
Report To:	Policy & Resources Committee	Date: 13 th August 2013
Report By:	Chief Financial Officer	Report No: FIN/46/13/AP/CM
Contact Officer:	Alan Puckrin	Contact No: 01475 712223
Subject:	Water Direct Pilot	

1.0 PURPOSE

- 1.1 The purpose of the this report is to obtain Committee approval for the Council to act as a pilot in respect of the Water Direct Scheme which the Scottish Government is keen should be progressed.

2.0 SUMMARY

- 2.1 The Scottish Government, supported by Scottish Water, have been pressing Councils to adopt Water Direct deductions for the past year or so. Water Direct operates successfully down in England where Councils are not responsible for billing and collecting Water and Sewerage Charges. In Scotland there is joint billing for Council Tax and Water and Sewerage and this presents complexities which are being discussed between Government Officials, Scottish Water Officials and representatives from the Directors of Finance Section. A detailed note about the scheme along with real life examples is contained in Appendix 1.
- 2.2 Under the Water Direct Scheme not only would the current deductions from a debtor's Welfare Benefits continue (up to a total limit of £10.80 per week) but additional deductions could be made to recover the current years water charge. It should be noted that the Water Direct model cannot be applied to Council Tax debt but to Water and Sewerage debt only.
- 2.3 The Scottish Government is in the final stages of getting legal confirmation that the Water Direct Scheme can operate in Scotland without any need for further legislation. It is expected that this approval will be received in coming weeks. Thereafter the Scottish Government is keen that Councils begin to pilot this arrangement and have identified Inverclyde as an area where they would be keen to implement the pilot.
- 2.4 The reasons for selecting Inverclyde are as follows;
- Inverclyde has been at the forefront of discussions with Scottish Water regarding the need to improve collection rates and for Councils to receive fair reimbursement for the role that it carries out for Scottish Water.
 - Inverclyde Council has been able to produce the necessary management information which many Councils have not been able to achieve to date.
 - Inverclyde Council has a demographic where there are a higher number of households who pay Water and Sewerage debt only. Under the current pilot it would only be proposed to operate Water Direct for these households to avoid the complexities of splitting Council Tax debt from Water and Sewerage debt.
 - The Council has previously piloted electronic data exchange methods with the DWP for processing large bulk deductions and this is recognised by the DWP who are also keen for Inverclyde to be the pilot.

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- 2.5 Scottish Government Officials have been advised by Officers that it would not proceed with the pilot until it had received approval from the relevant Committee. The Scottish Government however are keen to progress the pilot as soon as possible and this is the reason for the report to the August Policy & Resources Committee.
 - 2.6 Officers recognise the implications of bringing in Water Direct at the same time as the other Welfare Reforms and that it has the potential to add further burdens to certain households who have already been impacted by the Welfare Reforms. The Council would however continue to provide support and advice to affected households.
 - 2.7 It is anticipated that the implementation of Water Direct will be of assistance in the Council in recovering arrears in respect of Water and Sewerage debt. At present due to the formula imposed by the Government the Council has to carry 75% of the Water & Sewerage debt and there are no signs that the Scottish Government will change this approach. As such it is in the Council's interest to try and recover as much of the outstanding Water and Sewerage debt as possible.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Policy & Resources Committee consider the content of this report and agree to Inverclyde Council participating in the pilot of the implementation of Water Direct.

Alan Puckrin
Chief Financial Officer

Water Direct Scheme Guidance Notes

DRAFT

Date produced/reviewed: June 2013
Prepared by: Liz Brown
Approved by:

Inverclyde Council – Finance Services Revenues and Customer Services

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1.0 Introduction

This document details the policy of Inverclyde Council with regard to the Water Direct Scheme and the procedures that should be followed in applying for deductions.

2.0 Background

2.1 DWP customers in receipt of certain benefits or credits may have deductions taken from their benefit and paid to a creditor under what is known as the Third Party Deduction Scheme. Third Party Deductions will only be made when it is considered to be in the interest of the customer or the customer's family. The actual payment of monies owed to the Creditor and paid on behalf of the DWP customer is known as a **Third Party Deduction**.

