

EAST AYRSHIRE COUNCIL

DEVELOPMENT SERVICES COMMITTEE - 5 OCTOBER 2004

SCOTTISH EXECUTIVE CONSULTATION PAPERS 'INVESTING IN WATER SERVICES 2006 – 2014: THE QUALITY AND STANDARDS III PROJECT' AND 'PAYING FOR WATER SERVICES 2006 – 2010'

Report by Executive Director of Development and Property Services

1. PURPOSE OF REPORT

- 1.1 To present to Committee for information and comment, insofar as they relate to future development requirements, two Scottish Executive Consultation Papers entitled 'Investing in Water Services 2006 – 2014: the Quality and Standards III Project' and 'Paying for Water Services 2006 – 2010'. This report concentrates on development requirements for the Committee's interest and there will be a separate report by the Executive Director of Neighbourhood Services to the P&R Committee of 30 September 2004 in relation to the question of paying for water services.

2. BACKGROUND INFORMATION

- 2.1 There has been considerable underinvestment in the provision of water and sewerage services throughout Scotland. The current water industry investment programme (Quality and Standards II) is due to end in March 2006 and work is currently underway to develop the next investment programme (Quality and Standards III) which will continue the work of modernising and improving the water and sewerage services provided by Scottish Water for the period April 2006 to March 2014. In this regard, the Executive has produced a consultation paper on the future investment programme for the water industry which provides information on the scale of forthcoming investment requirements for the Q&SIII investment period.
- 2.2 The Investing in Water Services consultation paper seeks views on the scale and content of future investment in water services during the Q&SIII period, on a scale that is affordable and deliverable. Quality and Standards III will, itself, advise Ministers of the nature and scale of investment required to meet public health and environmental requirements alongside investment needs to improve and extend the existing network in order to accommodate anticipated new development requirements.
- 2.3 The Paying for Water Services consultation paper describes the Executive's proposals for reforming the economic regulation of Scottish Water and assesses how these proposals will affect the next strategic review of water charges. The review itself will culminate in the Water Commission setting limits on what Scottish Water can charge its customers in the period 2006 to 2010. Comments on both consultation papers are requested by 12 October 2004.

3. THE INVESTING IN WATER SERVICES CONSULTATION PAPER

- 3.1 The consultation paper addresses the issue of investment in water and waste water infrastructure in a number of specific chapters dealing with individual aspects of the subject. Investment in water services is considered to be an absolute priority for East Ayrshire in that, as previously intimated to Committee, existing water and waste water facilities are presently severely constrained throughout many of the area's communities and this situation requires to be addressed as a matter of priority. In addition, the Council is currently undertaking an alteration to the East Ayrshire Local Plan in order to identify future economic and housing development opportunity sites to meet demand to the year 2017. It is essential that adequate water and waste water infrastructure is in place to serve any sites that may eventually be identified for these purposes. Increased investment in overcoming constraints imposed by lack of capacity in water and drainage infrastructure is also recognised in the recently published National Planning Framework as being a particular issue in the Kilmarnock area.
- 3.2 A number of questions are posed throughout the various chapters of the paper, upon which comments are invited, and a synopsis of the contents of each chapter is given below.
- 3.2.1 Chapter I details the scale and impact of investment currently being made in the water industry, with £1.8 billion invested over the period 2002 to 2006 under the Quality and Standards II programme. This equates to an investment figure of £192 per household per annum and, to date, has led to significant improvements in drinking water quality and environmental protection. Chapter 1 also sets out the objectives of Quality and Standards III for the period 2006 to 2014 and seeks views on the Executive's guiding principle that the future investment programme should be cost effective, affordable, deliverable and sustainable.
- 3.2.2 Chapter 2 describes the processes currently underway to establish Quality and Standards III investment and seeks views on the specific criteria to be used to refine investment requirements into a deliverable and affordable programme.
- 3.2.3 Chapter 3 considers the level of investment that is required to maintain service standards and to keep the existing assets of the water industry working properly. It is estimated that £2.2 - £2.7 billion will be required to keep service levels constant over the 8 year period of Q&SIII.
- 3.2.4 Chapter 4 looks at the need to provide additional capacity within the water and waste water infrastructure to allow new housing or businesses to connect, or to allow existing properties to be connected to the system for the first time. It is estimated that the costs of extending infrastructure networks to release constraints on new developments within the Q&SIII period would be some £1 billion if the water charge payer were to pay and some £500 million if the costs were to be shared with the developer. The approximate cost of connecting existing properties is £200 million for water services and between £260 and £600 million for waste water services. This element of the consultation paper is of particular relevance and concern to the Council as Planning Authority and is dealt with in more detail in section 5 of this report.
- 3.2.5 Chapter 5 discusses the investment required to secure compliance with current and new environmental standards. It is considered that investment in water quality and environmental objectives is likely to be the largest single component in the Q&SIII investment programme and indications are that the costs of

