe financial hardship.

Bureaux have reported that after having conducted an income and expenditure assessment for a client, and despite evidencing to the local authority that further deductions for water and sewerage debt will cause detriment, local authorities will still proceed with applications to the DWP.
In the absence of an assessment of a client’s ability to pay before applying for direct deductions for water and sewerage arrears, and in Fife for current charges, in some cases clients’ are unable to pay for daily essentials including food and heating.

In five cases, Fife bureaux indicate that clients are receiving support from foodbanks, many as a direct result of additional deductions for water and sewerage arrears and current payments being taken from their benefits leaving them with insufficient funds to pay for food. As a result of Water Direct, water and sewerage deductions have in some instances more than doubled: one East of Scotland bureau reported that for one client, water and sewerage deductions represented over 10 per cent of his weekly income. For another client, deductions increased from £3.65 per week to £11.50 per week leaving the client struggling to live on what was left of his benefit.

An East of Scotland bureau reports of a client who is a single parent with one young child. The client has health conditions. During the last six months the client and her child have experienced severe poverty. She has significant deductions in place from her income: the Council is deducting £3.65 per week for council Tax Arrears, £3.70 per week for water and sewerage arrears and £5.50 for on-going water and sewerage liability. The Council has reduced her housing benefit award by £5 per week due to a Housing Benefit overpayment. Child Tax credit has reduced by over 30 per cent due to an overpayment. The client makes a payment of £10 per week payment towards her rent - £5 to cover the shortfall in Housing Benefit and £5 towards arrears to avoid court action. The client has self-disconnected from her prepayment gas supply and chooses electricity over gas. She has no hot water or heating in the property. The outstanding sums due for water, sewerage and council tax are being given a higher priority than rent therefore placing a family’s home at risk. Prior to the Water Direct scheme, the money was being used to pay the client’s rent shortfall to avoid the risk of homelessness. This situation has had a significant impact on the client’s mental health. Despite the client’s physical health issues she has returned to work - against medical guidance - in order to increase her income and living standards.
Cases demonstrate that there is often a time lag in the period between the client becoming aware of a debt and seeking help from a local bureau. Individuals will often try to cope with the situation themselves in the first instance, and will sometimes refuse additional practical help such as food bank support.

Additional deductions compound hardship

Additional deductions for water and sewerage arrears can make it difficult for clients to pay for daily essentials such as food and heating. Some clients were already living in hardship when they were notified by their local authority of further deductions for water and sewerage.

► An East of Scotland bureau reports of a client who is a single gentleman, living in a Council tenancy. His son stays with him at weekends as he has access. The client has rent arrears for which he has an agreement in place for £5.00/week and direct deductions from his JSA for Council Tax arrears and child maintenance. The client has been advised by the Council Tax Department that they are now deducting amounts for both Council Tax arrears and water arrears directly from his benefit at a rate of £3.60 for each. As the client already has other deductions coming off his benefit, he is suffering hardship as this is leaving him with very little for basic necessities. He gets his son at weekends and this is also causing hardship for food, etc. The client is also concerned that he is now unable to meet his rent arrears agreement.

Some consumers are incentivised to pay by local authorities through using the threat of legal action.

► A West of Scotland bureau reports of a client who is currently paying £48 per month towards water and sewerage but she is not certain that that is what it is for, and £15 per fortnight to sheriff officers for Council Tax arrears. The client is still in rent arrears and is really confused about who she is paying and why there is so much debt. She approached the local authority about the amount she’s being made to pay back and to ask if it could be reduced but she was apparently told it was too late and if she didn’t pay, they would take her to court.

Bureaux in Fife are seeing an increased incidence of additional direct deductions for current water and sewerage charges ‘tipping the balance’ for clients between coping financially and experiencing hardship; this has directly resulted in clients requiring foodbank assistance.
Only one food bank referral was reported from other local authority areas. This would indicate that clients in debt in Fife are experiencing greater hardship due to the introduction of the additional deduction for current water and sewerage charges than clients in other local authorities where Water Direct is not applied.

