



# **Recent trends in the affordability of water and sewerage charges in Scotland**

**A report to the Consumer Futures Unit of Citizens Advice  
Scotland from the Fraser of Allander Institute**

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## 1 Introduction

1.1 This report examines recent changes in the cost of household water and sewerage charges in Scotland. It examines the position across all consumers, but focuses in particular on those on low incomes and examines in detail the issue of affordability for those in receipt of state benefits. A recent report by Citizens Advice Scotland (CAS)<sup>1</sup> has suggested that as many as one in five Scottish consumers may be in debt for their water and sewerage services<sup>2</sup>. This is likely to be due in part to consumers' lack of awareness of their ongoing liability to pay, caused by the way water and sewerage charges are collected in Scotland - consumers in Scotland receive one notification containing two bills: for Council Tax and water/sewerage, and many people with a 100% reduction for Council Tax assume that the same discount applies to water and subsequently find themselves in debt when they do not pay water and sewerage charges, when in fact they will only receive a maximum of 25% discount.

The key findings are as follows:

- Average household spending on water and sewerage increased by 9.8% between 2008-14, only slightly above the total increase in average wages in Scotland (9.7%). There has been little change since 2008 in the ability to pay water and sewerage charges for those in work.
- During the period 2008 – 2014 water bills in the rest of the UK were above those in Scotland - on average, consumers in the rest of the UK paid 10% more for water and sewerage than consumers in Scotland.
- Between 2008 and 2014 average wages in the UK were above those in Scotland but, despite this, higher water charges meant that water and sewerage were less affordable in the rest of the UK than in Scotland, as consumers in Scotland typically paid a lower proportion of wages on water and sewerage charges than UK consumers. This means that affordability of water bills for those in work in Scotland has, if anything, improved over time.
- Charges are proportionately a larger burden on household budgets for the poorer in society: the amount paid for water and sewerage charges by those in receipt of benefits as a proportion of their income, exceeds the average proportion paid by wage earners in Scotland
- While many benefits may have held up well compared to water and sewerage charges, a comparison of certain benefits against Band D water charges indicates that, while the % of water charges (in relation to benefit payments) may have fallen, charges for all benefits shown remain substantially above the 3% which it is argued creates water poverty, meaning that affordability may remain a problem for low-income consumers.

<sup>1</sup>'Sink or Swim: Consumers' experiences of water and sewerage debt' Citizens Advice Scotland, October 2015.

<sup>2</sup> This statistic includes missed payments and agreed repayments.

1.2 A recent report by the economic regulator of the water sector in England and Wales (OFWAT), indicated that there is currently no official definition of ‘water affordability’.<sup>3</sup> However, OFWAT has developed a set of indicators which suggest that affordability risks potentially emerge when a household spends either more than 3%, or more than 5%, of their disposable income on water and sewerage bills<sup>4</sup>. OFWAT’s figures (i.e., *either* 3% or 5%) were indicative and the 3% and 5% thresholds were chosen because they provided a useful means of describing patterns observed in the data used by OFWAT to determine when affordability risks might emerge. The initial thinking on which these figures are based (i.e., that water poverty occurs when consumers spend either 3% or 5% of income on water and sewerage charges) lie within an earlier (2002) report published jointly by the Centre for Utility Consumer Law (CUCL) and the Chartered Institute of Environmental Health (CIEH), which extrapolated the then UK government’s standard for fuel poverty – a household needing to spend more than 10% of its net income on fuel to achieve a satisfactory heating regime - to water and sewerage<sup>5</sup>.

1.3 We examine these thresholds among consumers in Scotland, particularly as it affects water consumers who are on benefits. The focus on those relying on benefits is appropriate as one aspect of the macroeconomic policy in place in the UK since 2010 has been to reduce spending on benefits. Benefit recipients, among other low income consumers, will tend to reduce spending on all goods and services but as water and sewerage charges are fixed and cannot be lowered, reduced incomes are more likely to result in debt.

1.4 The next section provides a broad view of water and sewerage charges. It looks at the level of charges over time and examines the issue of affordability across all consumers by looking at charges in relation to average pay and at spending by Council Tax band. We also compare affordability for all consumers in Scotland and the UK. The following section focuses specifically on water and sewerage charges for households on benefits.

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<sup>3</sup> See OFWAT, “Affordability and debt 2014-15” page 8.