meeting mandatory requirements could cost in the region of £2.5 - £3 billion over the Q&SIII period. Work involved in this regard is likely to focus on improvements to sewer systems, upgrading waste water treatment plants and addressing other environmental issues such as the by-products of waste water treatment e.g. sewage sludge.

3.2.6 Chapter 6 outlines the investment required to meet drinking water quality and water resource standards, estimated to be in the region of £1.65 billion to meet mandatory standards and £3 billion if higher standards are to be met for the Q&SIII period.

3.2.7 Chapter 7 discusses investment requirements for other priorities for the customer, including odour from waste water treatment works, water pressure and sewer flooding. This is estimated to cost £280 millions.

3.3 In summary the potential costs for the 2006 – 2014 period are as follows.

Maintaining service standards	£2,200 - £2,700 millions
*Extending the network	£500 - £1,000 millions
First time connections	£460 - £800 millions
Investing in the environment	£2,500 - £3,000 millions
Drinking water quality	£1,650 - £3,400 millions
Other customer priorities	£280 millions
Total	£7,590 – £11,180 millions

*Issue relating to new development

4. THE PAYING FOR WATER SERVICES CONSULTATION PAPER

4.1 The Paying for Water Services consultation seeks views on the approach that the Scottish Executive should adopt in charging different customer groups for water services in the period 2006 to 2010. The consultation paper is split into three sections, as follows:

4.1.1 Section 1 summarises and invites views on the principles that the Executive proposes should underpin charge limits and charge schemes in the period 2006 to 2010.

4.1.2 Section 2 considers and seeks views on how the principles outlined in Section 1 might be applied in a number of different cases. The question of how the costs of expanding capacity on Scottish Water's systems should be shared among existing customers and those seeking to develop sites not presently served by Scottish Water is of particular interest to the Council as Planning Authority and is given particular attention in this section (See Section 3.1(iv) above).

4.1.3 Section 3 outlines arrangements for stakeholder participation in the consultation exercise.

5. EXTENDING PUBLIC WATER AND SEWERAGE NETWORKS

5.1 Deficiencies in water and waste water infrastructure are recognised by the Council as significant constraints to future development throughout East Ayrshire, with existing water and sewerage systems at, or nearing, capacity in many area communities. This is a matter of considerable concern, especially in relation to the Council's statutory

duty to promote the economic development and regeneration of East Ayrshire and to identify sufficient developable and marketable housing and industrial land to meet future requirements in the East Ayrshire Local Plan. Work is currently in progress on an alteration to the local plan which will identify sufficient housing and industrial development opportunity sites to meet anticipated requirements to 2012 and 2017. It is of prime importance that all future development sites to be identified in the plan can be connected to, and provided with, adequate water and waste water treatment facilities. This is not likely to be possible if provision to extend and upgrade existing public water and sewerage networks is not given the highest possible priority in Scottish Water's Q&SIII investment programme.