2.2 The Third Party Deduction scheme is operated in accordance with the Social Security (Claims & Payment) Regulations 1987, Regulation 35(1) and Schedule 9.

The areas in which arrears can be managed by use of the scheme include:

- Housing costs excluding mortgage interest (for customer's current address)
- Rent arrears and service charges (for customer's current address) which includes arrears of: miscellaneous accommodation costs, hostel service charges, gas, electricity and water
- Water and sewerage charges
- Fuel costs
- Council Tax (CT) arrears
- Unpaid fines or compensation orders
- Child Maintenance Enforcement Commission (certain elements)
- Housing Benefit and Council Tax Benefit recoveries

2.3 The Council Tax (Deductions from Income Support) Regulations 1993 states that where a levying authority has obtained a summary warrant or a decree against a debtor in respect of arrears of sums payable under paragraph 1(1) of Schedule 8 to the Local Government Act and the debtor is entitled to income support, the levying authority may, without prejudice to its right to pursue any other means of recovering such arrears, apply for third party deductions from any amounts payable to the debtor by way of income support in order to secure the payment of any outstanding sum which is or forms part of the amount in respect of which the summary warrant or decree was granted.

2.4 Schedule 9 of the Social Security (Claims & Payments) Regulations 1987 allows deductions from benefit in respect of water charges in England and Wales. From 1st April 2012 this schedule was amended by The Social Security (Miscellaneous Amendments) Regulations 2012 to allow third party deductions in respect of water debt in Scotland.

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3.0 Third Party Deductions

3.1 What are ‘third party deductions’?

Benefit customers should normally meet their household expenses from their income, however in some cases, the Department for Work and Pensions (DWP) can deduct money directly from a customer's benefit to clear debts. These are called 'third party deductions'.

Third party deductions are only used if there is no other way to clear the debts without putting the welfare of the customer or their family at risk.

3.2 Why are third party deductions used?

The main use of third party deductions is as a last-resort protection for vulnerable customers in debt. By helping people with debt management, it helps them become more responsible with their finances.

Creditors must always first take reasonable action to help their customer with arrears.

3.3 How the scheme works

Under the scheme, DWP deducts a set amount from the customer's benefit and pays it direct to the creditor until the debt is cleared. Deductions are usually to clear arrears of housing, fuel, water and council tax.

The amount DWP can deduct is regulated. At April 2013, the rate is £3.60 per item. If there's more than one deduction, the maximum amount DWP can deduct is £10.80 (three deductions).

Once a debt is paid off, a third party deduction will usually end. In some cases where there are continuing concerns over an individual's ability to manage debt a deduction may continue to cover ongoing costs. This however is the exception. For ongoing fuel or water costs, DWP can change the amount deducted based on the current amount used by the customer and billed by the supplier.

3.4 Types of costs that the scheme covers

The types of costs covered by the scheme are rated in order of importance. This is about the amount of risk to the customer or their family if the costs aren't met any other way. The scheme covers:

- housing costs, including miscellaneous accommodation costs

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- hostel charges
- rent arrears (including service charges for heating or lighting)
- fuel costs,
- water charges (water then sewerage if two debts)
- council tax arrears
- fines
- Child Support maintenance (under the old scheme).

3.5 Preventing further debt

If a customer has a third party deduction to clear a debt, and must still pay ongoing fuel or water costs, DWP can deduct a further amount to stop more debt building up.

3.6 How DWP decides about third party deductions

- To decide whether or not third party deductions are appropriate, DWP will consider:
- Is the customer getting one of the specified benefits? (see below)
- Is there a threat of court action, eviction or disconnection?
- Are there outstanding arrears?
- Is the customer or their partner liable for the debt?
- Is it in the interests of the family?
- Will the customer be left with sufficient benefit?
- Does the debt take priority over other debts?
- Are three third party deductions already being made? If so, they will check the priority list (see above). If the new debt ranks higher than the three already being deducted, the lowest ranked deduction will stop.