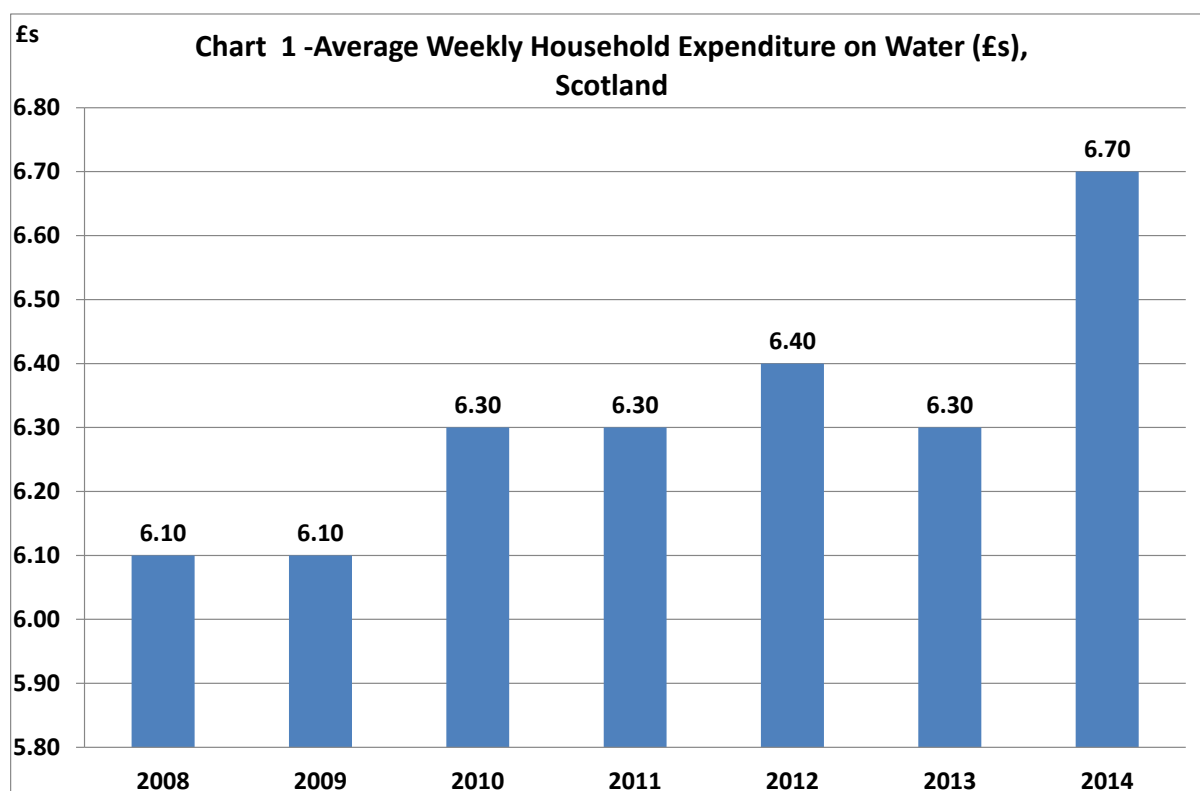
<sup>4</sup> OFWAT’s indicators are discussed in detail in the report cited above.

<sup>5</sup>“Water Poverty in England and Wales”, CUCL/CIEH, July 2002.

## 2 Water and sewerage spending in Scotland

*Office for National Statistics figures*

2.1 The Office for National Statistics (ONS) produces detailed figures on the average weekly spending on water and sewerage by UK households, including separate figures for Scotland. Chart 1 below looks at charges in the period from 2008 to 2014.



