

EAST AYRSHIRE COUNCIL

POLICY AND RESOURCES COMMITTEE – 30 SEPTEMBER 2004

PAYING FOR WATER SERVICES 2006-2010 A CONSULTATION ON THE PRINCIPLES OF CHARGING FOR WATER SERVICES

Report by Executive Director of Neighbourhood Services

1. PURPOSE OF REPORT

- 1.1 To inform the meeting of the Scottish Executive Consultation Paper Paying for Water Services 2006-2010, the Principles of Charging for Water Services, and to circulate East Ayrshire Council's draft response to the above consultation document.

2. INTRODUCTION

- 2.1 The Scottish Executive consultation describes and seeks views on the charging principles that it proposes to set and how these should be applied to the charges paid by different customer groups served by Scottish Water.

- 2.2 The Guiding Principles of the consultation are:-

- Charges should be set to recover the full costs incurred by Scottish Water in providing public water and sewerage services.
- Charges for households should be set with a view to ensuring that they are as affordable as possible for low-income households.
- All charges should be set on a harmonised basis, so that customers in the same group and using the same services should pay for these services at the same rate, irrespective of where they are in the country.
- Subject to making charges affordable for low-income households, harmonised charges to a particular group should be set to recover as closely as possible the fixed and variable costs of serving that group.
- All significant changes in charge levels arising out of the application of these principles should be introduced gradually during the period 2006-10, and beyond in the most significant of cases.

- 2.3 The introduction of the paper sets the context within which the consultation on paying for water services is taking place. It describes the Executive's proposals, included in the Water Services etc. (Scotland) Bill, for reforming the economic regulation of Scottish Water and how these will affect the management of the next strategic review of water charges. Subject to the Scottish Parliament approving the Bill, the review will culminate in the Water Industry Commission setting

limits on what Scottish Water can charge its customers in the period 2006-10. It will do so in light of decisions that the Executive will make in January 2005 about the standards and objectives that Scottish Water is to achieve in that period and about the principles that the Water Industry Commission is to apply in setting charge limits for each group of customers. The decision on charging principles will take into account responses to the consultation exercise that the paper is initiating.

- 2.4 The Scottish Executive is also running a linked and parallel consultation on Investing in Water Services 2006-2014, The Quality & Standards III Project. This consultation is the subject of a separate committee report.
- 2.5 The consultation seeks the views of stakeholders on the nature and scale of investment required to meet public health and environmental requirements, alongside investment needs to improve and extend the existing water network in Scotland.
- 2.6 The Scottish Executive consultation paper invites written comments on nineteen consultation points across six headings. The six consultation headings are set out in 2.7.
- 2.7 The Scottish Executive would like to hear comments from stakeholders in the following areas;
 - Establishing future investment needs
 - Maintaining Service Standards (Capital Maintenance)
 - Extending Public Water and Sewerage Networks
 - Investing in the Environment
 - Drinking Water Quality and Water Resources
 - Other Priorities for Customers

3. BACKGROUND

- 3.1 Scottish Water was formed in April 2002 following the merger of the three former water authorities, East, West and North of Scotland.
- 3.2 Scottish Water is a publicly owned business, answerable to the Scottish Parliament and the people of Scotland. It aims to be as efficient and effective as water companies in the private sector.
- 3.3 Scottish Water plays a key role in protecting the nations health and environment by providing water and waste water services 365 days a year to 2.2 million customers and 130,000 businesses.
- 3.4 It is acknowledged that the level of investment in water services in Scotland lagged behind that of England and Wales and that a significant level of investment would and will be required to develop a water service fit for the 21st century.

