



Scottish Household Water and Sewerage Debt

Report Authors

Professor John W Sawkins
Chair of Charging Committee, Waterwatch Scotland

Gail Walker
Head of Strategic Development, Waterwatch Scotland

January 2010

Acknowledgements

WWS acknowledge and thank Reg Peat and Philip Chilvers (Scottish Water) for information and data underlying this report.

Scottish Household Water and Sewerage Debt

| Contents | Page |
|---|-------------|
| 1. Introduction | 4 |
| 2. Water Charges and Charge Collection in Scotland | 6 |
| 3. Water Debts and Debtors in Scotland | 23 |
| 4. Management of Non-payment and Debt in Scotland | 34 |
| 5. Experience in England and Wales and in Other Utilities | 45 |
| 6. Policy Stance Towards Water Debt: Scottish Executive and Government | 56 |
| 7. Conclusions and Policy Recommendations | 59 |
| 8. Bibliography | 61 |

1. Introduction

1.1 Background

In its 2008 Report analysing water and sewerage charge affordability¹, Waterwatch Scotland (WWS) highlighted the problem of water and sewerage debt. Total debt outstanding since 1996 and owed to Scottish Water by the end of March 2008 stood at just over £306.2 million. One year on, this total had risen to £335.1 million², an increase of 9.4% in the aggregate level of debt for the period from 1996.

Against a backdrop of economic recession, rising unemployment, and in light of customer contact information received by WWS's Corporate Office, its National Charging Committee identified debt and debt recovery as key concerns of household customers in Scotland.

This report seeks to inform the public policy debate over the question of household water and sewerage debt which, WWS believes, is necessary in order to advance the interests of the most vulnerable customers of Scottish Water.

1.2 Objectives

The objectives of this report are:

- to describe the current water and sewerage charging and charge collection system for household customers in Scotland
- to analyse household water and sewerage debt as at 31st March 2009, considering both its level and its distribution across households and Local Authorities
- to describe and characterise the management of household water and sewerage charge non-payment and debt
- to present evidence relating to the customer experience of water and sewerage debt in Scotland
- to draw conclusions and make recommendations

¹ Waterwatch Scotland (2008) Affordability of Scottish Household Water and Sewerage Charges: Historic Trends and Current Position. Waterwatch Scotland, Alloa.

² Source: Scottish Water.

1.3 Recommendations

The recommendations of the Report are:

- that Local Authorities, Scottish Water and Waterwatch Scotland (WWS) should work in collaboration to improve communication with customers in receipt of Council Tax benefit to explain their continuing liability for water and sewerage charges. Attention should be given to the format and content of bills and any supporting documentation supplied to households.

- that Local Authorities and Scottish Water should continue to collaborate in developing further an approach to arrears management and debt recovery that takes into account the circumstances of individual debtors.

- that the Scottish Government should work in conjunction with industry stakeholders (including Local Authorities, Scottish Water, Water Industry Commission for Scotland (WICS), WWS, Citizens Advice Scotland (CAS), the 'third sector' etc.) in undertaking a review of the effectiveness of the range of financial supports available to those unable to pay their water and sewerage charges. This report repeats the recommendation, previously made in the 2008 WWS Affordability Report (Waterwatch Scotland 2008) that the review should address the following issues:

- the ineffectiveness of the current permanent Water Charges Reduction Scheme in targeting and providing financial relief to households unable to pay for water and sewerage charges,
- the shortfall between social security benefit and Water Charges Reduction Scheme support available to low income households, and actual water and sewerage charges, and the effect of this on levels of household water and sewerage debt,
- the question of whether, in principle, financial support for low income households to meet charges should come through the tax and benefits system or from other customers.
- that, in light of the review, the Scottish Government should work with the UK Government and the devolved administrations in Northern Ireland and Wales to address the failure of current social security benefit arrangements to make available adequate financial support to qualifying households unable to meet their water and sewerage charge liabilities.

2. Water Charges and Charge Collection in Scotland

In this section of the Report we describe the current water and sewerage charging and charge collection system for household customers in Scotland.

2.1 Charging for Water and Sewerage Services in Scotland

Charges for unmeasured household (domestic) water and sewerage services in Scotland are levied by Scottish Water under the terms of the Water Industry (Scotland) Act 2002 and the Water Services etc (Scotland) Act 2005.

Unmeasured household charges are set with reference to Council Tax Bands. Households are charged a proportion of the Band D charge according to charge application ratios. Thus households in Band A pay 6/9^{ths} and households in Band H 18/9^{ths} of the Band D charge. These ratios are set out in the table below.

Table 2.1: Property Bands (Scotland) and Charge Application Ratios.

| Property Band | Valuation Bands (£) | Charge Application Ratio |
|---------------|---------------------|--------------------------|
| A | up to 27,000 | 6/9ths |
| B | 27,001-35,000 | 7/9ths |
| C | 35,001-45,000 | 8/9ths |
| D | 45,001-58,000 | 9/9ths |
| E | 58,001-80,000 | 11/9ths |
| F | 80,001-106,000 | 13/9ths |
| G | 106,001-212,000 | 15/9ths |
| H | more than 212,000 | 18/9ths |

Source: Local Government Finance Act 1992, s74.

Note: Dwellings are banded according to their valuation at 1st April 1991.

Scottish Water's unmeasured and measured charges are set out annually in a 'charges scheme' which must be approved by the Water Industry Commission for Scotland (WICS). Charges for unmeasured water and sewerage services for household (domestic) customers of Scottish Water in 2009/10 are given in the table below.

Table 2.2: Scottish Water Unmeasured Household Charges 2009/10

| Property Band | Water Supply | Waste Collection | Water | Total |
|---------------|--------------|------------------|-------|---------|
| A | £123.18 | £139.20 | | £262.38 |
| B | £143.71 | £162.40 | | £306.11 |
| C | £164.24 | £185.60 | | £349.84 |
| D | £184.77 | £208.80 | | £393.57 |
| E | £225.83 | £255.20 | | £481.03 |
| F | £266.89 | £301.60 | | £568.49 |
| G | £307.95 | £348.00 | | £655.95 |
| H | £369.54 | £417.60 | | £787.14 |

Source: Scottish Water leaflet (2009) SW Charges H7 1/09.

Measured (metered) charges are levied according to a tariff also published by Scottish Water. However the number of households in Scotland paying for water in this way remains extremely low³ both in absolute terms and when compared with England and Wales.

The average household charge for 2009/10 in Scotland was £324. The following table compares this with average household charges for the ten English and Welsh Water and Sewerage Companies, and shows that Scottish Water's charges were amongst the lowest across Great Britain.

Table 2.3: Average Household Water Charges 2009/10

| Water and Sewerage Companies | Average Household Bill for 2009/10 |
|------------------------------|------------------------------------|
| South West | £489 |
| Wessex | £412 |
| Dwr Cymru | £403 |
| Anglian | £393 |
| United Utilities | £377 |
| Southern | £370 |
| Yorkshire | £330 |
| Scottish Water | £324 |
| Severn Trent | £304 |
| Northumbrian (north east) | £298 |
| Thames | £295 |

Source: Scottish Water, and Ofwat.

³ In 2002-3 only 790 domestic properties were metered for water out of a total of 2,196,960 billed in Scotland. In other words 0.036% of domestic properties had a metered supply. (Water Industry Commissioner for Scotland). In England and Wales 22.8% of households received a metered supply in 2002-3 (Ofwat (2002) Tariff Structure and Charges 2002-3 Report, Publ: Ofwat, Birmingham)

The following two figures illustrate the recent trend in average charges and annual increases. They compare Scotland with England and Wales and show that recent price rises in Scotland have in general been lower than those in England and Wales.

Data underlying all figures are supplied in the Appendix to the Chapter.

Figure 2.1: Average Annual Household Charges – Scotland, England and Wales

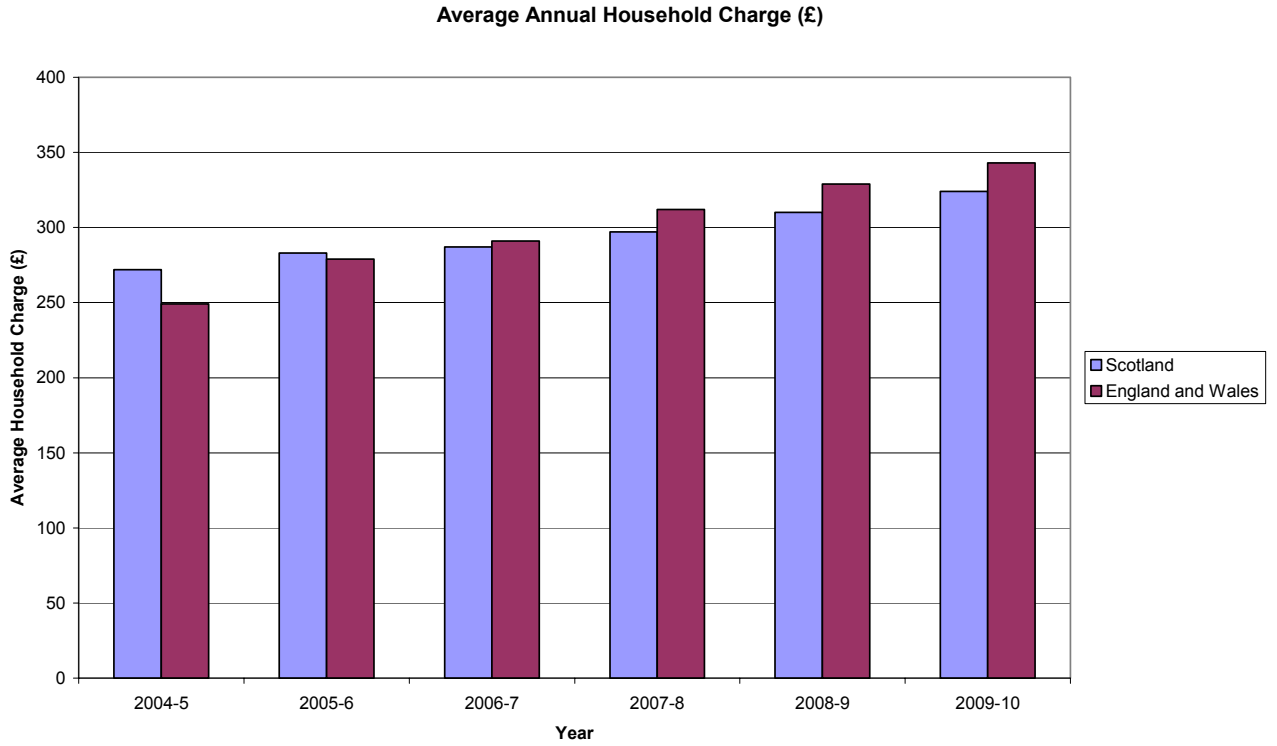
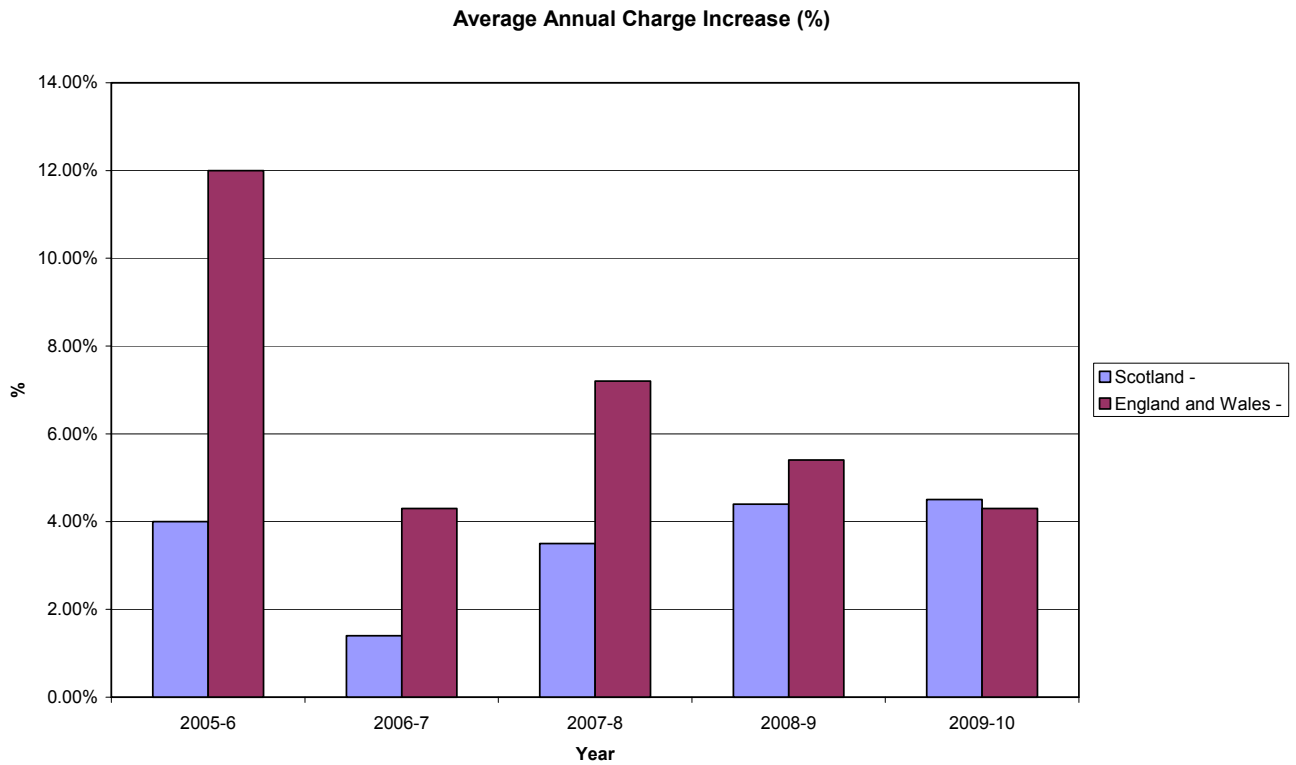


Figure 2.2: Average Annual Household Charge Increases – Scotland, England and Wales



Benefits, Discounts and Exemptions

The primary means by which financial support is delivered to those unable to meet the costs of water and sewerage services in Scotland is the UK social security system. Social security is a matter reserved to the UK Parliament and does not fall within the legislative competence of the Scottish Parliament. The only benefit currently designed to meet the needs of eligible households in relation to water and sewerage costs is Income Support. Within this benefit a personal allowance element is deemed to include an amount to cover day to day living needs with water services falling under this heading.

Of note in this context is the gradual erosion of the value of this benefit in support of water and sewerage charges. This was outlined in detail in Waterwatch Scotland's 2008 Affordability Report (Waterwatch 2008) an extract from which is reproduced in the appendix to this Chapter.

No other UK social security benefit may currently be claimed in respect of water and sewerage charges. It is particularly notable that, despite the obvious link between water, sanitation and housing, and the necessity of accessing these services, neither Council Tax Benefit nor Housing Benefit may be applied to their relief⁴.

Despite this exclusion, some discounts and exemptions associated with Council Tax are applied to water services charges in Scotland. For example, single person households or those qualifying because of their status⁵ are entitled to a 25% discount on water and sewerage charges. With effect from 1st April 2006 households with two or more adults resident that are in receipt of Council Tax Benefit, but not in receipt of a status discount, also became eligible for a discount of up to 25%⁶ - the permanent Water Charges Reduction Scheme, funded through customer cross subsidy. Properties altered to meet the needs of a disabled person may, in some cases, qualify for the Disabled Banding reduction on charges⁷.

⁴ For further details see Waterwatch (2008).

⁵ For example, student nurses as tenants within a property.