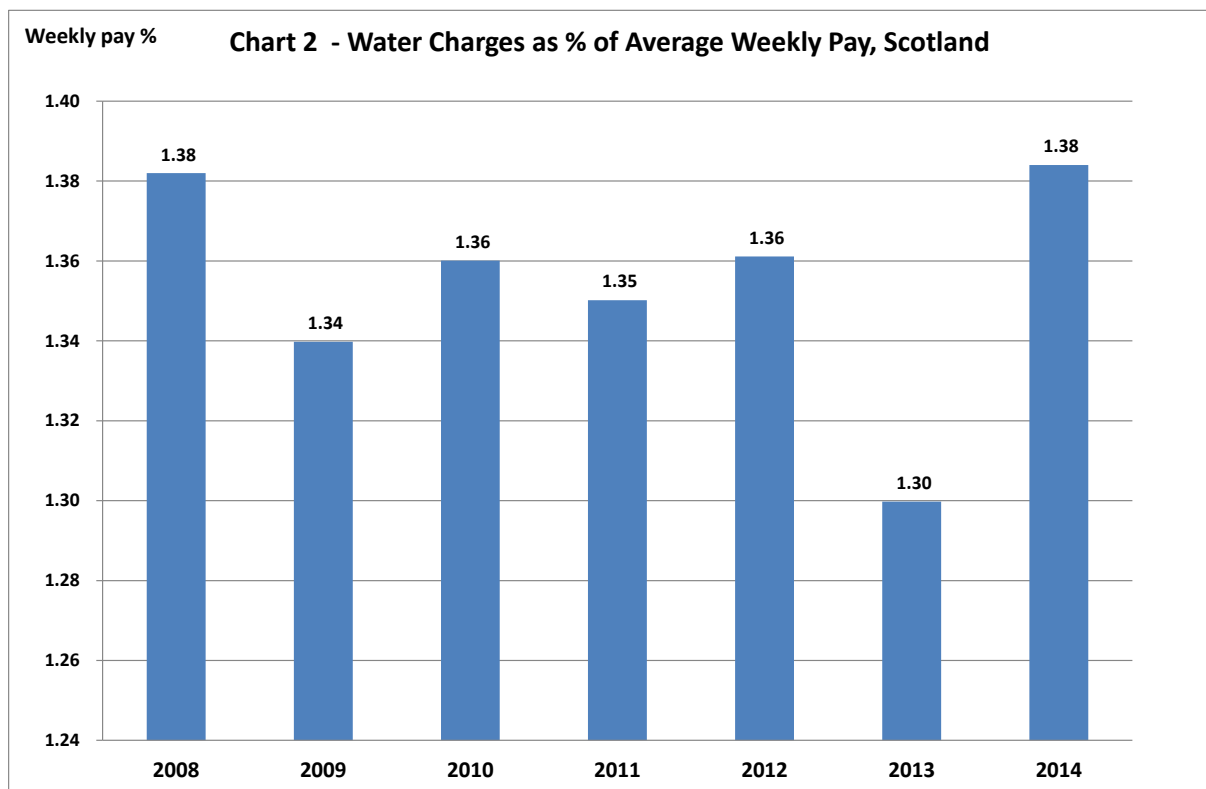
Source: ONS

2.2 The chart shows that, in Scotland, average weekly household spending on water and sewerage increased in several years over the period, although generally by very small amounts, and also that charges were unchanged or reduced in some years. The largest increase occurred in 2014 by £0.40 a week (6.3% above the level in 2013). Average weekly pay in Scotland in 2014 was £484, making it difficult to conclude that water and sewerage charges represent a substantial burden for those in work. Average household spending on water and sewerage increased by 9.8% between 2008-14, only slightly above the total increase in average wages in Scotland (9.7%). There has therefore been little change since 2008 in the ability to pay water and sewerage charges for those in work. On average, water and sewerage charges in Scotland increased by 1.6% per annum between 2008-14 (see Table 1).

Table 1 – Average % change in Household Spending on Water	Annual % change
2008	-
2009	0
2010	3.3
2011	0
2012	1.6
2013	-1.6
2014	6.3
<b>Average change over period</b>	<b>1.6</b>

*Water and sewerage affordability - Scotland*

2.3 Chart 2 below examines the issue of affordability across all consumers, by comparing the amount of weekly water and sewerage charge against average weekly pay in Scotland between 2008-14. As noted above, water charges represented a fairly small proportion of pay in 2013, and Chart 2 details that this applies across the whole period - on average, water and sewerage charges accounted for 1.35 % of weekly pay in Scotland between 2008-14.