4. THE CONSULTATION

- 4.1 The consultation paper "Paying for Water Services 2006-2010 the principles of charging for water services " circulated by the Scottish Executive in July 2004 seeks to consult on the principles and application of charging for water services in Scotland between 2006-2010.
- 4.2 The Scottish Executive consultation paper invites written comments on eight consultation points across two headings. These are set out in 4.4 & 4.5.
- 4.3 The Scottish Executive would like to hear comments from stakeholders in the following areas:-
- 4.4 The Proposed Principles of Charging
- Do respondents agree with the Executives guiding principles for charging set out in paragraph 2.2, if not what principles should be used and why, &
- 4.5 The Application of the Principles in relation to
- Cross Subsidies
 - Household Charging
 - Non Household Charging
 - Non Metered Supplies
 - The Balance between Charging and Borrowing &
 - Funding Expansion of the Public Network
- 4.6 The consultation period runs from the 20 July 2004 to 12 October 2004.
- 4.7 The Council's Corporate Management Team considered that East Ayrshire Council would wish to respond to this consultation exercise. An associated consultation will be submitted to the Development Services Committee on 5th October 2004.
- 4.8 The Executive Director Neighbourhood Services was asked to co-ordinate and respond to this consultation on behalf of East Ayrshire Council.
- 4.9 The attached report is draft response to the consultation document. (see appendix 1)

5. FINANCIAL / LEGAL / POLICY IMPLICATIONS

- 5.1 The financial, legal and policy implications will only become apparent as and when the charging programme is agreed.

6. CONCLUSIONS

- 6.1 The consultation process gives East Ayrshire Council the opportunity to make their views on "Paying for Water Services 2006-2010, The Principles of Charging for Water Services" known to the Scottish Executive.

- 6.2 It is felt that charging decisions taken now for the period 2006-2010 could have wide ranging implications for the Council, specifically in the community planning areas of eliminating poverty and improving health, opportunity & the environment.

7. RECOMMENDATIONS

- 7.1 It is recommended that the committee:-

- i) Agree East Ayrshire Council's response to this consultation; and
- ii) Otherwise note the contents of the report.

William Stafford
Executive Director of Neighbourhood Services

WS/JC

3 August 2004

LIST OF BACK GROUND PAPERS

1. East Ayrshire Council's Consultation Response to "Paying for Water Services 2006 – 2010: A Consultation on the Principles of Charging for Water Services"
2. Paying for Water Services 2006–2010: A Consultation on the Principles of Charging for Water Services
<http://www.scotland.gov.uk/consultations/environment/pfws.pdf>

Any person wishing to inspect the background papers listed above should telephone 01563 576023 and ask to speak to William Stafford, Executive Director of Neighbourhood Services.

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SECTION 1: PROPOSED PRINCIPLES OF CHARGING

Consultation points 1 & 2: The Principles of Charging

Do respondents agree with the Executives guiding principles for charging set out below;

- **Charges should be set to recover the full costs incurred by Scottish Water in providing public water and sewerage services.**
- **Charges for households should be set with a view to ensuring that they are as affordable as possible for low-income households.**
- **All charges should be set on a harmonised basis, so that customers in the same group and using the same services should pay for these services at the same rate, irrespective of where they are in the country**
- **Subject to making charges affordable for low-income households, harmonised charges to a particular group should be set to recover as closely as possible the fixed and variable costs of serving that group.**
- **All significant changes in charge levels arising out of the application of these principles should be introduced gradually during the period 2006-10, and beyond in the most significant of cases.**

Where respondents do not agree that these principles provide an appropriate basis for setting charges, they are asked to suggest principles that they consider would be appropriate and why.

The principles appear to provide a reasonable basis for setting charges however the detail on how the charges could be made affordable for low income households is insufficient. Abatement of water charges should mirror that for council tax. That is those who are entitled to 100% council tax rebate should receive a 100% water charge reduction, those paying 50% council tax after rebate should also pay 50% of water charges and so on. The cost of the scheme should simply be factored into the cost of water services so that those who can afford to pay effectively subsidise those who cannot.

Discounts for single person households should also mirror those for council tax on the basis that usage in such households are likely to be lower than in multi person homes.