An East of Scotland bureau reports of a local Council taking £3.65 per week deductions for council tax arrears from a client and £3.70 per week for water and sewerage arrears – a total of £7.35 per week. The client’s financial statement presently details a negative available income of approximately £12 per fortnight. This means that in reality the client must cut back on essentials such as food and prepayment electricity costs in order to bring expenditure in line with the reduced income. If the client lived in another local authority area, outside of Fife, the client’s income would be £3.70 per week higher than at present.

Additional deductions, even small amounts, for water and sewerage charges for those in vulnerable situations can have a disproportionally detrimental impact on their family life and wellbeing.

An East of Scotland bureau reports of a client who has deductions in place from Job Seekers Allowance for water and sewerage as well as for Council Tax arrears of £7.30 per week. This is over 10 per cent of the client’s benefit award and is causing hardship. She is a lone parent with one child- she is choosing to self-disconnect from her gas supply as she cannot afford to maintain the gas charges.
Additional deductions aggravate existing life circumstances

Case evidence strongly indicates that clients in debt often have complex living circumstances and/or multiple debts. Debts such as welfare loans are often taken out to support other debt repayments and to pay for essentials such as food, travel and energy. Within these circumstances, it is very difficult for a client to fully recover from debt.

An East of Scotland bureau reports of a client who is a single parent with three dependent children. The client has deductions from her JSA of £17.62 per week for a budgeting loan, £3.65 for Council Tax arrears and also a Water Direct payment which was £3.62 but increased to £8.62 without the client's knowledge. The client cannot sustain this level of deductions from her benefits. This has put client in severe financial hardship.

There is clear evidence that the welfare system, on which many clients are dependent, can in the way it is administered, compound debt issues and cause hardship.

An East of Scotland bureau reports of a client that transferred to Personal Independence Payments (PIP). DWP claimed they did not receive the forms on time. DWP insisted the client made another claim for PIP. The client has had no medical appointment for assessment and as he has had no disability payments since the beginning of the year he is now in severe financial difficulty. The client is also having deductions from his benefit of £3.60 and £7.60 per week for Water Direct. The client has been waiting since January for a claim for PIP. The client facing severe financial hardship and has been issued a foodbank voucher.

Clients' lifestyles can be chaotic due to events impacting their personal circumstances. The debts that a client has accrued during these times can be difficult to recover from; debt recovery can detrimentally affect their ability to cope personally and financially. It is often against this background that local authorities make applications for additional deductions from benefits to pay for outstanding water and sewerage charges.
Additional deductions prevent longer term debt relief

For many low income clients, sequestration is the only means of debt relief. However as set out earlier within this report, the process of applying for sequestration can require a client to pay a fee of up to £200. The application of additional third party deductions from benefits can prevent clients from saving the amount they need to secure more permanent relief from debts. Effectively, many cannot secure relief from poverty because they do not earn enough.

An East of Scotland bureau reports of a client who cannot access debt relief.

The client is single and in receipt of Job Seekers Allowance. The client has deductions in place for water, sewerage and Council Tax arrears. The client has had water deductions doubled as change in legislation permits the Council to take minimum deductions for water and sewerage arrears and also for current charges. The client was already struggling to pay sequestration fees due to the deductions in place from his benefit. The client also has a Child Support Agency on-going liability and a minimum payment for arrears in place. The client cannot access debt relief due to his income level being below the poverty line.
5. Conclusions

There are strong correlations between evidence from the independent research completed by mruk Research and evidence from citizens advice bureaux related to lack of understanding of liability to pay for water and sewerage charges, causes of debt and the impact of debt recovery practices on consumers.