- 5.2 It is vitally important that any future investment in water and waste water infrastructure is directed to those areas where there is a pressing economic case for such investment and not simply to those areas where the costs of providing such infrastructure are lowest i.e. the costs in providing service infrastructure should not be seen as being the prime determining factor in the identification of potential development locations. Care must also be taken to ensure that investment is not just concentrated solely in those areas where immediate demand is greatest and can be provided at the lowest cost, but that investment is also made in the remoter rural communities where economic regeneration is of high priority.
- 5.3 The Investing in Water Services consultation paper raises the issue of how the considerable costs involved in overcoming all known development constraints could possibly be met. It is recognised in the paper that it would be difficult for the charge payer to fund the estimated £1 billion required for the release of all new development sites without generating significant charge increases. It is therefore suggested in the paper that the costs of providing additional capacity should be shared between the developer and the customer, with customers paying for the 'deeper' elements of connection that will be of wider benefit (e.g. developing water resources or increasing waste water treatment capacity) and developers paying for remaining elements. The Paying for Water Services consultation also advocates this particular approach (See Paragraph 6.2 below). Other options include giving Scottish Water the ability to borrow funds on the open market and spreading the cost of the improvements over a longer period.
- 5.4 The Investing in Water Services consultation paper also raises the question as to how any detailed modelling work, required by local authorities and carried out by Scottish Water to inform the viability of strategic sites in structure and local plan processes, should be funded. Scottish Water is not currently funded for this particular service.
- 5.5 Connecting existing development to the water and waste water networks also necessitates investment by Scottish Water. However, there is no specific requirement for Scottish Water to provide connections over and above their stipulated reasonable cost criteria. The consultation paper asks how such connections should be provided, if not by existing charge payers or the taxpayer.

6. FUNDING OPTIONS

- 6.1 It is clear that significant investment in the water industry is necessary to meet statutory water quality and environmental standards, to maintain existing infrastructure and to provide adequate water and waste water infrastructure to service all future anticipated development. Considerable costs will be involve in meeting these requirements and it is considered essential that a fair and equitable means of funding all infrastructure works is adopted as a matter of priority.

- 6.2 It is clear that only finite finances are available to help meet the full range of investment requirements of Scottish Water. To date the largest proportion of this finance has been directed to maintaining existing service standards and existing systems to prevent their deterioration and to meeting future mandatory statutory requirements. Relatively speaking only limited funds have been made available for the expansion of existing networks, which is of prime importance to the Council in its efforts to achieve the economic regeneration of the area.
- 6.3 The Scottish Executive propose that customers should be expected to meet all the costs of maintaining, operating and upgrading Scottish water's infrastructure at current levels of capacity. In addition, existing customers would also be expected to meet the costs of expanding Scottish Water's strategic capacity in terms of developing new reservoirs and treatment works, which are necessary to secure future services for existing customers and which are clearly not attributable to any single development proposal. However, insofar as expenditure is required to provide additional capacity for specific local developments, individual developers would be required to meet the cost of that additional capacity, for example by providing improved local distribution networks, service reservoirs or pumping stations.

7. SUGGESTED COUNCIL RESPONSE

- 7.1 It is totally unacceptable for development and regeneration priorities which are formed through a statutory planning system to be subsequently led by Scottish Water's investment programme. Greater resources however must be allocated to removing development constraints within economic development zones such as Central Ayrshire as identified in the National Planning Framework but which are less buoyant economically and less able to withstand changes to development funding by Scottish Water. Account must also be taken about the pattern of past investment and that the legacy of underinvestment in respect of the water industry is not consistent throughout Scotland. Ayrshire and particularly East Ayrshire proportionately has had less investment in water and sewerage infrastructure and accordingly faces particular and severe development capacity issues. Without significant and proportionately greater resources being attached to water and sewerage investment than in the past, opportunities that currently exist within Central Ayrshire for regeneration and economic development could be lost or delayed. In addition sufficient resources must be allocated to ensure that development in more rural areas (that are also identified in the National Planning Framework as areas where the quality of the environment needs to be strengthened) is not stalled.
- 7.2 In essence a targeted approach is advocated for future investment in removing development constraint and extending the current network. Priority should be given to more disadvantaged communities suffering from development constraint as opposed to communities that are more buoyant economically but also have development constraint. It is considered that the Scottish Executive should provide the necessary funding or regeneration premium to enable areas such as East Ayrshire to compete more effectively in attracting new development.
- 7.3 This raises the question of what Scottish Water are actually doing if they simply pass on charges to customer or a developer. At the very least there should be a

responsibility financed by them or the Scottish Executive to upgrade and maintain principal sewers. If a developer has to pay then he should only pay for that part requiring to connect to the principal sewer. This may require a substantial change in thinking by Scottish Water and the Executive on how these responsibilities are financed. Given the extent of historical deficit and future requirements for new development either a substantial injection of resources from the Executive or a relaxation in the ability of Scottish Water's borrowing requirement is required.