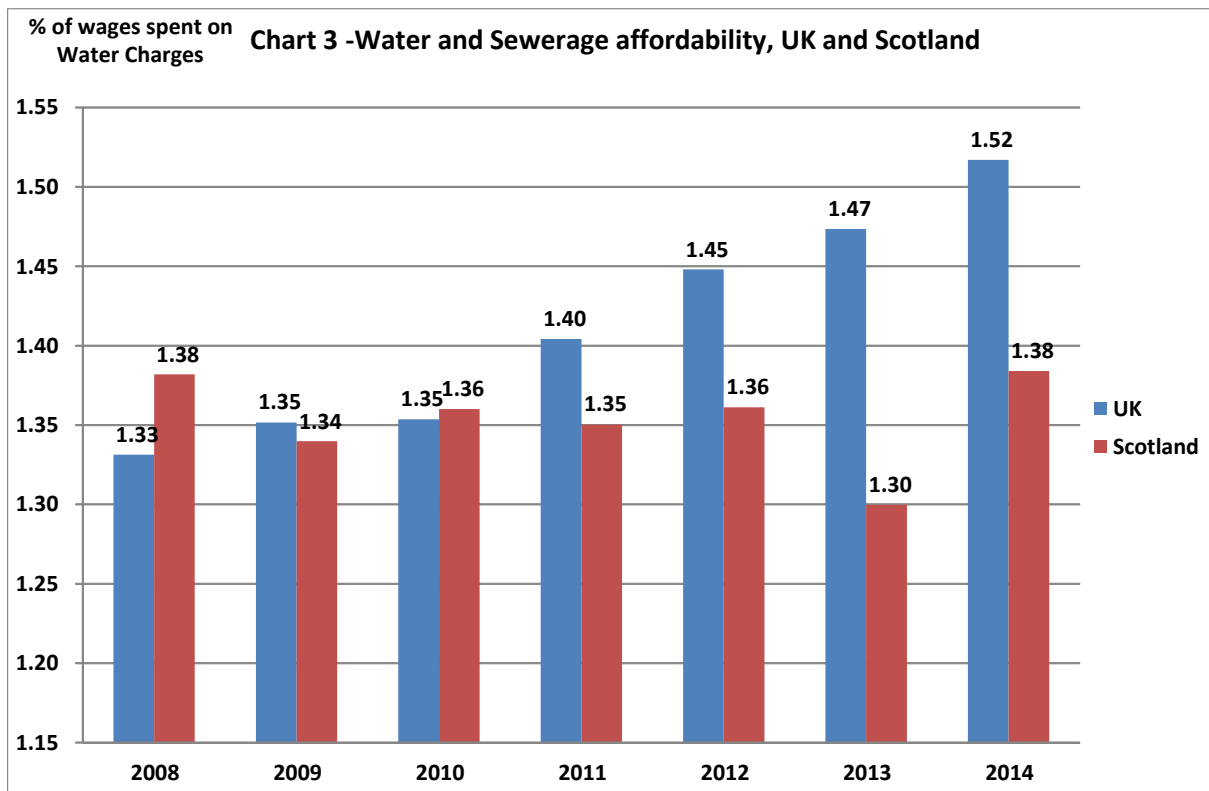
*Water affordability in Scotland and the UK*

2.4 Table 2 uses the ONS data to compare water and sewerage spending in Scotland against spending across the UK as a whole. The table shows that UK bills were above those

in Scotland for the whole period - on average, UK consumers paid 10% more for water and sewerage than consumers in Scotland over the period.

	2008	2009	2010	2011	2012	2013	2014
UK	6.30	6.50	6.60	6.90	7.10	7.40	7.60
Scotland	6.10	6.10	6.30	6.30	6.40	6.30	6.70

2.5 Average wages in the UK were above those in Scotland but, despite this, higher water charges meant that water and sewerage is less affordable in the UK than in Scotland. Chart 3 shows that consumers in Scotland typically paid a lower proportion of wages on water and sewerage charges than UK consumers and that affordability in Scotland has if anything improved over time.



### **3 Analysis by Council Tax Charges**

*(Band D, Scotland)*

3.1 Household water and sewerage charges for unmetered properties (circa 2.5 million) are based on Council Tax bands. A principle of harmonised charges is applied across geographical areas. The number of metered households is very low (circa 300) and tend to be in the higher Council Tax bands.

