

REPORT TO: FINANCE COMMITTEE – 18 OCTOBER 2004

**REPORT ON: SCOTTISH EXECUTIVE CONSULTATION
PAYING FOR WATER SERVICES 2006-2010**

REPORT BY: DEPUTE CHIEF EXECUTIVE (FINANCE)

REPORT NO: 630-2004

1 PURPOSE OF REPORT

- 1.1 To inform the Committee of the Scottish Executive consultation on Paying for Water Services 2006-2010 and agree Dundee City Council's response.

2 RECOMMENDATION

- 2.1 It is recommended that the Committee agree the response detailed in Appendix 1 of this report as the Council's formal response to the Scottish Executive.

3 FINANCIAL IMPLICATIONS

- 3.1 There are no direct implications for the Council arising from this report, however, any changes to investment levels or charging methodology are likely to have an impact on water costs for the Council.

4 LOCAL AGENDA 21 IMPLICATIONS

- 4.1 The consultations on water services are relevant to a number of Key Themes in Dundee 21, including, resources are used efficiently and waste is minimised, pollution is limited to levels at which natural systems can cope, access to good food, water, shelter and fuel is available at reasonable cost, and health is protected by creating safe, clean and pleasant environments.

5 EQUAL OPPORTUNITIES IMPLICATIONS

- 5.1 There are no equal opportunities implications arising from this report.

6 BACKGROUND

- 6.1 The Scottish Executive has issued 2 consultation papers relating to Water Services. The other paper, Investing in Water Services 2006-2014 (The Quality and Standards III Project) seeks views on the scale and content of future investment in water and sewerage services in the period 2006-2014. A separate report on this consultation paper was considered by the Planning & Transportation Committee on 27 September 2004.

- 6.2 The consultation paper being considered in this report is Paying for Water Services 2006-10, and seeks views on the approach to be adopted in charging different customer groups for water services in the period 2006-2010.

- 6.3 The Water Services etc (Scotland) Bill includes provisions for the creation of a Water Industry Commission for Scotland. The Commission will succeed the Water Industry Commission for Scotland and assume a range of new functions in connection with the economic regulation of Scottish Water. The new functions will include setting limits on what Scottish Water can charge for each of the water and sewerage services that it provides to households and other customers and approving charging schemes that Scottish Water will prepare each year.

- 6.4 It is anticipated that the Commission will be established by summer 2005 and until then the Water Industry Commissioner will remain as the economic regulator and will undertake the Strategic Review of Water Charges for the period 2006-10.

- 6.5 The Water Industry Commissioner is required to publish for consultation his proposals for charge limits for each of the financial years in the period 2006-10. These proposed limits, together with all borrowing by Scottish Water, are to be sufficient and no more to enable Scottish Water to meet at the lowest reasonable overall cost the objectives and standards that ministers set for it.
- 6.6 The Commissioner is to publish his proposed limits in June 2005 in the expectation that the new Commission will be in place to consider representations on them from customers, the Executive and Scottish Water between September and December 2005. The Commission will determine and publish binding limits in December 2005 and these will provide the basis for Scottish Water's charges schemes during 2006-10, with the first of these schemes coming into effect on 1 April 2006.
- 6.7 As part of these arrangements the Executive is to set out the standards and objectives that Scottish Water is to meet in the period 2006-10 and the principles that the Commission is to apply in setting charge limits and in approving charges schemes.
- 6.8 This consultation paper seeks views on the principles that the Executive proposes to set and how these should be applied to charges paid by different customer groups served by Scottish Water.

7 CONCLUSION

- 7.1 The consultation paper covers a number of principles to be set by the Executive to underpin charge limits and charges schemes in the period 2006-2010. Appendix 1 sets out the proposed responses to the questions raised within the consultation paper. In addition the Water Commissioner will consult local authorities on the detailed proposals for Scottish Water investment and charging over this period.

8 CONSULTATION

- 8.1 The Chief Executive, Depute Chief Executive (Support Services), Assistant Chief Executive (Community Planning), Director of Planning & Transportation and Director of Economic Development have been consulted on the contents of this report.

9 BACKGROUND PAPERS

- 9.1 Scottish Executive Consultation Papers:
Paying for Water Services 2006 – 2010
Investing in Water Services 2006 – 2014 – The Quality and Standards III Project.

SCOTTISH EXECUTIVE CONSULTATION - PAYING FOR WATER SERVICES 2006-2010

CONSULTATION POINTS

Consultation Point 1

You are invited to comment on the principles outlined above that the Executive proposes should underpin charge limits and charges schemes in the period 2006-10. In particular, you are asked to indicate whether you agree that:-

- 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.