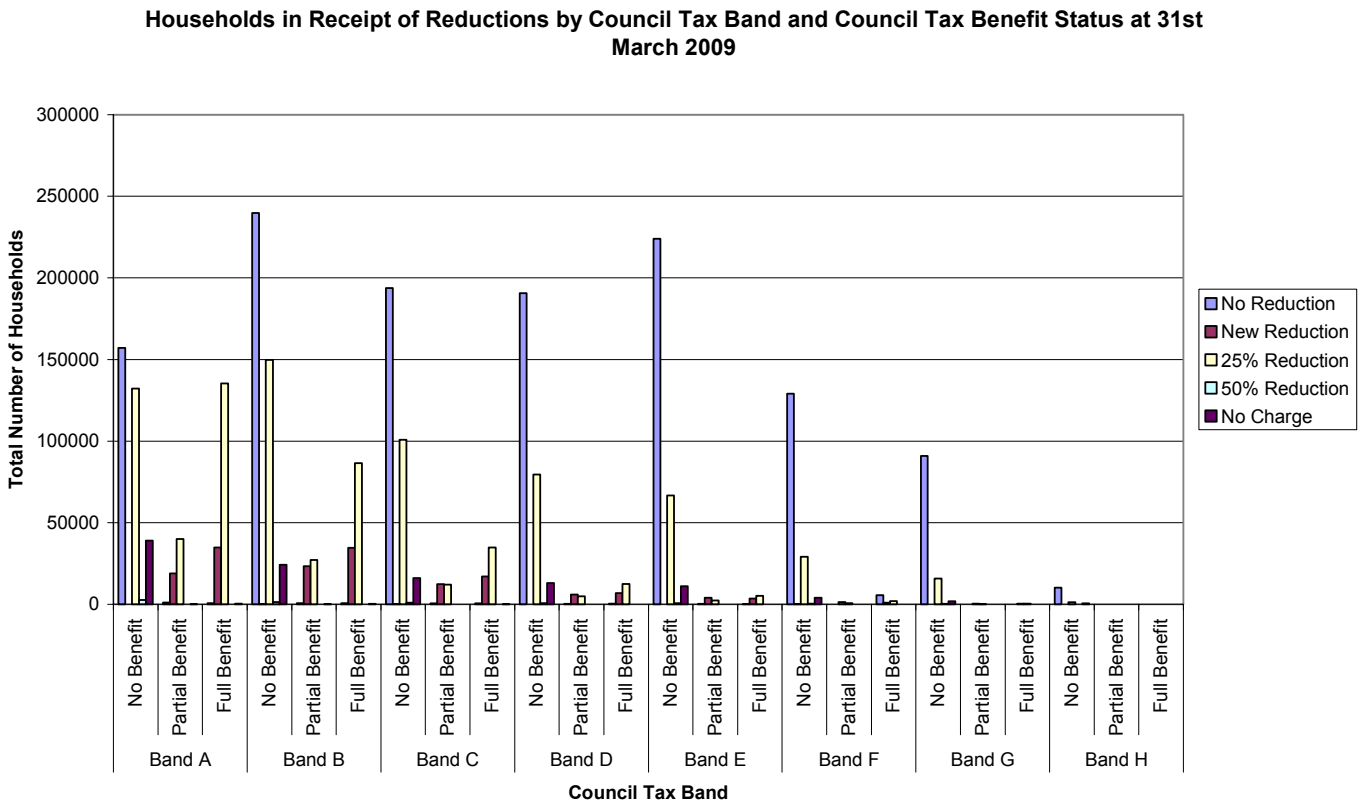
⁶ The permanent Water Charges Reduction Scheme introduced by the Scottish Executive (now Scottish Government). See The Water and Sewerage Charges (Exemption and Reduction)(Scotland) Regulations 2006.

⁷ Under Disabled Banding Relief the charge for a Band D property, for example, is reduced to that for Band C.

The figure below⁸ records the total number of properties served by Scottish Water as at 31st March 2009 who were in receipt of various reductions. The data is analysed by Council Tax band and by the benefit status of recipients. Full benefit means residents in a property are in receipt of 100% Council Tax benefit. Partial benefit means residents in a property are receiving anywhere from 1 – 99% Council Tax Benefit.

Of particular note in this Figure is the number of households in Bands D, E, F and G properties who are not on benefit but yet do qualify for relief (25% discount) under the reduction scheme. Most of these attract relief by virtue of their status as single person households and not through any test of income.

Figure 2.3: Households in Receipt of Reductions by Council Tax Band and Council Tax Benefit Status at 31st March 2009



Again it should be underlined that Council Tax benefit status is used as a gateway to the various Scottish discounts and reliefs. No part of Council Tax benefit itself may be applied to the relief of water and sewerage charges. Thus those in receipt of full Council Tax benefit still remain liable for water and sewerage charges.

⁸ Data underlying this figure are recorded in the appendix to this chapter.

Limitations

Some of the limitations of the current system of benefits, discounts and exemptions were highlighted in a paper published by Citizens Advice Scotland (CAS 2008). The CAS network, Scotland's leading front-line debt advice agency, noted that,

“...there is a fundamental problem with the current relief system in that the *maximum* relief that is available for water and sewerage charges is 25% of the full bill. A household in receipt of 100% council tax benefit will only receive a reduction of 25% of their water and sewerage charges, whilst a household in receipt of 50% council tax benefit will only receive a reduction of 12.5% of their water and sewerage charges.

This means that vulnerable people on very low incomes are still liable for *at least* 75% of their water and sewerage charges – more if they are not in receipt of full council tax benefit...relief rates of 25% and less are not sufficient to prevent people on low incomes from accumulating council tax debts through an inability to pay their remaining water and sewerage charges.

...The situation is exacerbated for people living on their own, who are eligible for a 25% single person discount on their water and sewerage charges, but are not eligible for any further relief. This essentially means that discounts for single people are based on status rather than ability to pay – a single person earning an annual salary of £50,000 will attract the same 25% discount as a single person in receipt of full council tax benefit.”

[CAS 2008, pp 4-6]

These problems were highlighted in Waterwatch Scotland's 2008 Affordability report (Waterwatch 2008). The following example was offered to illustrate.

“In 2007/8 the water and sewerage charge for a household in a Band A property was £243.90 per year or approximately £4.70 per week. Assuming the household qualified for a 25% discount under the Water Charges Reduction Scheme this was reduced to £182.93 per year or £3.52 per week. For a couple (aged 25 or over) living in a property and both in receipt of income support or income based jobseeker's allowance at a combined rate of £92.80 the amount to be paid in water charges would represent 3.8% of the household's weekly income. Or to cast the problem in a different way, assuming the local authority were able to recover the maximum £3 per week in third party direct deductions from benefit, household water and sewerage debt would continue to grow even for households in Band A properties with full relief.”

[Waterwatch 2008, p34]

The problem remains.

Taken together, this evidence suggests that the various discounts, exemptions and benefits available to households unable to meet water and sewerage charge liabilities remain inadequate, poorly targeted and open to challenge on the grounds of equity⁹.

⁹ It may be argued that status discounts are less equitable than those based on ability to pay. A counterargument is that status discounts have virtue in that they reflect, imperfectly, consumption of water services.

2.2 Collection of Charges

For unmeasured water services, household bills are issued and charges are collected by Local Authorities on behalf of Scottish Water. The Statutory Instrument authorising this arrangement is the Water Services Charges (Billing and Collection) (Scotland) Order 2006 (SSI 2006/71) which came into force on 1st April 2006 and will run until 2010.

Under the Order, Local Authorities must pay a percentage of all money collected - whether that relating to Council Tax or that relating to water - to Scottish Water, in accordance with a formula contained in the 2006 Order. The Statutory Instrument sets out a minimum collection charge per dwelling that must be paid by Scottish Water to the Local Authority¹⁰. This arrangement may, however, be varied by an agreement entered into between the Local Authority and Scottish Water. The total costs to Scottish Water of this arrangement since 2002/3 are given below.

Table 2.4: Total Costs of Collection (Scottish Water payments to Local Authorities).

| Year | Cost £ |
|--------|------------|
| 2002/3 | 12,672,463 |
| 2003/4 | 12,561,899 |
| 2004/5 | 12,847,803 |
| 2005/6 | 12,848,716 |
| 2006/7 | 12,782,448 |
| 2007/8 | 13,514,195 |
| 2008/9 | 14,060,931 |

Source: Scottish Water.

Local Authority billing and collection procedures are governed by the following legislation (subsequently amended):

- Local Government Finance Act 1992
- Local Government etc. (Scotland) Act 1994
- Council Tax (Administration and Enforcement) (Scotland) Regulations 1992.

This legislation sets out a basic minimum timetable for billing, collection and recovery activities. The legislation does not, however, prescribe the process by which these activities should be undertaken. Consequently Scotland's 32 local authorities operate a number of systems according to their own individual policies and procedures.

¹⁰ For the financial year 2006/7 this was £4.86. The amount changes according to movements in the price index each year.

Local Authorities currently make a number of different payment methods and routes available to householders. These have expanded over a number of years and now include:

- Cash
- Cheque
- Direct Debit
- Debit / Credit card¹¹ payment by phone or internet
- Post Office payment (cash, cheque, payment book, payment card)
- Paypoint / Payzone payment
- Direct deduction from salary for Local Authority employees¹²

Of these methods, direct debit is the most cost effective for Local Authorities which have, in many cases, reduced the number of local payment offices and moved away from payment books to plastic payment card systems. All Local Authorities now offer a direct debit system involving 10 instalment payments over the calendar year¹³. In addition many actively seek, through advertising campaigns, to persuade householders, paying by cheque or other methods, to set up direct debit arrangements.

¹¹ Some Local Authorities do not accept payment by credit card due to associated debt issues.

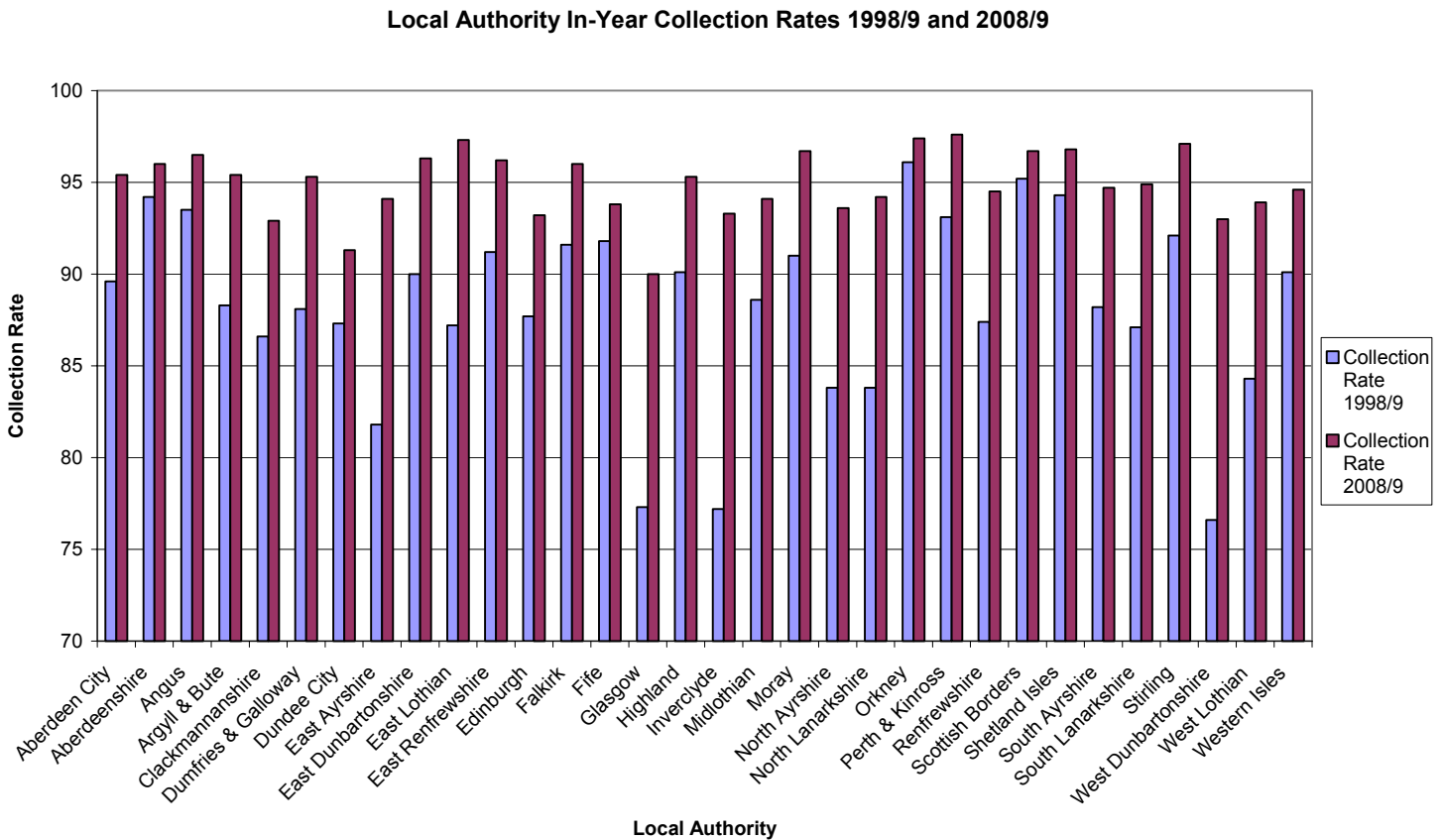
¹² Several Local Authorities have reached agreement with unions to run Local Authority tax debtor lists against their own payroll.

¹³ Many now also offer a 12 instalment payment option as well.

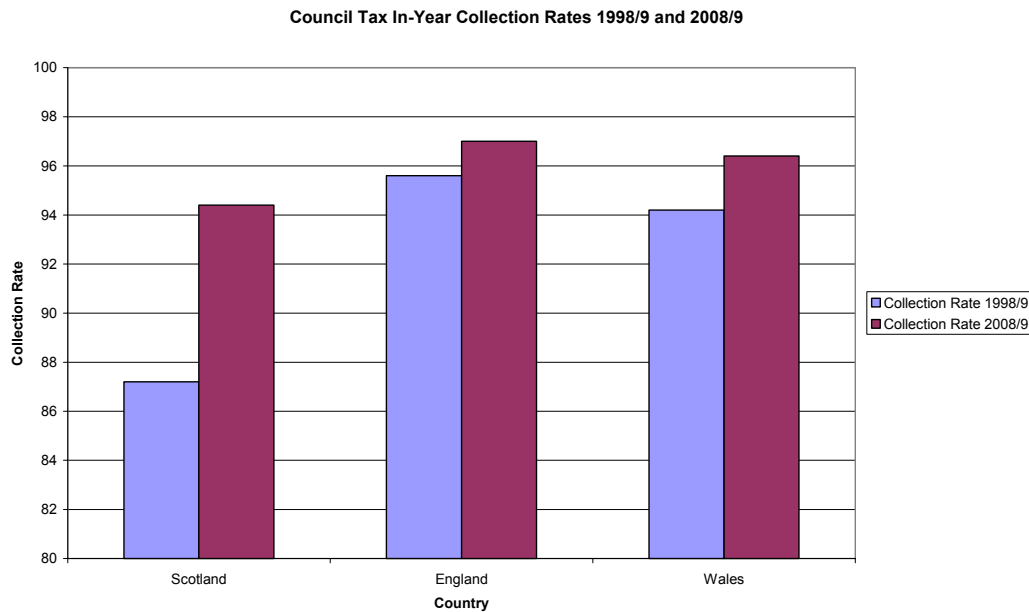
2.3 Collection Rates

Council Tax collection rates, and by implication water services charge collection rates, have continued to improve. The following Figure compares collection rates between 1998/9 and 2008/9 for all 32 local authorities.

Figure 2.4: Scottish Local Authority In-Year Collection Rates 1998/9 and 2008/9



In the following Figure comparison is made in collection rates between Scotland and England and Wales.

Figure 2.5: Council Tax In-Year Collection Rates by Country (1998/9 and 2008/9)

Notable is the fact that collection rates in Scotland continue to lag behind those in England and Wales, although the gap has been reduced considerably over the last decade. This phenomenon is carefully analysed in the Scottish Executive (2006) publication, 'Improving Council Tax Collection Rates in Scotland'. Local Authorities continue to seek ways in which collection rates may be further enhanced.

Appendix (Chapter 2)

Table A2.1: Average Annual Household Water and Sewerage Charge (£) and Average Annual Increases (%) Scottish Water

| Scotland | 2004-5 | 2005-6 | 2006-7 | 2007-8 | 2008-9 | 2009-10 |
|--|---------------|---------------|---------------|---------------|---------------|----------------|
| Average Annual Household Charge (£) | 272 | 283 | 287 | 297 | 310 | 324 |
| Average Annual Increase (%) | - | 4.0% | 1.4% | 3.5% | 4.4% | 4.5% |

Source: Scottish Water Annual Reports and Accounts, Scottish Water Press Releases.

Table A2.2: Average Annual Household Water and Sewerage Charge (£) and Average Annual Increases (%) England and Wales

| England and Wales | 2004-5 | 2005-6 | 2006-7 | 2007-8 | 2008-9 | 2009-10 |
|--|---------------|---------------|---------------|---------------|---------------|----------------|
| Average Annual Household Charge (£) | 249 | 279 | 291 | 312 | 329 | 343 |
| Average Annual Increase (%) | - | 12.0% | 4.3% | 7.2% | 5.4% | 4.3% |

Source: Ofwat, Water and Sewerage Bills various.