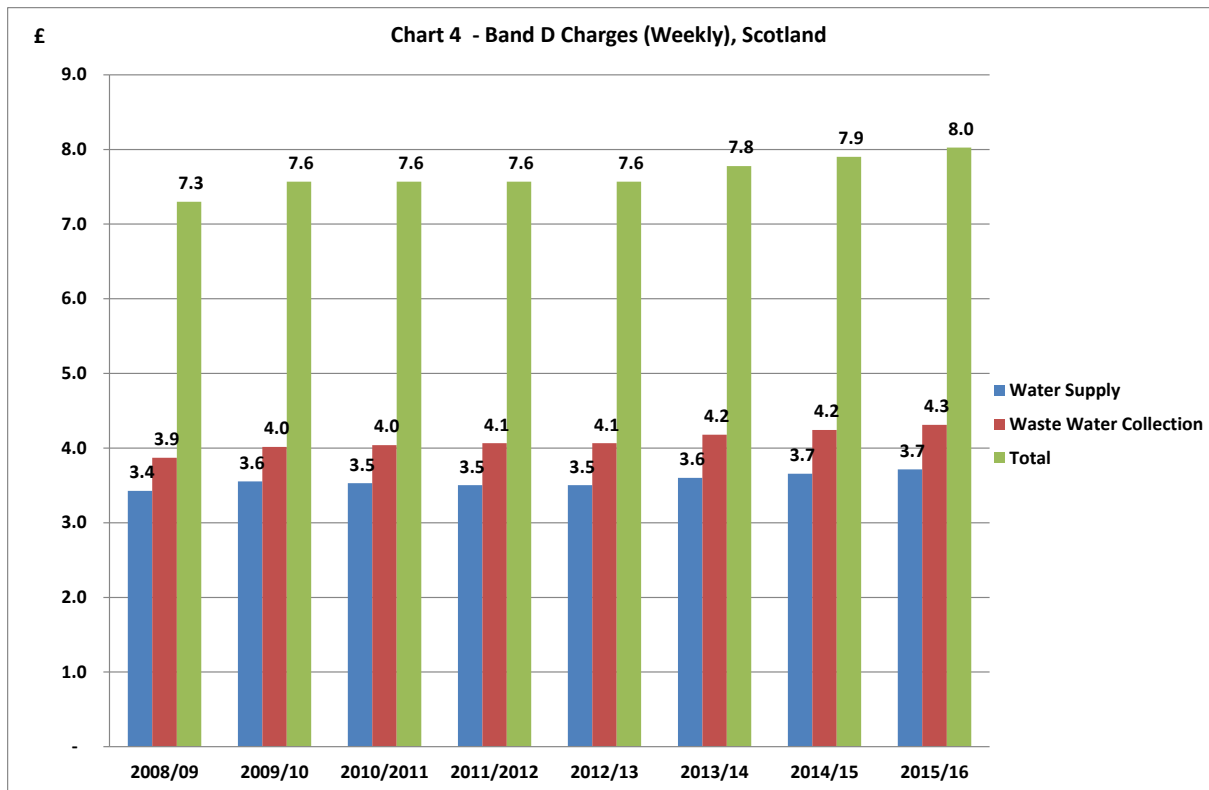
3.2 It is possible to analyse affordability in Scotland by examining the Scottish Council Tax based water industry charges that apply to unmetered households. Council Tax charges in Scotland are set by bands based on the value of the property in 1991. There are a total of eight bands and the amount that households pay depends on their band (A to H) which is worked out from the Band D rate which is the midway point. Properties in Band D attract the basic level of tax (9/9ths), while properties in Band A, for example, attract 6/9ths and those in the highest band (Band H) are charged 18/9ths of the Band D rate.<sup>6</sup> Chart 4 shows Band D water and sewerage charges in Scotland from 2008/09 to 2015/16<sup>7</sup>.

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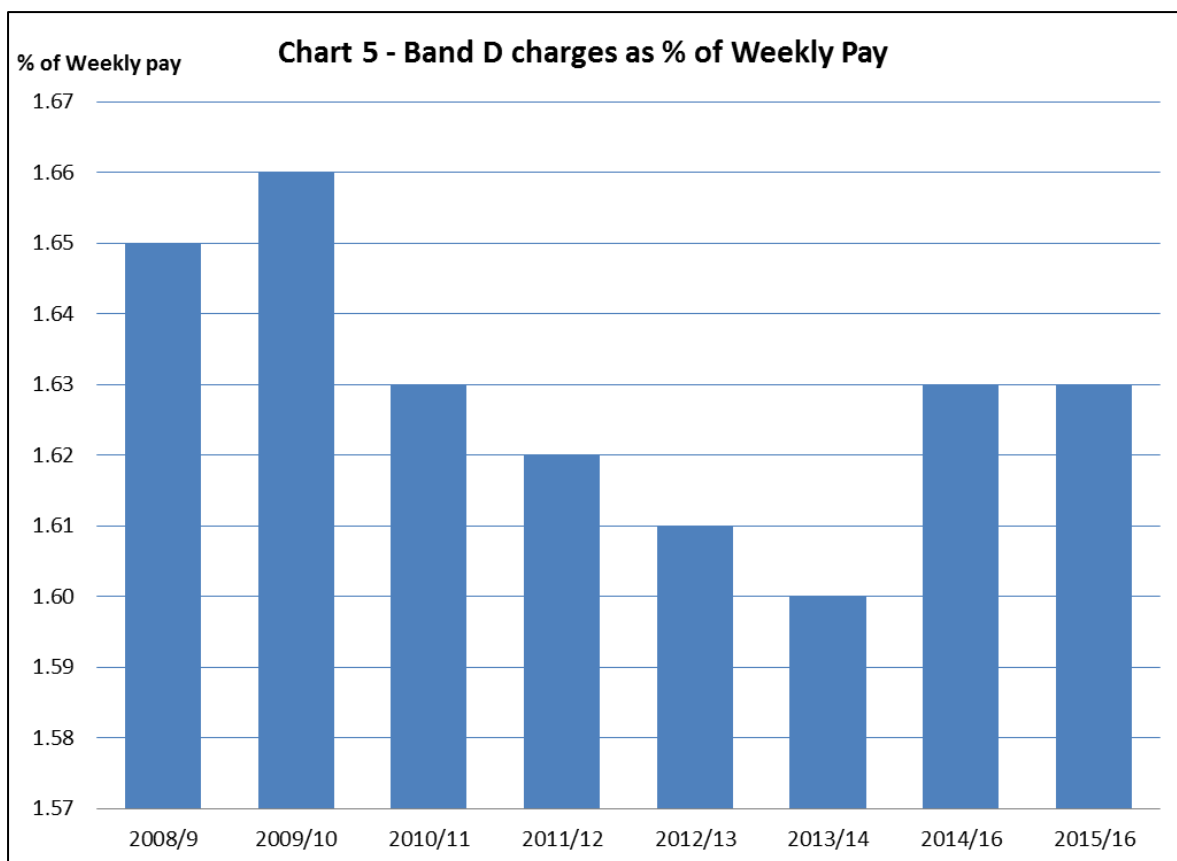
<sup>6</sup> A full explanation can be found at <http://www.gov.scot/Topics/Government/local-government/17999/counciltax>. Correct as at 31.3.17, after which Council Tax band charges for bands E-H will increase. These changes, however, will not apply to water and wastewater charges for households.