Dundee City Council Response

- It is accepted that in the normal course of events, Scottish Water should recover its full costs through charges, however there would appear to be a justifiable case for the Scottish Executive to provide a degree of funding to help offset the impact of significant increases in investment on future charges. There are many examples of public sector capital expenditure already supported by the Scottish Executive and it is disappointing that the questions in the consultation paper are framed such that the choice is between higher charges or lower investment.
- Charges for households must be set at an affordable level for low-income households. This is essential to address Dundee City Council's anti poverty policies as water and sewerage charges are not eligible for benefit relief.
- It is agreed that charges should be set on a harmonised basis across the country. Presumably this was one of the objectives in setting up Scottish Water and this should be retained.
- This proposal seeks to retain the current arrangements whereby the majority of customers are billed on an unmeasured basis and that fixed and variable costs are recovered through charges to particular groups of customers.
- Provided that arrangements are put in place to ensure that charges are affordable for low-income households and that any increases arising out of the application of these principles are phased in over the period 2006-10, this proposal seems fair.

Consultation Point 2

If you do not agree that the principles outlined in Consultation Point 1 provide an appropriate basis for setting charges, which principles would be appropriate and why.

Dundee City Council Response

Not applicable.

Consultation Point 3

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

At present there are different types of cross subsidy. Within the household sector higher banded properties subsidise lower banded properties and single adult households are subsidised by those with two or more adults in them.

In addition, there is cross subsidy between groups of non-household customers, eg relief for voluntary organisations.

The consultation paper also states that it is also questionable that the balance between income from households and non-households is right.

Dundee City Council Response

Any change to the balance of recovery of income between customer groups is likely to have a significant impact on individual customer groups and is not therefore recommended. If this is not accepted then any new allocation would have to be based on objective factual information and any cross subsidies withdrawn gradually over time.

Consultation Point 4

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?

Dundee City Council Response

Dundee City Council supports the retention of joint billing and collection of Council Tax and domestic water charges and it is encouraging to note that the Scottish Executive recognises that this system is cost effective.

The current 25% discount for all households in single adult occupation should continue. Although this discount does not reflect the ability of an individual to pay, it does reflect the lower consumption of services by a single adult household. It is also consistent with the discount applicable for Council Tax and the removal of this link would require significant system development resources.

Similarly, the consistency between council tax and water charges should be retained in respect of any discount applied to second homes. The draft Scottish Executive legislation gives local authority's discretion to reduce or retain the discount, on certain classes of second homes, between 10% and 50%. It would be unacceptably burdensome to administer separate criteria for council tax and water charges. In addition, significant system development changes would be required for every local authority area.

Consultation Point 5

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.

Dundee City Council Response

There is certainly inequity in the current charging regime for surface and highway drainage, whereby lower rateable value customers occupying large out of town sites benefit at the expense of high rateable value customers occupying compact city centre sites. Dundee City Council is in agreement that preparations should be made to establish banded charges in respect of these by 2010.

Consultation Point 6

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?

Dundee City Council Response

It is accepted that the current charging regime for un-metered non-household premises results in some occupants incurring charges which bear little relationship to the level of service consumed. This is patently inequitable. A move to a banded system of charging should result in a fairer charging methodology, however, customers falling within the third band should be given the option of having a meter installed if they consider that the charges are too high.

Consultation Point 7

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?

Do you agree with the Executive's analysis that to fund all enhancements 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 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?

Dundee City Council Response

There is obviously a concern that Scottish Water sets its investment programme and resultant borrowing requirement at an affordable level that does not result in unsustainable increases in charges. Equally the level of borrowing must be prudent and the proposal for Scottish Water's debt to remain broadly constant in real terms should ensure that both of these concerns are addressed.

One factor which is not mentioned in the consultation paper is the impact of existing costs associated with historic PPP funded projects which will have a bearing on current expenditure levels for the foreseeable future. All opportunities for refinancing these costs should be fully explored, along with consideration of efficiency and procurement improvements.

Consultation Point 8

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?

Dundee City Council Response

Whilst it is agreed in principle that the existing customers should not bear significant costs arising from new developments, it is of concern that the availability of water and sewerage infrastructure is increasingly dictating the pattern and phasing of development. Furthermore, developers in different areas will experience wide variations in site development costs depending on the level of infrastructure provision that is required. This will impact upon the ability of planning authorities to secure the benefits of development, particularly if the burden of infrastructure costs is high in areas where the property market is less buoyant.

There is a need for a broader view to be taken of the potential funding options that exist to enable new development. Among the options that could be considered would be the introduction of a standard charge on all developers to connect to the water supply and drainage network. Revenue raised could be invested in the deeper elements of connection. Greater integration with the development planning process would be necessary to ensure the viability of site allocations and to inform the prioritisation of schemes. This approach would be fairer insofar as this element of development costs would be standardised across different areas.