5.1 Clarity of water and sewerage charges and payment methods

5.1.1 Awareness and understanding of water and sewerage charges

i. Many consumers still do not understand how they are billed for water and sewerage charges, who bills them, and how their charges are determined. Both independent research and bureaux evidence demonstrate that this is more likely to relate to consumers who are in receipt of full Council Tax Reduction but are in debt for their water and sewerage charges.

ii. Existing notification practices for ongoing water and sewerage charges do not effectively engage with those in receipt of full Council Tax Reduction. Many consumers are unaware that water and sewerage charges are billed separately from Council Tax and assume that because they are in receipt of full Council Tax Benefit, they have no liability for water and sewerage charges and so ignore notifications sent out by local authorities.

iii. Consumers are much more likely to be impacted upon by debt issues as a result of poor engagement with, and low awareness of, their ongoing liability to pay for water and sewerage charges.

iv. Many consumers only find out that additional deductions for water and sewerage debt are being taken from their benefit following investigation by a bureaux advisor; enquiries by clients are often motivated by insufficient funds to pay for essentials such as food and rent.

5.1.2 Understanding of payments and reductions

i. Although debt collection rates for water and sewerage charges are increasing, knowledge and understanding among consumers of who is responsible for the billing and administration of water and sewerage charges remains, generally, confused and unclear.

ii. Lack of consumer awareness and understanding of how much they owe for water and sewerage services, and confusion over the difference between deductions / exemptions applied to Council Tax charges compared to water and sewerage charges, despite them being invoiced together, lead to the occurrence of debt and being subject to debt collection practices used by local authorities.

iii. Most consumers on full Council Tax Reduction are unaware that they have an ongoing liability for a percentage of their water and sewerage charges. Local authority notifications are not understood by consumers to be separate bills for Council Tax and water and sewerage.

iv. Consumers perceive it unfair that the same deduction is not applied to both Council Tax and water and sewerage charges, which would more accurately reflect their economic circumstances and would support more effectively their financial management.
5.1.3 Prioritising water and sewerage charges
i. Consumers place rent, energy bills, and buying food above paying for water and sewerage charges, in particular, to protect any children or dependents from adverse impacts.

ii. However, direct deductions from benefits remove the option for consumers to prioritise spending on essential items, and can result in them being unable to pay for essentials. This often necessitates difficult decisions for consumers such as self-disconnection from their power supply resulting in them having no means of heating their home and no access to hot water, or having to apply for foodbank vouchers as they are left with insufficient funds to buy food. This is more visible in Fife where an additional deduction is taken for current water and sewerage payments as part of the Water Direct pilot meaning that consumers in Fife in this situation have less income than consumers in other local authority areas.

iii. Consumers in debt have a very keen awareness of the consequences on their health and wellbeing of not prioritising bills appropriately. However, debt can compound existing health issues and a person’s ability to manage their debt.

5.1.4 Awareness and understanding of Scottish Water
i. While consumers are aware of Scottish Water as an organisation, they only know a little about the services it provides.

ii. Evidence demonstrates that there is a very real disconnect in understanding the link between what consumers pay for their Council Tax and any water and sewerage charges and / or debt, even amongst those consumers who are in debt for their water and sewerage charges.

iii. Evidence also demonstrates that the relationship between consumers in low income groups and Scottish Water is negligible, distant, or associated with very limited functions such as insurance and leaks, and could be improved.

5.2 Water and sewerage debt
5.2.1 Causes of water and sewerage charges debt

i. Water and sewerage debt rarely sits in isolation but is, for the most part, part of a complex set of circumstances that consumers find themselves in. For many, factors leading to debt for water and sewerage have complex origins and are outwith consumers’ control such as negative life events, illness, complex state bureaucracies, and low income.

ii. Employment patterns can also impact a person’s ability to keep up with water and sewerage payments, particularly when their hours of employment change frequently between part time and full time work. Social security support is not always able to keep up with these frequent changes and often this can lead to debt through benefit overpayments and a lack of understanding of ongoing water and sewerage charges liability.

iii. Often in hindsight consumers could have done a number of things differently or better. However their ability to recover from a debt situation is extremely limited.

iv. Debt situations were often aggravated by decisions to prioritise other more urgent areas of spending over water and sewerage bills using limited available funds.
v. Existing water and sewerage debt recovery mechanisms do not always notify consumers quickly of an outstanding debt. The longer a consumer is unaware of their liability to pay for water and sewerage charges, the greater the debt becomes.

vi. Given the complexity of individuals’ circumstances, and the choices they have to make, it is difficult to see how water and sewerage debt can be prevented from occurring. This is a significant issue for those at risk of falling into debt through circumstances or for those trying to recover from debt.