<sup>7</sup> We discuss the ONS figures because they allow us to compare charges in Scotland against the UK as a whole. However, it should be noted that the Band D figures shown in Chart 4 are above those provided by the ONS (see Chart 1 above) - the average weekly Band D charges shown in Chart 4 are 20.5% above the ONS estimates.. One reason why the figures may differ is that there are more Band A, B and C households in Scotland which would bring the average ONS expenditure down, but we have not attempted to reconcile the two databases.





3.3 Chart 5 below shows Band D weekly water and sewerage charges in relation to average weekly pay in Scotland since 2008/09. In all years, water and sewerage charges in Scotland were well below the figure of 3%, typically considered as an indicator of “water poverty”.



3.4 Table 3 also shows that Band D water charges grew more slowly than average pay in Scotland over the period.

Table 3 - Average Annual change in Band D charges and average pay, Scotland (%) 2008-15	Band D	Average pay
	1.37	1.55

## **4 Water affordability - Benefits recipients**

4.1 The analysis above shows that for most consumers, water and sewerage charges will represent only a modest amount of income. Whether we look at the ONS data or at the Scottish band D, they are just over 1% of weekly income for those in employment, a situation which has not changed in recent years. Charges have also increased marginally less than average incomes since 2008.

4.2 However, while it seems unlikely that paying for water and sewerage is an issue for a majority of people in Scotland, the average position examined above does not tell us whether, and to what extent, people on low incomes find it difficult to pay. As noted in the introduction, the system used to charge for water may also cause special problems for low income earners in paying water and sewerage as reductions in water and sewerage charges do not match reductions in council tax.

4.3 Affordability measures are present within the current water and sewerage charges structure in the form of:

- Charges based on Council Tax bands – the assumption being that households on lower income are more likely to reside in lower Council Tax band properties
- The Water and Sewerage Charges (Exemption and Reduction) (Scotland) Regulations 2006<sup>8</sup>

4.4 Policy in this area<sup>9</sup> has suggested that low income earners should pay a maximum of 3% of their disposable income on water and sewerage charges, and we next examine three ways in which water and sewerage charges impact on low income earners:

- By looking at changes in benefit values over time
- By assuming that low income-earners are those paying Band A Council Tax (and comparing this with those paying the average Band D Council tax)
- By using real-world examples of household compositions provided by CAS of people who are struggling to pay water and sewerage charges

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<sup>8</sup> Up to 25% reduction depending on single occupancy and Council Tax Reduction status.

<sup>9</sup> See, for example, the OFWAT report cited in footnote 3 above.

### *Benefit values - recent changes*

4.5 Table 4 compares the change in water and sewerage charges against changes in a number of the key UK benefits (and the UK Minimum Wage) between 2008-15. The table shows both the average annual % change and the total change over the whole period (so, for example, Band D water charges were 9.96% higher in 2015 compared to 2008). The benefit payments shown are those provided by the Department for Work and Pensions (DWP), and show the average weekly amount paid in each type of benefit to recipients in Scotland.

4.6 While not true for every benefit shown, the picture shown by Table 4 is that a number of the benefit payments have held up well compared to water and sewerage charges over the period - for example, Job Seekers Allowance (JSA) and the state pension have both increased more than Ban D charges. Water affordability is less likely to have deteriorated over the period shown.