3.7 The Policy Intent of Third Party Deductions:

- The primary function is one of a last-resort safety-net for the most vulnerable benefit customers who have failed to budget for essential household bills
- The secondary role to enforce a social and financial obligation
- It is limited in the main to the income-related benefits designed to cover day to day living costs

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3.8 Benefits in Scope for Third Party Deductions:

Deductions may be taken from:

- Jobseeker's Allowance – including Training Allowances
- Employment and Support Allowance - replacing Incapacity Benefit
- Income Support
- Pension Credit
- When it is introduced – Universal Credit

4.0 Council Tax Deductions

4.1 The Council Tax (Deductions from Income Support) Regulations 1993 allow for arrears of council tax to be deducted from benefits once a summary warrant has been obtained, as a consequence of the summary warrant process a 10% statutory addition is imposed on the outstanding debt increasing the debt owed by the customer. Applications for third party deductions from benefit are made by the creditor (Council) applying direct to the DWP, consent is not required from the debtor. Provided the debtor is in receipt of qualifying benefits the DWP will commence deductions.

4.2 Inverclyde Council has worked closely with the DWP recently to introduce a quicker, less labour intensive electronic method of applying for deductions, with the result that there are currently 2,378 deductions in place with the DWP, it should be noted that not all customers with deductions in place have current year arrears as some customers maintain their current payments.. Deductions will remain in force until either the debt is paid in full or the debtor ceases to receive a qualifying benefit. The deduction rate for 2013/14 is £3.60 per week.

5.0 Water Direct

5.1 With the amendment to Schedule 9 of the Social Security (Claims & Payments) Regulations 1987 an application for third party deductions in respect of water debt in Scotland can now be made provided the following criteria is satisfied:

- there is a debt for mains water and
- there is the threat of Court action and
- it is in the interests of the customer that third party deductions be made.

5.2 Once Water Direct deductions are in place these can continue for the following year's water charge however the Council will only continue the deductions if the customer has prior year arrears. This should enable the customer to regain financial responsibility for their ongoing charges.

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- 5.3 The amount deducted under the water direct scheme is an amount equal to the weekly cost necessary to meet the ongoing water charges that have been set by Scottish Water ensuring that the customer's level of debt is not increasing.
- 5.4 Current year arrears accrued up to the date water direct deductions commence would be dealt with as third party deductions under The Council Tax (Deductions from Income Support) Regulations 1993 at the rate of £3.60 per week. This would be in addition to any deductions for prior year arrears.
- 5.5 The combination of a water direct deduction and an additional third party deduction for any current year arrears will ensure that the customer's current year water charge is cleared by the end of the financial year, breaking the cycle of debt.

6.0 Impact on Customers

- 6.1 Although council tax benefit and, from 1st April 2013, council tax reduction can reduce the amount of council tax a customer is required to pay there is no benefit/reduction awarded on the water and sewerage charges that the Council bills and collects on behalf of Scottish Water.
- 6.2 Benefit customers should meet their household expenses from their income, however at 1st April 2013 there were 1,869 customers in receipt of income support and other relevant benefits who owed a total of £3.2m in council tax arrears.
- 6.3 The 2013/2014 annual Band A water and sewerage charge for a family is £269.64 or £5.19 per week and for a single resident is £202.23 which is equivalent to £3.89 per week. This means that even at the lowest Council Tax banding the current deduction of £3.60/ week referred to in paragraph 4.2 is not sufficient to prevent a year on year increase in arrears.
- 6.4 As with any debtor the Council have processes in place to offer help and advice to any customers who have difficulty in paying their council tax and Water & Sewerage debts. The Council will only apply for third party deductions after reasonable action has been taken to make customers aware of their debt and offered help to customers with arrears.
- 6.5 As the current third party deduction of £3.60 per week, cannot be applied for until a summary warrant has been obtained then this adds further costs to the debtor. Water Direct does not require a Summary Warrant to be obtained thus saving the debtor unnecessary costs.
- 6.6 The benefit of the Water Direct scheme is that a payment is made to pay the ongoing water charge at the actual weekly rate therefore no further debt is accruing. In addition to the ongoing charge being deducted there is also a deduction in respect of any arrears.

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6.7 By breaking the cycle of debt and helping customers with debt management, it helps customers take control of their finances. This is vitally important with the imminent introduction of Universal Credit.

6.8 Appendix 1 and 2 shows examples of the effect on customers of the implementation of the Water Direct scheme.

Appendix 3 details a breakdown of the current council tax debt for customers on income support.