5.2.2 Impact of water and sewerage debt and debt recovery

i. In parallel with the complex origins of debt, consumers also experience multiple, complex, often inter-related and compounding consequences caused by debt.

ii. Consumers describe living in fear of bills and the effect it has on them such as ill-health, stress, inability to meet essential family needs, and social limitations.

iii. Consumers in this situation are vulnerable in that tiny changes to their income, such as additional deductions from benefits, can have multiple, complex and at times overwhelming consequences, such as those evidenced in Fife.

5.2.3 Money management

i. Consumers’ self-perception of their money management skills and its relationship with their water and sewerage debts is low; this debt is more likely to be related to other debts they are managing and to being on a low income.

ii. At times available income can be impacted upon by poor budget management. However the chief reason consumers struggle to cope financially is due to having a low income and not being able to pay for what they need.

iii. Additional deductions can have devastating consequences on consumers that are barely managing to pay existing debts and buy essentials with available income. Bureaux case studies demonstrate that the most common issue for those with multiple debts is that they are left with insufficient funds to pay other debts.

iv. Additional access to debt advisory services would help some consumers improve their money management and their debt management.

v. For some consumers, the actual amount of debt they owe, and its rate of growth, can lose significance when their primary concern becomes trying to manage with what is left on a day to day basis after direct deductions have been taken.

5.3 Recovery of water and sewerage charges debt

5.3.1 Debt recovery practices

i. Debt recovery practices applied by local authorities can be difficult and stressful for those in debt. Debt repayment agreements with local authorities, often negotiated by Sheriff Officers, can be financially unsustainable and can leave consumers unable to pay for what they need, and unable to pay other debt agreements or current charges. In addition, some debt recovery practices actually cost low income consumers more to pay; this is viewed as a ‘poverty premium’.
Consumers are further burdened by the knowledge of serious consequences if they do not repay certain debts, for example eviction through non-payment of rent, which would take priority over repaying water and sewerage debt.

5.3.2 Direct deductions from benefits
i. Direct deductions from benefits, whilst supportive and helpful for some consumers, can cause harm for others. It can change their often precarious financial circumstances suddenly and unexpectedly from one of coping to simply not having enough to pay for essentials such as food.
ii. Additional deductions can take some consumers below a defined, liveable threshold, and even into destitution. This has been demonstrated in Fife where consumers were not consulted or assessed beforehand to determine their ability to pay, resulting in some consumers requiring access to foodbanks as a direct result of additional water and sewerage deductions.
iii. Additional deductions that are prioritised by DWP’s ‘priority debt’ list can leave consumers with insufficient funds to meet other important debt commitments and to pay current charges, resulting in unpaid charges such as child maintenance, or them experiencing escalating debts.

5.4 Recovering from water and sewerage debt
i. Existing ‘affordability’ measures available to consumers on low incomes i.e. charges based on Council Tax band, Water and Sewerage Charges Reduction Scheme, do not in themselves mitigate water and sewerage debt.
ii. Very little effort is made by local authorities to engage with an individual to assess their ability to pay and agree terms of payment before applying to DWP for additional deductions. No consideration is given to the impact that additional deductions will have on a person’s circumstances. Without this critical insight and more measured approach, debt recovery prioritises income maximisation resulting in the displacement of other debt commitments and day to day essentials.
iii. More innovative measures are required that will support consumers to recover from water and sewerage charges debt. This will most likely require the support of Scottish Water, local authorities and the Scottish Government and form part of longer term measures.