	Band D Water Charges	Job Seekers Allowance	State Pension	Pension Credit	Employment & Support Allowance	Income Support	Minimum Wage (35 Hours)
Average Annual % Change	1.37	3.2	1.6	0.91	10.5	6.1	2.3
% Change over period	9.96	24.5	11.55	6.29	99.1	0.9	16.9

### *Band D Charges*

4.7 However, while the figures in Table 4 suggest that many benefits have held up well compared to water and sewerage charges, Table 5A compares a number of benefits against Band D water charges. While the % of water charges (in relation to benefit payments) may have fallen, charges remain substantially above 3% for all benefits shown, meaning that affordability may remain a problem for low-income consumers.

Year	JSA	State Pension	Pension Credit	ESA	Income Support
2008	13.3	7.7	15.1	13.5	9.3
2009	13.8	7.7	14.9	11.4	9.6
2010	12.5	7.6	14.2	10.5	9.2
2011	12.3	7.6	14.2	9.1	9.3
2012	11.9	7.6	14.3	8.0	9.4
2013	11.6	7.4	14.8	7.8	10.0
2014	11.5	7.5	15.2	7.5	10.4
2015	11.8	7.6	15.6	7.4	10.9

4.8 Table 5B shows Band D charges compared to the Minimum Wage, which is also above the 3% threshold in all years.

Table 5 B- Band D water charges as % of Minimum Wage	
2008	3.6
2009	3.7
2010	3.6
2011	3.6
2012	3.5
2013	3.5
2014	3.5
2015	3.4

### *Band A Charges*

4.9 Table 6A repeats this analysis for the Band A water and sewerage charge. As above, the affordability position has improved since 2008, but the position remains that all benefits remain substantially above the 3% threshold. Table 6B shows that Minimum Wage recipients who pay Band A Council Tax are marginally below the threshold although they still pay a substantially greater proportion of their income in water and sewerage charges than the wage earners in Scotland.

Table 6A- Band A water charges as % of benefits					
Year	JSA	State Pension	Pension Credit	ESA	Income Support
2008	8.9	5.1	10.0	9.0	6.2
2009	9.2	5.1	9.9	7.6	6.4
2010	8.3	5.1	9.5	7.0	6.2
2011	8.2	5.1	9.5	6.1	6.2
2012	7.9	5.1	9.5	5.3	6.3
2013	7.7	4.9	9.9	5.2	6.7
2014	7.7	5.0	10.1	5.0	7.0
2015	7.9	5.1	10.4	5.0	7.3

Table 6 B – Band A water charges as % of Minimum Wage	
2008	2.4
2009	2.5
2010	2.4
2011	2.4
2012	2.3
2013	2.3
2014	2.3

### *CAS Examples*

4.10 The analysis in Tables 5 and 6 above show that the value of each of the individual benefits shown would leave those receiving them having to pay significantly more than the 3% threshold which it is argued creates water poverty. The difficulty, however, in relating benefit values to water poverty is that individual recipients are likely to receive more than one benefit and so an analysis of any one benefit does not provide a full picture of a household's income. In addition, we are not aware of any database that would allow us to assess the range of benefits which people in Scotland receive. Given these difficulties in reaching conclusions regarding affordability, the CAS believes that this issue would benefit from further research.

4.11 We therefore use some actual examples drawn from CAS case files. The tables below show case studies of people who have visited CABs with concerns about water bills and which CAS feel are representative of the range of people who approach them about this problem. With the exception of Household 6, all households rely on benefits for their income:

- Household 1 - Single status occupant (45 year old male); Band A property; Job Seekers Allowance (JSA)<sup>10</sup>
- Household 2 - Single parent (35 year old female); 2 children: 9 and 12 years old; Band D property; Employment and Support Allowance (ESA) benefit
- Household 3 - Couple without children (M: 54 years old; F: 53 years old); 1 on ESA; 1 on JSA; Band B property
- Household 4 - Single pensioner (77 years old); Band A property
- Household 5 - Pensioner couple (M: 73 years old; F: 69 years old); Band B property
- Household 6 - Couple (M: 31 years old; F: 28 years old); 2 children: 4 and 7 years old; Band B property; 1 partner on zero hours contract (average 20 hours per week on minimum wage); 1 partner on ESA.

4.12 The results shown in the tables have been derived by inserting the details for each case into the Benefits Calculator provided by Turn2us, a national charity that helps people in financial hardship access welfare benefits and other sources of financial support.

4.13 The results are also presented in a form consistent with the methodology used by the Scottish Government, particularly in that the key statistic shown in the bottom line of each

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<sup>10</sup> Council Tax Reduction does not apply to water and sewerage charges. On 1 April 2006, Ministers introduced a water services reduction of up to 25% for households with two or more adults and which are in receipt of Council Tax Reduction but no other discounts.

table (Water Charges as % of income) are calculated as net disposable income after allowing for housing costs (AHC)<sup>11</sup>.