Table A2.3: Households in Receipt of Reductions by Council Tax Band and Council Tax Benefit Status at 31st March 2009.

| Council Tax Band | | Total Households | | | | |
|------------------|---------------------------------------|------------------|---------------|---------------|---------------|-----------|
| | | No Reduction | New Reduction | 25% Reduction | 50% Reduction | No Charge |
| Band AT | No Benefit | 395 | 1 | 165 | 3 | 5 |
| | Partial Benefit | 4 | 95 | 67 | 1 | 0 |
| | Full Benefit | 1 | 179 | 291 | 1 | 0 |
| Band A | No Benefit | 157033 | 49 | 132133 | 2716 | 39050 |
| | Partial Benefit | 1181 | 18867 | 39978 | 18 | 146 |
| | Full Benefit | 698 | 34877 | 135427 | 51 | 408 |
| Band B | No Benefit | 239806 | 108 | 149783 | 1420 | 24230 |
| | Partial Benefit | 751 | 23415 | 27189 | 27 | 114 |
| | Full Benefit | 655 | 34579 | 86566 | 47 | 309 |
| Band C | No Benefit | 193721 | 126 | 100833 | 932 | 16145 |
| | Partial Benefit | 491 | 12355 | 11986 | 15 | 35 |
| | Full Benefit | 523 | 17061 | 34813 | 39 | 120 |
| Band D | No Benefit | 190706 | 36 | 79571 | 728 | 12954 |
| | Partial Benefit | 327 | 6017 | 4844 | 7 | 13 |
| | Full Benefit | 396 | 6900 | 12415 | 16 | 36 |
| Band E | No Benefit | 224036 | 14 | 66700 | 670 | 11091 |
| | Partial Benefit | 259 | 4008 | 2402 | 5 | 4 |
| | Full Benefit | 195 | 3481 | 5176 | 8 | 18 |
| Band F | No Benefit | 129086 | 94 | 29155 | 358 | 4089 |
| | Partial Benefit | 65 | 1356 | 650 | 1 | 0 |
| | Full Benefit | 5596 | 979 | 2016 | 7 | 46 |
| Band G | No Benefit | 90854 | 3 | 15833 | 289 | 1840 |
| | Partial Benefit | 43 | 476 | 172 | 0 | 0 |
| | Full Benefit | 36 | 415 | 384 | 2 | 0 |
| Band H | No Benefit | 10171 | 0 | 1249 | 64 | 515 |
| | Partial Benefit | 2 | 19 | 2 | 0 | 1 |
| | Full Benefit | 2 | 23 | 6 | 0 | 0 |
| Band X | No Benefit | 74 | 0 | 11 | 0 | 4 |
| | Partial Benefit | 0 | 0 | 0 | 0 | 0 |
| | Full Benefit | 0 | 0 | 0 | 0 | 0 |
| Totals | | 1,247,107 | 165,533 | 939,817 | 7,425 | 111,173 |
| | Total All Households | 2,471,055 | | | | |
| | Band X | 89 | | | | |
| | Total All Households excluding Band X | 2,470,966 | | | | |

Source: Scottish Water.

Notes: Band AT represents Band A properties in receipt of the disabled banding relief, so that they are billed for 5/9th of the Band D charge. Band X properties are those uncategorized which are to be removed from the records because, for example, they are due to be demolished.

Table A2.4: Council Tax In-Year Collection Rates 1998/9 and 2008/9.

| Local Authority | Collection Rate 1998/9 | Collection Rate 2008/9 |
|--------------------------------|-------------------------------|-------------------------------|
| Aberdeen City | 89.6 | 95.4 |
| Aberdeenshire | 94.2 | 96.0 |
| Angus | 93.5 | 96.5 |
| Argyll & Bute | 88.3 | 95.4 |
| Clackmannanshire | 86.6 | 92.9 |
| Dumfries & Galloway | 88.1 | 95.3 |
| Dundee City | 87.3 | 91.3 |
| East Ayrshire | 81.8 | 94.1 |
| East Dunbartonshire | 90.0 | 96.3 |
| East Lothian | 87.2 | 97.3 |
| East Renfrewshire | 91.2 | 96.2 |
| Edinburgh | 87.7 | 93.2 |
| Falkirk | 91.6 | 96.0 |
| Fife | 91.8 | 93.8 |
| Glasgow | 77.3 | 90.0 |
| Highland | 90.1 | 95.3 |
| Inverclyde | 77.2 | 93.3 |
| Midlothian | 88.6 | 94.1 |
| Moray | 91.0 | 96.7 |
| North Ayrshire | 83.8 | 93.6 |
| North Lanarkshire | 83.8 | 94.2 |
| Orkney | 96.1 | 97.4 |
| Perth & Kinross | 93.1 | 97.6 |
| Renfrewshire | 87.4 | 94.5 |
| Scottish Borders | 95.2 | 96.7 |
| Shetland Isles | 94.3 | 96.8 |
| South Ayrshire | 88.2 | 94.7 |
| South Lanarkshire | 87.1 | 94.9 |
| Stirling | 92.1 | 97.1 |
| West Dunbartonshire | 76.6 | 93.0 |
| West Lothian | 84.3 | 93.9 |
| Western Isles | 90.1 | 94.6 |
| SCOTLAND | 87.2 | 94.4 |

Source:

Scottish Government (2009) Statistics Publication Notice: Council Tax Collection Statistics 2008-09. Council Tax (CT) collection figures by Scottish Local Authorities for the financial year 2008-09 and previous years.

[<http://www.scotland.gov.uk/Publications/2009/06/26111648/3> [consulted 10 Nov 2009]

Table A2.5: Council Tax In-Year Collection Rates by Country 1998/9 and 2008/9.

| Country | Collection Rate 1998/9 | Collection Rate 2008/9 |
|----------|------------------------|------------------------|
| Scotland | 87.2 | 94.4 |
| England | 95.6 | 97.0 |
| Wales | 94.2 | 96.4 |

Source:

Scotland - Scottish Government (2009) Statistics Publication Notice: Council Tax Collection Statistics 2008-09. Council Tax (CT) collection figures by Scottish Local Authorities for the financial year 2008-09 and previous years.

<http://www.scotland.gov.uk/Publications/2009/06/26111648/3> [consulted 10 Nov 2009]

England – Department for Communities and Local Government (2009) Collection rates for council tax and non-domestic rates in England 2008-09 Collection rates for council tax and non-domestic rates in England 1998-99

<http://www.communities.gov.uk/publications/corporate/statistics/collectionrates200809> [consulted 10 Nov 2009]

Wales – StatsWales, Welsh Assembly Government, Council Tax collection rates by billing authority.

<http://www.statswales.wales.gov.uk/TableViewer/tableView.aspx?ReportId=394> [consulted 10 Nov 2009]

Extract on Income Support Benefit

Source: Waterwatch (2008) Affordability of Scottish Household Water and Sewerage Charges: Historic Trends and Current Position, Waterwatch, Alloa.

4.3

In the mid 1980s claimants of Supplementary Benefit received an amount of money which reflected the actual cost of their water and sewerage bills. In 1988 Supplementary Benefit was replaced by Income Support, a system under which personal allowances - related to particular household circumstances - were granted to cover day to day living needs¹⁴. These needs were deemed to include water and sewerage services. The change broke the link between actual bills and the amount of benefit support received, and effectively passed responsibility for meeting these and other household living expenses from the Department of Social Security to benefit claimants themselves.

4.4

In establishing the baseline personal allowance element within Income Support a notional amount for water and sewerage was included. Despite quite large differences in charges between water authority and company areas, this notional amount was based on a calculated national average charge, thereby disadvantaging those in high charge regions such as the south west of England¹⁵. The uprating of this, and other, income-related benefits was by means of the Rossi index, which until 1992 did not include water charges¹⁶.

4.5

In seeking to quantify the erosion in the value of social security support for water and sewerage charges Fitch (2002) used the figure for the notional personal allowance element within Income Support relating to water and sewerage charges given in a reply from the House of Commons Library to Helen Jackson MP on 17 May 1996. By uprating the 1988/9 weekly figure of £1.65 using the Rossi Index and expressing this as a percentage of the average weekly household water and sewerage charge an estimate of the way in which benefit support for water charges has evolved over time is obtained. Table 4.1 below records this ratio for Scotland.

¹⁴ DSS/Benefits Agency 1999.

¹⁵ Kempson and Bennett (1997).

¹⁶ Kempson and Bennett (p47, 1997) noted the erosion in social security support that this implied.

Table 4.1: Changes in Income Support Benefit Element and Average Scottish Household Water Charges

| Year | Benefit Element (Weekly) Up-rated by Rossi £ | Average Water & Sewerage Charge Annual (weekly) £ | Benefit Element as % of Average Charge |
|---------|--|---|--|
| 1988/9 | 1.65 | | |
| 1989/90 | 1.73 | | |
| 1990/1 | 1.82 | | |
| 1991/2 | 1.97 | | |
| 1992/3 | 2.11 | | |
| 1993/4 | 2.19 | | |
| 1994/5 | 2.28 | | |
| 1995/6 | 2.32 | 107 (2.06) | 113% |
| 1996/7 | 2.39 | 115 (2.21) | 108% |
| 1997/8 | 2.45 | | |
| 1998/9 | 2.51 | | |
| 1999/0 | 2.56 | | |
| 2000/1 | 2.6 | | |
| 2001/2 | 2.64 | 231.64 (4.45) | 59% |
| 2002/3 | 2.68 | | |
| 2003/4 | 2.71 | | |
| 2004/5 | 2.76 | 272 (5.23) | 53% |
| 2005/6 | 2.79 | 283 (5.44) | 51% |
| 2006/7 | 2.85 | 287 (5.52) | 52% |
| 2007/8 | 2.94 | 297 (5.71) | 51% |

Sources:

Annual average water charges.

2004/5 to 2007/8: *Scottish Water Annual Reports and Accounts*. 2001/2: *Water Industry Commissioner for Scotland (2001) 'Strategic Review of Charges 2002-2006', Stirling, Figure 38.1 page 356*. 1995/6: *Water Services Association (1996) Waterfacts '96, London. Table 5.6 page 46*. 1996/7: *Water Services Association (1997) Waterfacts '97, London. Table 5.6 page 46*.

Notes:

The opening figure of £1.65 taken from correspondence from the House of Commons Library to Ms Jackson MP (17 May 1996).

Weekly charges = annual charges / 52.

This is used as the basis for the benefit series (up-rated by Rossi / New Rossi).

4.6

The fall in benefit as a percentage of the total bill between 1995/6 and 2006/7 is striking. At the start of this period water and sewerage services in Scotland were delivered by departments of local government – the nine regional and three islands councils. Charges were low compared to those for consumers in England and Wales. Following industry restructuring in 1996 significant price rises took place which were not matched by increases in Income Support benefit. Fitch (2002) noted a similar pattern, but with an earlier start, in England and Wales¹⁷.

¹⁷ For England and Wales the ratio was 80% in 1988/9 (prior to privatisation of the ten regional water authorities) falling to 55% by 1996/7 (Fitch 2002).

4.7

For Scotland the numbers affected by this erosion in support are significant and are not distributed evenly across the country. Table 4.2 below records the percentage of the population at two dates (in 1999 and 2006) and aged 16 to 59 claiming income support by Scottish local authority area. In 2006 the percentage ranges from a low of 3.2% in Aberdeenshire and Orkney to a high of 13.7% in Glasgow City.

Table 4.2: Percentage of the Population Aged 16 to 59 Claiming Income Support, 2006 by Scottish Local Authority

| Local Authority | 1999 | 2006 | Local Authority | 1999 | 2006 |
|--------------------------------|-----------------------|------|---------------------|------|------|
| Aberdeen City | 5.6 | 5.8 | Highland | 5.6 | 5.5 |
| Aberdeenshire | 3.3 | 3.2 | Inverclyde | 11.5 | 10.3 |
| Angus | 4.9 | 5.1 | Midlothian | 6.4 | 5.5 |
| Argyll and Bute | 5.5 | 5.0 | Moray | 4.5 | 4.1 |
| Clackmannanshire | 8.2 | 8.1 | North Ayrshire | 9.4 | 8.8 |
| Dumfries and Galloway | 5.5 | 5.7 | North Lanarkshire | 9.5 | 8.7 |
| Dundee City | 10.1 | 9.7 | Orkney Islands | 3.2 | 3.2 |
| East Ayrshire | 8.4 | 8.4 | Perth and Kinross | 4.6 | 4.4 |
| East Dunbartonshire | 3.7 | 3.6 | Renfrewshire | 8.4 | 7.9 |
| East Lothian | 5.9 | 5.1 | Scottish Borders | 4.3 | 4.4 |
| East Renfrewshire | 4.1 | 3.8 | Shetland Islands | 3.3 | 3.4 |
| Edinburgh, City of | 6.7 | 5.9 | South Ayrshire | 6.7 | 6.6 |
| Eilean Siar (Western Isles) | 5.0 | 4.5 | South Lanarkshire | 7.9 | 7.1 |
| Falkirk | 6.8 | 6.2 | Stirling | 5.8 | 5.2 |
| Fife | 6.4 | 6.2 | West Dunbartonshire | 10.9 | 10.3 |
| Glasgow City | 16.2 | 13.7 | West Lothian | 6.9 | 6.4 |
| Scotland | 1999 = 7.8 2006 = 7.2 | | | | |

Source: Scottish Parliament Written Answer S2W-30148, 29 November 2006. Benefit claimants from DWP Information Directorate: Work and Pensions Longitudinal Study. Populations from GRO (S) mid year population estimates.

Note: figures at May 2006.

4.8

This erosion in the level of social security support was picked up in a Scottish Parliamentary Question tabled in 2003.

“Jackie Baillie (Dumbarton) (Lab) (Date Lodged 27 November 2003):

To ask the Scottish Executive whether it will address in a revised system of water relief for domestic consumers the issue of closing the gap between the income support allowance for water and sewerage and the actual charges levied.

Answered by Ross Finnie (10 December 2003):

Income support is a reserved matter for the UK Government.”

[Scottish Parliament, S2W-4495]

3. Water Debts and Debtors in Scotland

Having outlined the current water and sewerage charging and charge collection system for household customers in Scotland we turn now to analyse household water and sewerage debt, considering its level and distribution across Scottish households and local authorities. In this we provide a snapshot at one point in time, giving a broad overview of the position as at 31st March 2009. In the absence of time series data we are unable to comment on trends over time. We note, however, the economic context for our analysis; economic recession and rising unemployment in Scotland and the rest of the UK.

3.1 Debt Levels

Non-payment of charges, whether through an inability or an unwillingness to pay on the part of customers, results in a continuing liability, or debt. Scottish Water collects statistics¹⁸ recording debt levels by local authority area, being the difference between household liability for water and sewerage services (amounts billed) and payments made (amounts collected).

As at 31st March 2009 the amount outstanding for the period 1996/7 to 2008/9 (i.e. total household debt) stood at just over £335.1 million. The corresponding figure at 31st March 2008 for the period 1996/7 to 2007/8 was £306.2 million.

For the most recent year, 2008/9, over £58.8 million in debt remained outstanding at 31st March 2009. Analysing this total by the Council Tax benefit status of those who had a continuing liability, Scottish Water reports that approximately 23% of the total of £58.8 million was owed by those who were claiming full Council Tax Benefit, 21% was owed by those claiming partial Council Tax Benefit and 56% by those who were not Benefit claimants.

Local Authorities continue to recover historic debts as far back as 1996/7. And whilst making provision for the debt in its financial accounts, Scottish Water has not yet written these off.

3.2 Debtors: Characteristics - Scotland

In this section we analyse the characteristics of household debt owing to Scottish Water.