- 7.4 Payment by developers does also raise the issue of the ownership of any local distribution networks or infrastructure provided and paid for by the individual developers concerned. Once paid for, it is necessary to determine whether ownership of new networks and infrastructure would revert to Scottish Water or whether they would remain in the ownership of the developer. If remaining in the ownership of the developer, this could also prove to be an additional constraint to future development, with a developer possibly being in a position to deny connection of other developments in the vicinity to the particular facility concerned ie other acceptable developments could possibly be held to ransom, to the detriment of the proper planning of the area. Appropriate steps must be taken to ensure that this situation does not occur.
- 7.5 It will often be the case that new water or waste water networks and infrastructure will be of benefit and able to serve more than one development. Attention requires to be given to the equitable sharing of development costs between different developers, where such situations arise.
- 7.6 Turning to the scale of any upgrade it is essential that any increase in capacity of a sewer would require to cater for significant "wet weather" events. This currently results in environmental contamination and pollution and consideration should be given to;
- i) A retrospective programme to remove all surface water from the sewer system and treat at source and
 - ii) To recognise that flood risk is a major concern socially and environmentally from sewers or run of and that there should be no difference made between statutory and non statutory surface water in the use of sustainable urban drainage systems.
- 7.7 Non-household sewerage charges include an element for highway drainage. If this was removed and the costs transferred to the highway authorities or Scottish Executive, this would effectively mean increases in the Council Tax, business rates or general taxation. It is important that the Scottish Executive continues the recognition that highway drainage should continue as a charge on customers.
- 7.8 Finally at a strategic level, maximum effort should be directed at reducing surface water flows by encouraging recycling and re-use of water.
- 7.9 At the September meeting of the Ayrshire Joint Structure Plan and Transportation Committee it was agreed that a detailed case in support of prioritised and increased investment in water and sewerage infrastructure for Ayrshire should be assembled urgently to enable a reasoned and justifiable position to be made to Scottish Water and the Scottish Executive before final decisions on future investment levels and policy is made. In addition it was agreed that a combined meeting between the Ayrshire Economic Forum and the joint committee should be arranged to discuss the

issues in detail. It is recommended that committee agree to support fully both initiatives by the Ayrshire Joint Structure Plan and Transportation Committee.

8. FINANCIAL IMPLICATIONS

8.1 There are no direct financial implications for the Council as a result of the report.

9. LEGAL / AUTHORITY IMPLICATIONS

9.1 There are no direct legal or authority implications for the Council as a result of the report.

10. PERSONNEL IMPLICATIONS

10.1 There are no direct personnel implications for the Council as a result of the consultation.

11. RECOMMENDATIONS

11.1 It is recommended that the Council agrees:

- (i) to approve the contents of this report; and
- (ii) to submit a copy of this report to the Scottish Executive as representing the views of East Ayrshire Council on the two consultation documents; and
- (iii) to authorise the Head of Planning, Development and Building Standards to arrange for the Manager of the Ayrshire Joint Structure Plan to prepare and co-ordinate a detailed case for additional resources to be made available to Scottish Water, to resolve the pressing infrastructure capacity issues that are currently limiting development in major parts of East Ayrshire and Ayrshire as a whole.

James Lavery
Executive Director of Development and Property Services
27 September 2004

LIST OF BACKGROUND PAPERS

- (i) Scottish Executive Consultation Paper 'Investing in Water Services 2006 – 2014'
- (ii) Scottish Executive Consultation Paper 'Paying for Water Services 2006 – 2010'

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