5.5 Preventing water and sewerage debt and strengthening commitment to pay
i. To help prevent debt, more needs to be done to provide clearer information and more effective engagement and education to consumers by local authorities and Scottish Water on: how water and sewerage charges are billed; the relationship between Council Tax and water and sewerage charges; and on the amount that consumers must pay. This is especially critical for those in receipt of full Council Tax Benefit.
ii. Separate bills for water and sewerage charges and for Council Tax may be more effective in raising consumers’ awareness and understanding of their ongoing liability to pay for water and sewerage charges.
iii. The provision of additional support measures for those struggling to pay may help to prevent debt. This could include money management and debt advice, access to paying by instalments, and more affordable charges that reflect ability to pay.
6. Recommendations

Short Term Measures

1. Water Direct – clearer overview of the aims, timescales and evaluation of the pilot

The absence of a transparent plan for the implementation, roll out and evaluation of the Water Direct pilot in both Fife and Inverclyde local authorities makes it difficult for meaningful engagement with the pilot at appropriate intervals. A more formal mechanism is required to ensure that the pilot is kept fully informed of the impact it has on vulnerable consumers in order to adjust how it is being practised, in particular, if there are plans to roll it out across Scotland.

There is a need for the Water Direct Steering Group to provide information on how the pilot will develop. Prior to any further roll out, it would be helpful if the Scottish Government and associated stakeholders could address the following:

- Make public an update on the development of the pilot
- Provide a recommendation on the future of the pilot to Ministers
- Confirm how / when the pilot will be evaluated and by whom
- Confirm how an evaluation will capture the experiences of vulnerable consumers.

CAS has begun dialogue with the Scottish Government on issues around the pilot and we would welcome engagement with the Water Direct Steering Group to review and to progress the above concerns.

2. Preventing debt - innovative multi-channel communications to engage with ‘difficult to reach’ groups in receipt of Council Tax Reduction or low income

Consumers in receipt of Council Tax Reduction are less likely to engage with current communications from local authorities for water and sewerage charges. More targeted engagement methods are required to increase consumers’ awareness of and commitment to pay for their water and sewerage charges.

Multi-channel communication will be more effective at engaging with ‘difficult to reach’ consumers using alternative media and should contain clear, simple information on:

- levels of reduction for both council tax and water and sewerage charges, and why they differ
- the principle of one invoice, two bills
- the relationship between Scottish Water as the water and sewerage provider and local authorities for billing and collection of water and sewerage charges
- accessible and suitable payment options
- signposting to available debt advisory services to support improved debt and money management.

CAS recommends that Scottish Water and local authorities should agree a minimum standard of communication for difficult to reach groups. CAS would welcome the opportunity to engage with stakeholders to support the development of this work.

Further consideration should be given to local authorities issuing separate bills for water and sewerage and for Council Tax.
Longer Term Measures

3. Developing a more supportive debt recovery framework to support recovery from debt

Life events can quickly change a consumer’s circumstances and can trigger a slow decline or rapid descent into debt. Whilst existing debt recovery practices are likely to increase revenue, they do not consider a person’s ability to pay and have no insight into the impact they have on someone’s situation.

Principles of debt recovery applied by local authorities for water and sewerage charges should promote more flexible measures that protect the most vulnerable members of our society, and help them to recover from debt and meet their obligations. Measures should include:

- A commitment to develop a clearly defined Scotland-wide debt management framework that sets out clear principles of debt recovery to be applied across Scottish local authorities
- Pre-legal steps that consider an individual’s wider personal and financial circumstances, their needs and means, and what they can afford to pay; legal action should be a last resort
- Partnership working between Scottish Water and local authorities to consider what is required to identify and support vulnerable consumers.

Additional support beyond existing ‘affordability’ measures is required; this would include the provision of discretionary direct financial relief, for example:

- grant schemes
- assistance funds
- a debt write-off scheme.

There is a need for more creative solutions to debt management in Scotland. Scottish Water and local authorities could draw on lessons from practices in England and Wales which may more effectively support vulnerable consumers to pay charges.