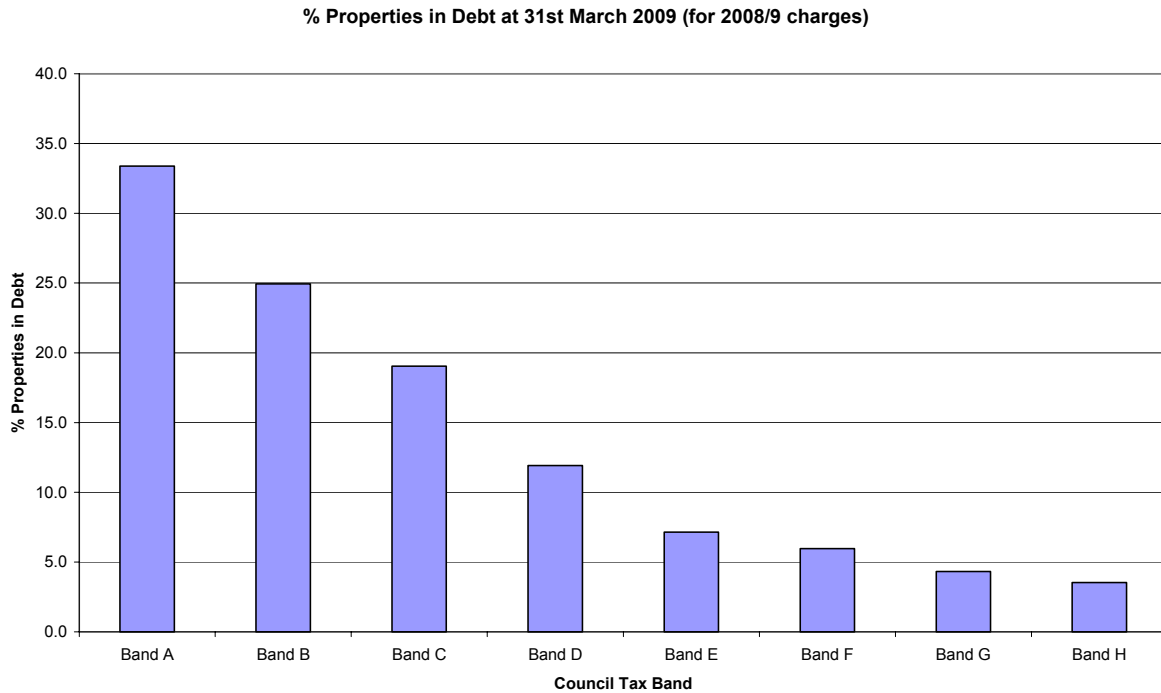
3.2.1 Properties by Council Tax Band and Council Tax Benefit Claimant Status

Data are available on the number of properties for which there is an outstanding water and sewerage charge liability.

¹⁸ Statistics in this section supplied direct by Scottish Water.

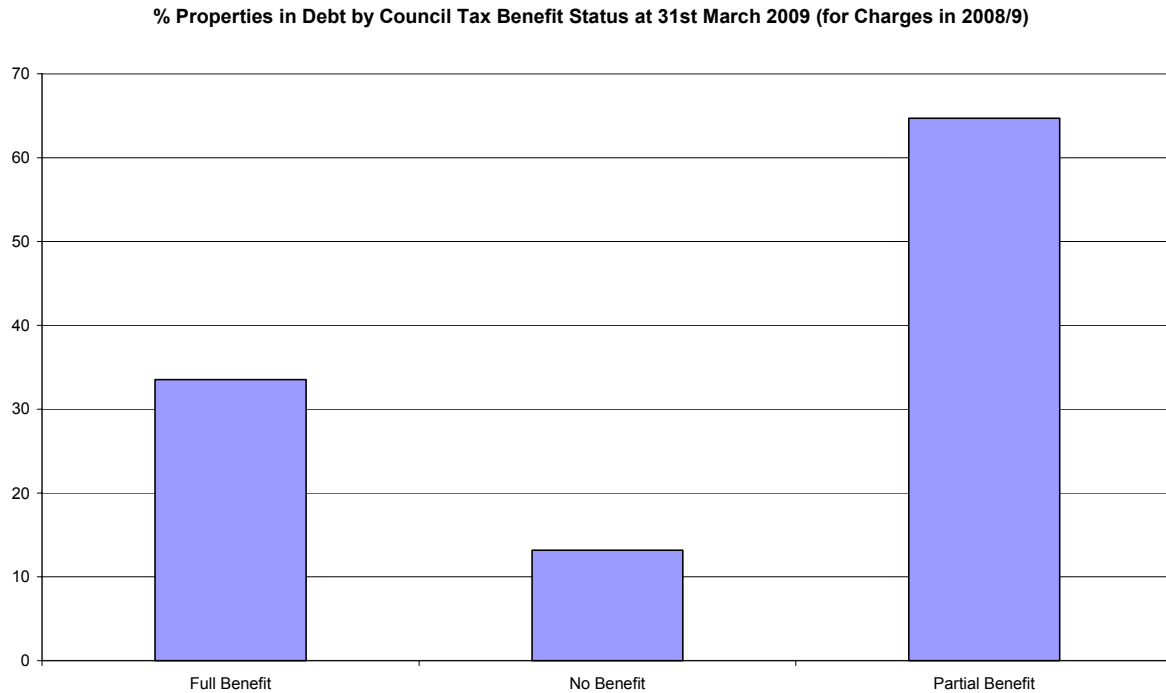
The figure below records, for Scotland, the percentage of properties in debt as at 31st March 2009 in respect of the 2008/9 charges only. Data underlying this figure are presented in the Appendix to this chapter.

Figure 3.1: Percentage of Properties in Debt at 31st March 2009 for 2008/9 Charges by Council Tax Band



Analysing data, this time by Council Tax Benefit status, the figure below records the percentage of properties in debt according to whether occupants are full, partial or non-claimants.

Figure 3.2: Percentage of Properties in Debt by Council Tax Benefit Claimant Status at 31st March 2009 for Charges in 2008/9



Predictably, we find that the percentage of properties in debt declines with rising Council Tax band. Perhaps more surprisingly the percentage of properties in debt is much higher for those in the partial benefit category than for households on full benefit.

3.2.2 Debt Outstanding to Total Billed Charge by Council Tax Band and Council Tax Benefit Claimant Status

Turning to look at the outstanding debt as a percentage of the total billed amount the following two figures report this by Council Tax band and Council Tax Benefit Claimant Status. Once again a similar pattern is observed

Figure 3.3: Percentage Debt Outstanding for 2008/9 Charges, at 31st March 2009, by Council Tax Band.

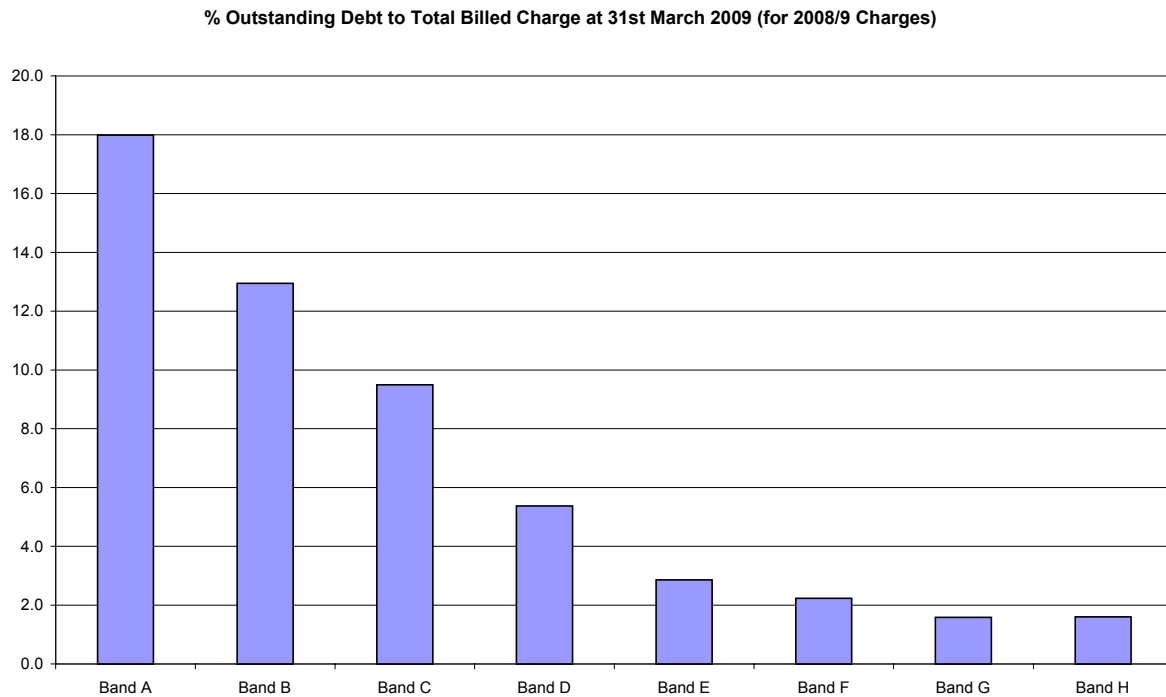
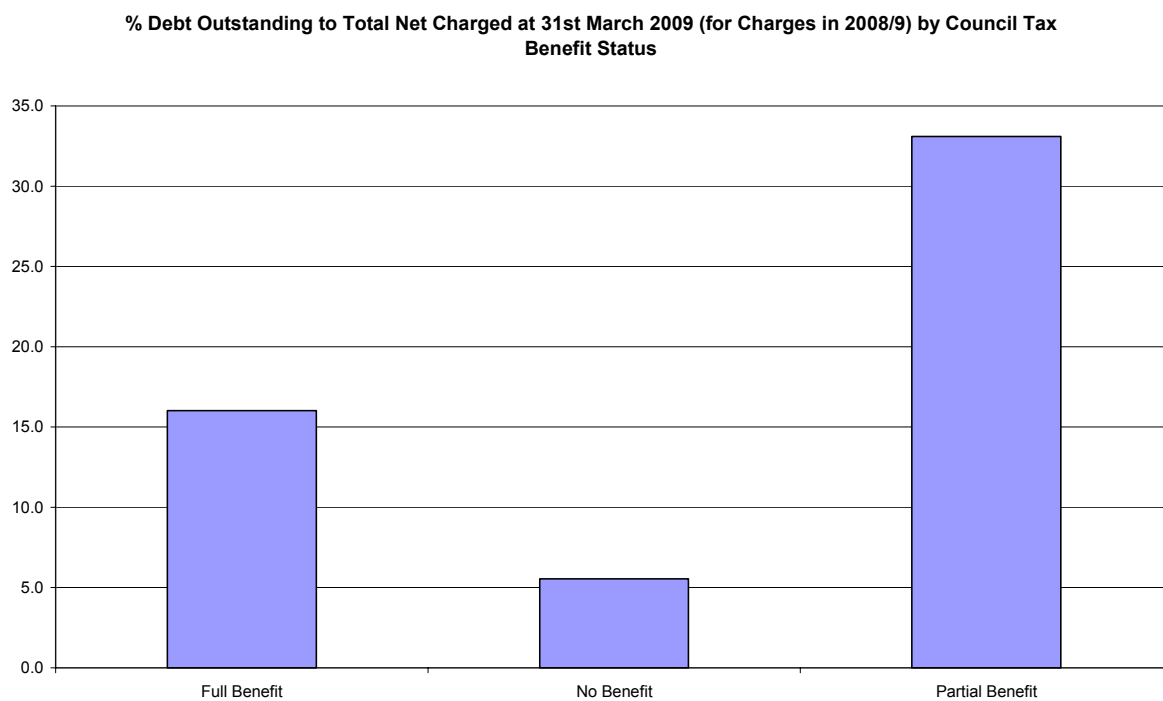


Figure 3.4: Percentage Debt Outstanding for 2008/9 Charges, at 31st March 2009, by Council Tax Benefit Claimant Status.



3.3 Debtors: Characteristics – Local Authorities

The previous all-Scotland analysis may be disaggregated also by Local Authority area. The following figures record the percentage of properties in debt and the percentage of debt outstanding in this way.

Figure 3.5: Percentage of Properties in Debt at 31st March 2009 for 2008/9 Charges by Local Authority Area

% Properties in Debt by Local Authority Area at 31st March 2009 (for 2008/9 Charging year)

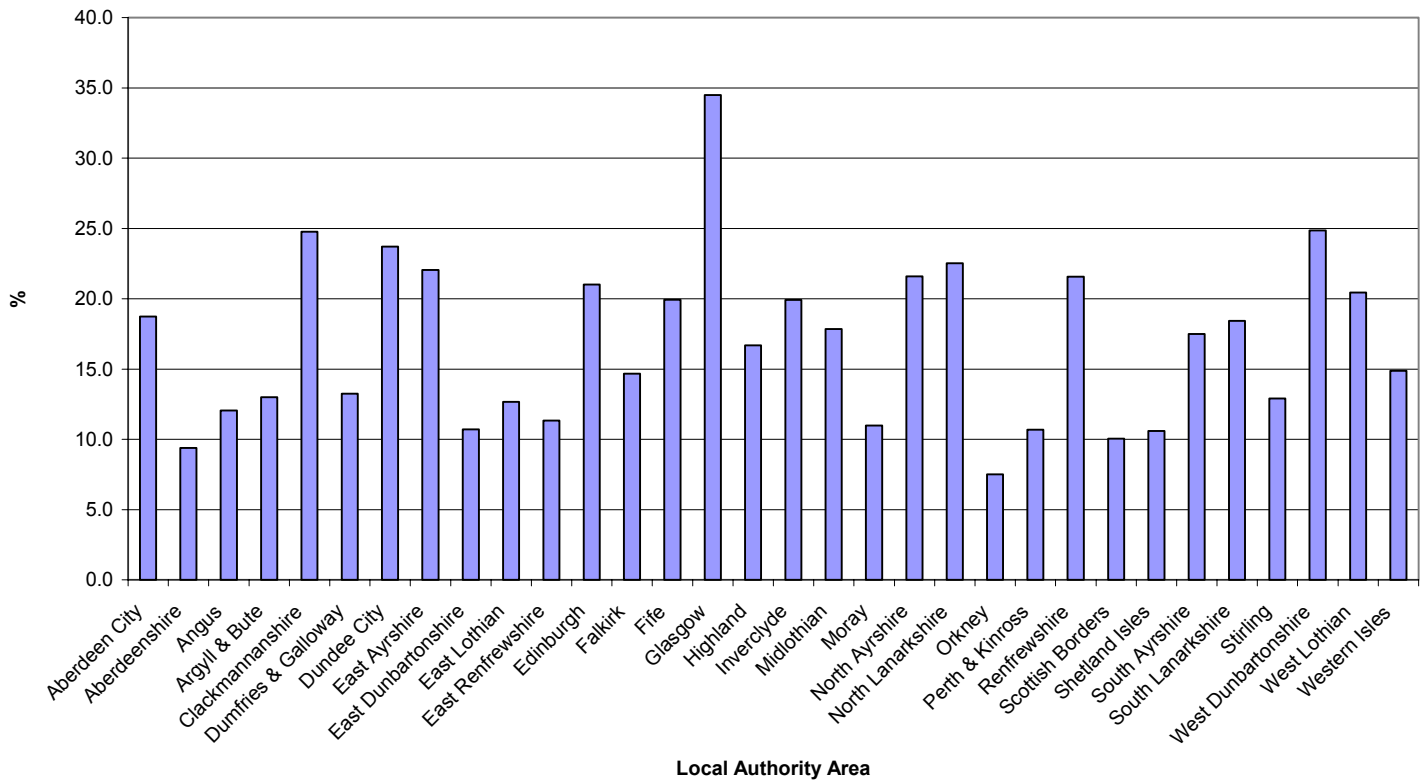
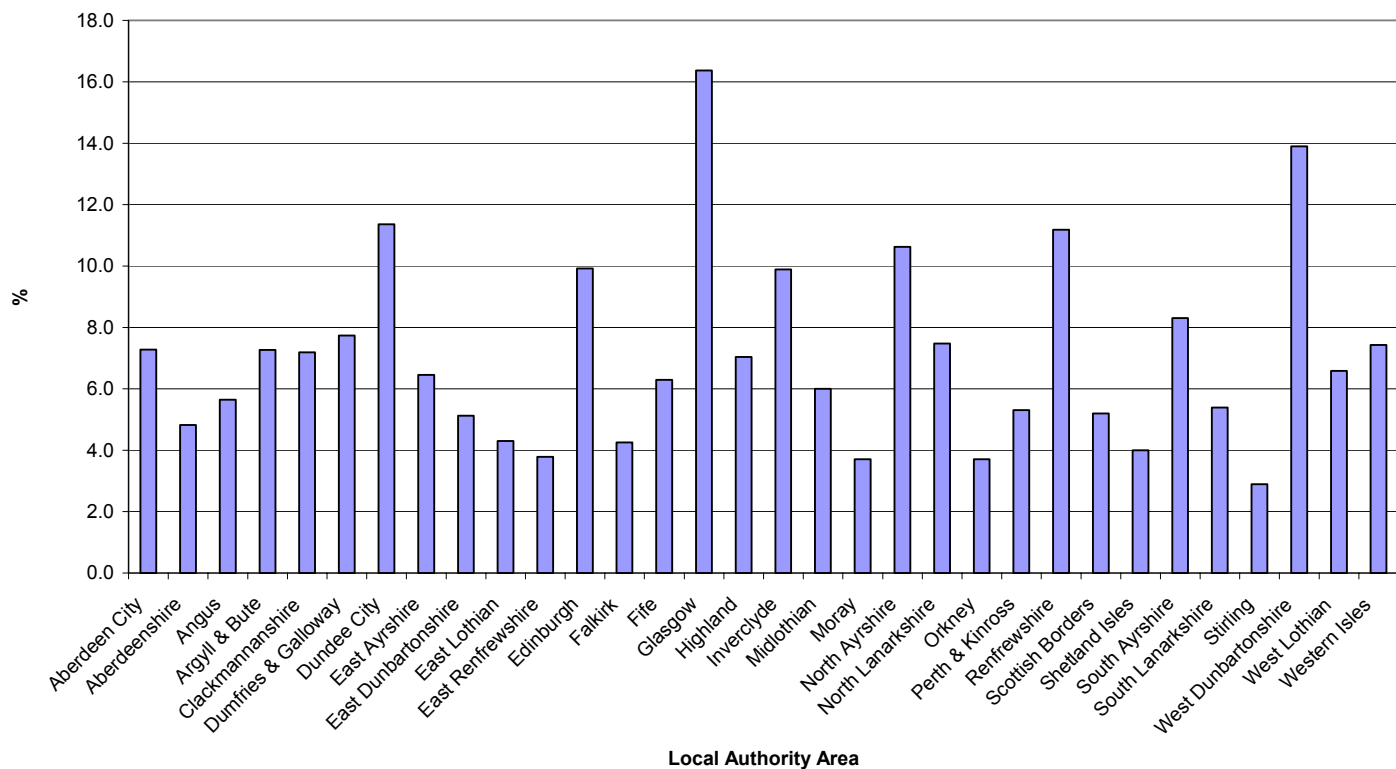


