

EAST AYRSHIRE COUNCIL

POLICY AND RESOURCES COMMITTEE: 15 NOVEMBER 2005

CONNECTING TO THE SYSTEM: CONSULTATION ON PAYING FOR CONNECTIONS TO THE WATER AND SEWERAGE NETWORKS

Report by the Executive Director of Development and Property Services

1. PURPOSE OF REPORT

1.1 To advise the Committee and provide comments for approval and submission to the Scottish Executive on the contents of a consultation paper entitled "Connecting to the System: Consultation on Paying for Connections to the Water and Sewerage Networks", in so far as this relates to future development requirements.

2. BACKGROUND INFORMATION

2.1 At present, the system of apportioning construction costs of water and sewerage infrastructure connections between Scottish Water and developers is not regulated. The Water Environment and Water Services (Scotland) Act 2003 made provision to replace the current arbitrary system of contributions and, accordingly, the draft Provision of Water and Sewerage Services (Reasonable Cost) (Scotland) Regulations 2006 have been prepared. This paper sets out the main provisions of the draft Regulations and invites comment on them.

2.2 A previous consultation exercise by the Scottish Executive on "Investing in Water Services: Investment Objectives and Charging Principles" has informed the preparation of the new Regulations. A Committee Report on this issue was presented to the Development Services Committee for consideration on 3 May 2005.

3. PAYING FOR CONNECTIONS

3.1 Scottish Water's infrastructure can be divided into four parts:

Part 1: Connections from the boundary of individual premises to the public system

Part 2: The water pipes and sewers that connect developments to the trunk mains and sewers

Part 3: The local strategic infrastructure, such as trunk mains and sewers, service reservoirs and pumping stations

Part 4: Strategic assets, such as raw water intakes, water impounding reservoirs, aqueducts and treatment works.

The draft Regulations set out how Scottish Water and developers will be required to contribute to infrastructure costs viz:-

- (i) Developers will be required to meet all Part 1 costs.
- (ii) Developers will be required to meet the net cost of any part 2 and 3 infrastructure required by their development. This will be done by implementing a “reasonable cost” formula that will limit the contribution Scottish Water is required to make to the cost of infrastructure to a sum which reflects the additional income they will receive as a result of the new development.
- (iii) Scottish Water will be required to provide all part 4 infrastructure

Scottish Water also propose to set a one off infrastructure charge of £250 for each new domestic water connection and for each new domestic sewerage connection.

3.2 The proposed contribution that Scottish Water will make has changed from that previously suggested. Initially it was proposed that developers would pay for all part 2 assets. However, it has since been decided that it would be more equitable to treat Part 2 and Part 3 infrastructure together as “local infrastructure” and for Scottish Water to make a reasonable cost contribution to both. It should be noted that contributions apply to both the upgrading of existing, and for the construction of new infrastructure.

3.3 The formula being proposed to calculate reasonable cost estimates the financial benefit that Scottish Water would receive from new or reinforced infrastructure. It takes into account the charge income that will be received from each property, the number of years that an asset provides a benefit for, and the cost of borrowing money to provide the contribution at the outset. Scottish Water will only pay its contribution when the work has been satisfactorily carried out in order to reduce the risk of incurring cost without any financial return.

4. DEVELOPMENT CONSTRAINTS

4.1 Within the draft regulations Scottish Water has been set an investment objective for the period 2006-2014 to meet the **strategic** capacity requirements of all anticipated **new** development and to ensure that there are **no constraints in strategic infrastructure**. Close working with SEPA and local authorities will be required to ensure significant improvement in the planning and delivery of new strategic capacity in the public system.

4.2 It is noted that, whilst some development constraints relate to strategic assets or “Part 4” infrastructure, which Scottish Water will fund once the

Regulations are in place, some constraints relate to local “Part 3” assets. Developers will be expected to meet excess costs in overcoming Part 3 constraints, over and above any reasonable cost contributions.

5. RESERVING CAPACITY

5.1 The issue of reserving capacity is dealt with in the draft Regulations. Certain investors may pay for more capacity than immediately required and reserve that capacity for their own use where, for example, a development is planned over a number of years. If this is done, other developers could possibly be prevented from connecting to the system, thereby undermining the public nature of Scottish Water’s assets.

5.2 It is proposed to publish guidance to support the Regulations which will set out Scottish Water’s procedures on connections and establish protocols to ensure that developer’s investment in an asset is protected for a reasonable, short term period. With regard to the provision of agreements to protect infrastructure assets in the longer term, it is suggested that a phased approach to water and sewerage provision should be made in developments that span a substantial time period.