Appendix 4 details the historic DWP deductions

7.0 Financial Implications

7.1 There are no increased operational costs to the Council for operating the water direct scheme as this can be managed with existing resources.

7.2 Under current ABCD formula the Council is responsible for approximately 75% of Water & Sewerage debts and therefore reducing the amount of arrears in this area will have a positive financial impact on the Council.

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APPENDIX 1

Scenario 1: 71 year old living by themselves in a Band A property on a state pension + high rate mobility

<u>Weekly Income</u>		
State pension		£132.97
Pension Credit Guarantee		£12.43
Mobility - High		£52.25
Total		£197.65

Council Tax Arrears Position

Debtor has historical arrears of		£1,763.02
Debtor has 2013/14 Water & Sewerage charge of		£202.23

Historical debt collected @ £3.60 per week by deduction		
No of weeks to clear historical debt : 489 Weeks		£1763.02/£3.60
489 weeks equates to 9 years 5 months		

Currently a Summary Warrant must be obtained before deductions can be made from a customers passported benefit

Deductions based on actual 2012/13

2012/13 Water & Sewerage charge		£196.78
10% Surcharge		£19.68
Total		£216.46

Inverclyde Council obtain 1st Warrant		17/05/2012
Request for deductions sent to DWP		23/05/2012
Request accepted by DWP and deductions commence		21/06/2012
No of weeks remaining in the financial year for deductions		40 weeks
40 weeks @ £3.60		£144.00
Arrears remaining at end of 2012/13 financial year		£72.46
These arrears would take a further 21 weeks to clear - clear by		22/08/2013

Meantime a Summary Warrant will have been obtained against 2013/14, incurring a surcharge of £20.22 on the water & sewerage balance of £202.23 - total due for 2013/14 now £222.45 - deduction process has to commence again after 22/08/2013 - customer continues to get further into debt.

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2013/14 assuming Water Direct was in place(no surcharge levied on customer)

2013/14 Water & Sewerage charge		£202.23
Weekly Charge		£3.89
Inverclyde Council issue 1st Reminder		15/04/2013
Payment not made and application made to DWP for Water Direct deduction		06/05/2013
Allow 28 days for deduction to be put in place		03/06/2013

Water Direct Arrears 01/04/13 - 03/06/13		9 weeks
9 weeks @ £3.60		£35.00
Ongoing Water & Sewerage charge 04/06/13 - 31/03/14 (43 weeks @ £3.89)		£167.23

<u>Effect on Customers Income</u>		
Historical arrears deduction ongoing for 9 years 5 months		£3.60
Water Direct Arrears deduction £35.00/£3.60 = 10 weeks - clear by 12/08/13		£3.60
Water Direct ongoing weekly deduction £3.89		£3.89
	Weekly Deduction	Total Recovered
Deductions from Benefit between 01/04/13 - 03/06/13	£3.60	£32.40
Deductions from Benefit between 04/06/13 - 12/08/13	£11.09	£110.80
Deductions from Benefit between 13/08/13 - 31/03/2014	£7.49	£247.17

- a) Total income recovered during 2013/14 is £390.47 compared to £187.20 under the current scheme.**
b) Under the Water Direct example the debtors arrears will have reduced by £187.20 by the end of 2013/14. Under the current practice the arrears will have grown by £35.25.

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APPENDIX 2

Scenario 2: 31 year old living by themselves in a Band A property in receipt of ESA, currently with an appeal lodged to go back into receipt of Income Support. Customer resides in a 1 bedroom flat rented from a local housing association and has no rent to pay.