Figure 3.6: Percentage Debt Outstanding to Total Billed Charge at 31st March 2009 for 2008/9 Charges by Local Authority Area

% Debt Outstanding to Total Billed Charge at 31st March 2009 (for Charges in 2008/9)

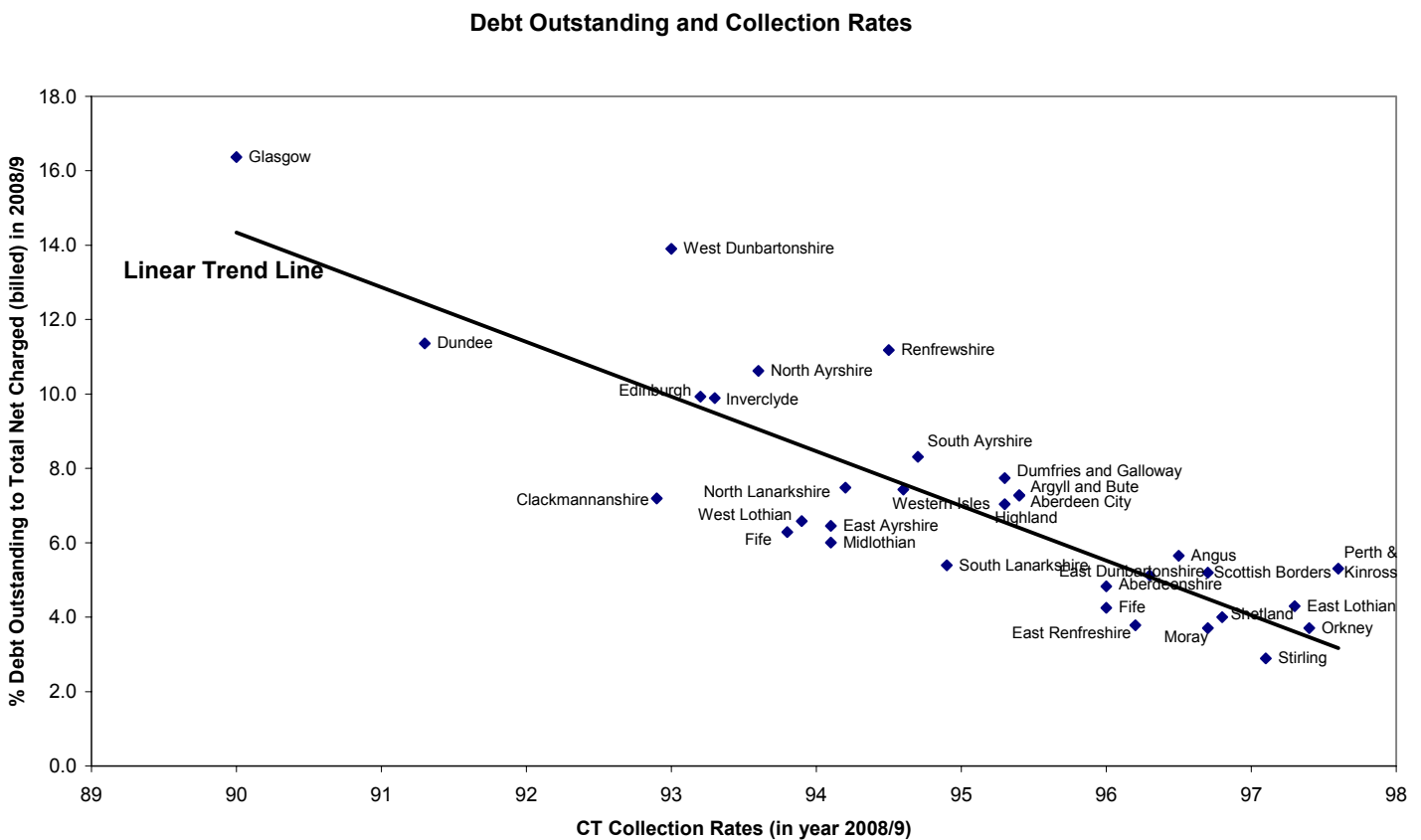


3.4 Further Characteristics – Local Authorities

Extending the analysis further we present figures which illustrate the way in which debt related variables are correlated with collection rates and employment rates. Collection rates are one indicator of the effectiveness of Local Authority charge collection activities. Employment rates proxy the level of economic activity and hence socio-economic prosperity within a local authority area.

It should be emphasised that correlation does not imply causality. The figures do, however, reveal some interesting features in relation to debt.

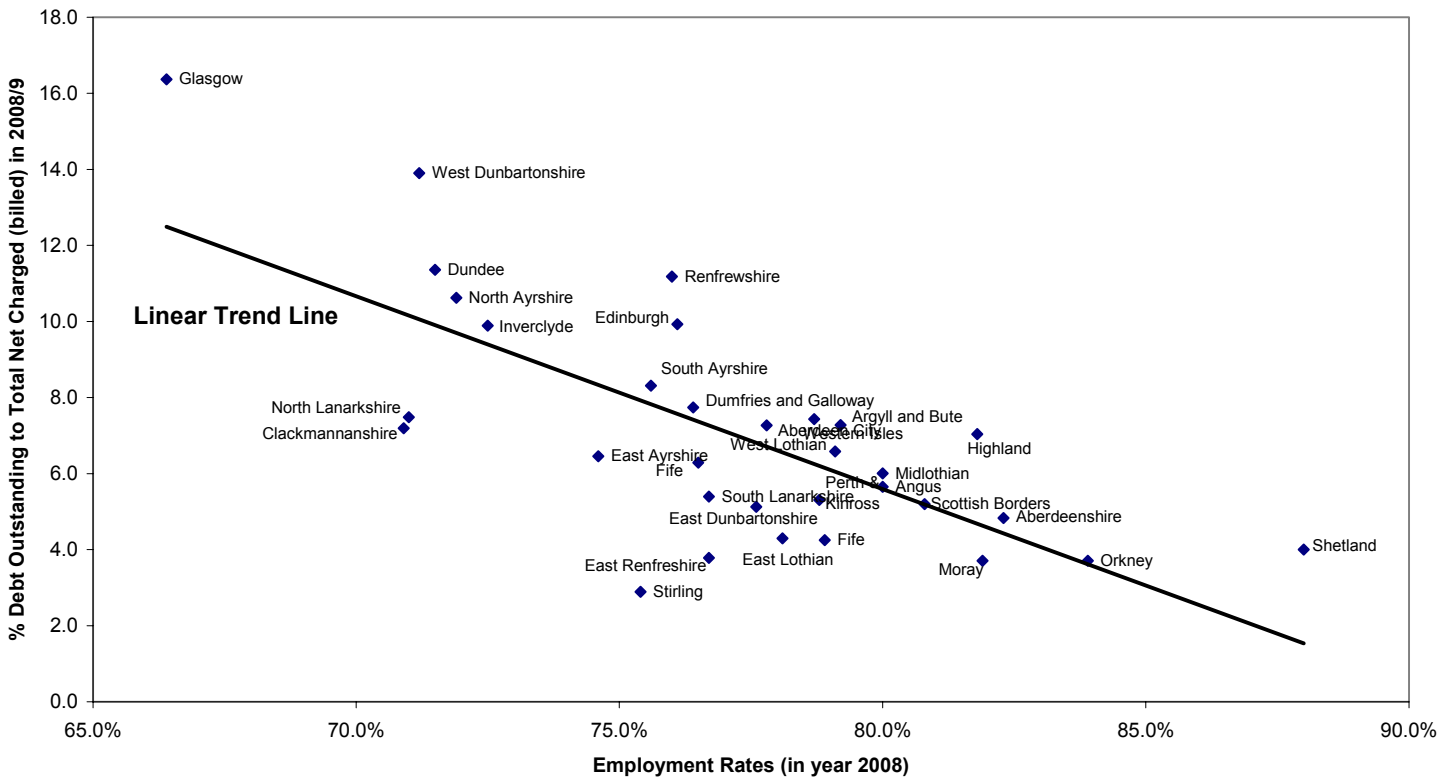
Figure 3.7: Percentage Debt Outstanding and Council Tax Collection Rates



The Figure above records the percentage debt outstanding to total amount billed against council tax collection rates for 2008/9 by local authority area. A linear trend line is fitted indicating negative correlation between these two variables. The location of points on this chart may be interpreted, informally, as follows. Those authorities located above and to the right of the line are those which have a relatively high percentage of debt outstanding compared with their own CT collection rates. Some of the variation evident in this figure may be attributed to the timing of remittances made by local authorities to Scottish Water.

Figure 3.8: Percentage Debt Outstanding and Employment Rates

Debt Outstanding and Employment Rates



This Figure records the percentage debt outstanding to total amount billed against employment rates for 2008 by local authority area. The fitted linear trend line again indicates negative correlation between these variables. Those points above and to the right of the line indicate those local authorities which have a relatively high percentage of debt outstanding when benchmarked against employment rates.

3.5 Conclusion

This chapter describes the level and distribution of debt across Scottish households and by local authority area. The evidence confirms the view that debt is more prevalent amongst households occupying lower banded properties and those in receipt of partial benefit. There is a negative correlation between percentage debt outstanding and collection and employment rates by local authority.

Appendix (Chapter 3)

Table A3.1: Properties in Debt for 2008/9 Charges, at 31st March 2009, by Council Tax Band.

| | Total Number of Properties | Number of Properties in Debt | % properties in debt / total properties |
|---------------|----------------------------|------------------------------|---|
| Band A | 562632 | 187794 | 33.4 |
| Band B | 588999 | 146856 | 24.9 |
| Band C | 389195 | 74114 | 19.0 |
| Band D | 314966 | 37531 | 11.9 |
| Band E | 318067 | 22710 | 7.1 |
| Band F | 173498 | 10332 | 6.0 |
| Band G | 110347 | 4767 | 4.3 |
| Band H | 12054 | 425 | 3.5 |
| TOTAL | 2469758 | 484529 | 19.6 |

Source: Scottish Water.

Table A3.2: Properties in Debt for 2008/9 Charges, at 31st March 2009, by Council Tax Benefit Status.

| | Total Number of Properties | Number of Properties in Debt | % properties in debt / total properties |
|------------------------|----------------------------|------------------------------|---|
| Full Benefit | 384326 | 128827 | 33.5 |
| Partial Benefit | 157241 | 101736 | 64.7 |
| No Benefit | 1928191 | 253966 | 13.2 |
| TOTAL | 2469758 | 484529 | 19.6 |

Source: Scottish Water.

Table A3.3: Debt Outstanding for 2008/9 Charges, at 31st March 2009, by Council Tax Band.

| | Debt Outstanding (£) | Total Net Charged (billed) (£) | % debt outstanding / total billed |
|---------------|----------------------|--------------------------------|-----------------------------------|
| Band A | 19235784.16 | 106961029.3 | 18.0 |
| Band B | 18054110.11 | 139463449.6 | 12.9 |
| Band C | 9980756.44 | 105108108.8 | 9.5 |
| Band D | 5200510.31 | 96711939.81 | 5.4 |
| Band E | 3506324.35 | 122705232.3 | 2.9 |
| Band F | 1803641.22 | 80725815.74 | 2.2 |
| Band G | 924283.78 | 58415309.6 | 1.6 |
| Band H | 108477.33 | 6770102.382 | 1.6 |
| TOTAL | 58813887.7 | 716860987.5 | 8.2 |

Source: Scottish Water.

Table A3.4: Debt Outstanding for 2008/9 Charges, at 31st March 2009, by Council Tax Benefit Status.

| | Debt Outstanding (£) | Total Net Charged (billed) (£) | % debt outstanding / total billed |
|------------------------|----------------------|--------------------------------|-----------------------------------|
| Full Benefit | 13530708.07 | 84445341.21 | 16.0 |
| Partial Benefit | 12288141.01 | 37131228.49 | 33.1 |
| No Benefit | 33001138.14 | 595284417.78 | 5.5 |
| TOTAL | 58819987.22 | 716860987.48 | 8.2 |

Source: Scottish Water.

Table A3.5: Properties in Debt for 2008/9 Charges, at 31st March 2009, by Local Authority.

| Local Authority | Total Number of Properties | Number of Properties in Debt | % properties in debt / total properties |
|---------------------|----------------------------|------------------------------|---|
| Aberdeen City | 110352 | 20674 | 18.7 |
| Aberdeenshire | 107491 | 10096 | 9.4 |
| Angus | 53605 | 6462 | 12.1 |
| Argyll & Bute | 46428 | 6030 | 13.0 |
| Clackmannanshire | 23494 | 5820 | 24.8 |
| Dumfries & Galloway | 72106 | 9552 | 13.2 |
| Dundee City | 73513 | 17425 | 23.7 |
| East Ayrshire | 55908 | 12326 | 22.0 |
| East Dunbartonshire | 44066 | 4716 | 10.7 |
| East Lothian | 43878 | 5555 | 12.7 |
| East Renfrewshire | 36839 | 4178 | 11.3 |
| Edinburgh | 231355 | 48604 | 21.0 |
| Falkirk | 70332 | 10311 | 14.7 |
| Fife | 168164 | 33506 | 19.9 |
| Glasgow | 299633 | 103383 | 34.5 |
| Highland | 110729 | 18475 | 16.7 |
| Inverclyde | 39081 | 7780 | 19.9 |
| Midlothian | 35276 | 6294 | 17.8 |
| Moray | 41726 | 4577 | 11.0 |
| North Ayrshire | 66062 | 14263 | 21.6 |
| North Lanarkshire | 147169 | 33147 | 22.5 |
| Orkney | 10145 | 762 | 7.5 |
| Perth & Kinross | 68101 | 7276 | 10.7 |
| Renfrewshire | 82420 | 17780 | 21.6 |
| Scottish Borders | 55474 | 5579 | 10.1 |
| Shetland Isles | 10483 | 1111 | 10.6 |
| South Ayrshire | 53292 | 9315 | 17.5 |
| South Lanarkshire | 142098 | 26197 | 18.4 |
| Stirling | 39115 | 5047 | 12.9 |
| West Dunbartonshire | 44287 | 11007 | 24.9 |
| West Lothian | 74247 | 15184 | 20.5 |
| Western Isles | 14097 | 2097 | 14.9 |
| SCOTLAND | 2470966 | 484529 | 19.6 |

Source: Scottish Water

Table A3.6: Debt Outstanding for 2008/9 Charges, at 31st March 2009, by Local Authority.

| Local Authority | Debt Outstanding (£) | Total Net Charged (billed) (£) | % Debt Outstanding / Total Billed |
|---------------------|----------------------|--------------------------------|-----------------------------------|
| Aberdeen City | 2428559.75 | 33381390.5 | 7.3 |
| Aberdeenshire | 1486414.95 | 30797713.94 | 4.8 |
| Angus | 801319.31 | 14185680.2 | 5.6 |
| Argyll & Bute | 878505.03 | 12081408.41 | 7.3 |
| Clackmannanshire | 501767.01 | 6978893.958 | 7.2 |
| Dumfries & Galloway | 1423640.07 | 18394443.31 | 7.7 |
| Dundee City | 2112956.96 | 18601779.93 | 11.4 |
| East Ayrshire | 961176.35 | 14889174.38 | 6.5 |
| East Dunbartonshire | 889108.96 | 17343372.34 | 5.1 |
| East Lothian | 623967.68 | 14517530.35 | 4.3 |
| East Renfrewshire | 554580.21 | 14655704.28 | 3.8 |
| Edinburgh | 7610658.36 | 76675036.45 | 9.9 |
| Falkirk | 888521.14 | 20890561.84 | 4.3 |
| Fife | 3100875.63 | 49299049.93 | 6.3 |
| Glasgow | 13146433.47 | 80323224.14 | 16.4 |
| Highland | 2028636.35 | 28828871.07 | 7.0 |
| Inverclyde | 1034329.38 | 10457776.24 | 9.9 |
| Midlothian | 664327.9 | 11068508.25 | 6.0 |
| Moray | 382887.8 | 10331825.47 | 3.7 |
| North Ayrshire | 1944458.26 | 18308754.88 | 10.6 |
| North Lanarkshire | 3124640.91 | 41772550.35 | 7.5 |
| Orkney | 73973.92 | 1994928.675 | 3.7 |
| Perth & Kinross | 1040715 | 19621018.15 | 5.3 |
| Renfrewshire | 2774838.12 | 24814304.2 | 11.2 |
| Scottish Borders | 743984.32 | 14316721.38 | 5.2 |
| Shetland Isles | 101907.22 | 2548350.658 | 4.0 |
| South Ayrshire | 1397078.8 | 16813811.43 | 8.3 |
| South Lanarkshire | 2293621.45 | 42530798.85 | 5.4 |
| Stirling | 359801.39 | 12442032.38 | 2.9 |
| West Dunbartonshire | 1732385.65 | 12463202.07 | 13.9 |
| West Lothian | 1473822.81 | 22383651.97 | 6.6 |
| Western Isles | 233993.54 | 3148917.512 | 7.4 |
| SCOTLAND | 58813887.7 | 716860987.5 | 8.2 |

Source: Scottish Water

4. Management of Non-payment and Debt in Scotland

In this section we describe the management of non-payment and debt in Scotland first from the point of view of the creditor, i.e. initially the Local Authorities and ultimately Scottish Water, and then from the point of view of the debtor, i.e. those in debt.