East Ayrshire Council – Consultation Response
Paying for Water Services 2006-2010, The Principles of Charging for Water Services
SECTION 2: APPLICATION OF PRINCIPLES

Consultation Point 3: Cross Subsidies

If it is established that there are significant cross subsidies between customer groups, should these be retained, or withdrawn gradually over time?

This section considers, and seeks views on, how the principles outlined in section 1 might be applied in a number of different cases. The cases considered are: The possible existence of cross subsidies from non-household to household customers and how any such cross subsidy should be addressed:

Whilst it would be reasonable to gradually withdraw any cross subsidy over a period of time, the apparent level of cross subsidy depends on the costing assumptions used. Those suggested appear to be fairly simplistic and consideration should be given to the whether weighting of fixed costs is appropriate to take account of, for example, high dependency or bulk usage.

Consultation Point 4: Household Charging

Should a new system of better targeted discounts for low-income households be funded from the savings that would be generated by abolishing the discounts currently granted to single adult households and in respect of second homes, or should the current system of discounts be retained?

As indicated above targeted discounts for low income households should not be determined by reference to any particular funding mechanism but should simply be a cost to Scottish Water paid for by those who can afford to pay. This has the attraction of being administratively simple and transparent.

Consultation Point 5: Non Household Charging

Should the current arrangements for charging non-household customers for surface and highway drainage be retained, or should preparations be made to establish by 2010 banded charges in respect of these charges?

In line with the principles of charging set out earlier in the document preparations should be put in hand to ensure that charges are based on usage rather than rateable value as soon as possible.

East Ayrshire Council – Consultation Response
Paying for Water Services 2006-2010, The Principles of Charging for Water Services
Consultation Point 6: Non Metered Supplies

Should un-metered non-household premises continue to pay by reference to rateable value, or should they become metered, or should preparations be made to enable these premises to be charged by reference to a system of bandings to reflect broad consumption levels?

In line with the principles of charging set out earlier in the document preparations should be put in hand to ensure that charges are based on usage rather than rateable value as soon as possible.

Consultation Point 7: The Balance Between Charging & Borrowing

Do you agree that the Executive has identified the main factors that should have a bearing on the amount of borrowing provision made available to Scottish Water? If not, which other relevant factors should be taken into account.

It is agreed that borrowing for ongoing maintenance should not be contemplated. It is accepted that a borrowing limit is imposed by the fact that borrowing by Scottish Water counts as public expenditure and so any increase in borrowing consent has a knock on effect for all other public services. It is unclear why this should be the case however and it may be that the statutory position of the organization itself should be reviewed to free it from what appears to be an unreasonable constraint.

Do you agree with the Executive's analysis that to fund all enhancements to Scottish Water's infrastructure from borrowing is unsustainable, but that to fund none would not strike the right balance between today's charge payers and tomorrows? If so do you consider that by allowing Scottish Water's debt to remain broadly constant in real terms would strike the right balance? If not, which level would strike the right balance and what implications would that balance have for wider public expenditure considerations?

The notion that the level of borrowing should remain static tends to assume that the level of investment over the last 40 years has been adequate however and this is patently not the case.

It is not agreed that to fund all enhancement to the infrastructure by borrowing is unsustainable in terms of the balance between today's charge payers and tomorrow's. Funding all investment from borrowing and charging the costs to revenue over the life of the asset would mean that today's charge payers would pay the same as tomorrows since repayments would begin immediately. It is unsustainable however due to the fact that it would count against public expenditure and impact unduly on all other public services in Scotland.

Consultation Point 8: Funding Expansion of the Public Networks

Do you agree that developers should be expected to meet the cost of providing increased local capacity where this is necessary to take forward their proposed developments? If not, should all customer groups meet the cost of removing development constraints equally, or should particular customer groups be required to bear the cost? If the latter, which customer groups should bear the costs and why?

Such a policy whilst appearing fair could impact adversely on regeneration projects which other users may benefit from in the longer term.