6. CONSIDERATION OF ISSUES

6.1 The principle of Scottish Water making reasonable cost contributions to Part 2 and 3 infrastructure is acceptable. However, some Part 3 assets could be described as strategic in nature and should be included in the forthcoming Quality and Standards investment programme. The Irvine Valley Sewer is such an asset as it runs for approximately 20 km from Darvel to Irvine serving all communities along its length and spans all three Ayrshire Authorities. It has been identified as a potential development constraint due to capacity issues and its poor condition.

6.2 It is likely that significant works to the Irvine Valley Sewer will be required before any growth in the area can take place. Due to its current definition as a Part 3 asset, Scottish Water can only apply its normal reasonable cost allocation which could fall far short of the investment necessary to remove constraints in the system. This, in turn, may well render future development economically unviable. It is therefore suggested that the Scottish Executive and Scottish Water recognise that larger, strategic local assets such as the Irvine Valley Sewer may require additional capital investment and should be included in the Q & S investment programme. This could mean that flexibility is built into the system to permit expenditure on “strategic” assets within Part 3, over and above reasonable cost, to facilitate the release of new development through the removal of existing development constraints.

6.3 The East Ayrshire Local Plan is likely to identify a significant amount of new housing land and developers will undoubtedly require to invest heavily in new/upgraded infrastructure to support new residential development. It is imperative that best value is gained from such investment. No mention is made in either the draft Regulations or in previous consultation on the Q & S III process of mechanisms to allow different developers, who will all be working to different timescales, to contribute to shared infrastructure improvements. The Scottish Executive and Scottish Water need to give this matter serious consideration and provide guidance to developers and Councils in the preparation of their development plans. The Council is, in fact taking the initiative in this regard. A Committee Report entitled East Ayrshire Local Plan: Developer Contributions was presented to the Development Services Committee on October 12th and raised the issue of pooled developer contributions for the funding of infrastructure constraint. It was recommended that the Report be circulated to developers for comment.

6.4 The Council is aware that a quality upgrade to the Irvine Valley Sewer is programmed to take place in the next two or three years. In order to achieve best value, steps should be taken by SEPA and Scottish Water to ensure that any required “quantity” upgrades to the system take place simultaneously with the quality upgrades proposed in accord with Local Plan designations and potential development contributions.

6.5 There is concern that, in meeting the cost of Part 3 infrastructure over and above reasonable cost, new development will require to meet the costs of overcoming a lack of investment in infrastructure by Scottish Water and its predecessors and that the most cost effective long term solution may not be implemented. East Ayrshire is one of the most constrained authorities in Scotland in terms of water and sewerage infrastructure and developers could be made to make excessively high contributions to overcome infrastructure constraints. A situation could arise whereby these costs could prove excessive and developers, especially those smaller companies that don't operate at such a large scale as the bigger volume house builders, are forced to invest in other areas where constraints do not exist or are not so costly to remedy. This could greatly impede the drive for growth in East Ayrshire that the forthcoming Local Plan alteration is aiming to achieve.

7. FINANCIAL IMPLICATIONS

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

8. LEGAL/AUTHORITY IMPLICATIONS

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

9. PERSONNEL IMPLICATIONS

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

10. COMMUNITY PLAN IMPLICATIONS

10.1 Provision of water and sewerage infrastructure is essential to the achievement of key objectives and the over arching vision of the East Ayrshire Community Plan.

11. RECOMMENDATIONS

11.1 It is recommended that Committee

- (1) notes the contents of this report and**
- (2) to authorise the Executive Director of Development and Property Services to forward a copy of this report to the Scottish Executive, Scottish Water and the Water Industry Commissioner as representing the views of the Council on the Consultation Paper.**

James Lavery
Executive Director of Development and Property Services

12 October 2005 (EF/SA)

LIST OF BACKGROUND PAPERS

1. Scottish Executive Consultation Paper: Investing in Water Services: Investment Objectives and Charging Principles”
2. Development Services Committee Report entitled ‘Investing in Water Services: Investment Objectives and Charging Principles’ considered by Committee on 3 May 2005

3. Development Services Committee Report entitled 'East Ayrshire Local Plan: Developer Contributions' considered by Committee on 12 October 2005.

For further information on the contents of this report contact Emma Fyvie, Senior Planning Officer, telephone 01563 576756

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