<u>Weekly Income</u>		
ESA		£71.70
Total		£71.70

<u>Council Tax Arrears Position</u>		
Debtor has historical arrears of		£2,099.41
Debtor has 2013/14 Water & Sewerage charge of		£202.23

Historical debt collected @ £3.60 per week by deduction		
No of weeks to clear historical : 583 Weeks		£2099.41/£3.60
489 weeks equates to 11 years 3 months		

Currently a Summary Warrant must be obtained before deductions can be made from a customer's passported benefit

Deductions based on actual 2012/13

2012/13 Water & Sewerage charge		£196.78
10% Surcharge		£19.68
Total		£216.46

Inverclyde Council obtain 1st Warrant		17/05/2012
Request for deductions sent to DWP		23/05/2012
Request accepted by DWP and deductions commence		21/06/2012
No of weeks remaining in the financial year for deductions		40 weeks
40 weeks @ £3.60		£144.00
Arrears remaining at end of 2012/13 financial year		£72.46
These arrears would take a further 21 weeks to clear - clear by		22/08/2013

Meantime a Summary Warrant will have been obtained against 2013/14, incurring a surcharge of £20.22 on their water & sewerage balance of £202.23 - total due for 13/14 now £222.45 - deduction process has to commence again after 22/08/2013- customer continues to get further into debt.

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2013/14 assuming Water Direct was in place(no surcharge levied on customer)

2013/14 Water & Sewerage charge		£202.23
Weekly Charge		£3.89

Inverclyde Council issue 1st Reminder		15/04/2013
Payment not made and application made to DWP for Water Direct deduction		06/05/2013
Allow same no of days as 2012/13 for deduction to be put in place (28 days)		03/06/2013

Water Direct Arrears 01/04/13 - 03/06/13		9 weeks
9 weeks @ £3.60		£35.00
Ongoing Water & Sewerage charge 04/06/13 - 31/03/14 (43 weeks @ £3.89)		£167.23

<u>Effect on Customers Income</u>		
	Weekly Deductions	Total Recovery
Historical arrears deduction ongoing for 9 years 5 months		£3.60
Water Direct Arrears deduction £35.00/£3.60 = 10 weeks - clear by 12/08/13		£3.60
Water Direct ongoing weekly deduction £3.889		£3.89
Deductions from Benefit between 01/04/13 - 03/06/13	£3.60	£32.40
Deductions from Benefit between 04/06/13 - 12/08/13	£11.09	£110.90
Deductions from Benefit between 13/08/13 - 31/03/2014	£7.49	£247.17

- a) Total income recovered during 2013/14 is £390.47 compared to £187.20 under the current scheme.
b) Under the Water Direct example the debtors arrears will have reduced by £187.20 by the end of 2013/14. Under the current practice the arrears will have grown by £35.25.

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APPENDIX 3

Figures based on 2013/14 cases of Customers in receipt of passported Benefits and eligible for Water Direct Deductions @ 30/06/13

		Value of Prior year debt	Value of In Year debt
Number of cases that have historical arrears and qualify for Water Direct	1869	£3,245,413.29	£423,873.04

Breakdown by Band		Value of Prior year debt	Value of In Year debt
Band A	1412	£2,336,588.68	£301,763.18
Band B	319	£576,087.18	£80,472.25
Band C	111	£256,675.06	£32,156.22
Band D	19	£48,884.63	£6,167.43
Band E	7	£24,350.15	£2,831.98
Band F	1	£2,827.59	£481.98
Band G	0	£0.00	£0.00
Band H	0	£0.00	£0.00
	1,869	£3,245,413.29	£423,873.04

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APPENDIX 4

History of DWP Deductions

Month	<u>2011</u>	<u>Value</u>	<u>2012</u>	<u>Value</u>	<u>2013</u>	<u>Value</u>
April	3033	£26,395.61	2177	£28,459.23	2316	£28,985.36
May	1929	£26,654.62	3164	£28,442.91	2288	£29,805.11
June	1775	£23,164.06	1854	£24,347.72	2378	£30,145.62
July	1663	£19,872.45	2160	£27,571.78	0	£0.00
August	1551	£20,280.58	2023	£26,265.54	0	£0.00
September	1484	£19,103.20	2081	£23,380.03	0	£0.00
October	2026	£24,057.48	2198	£27,597.23	0	£0.00
November	2256	£27,565.58	3991	£52,833.23	0	£0.00
December	2144	£26,341.32	1941	£23,919.80	0	£0.00
January	4018	£49,844.29	1995	£26,994.11	0	£0.00
February	2270	£25,984.63	1993	£24,714.83	0	£0.00
March	2330	£27,721.70	?	£26,519.97	0	£0.00
		£316,985.52		£341,046.38		£88,936.09