4. Creating a more flexible governance framework for vulnerable consumers

The current legal framework governing the recovery of water and sewerage charges does little to incentivise or facilitate a more supportive process of debt recovery. Greater flexibility in debt recovery, through legislation, could more effectively protect and support those struggling to pay:

- Legislation should be amended to reduce the statute of limitation that allows local authorities to recovery water and sewerage charges from 20 years to 6 years in line with other utilities
- Legislation should include the development of a debt management framework (as in Point 3 above)

If billing for Council Tax and for water and sewerage charges are to remain together or to be separated, Ministers should consider whether those assessed as unable to contribute towards Council Tax should receive a 100 per cent reduction in water and sewerage charges.
5. Reforming taxation, reforming debt

CAS recommends that the ongoing Local Taxation Commission gives consideration to the following areas in relation to water and sewerage charges:

- Any new system for local taxation needs to consider the arrangements for water and sewerage charges and their impact on low income consumers.
- Any new system for local taxation that remains linked to water and sewerage charges needs to consider what more is required to improve consumer awareness of their liability to pay.
- If billing for Council Tax and for water and sewerage charges are to remain together, any new system should consider whether those assessed as unable to contribute towards Council Tax should receive a 100 per cent reduction in water and sewerage charges.

Areas for further discussion

The Scottish Government needs to take a lead in mitigating water and sewerage debt in line with other poverty mitigation targets. CAS would welcome further discussion into the need for additional research into:

- The extent to which water and sewerage debt recovery is supporting the Scottish Government’s poverty mitigation and debt alleviation targets.

Research has highlighted some significant questions that need to be answered. CAS proposes that further discussion is required as part of a Roundtable Event to consider issues such as:

- How can greater support for vulnerable consumers be built into future policy and practice without causing detriment to paying customers?
- Should future charging and reductions in water and sewerage charges align with future reductions in Council Tax charges?
- Who should pay for further measures to support vulnerable consumers in respect of water and sewerage charges: Scottish Water or Scottish Government?
Appendix One: Pre-legal debt recovery frameworks

A. Housing (Scotland) Act 2010

“14A Pre-action requirements where grounds for possession include rent arrears
(1) The pre-action requirements referred to in section 14(2A) are set out in subsections (2) to (7) below.
(2) The landlord must provide the tenant with clear information about—
(a) the terms of the tenancy agreement, and
(b) outstanding rent and any other outstanding financial obligation of the tenancy.
(3) The landlord must make reasonable efforts to provide the tenant with advice and assistance on the tenant’s eligibility to receive—
(a) housing benefit, and
(b) other types of financial assistance (for example, other benefits or grants).
(4) The landlord must provide the tenant with information about sources of advice and assistance in relation to management of debt.
(5) The landlord must make reasonable efforts to agree with the tenant a reasonable plan for future payments to the landlord, such plan to include proposals in respect of—
(a) future payments of rent, and
(b) outstanding rent and any other outstanding financial obligation of the tenancy.
(6) The landlord must not serve a notice under section 14(2) if—
(a) an application for housing benefit for the tenant—
(i) has been made but has not yet been determined, and
(ii) is, in the opinion of the landlord, likely to result in the benefit being paid at a level allowing the tenant to pay, or reduce by an amount acceptable to the landlord, the outstanding rent and any other outstanding financial obligation of the tenancy,
(b) the tenant is taking other steps which, in the opinion of the landlord, are likely to result in the payment to the landlord within a reasonable time of—
(i) the outstanding rent, and
(ii) any other outstanding financial obligation of the tenancy, or
(c) the tenant is complying with the terms of a plan agreed to in accordance with subsection (5).
B. Ofgem: Debt and Disconnection Best Practice Review 2010