Before this, however, we offer a summary of a piece of recent research into the question of why debtors do not pay, how different types of debtor might be characterised and what approaches creditors might adopt in respect of arrears and debt management.

4.1 Qualitative Research – Dominy and Kempson (2003)

Why debtors do not pay

In March 2003 the results of qualitative research commissioned by the Lord Chancellor's Department on creditor and debtor approaches to the non-payment of bills was published. Dominy and Kempson (2003) explored the question of why debtors do not pay and concluded that whether people pay their creditors is dependent on two factors:

1. Their Ability to Pay
2. Their Commitment to Paying

Debtor typology

The research then offered a debtor typology as follows¹⁹.

Under the 'Ability to Pay' heading it is suggested that people owing money fall into one of three groups.

- those who have money when they fall into arrears and can still pay when their creditors reach the late stages of debt recovery
- those who do not have the money either when they fall into arrears or when creditors seek to recover the money owed
- those able to pay when they fall into arrears, but as a result of change in circumstances can no longer do so when creditors reach the late stages of debt recovery

¹⁹ The following section paraphrases Dominy and Kempson (2003) pp v – vii.

Under the 'Commitment to Pay' heading a slightly more complicated typology is offered.

'Can't Pays' i.e. those who intend to pay on time but lack the money to do so. Examples include:

- people on low incomes who face unexpected expenditure
- people who have had a sudden fall in income leaving them unable to meet all their commitments
- people with mental health problems which impair their ability to manage their finances

Those neither 'can't pay' nor 'won't pay' regardless of whether they have money to pay or not. Examples include:

- people with a genuine dispute with the creditor and are withholding payment until the dispute is resolved
- people who are disorganized in their approach to bill payment
- tenants taken to court for rent arrears where the main cause is an administrative failure in the payment of Housing Benefit by the local authority direct to the landlord

'Won't Pays' i.e. those with little or no intention of paying their creditors on time. Examples include:

- people withholding money on principle, this is often linked to a belief that they are not receiving a satisfactory service or are getting poor value for money
- ex-partners withholding payment,
- people 'working the system' e.g. people who deliberately and routinely wait until late in the debt recovery cycle before paying
- people 'ducking responsibility' e.g. people who have run up large amounts of unsecured credit and who blame the credit companies for having lent them the money and feel no responsibility for repaying the money they owe

In each of these 'won't pay' categories some people have sufficient money to pay their arrears – the pure 'won't pays' – and some who do not – the 'won't but can't pays'.

Discriminating between types and typology of creditor approaches to arrears and debt management

The importance of discriminating between different types of debtor needs no further amplification. Dominy and Kempson (2003) suggest that the effectiveness of creditors in doing so however depends on the particular approach to arrears and debt management adopted. Three basic approaches are identified, going from the most effective in terms of discrimination to the least effective²⁰.

Holistic approach

- creditors invest heavily in systems and staff to enable them to discover the circumstances of the people who fall into arrears, their reasons for not paying bills, then use this information to adapt arrears management and debt recovery approaches. Creditors taking this approach are best able to identify the can't pays from the won't pays.

Hard business approach

- ensuring that any money is recovered at minimum cost. If customers fail to make contact they are treated as 'won't pays'. Creditors are not proactive in trying to establish the circumstances of the customers in arrears. Debt recovery systems are intended to reduce company costs and they avoid using any action where there is little chance of success. Creditors taking this approach are less successful at indentifying can't pays from won't pays.

One-size-fits-all

- creditors adopt a standard set of procedures for arrears management for all customers, standard letters are issued at set time intervals, and debt recovery is seen as a continuation of arrears management. Creditors typically have no systems for distinguishing can't from won't pays and often rely on courts to provide background information on the circumstances of those in need.

²⁰ The following paraphrases Dominy and Kempson (2003) pp vii – viii.

4.2 Management of Non-Payment and Debt – Creditor Actions

Although Scottish Water is the ultimate creditor, the relationship between it and its customers is mediated through Local Authorities who have responsibility for billing.

A basic debt recovery process is common to all Local Authorities, however there is variation in the way in which this is followed across the country. Thus whilst Scottish Water remains the ultimate creditor, it operates in this capacity at arms length from its customers.

Local Authority Processes in Scotland

The following²¹ briefly summarises the main non-payment and debt recovery processes invoked by Local Authorities in relation to outstanding water and sewerage charges which they collect on behalf of Scottish Water.

When bills are not paid in full and on time, Local Authorities may invoke recovery procedures which are governed by legislation²². The basic time line is as follows:

1. Bills are issued to households at least 14 days in advance of the first payment date. The first payment date varies from 1st April to 1st May in the calendar year. This Demand Notice gives householders the option to pay their bill in instalments (usually 10 but some Local Authorities now offer 12 instalment options).
2. If no payment is received 7 days after the first payment date a reminder can be issued that gives a further 7 days to pay the first instalment.
3. If after this period no payment has been received, the full payment becomes due. At this stage Local Authorities can either issue another reminder or proceed with legal action to recover the debt.
4. If the liable person defaults on an instalment, having had 2 reminders issued in the relevant year and paid in accordance with these, the unpaid balance becomes immediately payable following the day of failure.

²¹ Information supplied by Scottish Water.

²² i.e. the Local Government Finance Act 1992, Local Government etc. (Scotland) Act 1994 and the Council Tax (Administration and Enforcement) (Scotland) Regulations 1992.

Legal Action to Recover Outstanding Debt

In order to recover outstanding debts Local Authorities must apply to a Sheriff for a Summary Warrant which will allow the Authority to enforce the debt.

From 1st April 2008 all creditors (in this case Local Authorities) using the Summary Warrant procedure must serve a Charge for Payment prior to taking action²³. A Charge for Payment is a formal notice served on debtors demanding payment of money owed. In most cases a period of 14 days following service must pass without payment before a creditor can proceed.

Importantly, from the point of view of the debtor, application for a Summary Warrant leads to the addition of a 10% surcharge to the original bill. Other related fees²⁴ may also be added to the liability at this point.

Debt Collection Activities – Local Authorities

The way in which Local Authorities act within this overall legal framework to recover debt varies, however. Some, for example, merely carry out the billing, reminder and Summary Warrant procedures before passing the outstanding debts direct to Sheriff Officers for action. Others adopt a more ‘holistic’ approach, undertaking a number of debt collection activities ‘in-house’ and passing only the more difficult to collect debts on to Sheriff Officers.

Amongst the debt collection activities carried out by some Local Authorities are:

- Direct Deductions from Benefit

Following the application for Summary Warrant, where debtors are on either Income Support or Jobseekers Allowance, Local Authorities can ‘attach’ (lay claim to) these benefits. This allows the Department for Work and Pensions (DWP) to make deductions directly from the householder’s benefit as a payment towards their debts.

The amount that may be attached is approximately £3 per week. This is clearly insufficient to cover the outstanding charges and may be applied for only after the Summary Warrant stage, meaning that an additional 10% surcharge has already been added to the debt. Furthermore there is both a priority list for the order in which deductions can be made from benefit, and also a limit to the number of deductions that may be made at any one time.

²³ Executing all diligences.

²⁴ For example, Sheriff Officer fees where required.

Consequently the DWP may be unable to implement the Local Authority's request for a deduction.

If this is their only method of payment, debtors having direct benefit deductions may never clear their debts. Nevertheless it is one means whereby Local Authorities may recover some outstanding payments.

- Payment Arrangements

Where debtors contact Local Authorities following the issue of bill reminders, notice of legal action etc, Local Authorities will, where possible, agree and manage payment arrangements with householders. These should, in general, be set at a level that will clear the current year's debt during the financial year, and also contribute to the reduction of outstanding debts from previous financial years.

- Sequestration / Bankruptcy

Local Authorities may proceed with Bankruptcy if other options have failed or are inappropriate. Bankruptcy is awarded following either a debtor's application to the Accountant in Bankruptcy²⁵ or a petition to the Sheriff Court by the creditor. Recent amendments to the rules have resulted in a number of changes to Bankruptcy proceedings in Scotland including a reduction in the discharge period from 3 years to 1, an increase in the minimum debt to £3,000 and the introduction of regulations for low income, low asset debtors.

- Implementation of Corporate Recovery Systems

Several Local Authorities have introduced corporate recovery systems to improve the management of their debtors. These systems allow Local Authorities to view all of a customer's debts in a single account. Debts include all years Council Tax debts (Council Tax systems work on a single year basis), rent arrears, non domestic rates, parking fines etc. Local Authorities use these systems to manage requests for direct deductions from benefit, make appropriate payment arrangements for householders to address all council debts, segment high value debt to target through out bound calling or field collection activity and manage debts passed to Sheriff Officers.

²⁵ See www.aib.gov.uk

- Debt Arrangement Scheme (DAS) in conjunction with Money Advice

This scheme was introduced as part of the Debt Arrangement and Attachment (Scotland) Act 2002 and is a statutory scheme run by the Scottish Government to help debtors pay multiple debts by allowing more time to pay²⁶. DAS freezes interest, fees and charges on debts from the date that a DAS payment programme is approved and also protects the debtor's assets. Debts will be written off if the programme is completed. The scheme is managed free by Local Authority Money Advice departments or Citizens Advice. To date, however, take up of this scheme has been limited.

Debt Collection Activities – Sheriff Officers / Debt Collection Agencies

Most Local Authorities employ Sheriff Officers to carry out debt collection. Some actions²⁷ in relation to debt collection must be enforced by these office holders.

Local Authorities pass debts to Sheriff Officers for enforcement throughout the year, however most cases will be acted on following the first Summary Warrant in respect of the current financial year. Generally this occurs between the end of May and the end of July depending on Local Authority debt-recovery timetables.

Once debts have been passed to Sheriff Officers it is common for debt profiling to be undertaken in order to segment debtors and identify the most appropriate recovery path for each segment. In every case certain actions will be taken. These actions include:

- the issuing of further notices to debtors advising them of the intention to take legal action in relation to debts
- outbound calling in pursuit of the debt
- field collection activity
- the making of payment arrangements with debtors

Amongst the diligences enforced by Sheriff Officers are:

- Attachments

This formed part of the Debt Arrangement and Attachment (Scotland) Act 2002 and was introduced as a replacement for POUNDINGS and Warrant sales. Sheriff Officers will value

²⁶ See www.moneyscotland.gov.uk

²⁷ Diligences.

goods to be attached and make a report of the attachment to the Sheriff. Following receipt of this report, Sheriff Officers can make arrangements for the sale of the attached articles. However, an Exceptional Attachment Order granted by a Sheriff is required to attach articles in a debtor's dwelling house. A Charge for Payment must now be served following Summary Warrant prior to execution of an Attachment.

- Earnings Arrestment (Diligence against Earnings)

This can be pursued by Sheriff Officers following Summary Warrant and Charge for Payment. Arrestment schedules are served on debtor's employers instructing them to make a deduction from the debtor's earnings and for that amount to be paid to the creditor.

- Bank Arrestment (Arrestment in execution and action of forthcoming)

This allows creditors to arrest or freeze funds or goods belonging to a debtor in the hands of a third party and includes money held in bank or building society accounts and goods owned by a debtor but in the hands of a third party.

4.3 Management of Non-Payment and Debt - Debtor Experience

Having outlined the various actions that may be taken by the creditor Local Authorities in the recovery of outstanding debts and noting that there is variation in the way in which individual authorities proceed, we now offer some qualitative evidence relating to debtor experience.

The most extensive recent qualitative evidence relating to the experience of households in debt in Scotland was published by Citizens Advice Scotland²⁸ (CAS) in June 2009. The findings of this report, *Drowning in Debt* (CAS 2009), were based on a survey of 273 debt clients during October to December 2008 in 21 member bureaux across Scotland, interviews with 10 survey respondents, a focus group with bureau representatives, and case evidence gathered from across the network. This report discussed debt in general. However the CAS response to the Scottish Government's consultation on the principles of charging for water services (CAS 2008) published a little over a year earlier, focussed in specifically on consumer experience in relation to water and sewerage debt. Key points are therefore drawn from both publications.

²⁸ CAS is Scotland's largest independent advice network comprising 63 member bureaux across the country.

General Position and Strategies for Debt Management

The 2009 report begins by noting,

“Since the last survey commissioned by Citizens Advice Scotland (CAS) and conducted in 2003, personal debt has reached new record levels and consumer debt is consistently the biggest single issue that clients raised with bureaux.

... CAB debt clients have markedly lower incomes than households in Scotland as a whole. They are much more likely to rent their homes and are concentrated in the 25-49 age range. They are less likely to be in employment than the Scottish average and two thirds of households have at least one person with a health or disability issue.”

[CAS, 2009, p4]

For those clients covered by the survey the median number of debts was 6. Few clients had only one debt and more than 10% had over 10 separate debts.

In order to deal with debt, clients sought to prioritise payment. Priority was given to those which, if left unpaid, would put at risk a home or the supply of essential items such as fuel. Thus rent, mortgage arrears and Council Tax (and by implication water and sewerage charges) were perceived to be amongst the most important.

Having prioritised, clients adopted a number of strategies to help them manage their debts. These included,

“... seeking advice; juggling finances; trying to negotiate with creditors; and borrowing from family and friends. However, it is a serious concern that 41% of debt clients, including half of all women in the survey, said they had gone without essentials as one of the ways they managed their situation.”

[CAS 2009, p 5]

Council Tax (and Water and Sewerage) Debt

In relation to debt relating to water and sewerage charges the CAS (2008) submission noted that there was a lack of awareness amongst clients as to their liability for water and sewerage charges. The liability of clients on full Council Tax benefit was unclear and confusing messages were received from a number of government agencies.

“...many CAB clients in receipt of full council tax benefit do not realise that they remain liable for at least 75% of their water and sewerage charges. Communications from the Department for Work and Pensions (DWP) can be confusing as the system in Scotland is different from that in England. In addition, local authorities often do not make the remaining liability explicit to people in receipt of council tax benefit.”

[CAS 2008 p 6]

Lack of understanding was illustrated by reference to the following case,

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

[CAS 2008, p 7]

It was noted that problems of this sort were compounded in instances where Local Authority administrative delays allowed arrears to build up over a number of years before the problem was brought to the attention of the debtor. Low income clients struggling to meet in-year demands, clearly are not well placed to be able to make additional payments to cover arrears.