4.14 In the majority of cases, the amount paid as a proportion of income exceeds the average proportion paid by wage earners in Scotland - Chart 4 above (weekly charges in relation to average weekly pay) shows that this was 1.63% of average wages and only Household 6 paid less than this. On the basis of these examples, even though benefits have increased relative to water and sewerage charges, these charges are a larger burden on household budgets for the poorer in society.

4.15 Finally, one of the examples shown here (Household 1) is in what is officially considered to be water poverty. The CAS believes that the example shown in Household 1, people on Job Seekers Allowance (JSA), are probably the most vulnerable as they are likely to be less resilient to sudden and unexpected changes to income, and points out that most cases of water debt that it deals with are for those in receipt of JSA.

<b>Household 1</b>	
Single status occupant (45 year old male) Band A property – local authority owned Job seekers allowance (JSA)	
Benefit Income	£140.94
Other Income (after tax)	0
<b>Total Income</b>	<b>£140.94</b>
Net disposable income Before Housing Costs (BHC)	£125.16
Net disposable income After Housing Costs (AHC)	£69.15
<b>Water Charges</b>	£3.95
<b>Water Charges as % of net disposable income after housing costs (AHC)</b>	5.7%

<b>Household 2</b>	
Single parent (35 year old female) 2 children: 9 and 12 years old Band D property – private landlord	
Benefit Income	£472.92
Other Income (after tax)	0
<b>Total Income</b>	<b>£472.92</b>
Net disposable income Before Housing Costs (BHC)	£449.25
Net disposable income After Housing Costs (AHC)	£289.17
<b>Water Charges</b>	£5.93
<b>Water Charges as % of net disposable income after housing costs (AHC)</b>	2.0%

<sup>11</sup>. The methodology used can be found at <http://www.gov.scot/Topics/Statistics/Browse/Social-Welfare/IncomePoverty/Methodology>.

<b>Household 3</b>	
Couple without children (M: 54 years old; F: 53 years old) 1 on ESA; 1 on JSA Band B property – local authority	
Benefit Income	£299.16
Other Income (after tax)	0
<b>Total Income</b>	<b>£299.16</b>
Net disposable income Before Housing Costs (BHC)	£280.75
Net disposable income After Housing Costs (AHC)	£224.08
<b>Water Charges</b>	£4.61
<b>Water Charges as % of net disposable income after housing costs (AHC)</b>	2.1%

<b>Household 4</b>	
Single pensioner (77 years old) Band A property – local authority owned	
Benefit Income	£223.44
Other Income (after tax)	0
<b>Total Income</b>	<b>£223.44</b>
Net disposable income Before Housing Costs (BHC)	£207.66
Net disposable income After Housing Costs (AHC)	£151.65
<b>Water Charges</b>	£3.95
<b>Water Charges as % of net disposable income after housing costs (AHC)</b>	2.6%

<b>Household 5</b>	
Pensioner couple (M: 73 years old; F: 69 years old) Band B property – housing association	
Benefit Income	£308.02
Other Income (after tax)	0
<b>Total Income</b>	<b>£308.02</b>
Net disposable income Before Housing Costs (BHC)	£289.61
Net disposable income After Housing Costs (AHC)	£232.94
<b>Water Charges</b>	£4.61
<b>Water Charges as % of net disposable income after housing costs (AHC)</b>	2.0%



<b>Household 6</b>	
Couple (M: 31 years old; F: 28 years old) 2 children: 4 and 7 years old Band B property – private landlord 1 partner on zero hours contract 1 partner on ESA	
<b>Benefit Income</b>	
Child Tax Credit	117.52
Housing Benefit	116.53
Council Tax Reduction	24.55
Child Benefit	34.40
Employment and Support Allowance	107.70
<b>Other Income (after tax)</b>	134.00
<b>Total Income</b>	<b>£534.70</b>
<b>Water Charges</b>	£6.15
<b>Water Charges as % of net disposable income after housing costs (AHC)</b>	1.2%

\*Average 20 hours per week on minimum wage

Table 7 summarises these results.

<b>Table 7 Summary</b>		<b>Water charges as % of net disposable income after housing costs</b>
Household 1	Single status occupant Band A property Receiving Job Seekers Allowance	5.7%
Household 2	Single parent; 2 children Band D property Receiving Employment and Support Allowance	2.0%
Household 3	Couple without children Band B property 1 receiving ESA; 1 receiving JSA	2.1%
Household 4	Single pensioner Band A property	2.6%
Household 5	Pensioner couple Band B property	2.0%
Household 6	Couple; 2 children Band B property 1 on zero hours contract (average 20 hours per week, minimum wage) 1 partner on ESA	1.2%