<table>
<thead>
<tr>
<th>Action</th>
<th>Timescale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bill issued</td>
<td>Day 1</td>
</tr>
<tr>
<td>Reminder notice</td>
<td>Day 10-28</td>
</tr>
<tr>
<td>Second reminder notice</td>
<td>Day 20-40</td>
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<tr>
<td>Outbound call</td>
<td>Day 21-70</td>
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<tr>
<td>Final demand notice</td>
<td>Day 28-68</td>
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<tr>
<td>Pre-disconnection letter</td>
<td>Day 35-92</td>
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<td>Human rights letter</td>
<td>Day 48-104</td>
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<tr>
<td>Warrant</td>
<td>Day 60-132</td>
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<td>Pre disconnection visit</td>
<td>All suppliers</td>
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<tr>
<td>Disconnection</td>
<td>Day 80-180</td>
</tr>
<tr>
<td>Post disconnection follow-up</td>
<td>3-10 days after disconnection</td>
</tr>
</tbody>
</table>

C: Ofwat: Dealing with household customers in debt – guidelines Revised July 2014

Debt Recovery Principles

1. Companies should be proactive in attempting to contact customers who fall into debt as early as possible and at all stages of the debt management process.

2. Companies should provide a reasonable range of payment frequencies and methods, for all customers. The entire range of options should be properly and widely advertised to ensure that customers can select the arrangement which best suits their circumstances.

3. All correspondence sent to customers should be written in plain language, be courteous and non-threatening but should clearly set out the action which the water company will take if the customer fails to make payment or contact the company, along with the possible consequences for the customer.

4. When agreeing payment arrangements with customers, the customer’s circumstances should be taken into account wherever possible.

5. Customers whose accounts are managed by debt recovery agents or some other form of billing agent should wherever practicable receive the same level of service and care as those whose accounts remain with the water company. The potential consequences of having their debt managed by a third party should be no more severe than if the service was provided directly by the company.
Appendix Two: Detailed breakdown of bureaux evidence

Bureaux cases were studied to ascertain:

- The main cause of water and sewerage debt accrual
- The impact of debt recovery practices on personal circumstances
- The degree to which current debt recovery practices support individuals to recover from debt
- The degree to which current debt recovery practices compound individuals’ indebtedness.

Bureaux advisors record cases and allocate coding to circumstances and presenting issues using CAS’ Advice Codes. Some cases are coded in more detail than others and provide greater insight into a person’s circumstances.

Case study breakdown often revealed primary and secondary issues associated with indebtedness and debt recovery.

A more detailed analysis of case studies as recorded by bureaux advisors sought to reveal the nature of representations to bureaux and what motivated them e.g. the impact of debt recovery practices on a person’s circumstances or the actual recovery of the debt itself.

Information from each case study was broken down into groups of headings that provide insight into the nature of the issues that were presented to bureaux by clients as well as the actual circumstances of clients:

- Age range of clients
- Status of client
- Water Direct pilot area or other local authority
- Areas of debt
- Amount of debt (£)
- Deductions from benefits
- Presenting circumstances / cause of debt
- Specific issues raised by clients.

Age range of clients

Age ranges are captured by bureaux where possible. The age ranges of clients in the cases where this information was recorded can be broken down as follows:

![Chart 8 Age Range of Clients](image-url)
Client Status

Capturing client status by way of dependents, accommodation and employment was important to provide an overview of additional factors that may affect a client’s ability to cope with debt.

![Chart 9 Client Status](image)

Amount of debt

Many clients disclosed information related to debts they had. This provided important context for their ability to repay water and sewerage charges by way of taking into consideration the total burden of debt that individuals owe to creditors.

![Chart 10 Range of Debt (£)](image)
Types of debt

In order to set a context for those with water and sewerage debt, it was important to better understand the nature of other debts that clients have, how they managed multiple debts, how these debts may also be impacting on clients, and the potential impact of an additional third party deduction from benefits to pay off water and sewerage debts.

Current Deductions

In addition to deductions for water and sewerage arrears, other significant deductions were noted.
Presenting issues

Using bureaux codes and case study narrative, Chart 13 captures both the issues that were raised by clients as well as the underlying reasons for their situation. Often the presenting issues require to be investigated to identify the underlying reason for the client’s situation e.g. additional deductions are leaving the client without enough to live on; on investigation by the bureau, it is found that additional deductions are being taken off benefits for unpaid water and sewerage charges.
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