The inadequacy of social security support in relation to water and sewerage charges, notwithstanding the relief scheme was highlighted in the following case,

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

[CAS 2008, p 5]

The point has already been made that the problem is compounded at Summary Warrant stage when a 10% surcharge is added to amounts owing. Direct deductions from benefit may indeed prove effective in establishing a pattern of debt recovery. However in many cases it is clearly unable to make serious inroads into the total debt itself highlighting the structural deficiency of the system.

As far as the process of debt recovery is concerned CAS (2008) notes that the particular legal options available to Local Authorities are perceived by clients as being ‘harsh’.

Thus,

“As water and sewerage charges are currently collected as part of council tax this means that they are collected by the local authority. This is critical, as local authorities have access to different debt collection procedures from other creditors, such as summary warrant procedure which is a particularly harsh form of debt recovery. No distinction is made by local authorities between general council tax debt, and council tax debts relating purely to water and sewerage charges.”

[CAS 2008, p8]

The last sentence is important. There is no evidence to suggest that Local Authorities deal with water debt differently from other Council Tax debt owing to them. There is, therefore, no separate ‘debtor experience’ for water debt as against Council Tax debt in Scotland. It is the CAS view, however, that,

“Summary warrant procedure gives the local authority access to court – based debt enforcement methods, but does not involve a court hearing. This means that a debtor can face enforcement action without being given the opportunity to challenge the alleged debt in court.

Summary warrant procedure also does not require the local authority to serve any formal court documents on the debtor. Although the local authority is obliged to communicate with the debtor, this happens via letters rather than a formal court summons. Consequently, some CAB clients do not realise the gravity of their debt situation. Other CAB clients dispute ever receiving these letters from the local authority.”

[CAS 2008, p 8]

4.4 Conclusion

Debt relating to water and sewerage in Scotland is managed at arms length from Scottish Water via the 32 Scottish Local Authorities.

Under current charging arrangements it is the Local Authorities, rather than Scottish Water itself, which ultimately determine the debt management and recovery processes that will be used and how vigorously debts will be pursued. Scottish Water may incentivise the recovery of debt through negotiating carefully structured payment schemes with Local Authorities for this work, but they are clearly not in a position to intervene directly.

The account of the range of processes and procedures applied by the Local Authorities suggests that the current statutory framework does seek to promote a holistic approach to the problems of non-payment and debt in relation to Council Tax in general and water and sewerage charges in particular. Tailoring solutions to the circumstances of customers is one way in which Local Authorities attempt to separate out and treat differently the ‘can’t pays’ from the ‘won’t pays’.

Qualitative evidence from CAS (CAS 2008) suggests, however, that there remains a lack of understanding on the part of households claiming benefits as to their obligations in relation to water and sewerage charges and their rights in terms of reliefs. This reflects a lack of transparency in current charging arrangements – a consequence of the charging relationship between Scottish Water and its customers being mediated through the local authorities.

5. Experience in England and Wales and in Other Utilities

In this chapter we describe some of the key features of water debt in England and Wales comparing this with experience in the energy (electricity and gas) industry. The text draws heavily on the Walker Review Final Report published in December 2009 (DEFRA (2009)) as well as Ofwat's response to the Review's call for evidence (Ofwat 2009) and the latest published comprehensive summary of the household debt position (Ofwat 2008).

5.1 Charging, Benefits and Collection

In England and Wales tariffs for the majority of domestic households are levied on the basis of the rateable value of their property. Ofwat figures relating to 2007/8 (Ofwat 2009, p 9) confirm that 60% of customers' bills were linked to rateable value, 29% were linked to metered volumes consumed and 11% were assessed or fixed. This stands in contrast to Scotland where a very small number of households are charged for water and sewerage services on a metered or measured basis. The Table below reports average bills for water and sewerage for 2008-9 and 2009-10 for the water and sewerage companies and the water only companies. Table 2.3 above compared average water and sewerage charges by water and sewerage company for England and Wales with those for Scotland. Figures 2.1 and 2.2 illustrated the level and increase in the average annual household charges comparing Scotland with England and Wales.

Table 5.1: Average Annual Household Bills in 2008-9 and 2009-10 England and Wales

| | Average Bill for Water | | Average Bill for Sewerage | |
|--------------------------------------|------------------------|---------|---------------------------|---------|
| | 2008-9 | 2009-10 | 2008-9 | 2009-10 |
| | £ | £ | £ | £ |
| Water and Sewerage Companies | | | | |
| Anglian Water | 167 | 174 | 209 | 219 |
| Dŵr Cymru | 165 | 170 | 223 | 233 |
| Northumbrian Water | | | | |
| – Northumbrian | 128 | 130 | 164 | 168 |
| – Essex & Suffolk | 164 | 168 | | |
| Severn Trent Water | 146 | 153 | 144 | 151 |
| South West Water | 200 | 206 | 285 | 283 |
| Southern Water | 122 | 127 | 228 | 243 |
| Thames Water | 174 | 178 | 114 | 117 |
| United Utilities | 165 | 172 | 194 | 205 |
| Wessex Water | 194 | 202 | 198 | 210 |
| Yorkshire Water | 149 | 153 | 168 | 177 |
| Water only companies | | | | |
| Bournemouth and West Hampshire Water | 138 | 136 | | |
| Bristol Water | 152 | 157 | | |
| Cambridge Water | 113 | 116 | | |
| Dee Valley Water | 126 | 130 | | |
| Folkestone & Dover Water | 183 | 182 | | |
| Portsmouth Water | 89 | 92 | | |
| South East Water | 164 | 169 | | |
| Mid Kent Water | 159 | 171 | | |
| South Staffs Water | 119 | 123 | | |
| Sutton & East Surrey Water | 159 | 161 | | |
| Tendring Hundred Water | 173 | 176 | | |
| Three Valleys Water | 161 | 166 | | |
| | | | | |
| Industry average | 157 | 163 | 172 | 180 |

Source: Ofwat, Average Household Bills 2009-10.

Benefits and Financial Assistance

In common with Scotland no dedicated social security benefit is available to those unable to meet their water and sewerage charges. Instead the personal allowance element of income support payments is deemed to include an amount to cover day to day living needs, including water services. In contrast with Scotland no system of discounts linked to Council Tax benefit eligibility is available.

Some, but not all, companies offer social tariffs²⁹. These must be approved by the economic regulator, Ofwat, which must discharge its duty to ensure there is no ‘undue discrimination’ in the charging scheme. Consequently the introduction of social tariffs that result in new cross subsidies between groups of customers is precluded.

Some, but not all, companies supplying services have charitable trusts or hardship funds to which customers may apply if they have difficulty in paying their bills. Ofwat noted (Ofwat 2008, p7) that a total of fourteen companies reported donations to charitable trusts during 2007/8. The total amount donated was £9.7 million.

An additional support, not available in Scotland, is the WaterSure social tariff system. Introduced in 2000, it offers a capped charge to metered household customers who are in receipt of certain income-related benefits, and who either have three or more dependent children or share the property with a person with a medical condition requiring significant additional use of water. The tariff ensures that qualifying households pay no more than the average household bill for their region. The intention behind the scheme was to remove the need for metered customers to restrict their essential use of water in order to reduce bills. It is therefore limited in its scope and reach and is funded by other customers. Take up in 2007/8 was just 24,121 (Ofwat, 2009, p39).

Collection of Charges

Companies in England and Wales generally engage in direct billing for water and sewerage services. A range of payment options, similar to those in Scotland, exists.

5.2 Water Debts and Debtors

The extent of water debt in England and Wales is highlighted in the Walker Review Final Report (DEFRA 2009). Data³⁰ relating to 2008/9 shows that bad debt stood at £1.245 billion, with debt outstanding for more than 12 months having increased by 15.8% on the previous year to reach £804 million.

Ofwat’s analysis for 2007/8 (Ofwat letter RD 19/08 dated 1 October 2008) offers further detail on the debt position with the following key findings.

“Household revenue outstanding for more than three months (excluding that recently billed) increased by 11% between 2006/7 and 2007/8, from £968 million to £1,071 million. This is more than the 5.8% increase in household bills over the same period.

²⁹ These are summarised in Annex 7 of the Walker Review (DEFRA 2009).

³⁰ Ofwat (2009) June Return figures table 6a cited in DEFRA (2009), p 132.

Nearly half of the total household revenue outstanding is less than 12 months old. Much of this is likely to be collected through companies' debt recovery procedures.

Household revenue outstanding for more than 12 months and which is likely to be more difficult to collect increased by 12% between 2006/7 and 2007/8, from £599 million to £674 million

98.4% of household revenue billed was recovered or written off after four years.

The industry wrote off £104 million worth of household debt in 2007/8 – equivalent to 1.6% of revenue billed that year.

The industry spent £71 million on debt recovery activities. “

[Ofwat, 2008, p2]

The following table records the total and age of household revenue outstanding.

Table 5.2: Household Revenue Outstanding 2003/4 to 2007/8 England and Wales

| Household Revenue Outstanding (£m) | 2003-4 | 2006 -7 | 2007-8 | % change 2003-4 and 2007-8 | % change 2006-7 and 2007-8 |
|--|--------|---------|--------|----------------------------|----------------------------|
| <3 months | 100 | 145 | 156 | 57 | 8 |
| 3 – 12 months | 302 | 369 | 397 | 32 | 8 |
| 12 – 24 months | 199 | 245 | 260 | 31 | 6 |
| 24 – 36 months | 121 | 141 | 164 | 35 | 17 |
| 36 – 48 months | 75 | 87 | 97 | 28 | 11 |
| >48 months | 101 | 127 | 154 | 52 | 21 |
| Excluding that recently billed <3 months | 798 | 968 | 1071 | 34 | 11 |
| > 12 months | 496 | 599 | 674 | 36 | 12 |

Source: Ofwat (2008) RD 19/08, Appendix 1.

Notes: Stated in 2007/8 prices.

The following table records the age and amount of revenue outstanding in 2007/8.

Table 5.3: Revenue Collection – England and Wales

| Age of Revenue Outstanding | Level of revenue outstanding recorded in 2007/8 | Household revenue billed in relevant year | % of revenue still outstanding in 2007/8 |
|----------------------------|---|---|--|
| <12 months | £553m | £6720m (2007-8) | 8.2% |
| 12 – 24 months | £260m | £6521m (2006-7) | 4.0% |
| 24 – 36 months | £164m | £6378m (2005-6) | 2.6% |
| 36 – 48 months | £97m | £5841m (2004-5) | 1.7% |

Source: Ofwat (2008), p 3.

Notable is the in-year collection rate for 2007/8 of 91.8% which is slightly lower than the Scotland Local Authority Council Tax collection rate for 2007/8 which was 94.2%³¹.

Additional evidence on the growth of the problem of water debt was offered by the Citizens Advice Bureaux (CAB) in their evidence to the Walker Review³². They reported that of the 1.7million problems relating to debt dealt with by Bureaux in 2007/8 approximately 57,000 concerned water debt. Another 12,800 non-debt related issues (metering and billing etc) were also dealt with. Between 2005/6 and 2007/8 CAB reported an increase of 28% in the number of water debt problems dealt with by bureaux in England and Wales.

Debtors

There is some variation in the degree to which companies have an understanding of their customer base and this is reflected in the difficulties over insight into the types of customers more likely to fall into arrears and debt.

Two sources of data do, however, give a useful insight into the identity of those in debt.

The first, a report by Equifax for UKWIR³³ from which Ofwat (2009) highlighted the following,

- “... there is a large group of hard core debtors (20% of debtors owed 70% of the total debt);
- 38% of total debts are owed by those with household income below £10,000;
 - debtors are likely to be tenants (34% of debtors live in areas with high levels of rented accommodation), and tenants are worse debtors (tenants represent almost half of total debts despite representing only 34% of the debtor population; and
 - 23% of debt is because of “leavers”.

Debtors tend to be over-represented by the younger age groups and singles/non-traditional family units. They typically have high credit risk, are credit stressed where they are involved in the credit market, have default credit accounts, and are more likely to have a County Court Judgment.”

[Ofwat, 2009, p 31]

³¹ Scottish Government (2008), Statistics Publication Notice Economy (Local Government Finance): Council Tax Collection Statistics 2007-08.

[<http://www.scotland.gov.uk/Resource/Doc/229002/0061984.pdf>, consulted on 18 Nov 2009]

³² Citizens Advice Bureaux, Walker Review of Household Charging for Water and Sewerage Services, http://www.citizensadvice.org.uk/index/campaigns/social_policy/consultation_responses/cr_utilities/walker_review_of_household_charging_for_water_and_sewerage_services [consulted 16 December 2009]

³³ UKWIR Report reference number 06/CU/04/4 ‘Quantifying different types of water industry debt’ (2006) <http://www.ukwir.org/ukwirlibrary/90896>

The second is from Citizens Advice (CAB) which analysed statistics gathered from their CASE recording system. This system recorded enquiries on water debt in the first half of 2007-8³⁴ which showed that,

“people approaching CAB for advice on water debt problems tended to have low or very low incomes. Nearly 80% seeking advice reported income below £1,000 a month, while 32% reported incomes below £400 a month;

- a significant proportion (28%) of enquirers reported having a disability. Of these, 88% also reported an income below £1,000 a month;
- a disproportionate number of the people seeking advice were lone parents (31%); and
- the most frequently reported household type for enquirers was “single person” at 36%. A large proportion of these single people also described themselves as having a disability (41%).”

[Ofwat 2009, p 32]

5.3 Management of Non-payment and Debt

Household Debt Recovery Processes

This section draws on the Ofwat (2007) Dealing with household customers in debt guidelines.

Companies operating in England and Wales do so under licence and must have a code of practice on debt which the economic regulator, Ofwat, approves. Companies must also follow Ofwat guidelines on the matter, the latest of which were issued in March 2007³⁵. Minor differences in practice exist between companies, however the following are key stages in arrears management and debt recovery.

1. Bills are issued
2. Reminder notices are issued
3. Final notices are issued
4. Accounts may be passed to debt collection agencies³⁶
5. Cases are referred to the County Court which makes a payment order
6. The County Court makes a judgement
7. Court procedures are invoked to enforce payment after judgement has been entered

³⁴ Presentation by Tony Herbert at Utility Week Debt Conference 23 October 2008.

³⁵ Ofwat (2007) Dealing with household customers in debt. Guidelines.

³⁶ Debt collection agents work under service agreements with water companies.

These procedures may include the following,

“Warrant of execution - The bailiff of the court may be ordered to seize property to the value of the amount owed by the customer to satisfy the debt.

Third party debt order - The court may order funds to be deducted directly from the customer’s bank account to settle the debt.

Charging order - If the customer owns his own home the court may order that the debt is settled when the property is sold. Once a charge on the property has been awarded the creditor can ask for the property to be sold.

Order to obtain information in court - The customer may be ordered to attend court to give details of his finances.

Attachment of earnings order- The court may order that the customer’s employer deducts an amount each week or month from the customer’s earnings to settle the debt.

Bankruptcy - For debt in excess of a specified amount, a creditor may apply for a debtor to be made bankrupt.

High court sheriffs - For debt in excess of a specified amount, debts may be transferred to high court sheriffs for enforcement. “

[Ofwat 2007, Appendix 1]

In some cases companies choose to sell debt to third party agents. This should be done only when all other debt recovery activities have been attempted. Some companies have agreements in place with local authorities or housing associations over the collection of charges.

Management of Non-Payment and Debt – Creditor Actions

In its 2008 report on household debt, Ofwat (2008) highlights the ways in which companies adopt a ‘holistic’ approach to debt management. It notes,

“In line with our ‘Dealing with customers in debt’ guidelines companies continue to report the use of a wide variety of debt recovery methods, frequently tailored to suit the needs of individual customers....

...Companies have explained that gathering intelligence about customers is the key to tailoring recovery action. Many companies reported an increased use of externally sourced data, such as from credit reference agencies, which can help to make sure that customers are targeted with the most appropriate action.

Nearly all companies now use some form of segmented recovery paths which differentiate customers according to a behavioural score. This is based on a number of factors such as previous payment history.”

[Ofwat 2008, pp1 - 2]

In its summary report Ofwat (Ofwat 2008) noted that companies found recovery actions to be more effective at the early stages of the debt recovery process and that a proactive stance (e.g. telephoning customers) was beneficial. The selective use of debt collection agencies as well as more conventional court action was also highlighted. Customers may also be referred to social agencies such as Citizens’ Advice or various charitable trusts.

In terms formal recovery procedures, between 2006/7 and 2007/8, the number of pre-court action notices³⁷ increased by 23% to 10.7 million. However over the same period the number of county court claims fell by 8% and the number of county court judgements by 3%. This confirms longer term trends which have seen a reduction in the use of court based procedures.

As far as enforcement is concerned the most popular methods are charging orders and attachment of earnings. These are also seen to be the most effective, dependent of course on the customer owning a property or being employed. The least used methods include orders to obtain information in court and third party debt orders.

5.4 Experience in Other Utilities

As noted earlier, households in water debt are likely to have other debts as well. However the Walker Review notes,

“Bad debt in the water industry is increasing at a significantly faster rate than other utilities and is more than three times that of the energy sector, where bills are three times higher.”

[DEFRA 2009, p 133]

Contact information from CAB confirms this conclusion as shown in the table below.

Table 5.4: Revenue Collection – England and Wales

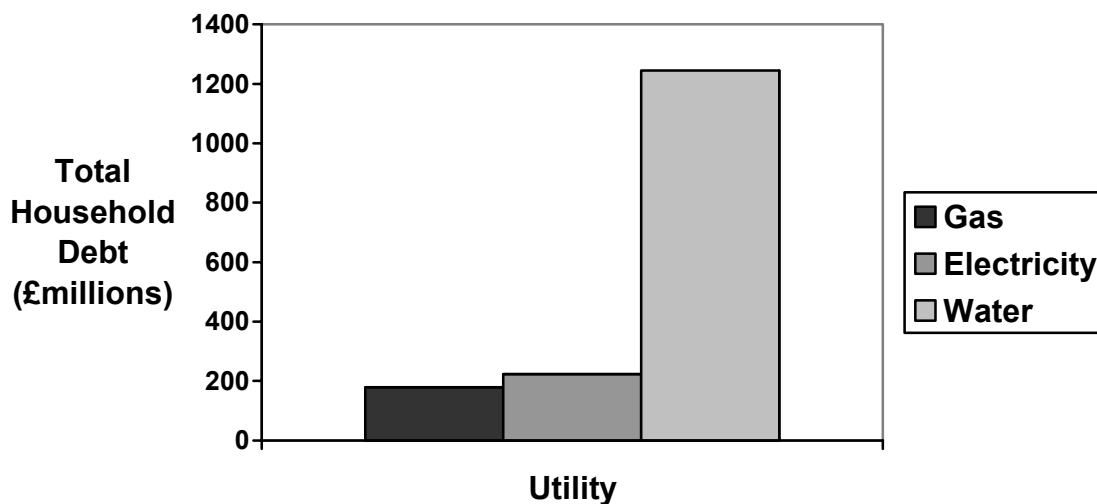
| | Quarter 2 2007/8 | Quarter 2 2008/9 | % increase |
|----------------------------|---------------------|---------------------|------------|
| Fuel Debt Problems | 16,986 | 18,815 | 10.77 |
| Water Debt Problems | 13,402 | 15,164 | 13.15 |

Source: Citizens Advice Bureaux, Walker Review of Household Charging for Water and Sewerage Services, http://www.citizensadvice.org.uk/index/campaigns/social_policy/consultation_responses/cr_utilities/walker_review_of_household_charging_for_water_and_sewerage_services [consulted 16 December 2009]

³⁷ Pre-court action notices are defined as any written correspondence which warns the customer that they could face legal action for the non-payment of bills.

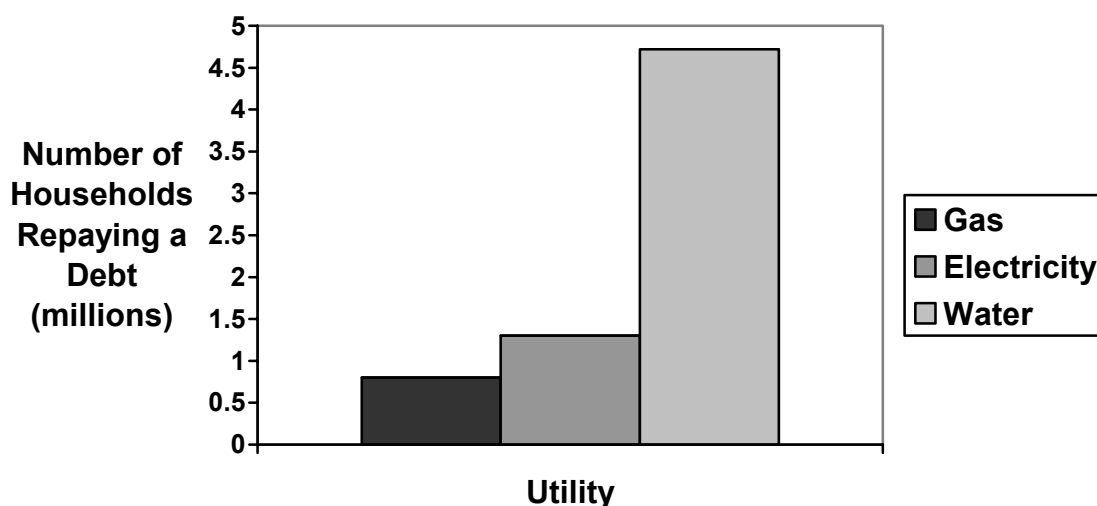
The following two figures compare the total debt levels and the number of households in debt between the main utilities.

Figure 5.1 Comparing Total Household Debt Levels Between the Electricity, Gas and Water Industries (2008-9).



Source: DEFRA (2009) p 133.

Figure 5.2 Comparing the Number of Household Customers in Debt in the Electricity, Gas and Water Industries (2008-9).



Source: DEFRA (2009) p 134.

The reasons offered by water companies in England and Wales for this difference include the following³⁸:

- the statutory ban on disconnection
- an inability to use prepayment meters (such as those used in the energy industries)
- the lack of a contractual agreement with customers or a named person responsible for charges. Companies have a statutory duty to supply (Water Industry Act 1991) and customers do not need to provide their name in order to receive water and sewerage services
- changing demographics
- increases in other household bills
- an increasingly transient population

The conclusions of the Walker Review relating to debt in the English and Welsh water industry are as follows:

“• Water companies should be more proactive in preventing ‘at risk’ customers from falling into debt in the first place. DWP should consider the scope for widening the third-party deduction scheme to keep more customers on the scheme once a debt has been repaid. DWP should consult with companies on ways to improve the scheme and how companies can contribute to the costs of administering the scheme

• As a priority, the Water Industry Act 1991 should be amended to provide for a named customer and clarify who is responsible for paying the water bill; the ‘liable person’ should be the property owner unless they discharge their liability to the water company by providing tenancy information correctly and in a timely manner.

• The UK Government and Welsh Assembly Government consider whether companies should be legally able to pursue debt through the magistrates’ courts in the future.

• The review team believes that it would be beneficial to customers and companies if central and local government passed on information to the water companies on vulnerable customers on benefits.

• Ofwat should produce an annual report focusing on continuing issues in bad debt performance and affordability (see Chapter 11); this report should incorporate CCWater’s monitoring results and highlight transferable good practice where possible.

• Ofwat should consider removing bad debt as a notified item at the next price review.

• Ofwat should continue to approve social tariffs that encourage the payment of debt and therefore advantageous to all.

³⁸ DEFRA (2009) p 132.

- The review team recommends that companies should publicise the help available to those in debt and ensure that bills are easily understood.
- There should be further exploration of the use of PPMs (pre paid meters) if there is a demand from customers for them as a budgetary tool.”
[DEFRA. 2009, p 144]

6. Policy Stance Towards Water Debt: Scottish Executive and Government

In the absence of a definitive policy statement, the policy stance of the Scottish Government, previously the Scottish Executive, in relation to household water debt may be illustrated in the following written answers to Parliamentary questions to Scottish ministers.

Scottish Executive

S2W-4496 - Jackie Baillie (Dumbarton) (Lab) (Date Lodged Thursday, November 27, 2003):

To ask the Scottish Executive what action has been taken to investigate the provision of support for those in need and help reduce the level of bad debt with water and sewerage charges, as referred to in the Water Industry Commissioner for Scotland's report Strategic Review of Charges 2002-2006.

Answered by Ross Finnie (Wednesday, December 10, 2003):

Since the Strategic Review of Charges in 2002 the problem of bad debt has been diminishing, as the rate of collection has improved for both domestic and non-domestic customers.

The main means of supporting vulnerable customers is by improving efficiency at Scottish Water, which will ease pressure on charges and by retaining the link between water charges and council tax banding and discount arrangements.

Scottish Government

S3W-16158 - Keith Brown (Ochil) (SNP) (Date Lodged Tuesday, September 09, 2008):

To ask the Scottish Executive what its position is on the conclusions and recommendations of Waterwatch Scotland's report, Affordability of Scottish Household Water and Sewerage Charges: Historic Trends and Current Position, and whether it will make representations to the UK Government about social security benefit arrangements as they relate to water charges paid by households in the bottom income deciles.

Answered by Stewart Stevenson (Tuesday, September 23, 2008):

The government are grateful to Waterwatch for this report which addresses a number of important issues. As is reflected in our draft statement of the Principles of Charging which was issued in May this year to inform the review of charges for 2010-14, we continue to regard the affordability of household water charges as a significant objective. The present concession for households in receipt of council tax benefit will continue.

The significant efficiency gains made by Scottish Water in recent years has ensured that average household charges in Scotland are rising by less than inflation at a time when above inflation increases have been the norm in England and Wales. Scottish Water's charges are now the third lowest in the UK and we are confident that this positive trend of improvement will continue during the next charging period of 2010-14.

On the specific issue of social security benefit arrangements, we will make appropriate representations to the UK Government whenever it is in the interests of the people of Scotland.

S3W-23429 - Jackie Baillie (Dumbarton) (Lab) (Date Lodged Thursday, April 30, 2009):

To ask the Scottish Executive when it will respond to the proposals in Waterwatch Scotland's report, *Affordability of Scottish Household Water and Sewerage Charges: Historic Trends and Current Position*.

Answered by Stewart Stevenson (Thursday, May 14, 2009):

The Scottish Government responded to Waterwatch Scotland on publication of its affordability report in September 2008. That response set out that we continue to be committed to introducing a fairer local tax based on ability to pay. Such a change would have implications for the household water charge basis given the present links to the Council Tax system. The response also set out that, in light of this planned wider change, it would be difficult to review particular aspects of the water charging system.

Meantime, the Government is grateful to Waterwatch for this report which addresses a number of important issues. As is reflected in our draft 2010-14 Principles of Charging Statement - a second draft of which was published in March 2009 - we continue to regard the affordability of household charges as a significant objective. We will ensure that the present bespoke reduction scheme for households in receipt of council tax benefit will continue.

The Scottish Government has a new level of ambition to tackle poverty in Scotland and is determined to deliver real and lasting change. Last year we published *Achieving our Potential* " a framework setting out the shared approach of Scottish Government and local government in tackling poverty in Scotland. This framework refers to our specific measures to tackle fuel poverty, including the new energy assistance package, and outlines other key actions to tackle poverty required by the Scottish Government and its partners, particularly the strengthening of income maximisation work in an attempt to alleviate the disadvantage of all types of poverty in Scotland.

The framework also calls for the UK government to transfer responsibility for personal taxation and responsibility for the entire benefits system as this relates to Scotland.

Comment

These Parliamentary answers display a high degree of continuity in policy between the Scottish Executive and Scottish Government. To summarise, the answers:

- note the importance of the issue
- note the ways in which charge levels are reduced for some households by virtue of the link to the Council Tax system, and operation of the associated reduction scheme
- note that increasing efficiency on the part of Scottish Water will reduce upward pressure on bills
- note the commitment of Government to tackle poverty
- note that 'appropriate representations' will be made to the UK Government whenever it is in the interests of the people of Scotland

- note that the Scottish Government has called on the UK Government to transfer responsibility for personal taxation and responsibility for the entire benefits system as this relates to Scotland

The answers do not, however, commit to undertaking a review of the effectiveness of the range of financial supports available to those unable to pay their water and sewerage charges, or to look more closely at the problem of water debt.

7. Conclusions and Policy Recommendations

Conclusions

Evidence suggests that the various discounts, exemptions and benefits available to households unable to meet water and sewerage charge liabilities remain inadequate, poorly targeted and open to challenge on the grounds of equity.

In Scotland, water and sewerage debt is more prevalent amongst households occupying lower banded properties and those in receipt of partial benefit. There is a negative correlation between percentage debt outstanding and collection and employment rates by local authority. In other words, high levels of debt as a percentage of the amounts billed are associated with relatively low collection and employment rates.

Current billing and collection arrangements mean that debt management and recovery are conducted at arms length from Scottish Water via the 32 Scottish Local Authorities. It is the Local Authorities, rather than Scottish Water itself, which ultimately determine the debt management and recovery processes that will be used and how vigorously debts will be pursued. Scottish Water may incentivize the recovery of debt through negotiating carefully structured payment schemes with Local Authorities for this work, but under current billing and collection arrangements they are clearly not in a position to intervene directly.

The account of the range of processes and procedures applied by the Local Authorities suggests that the current statutory framework does seek to promote a holistic approach to the problems of non-payment and debt in relation to Council Tax in general and water and sewerage charges in particular. Tailoring solutions to the circumstances of customers is one way in which Local Authorities attempt to separate out and treat differently the 'can't pays' from the 'won't pays'.

Qualitative evidence from CAS (CAS 2008) suggests, however, that there remains a lack of understanding on the part of households claiming benefits as to their obligations in relation to water and sewerage charges and their rights in terms of reliefs. This reflects a lack of transparency in current charging arrangements – a consequence of the charging relationship between Scottish Water and its customers being mediated through the local authorities.

Recommendations

The recommendations of the Report are:

- that Local Authorities, Scottish Water and Waterwatch Scotland should work in collaboration to improve communication with customers in receipt of Council Tax benefit to explain their continuing liability for water and sewerage charges. Attention should be given to the format and content of bills and any supporting documentation supplied to households.
- that Local Authorities and Scottish Water should continue to collaborate in developing further an approach to arrears management and debt recovery that takes into account the circumstances of individual debtors.
- that the Scottish Government should work in conjunction with industry stakeholders (including Local Authorities, Scottish Water, WICS, WWS, CAS, the ‘third sector’ etc.) in undertaking a review of the effectiveness of the range of financial supports available to those unable to pay their water and sewerage charges. This report repeats the call, previously made in the 2008 WWS Affordability Report (Waterwatch Scotland 2008) that the review should address the following issues:
 - the ineffectiveness of the current permanent Water Charges Reduction Scheme in targeting and providing financial relief to households unable to pay for water and sewerage charges,
 - the shortfall between social security benefit and Water Charges Reduction Scheme support available to low income households, and actual water and sewerage charges, and the effect of this on levels of household water and sewerage debt,
 - the question of whether, in principle, financial support for low income households to meet charges should come through the tax and benefits system or from other customers,
 - that, in light of the review, the Scottish Government should work with the UK Government and the devolved administrations in Northern Ireland and Wales to address the failure of current social security benefit arrangements to make available adequate financial support to qualifying households unable to meet their water and sewerage charge liabilities.

8. **Bibliography**

Citizens Advice Scotland (2008) Paying for water services 2010-2014: A consultation on the principles of charging for water services, CAS, Edinburgh.

Citizens Advice Scotland (2009) Drowning in debt, CAS, Edinburgh.

Department for Environment, Food and Rural Affairs (2009) The Independent Review of Charging for Household Water and Sewerage Services, Final Report by Anna Walker CB, Defra, London.

Dominy, N. and Kempson, E. (2003) Can't Pay or Won't Pay? A review of creditor and debtor approaches to the non-payment of bills. Paper prepared for the Lord Chancellor's Department, Paper No. 4/03, Personal Finance Research Centre, University of Bristol.

Ofwat (2007) Dealing with household customers in debt. Guidelines. Ofwat, Birmingham.

Ofwat (2008) RD 19/08 Industry Information on Household Debt, Ofwat, Birmingham.

Ofwat (2009) Ofwat's response to the Walker review call for evidence, 13 February 2009, Ofwat, Birmingham.

Scottish Executive (2006) Improving Council Tax Collection Rates in Scotland, Scottish Executive Social Research, Edinburgh.

Waterwatch (2008) Affordability of Scottish Household Water and Sewerage Charges: Historic Trends and Current Position, Waterwatch, Alloa.

Waterwatch Scotland

Corporate Office

Forrester Lodge

Inglewood

Alloa FK10 2HU

Tel: 0845 850 3344 (local)

Tel: 01259 725335

Fax: 01259 214218

Email: info@waterwatchscotland.org

www.waterwatchscotland.org