



Paying for water services 2010-14

A consultation on the principles of charging for water services

**November 2007**

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## **FOREWORD**

Scottish Water is a vital part of Scotland's life. The services it provides are essential to every individual and community in Scotland. It is making major improvements to the quality of drinking water and the water environment. Its investment programme is one of the largest ever undertaken in the UK and is a major part of the work of the construction industry in Scotland. The connections Scottish Water makes to its networks make an important contribution to our continuing economic growth. Scottish Water therefore makes a significant contribution to the Government's strategic objectives.

The past few years have seen a period of significant improvement in Scottish Water's performance in terms of efficiency and customer service. Fundamental to the achievement of this picture of improvement is the framework through which charges are determined by the Water Industry Commission for Scotland.

Scottish Water's average household charges are at present lower than the average in England and Wales and in 2010 are expected to be among the lowest in the UK, while non-household charges are set to reduce by over 6% in real terms by 2010. Charges must ensure that the company has enough money to meet its operating costs and to fund the essential investment. But they must be set at a level that ensures that Scottish Water improves its efficiency and the service it delivers to customers. It is essential that Scottish Water's charges are set in a manner that is fair and transparent.

The Government wants to set out clearly the principles that it considers should govern future water charges and this consultation paper seeks your views on these issues. These principles will guide the work of the Water Industry Commission in determining charge levels for 2010-14.

The Government is committed to the continued success of Scottish Water as a publicly owned utility subject to firm independent regulation. The proposals in this document and your views on them are essential to ensuring that Scottish Water can continue to be successful and maintain its significant contribution to the Government's strategic objectives for Scotland.

**STEWART STEVENSON**

## EXECUTIVE SUMMARY

This consultation paper seeks views on those binding principles of charging that the Scottish Government will require the Water Industry Commission for Scotland to apply to the determination of water and sewerage charges during the next regulatory period 2010-14. It reviews the basis of current water and sewerage charges and the principles that have underlain previous charge reviews.

Views are invited on the following proposals:

- The existing principles of charging that are critical to delivering water services efficiently at fair and affordable cost to customers should be maintained. These include full cost recovery, cost reflectivity, geographical harmonisation of charges, phasing of increases, paying for increased local capacity and stable charges.
- Scottish Water's capital programme for 2010-14 should be set at a level that is efficiently manageable by a company of its size.
- Charges should be set at a level which will maintain and improve the level of financial sustainability and resilience of Scottish Water.
- There should be further movement towards more obviously cost-reflective charges within the next 4 year regulatory period but this should be done in the manner least disruptive to customers.
- Whether there should be plans to further extend the water services charges exemption scheme on its expiry in 2010.
- Recovery of roads drainage charges with water services charges on the basis of the rateable value of individual premises should be maintained.

Views on these issues should be sent by **29 February 2008** to:

*Ian Alexander*

*The Scottish Government*

*Climate Change & Water Industry Directorate*

*Area 1-H North*

*Victoria Quay*

*Edinburgh EH6 6QQ*            **'or'**

Email to: [waterdivision@scotland.gsi.gov.uk](mailto:waterdivision@scotland.gsi.gov.uk)

## INTRODUCTION

1. Since its creation in 2002, Scottish Water has undergone, and will continue to undergo, substantial modernisation delivering much improved services more efficiently. These improvements include:

- the delivery of nearly £1bn of efficiency savings by 2006 with a further £500m savings targeted by 2010;
- over £2bn of investment in the water industry, delivering substantial improvements to services provided to customers - better drinking water quality and a cleaner environment;
- over 25,500 new housing connections made in 2006/07 - Scottish Water will provide new strategic capacity in every case where it is required, and;
- a 38% improvement in customer service performance in 2006-07.

2. These results have been achieved while:

- average household charges are £15 lower in Scotland for 2007-08 than in England and Wales and will rise by less than inflation. By 2010 Scottish Water's charges are expected to be the third lowest in the UK;
- non-household charges will reduce by over 6% in real terms by 2010, and;
- customers pay the same rate for the same service wherever they are in the country.

3. The Scottish water industry is being further improved by the introduction of a new competitive charging framework for business customers.

4. Fundamental to achieving these improvements has been the framework through which charge levels are determined by the Water Industry Commission. The period of the present determination ends in 2010.

5. This consultation paper seeks views on those binding principles of charging that the Scottish Government will require the Water Industry Commission for Scotland to apply to the determination of water and sewerage charges during the next regulatory period 2010-14. These principles will be used by the Commission as the framework for determining the amounts of charges that Scottish Water can levy to deliver the investment priorities for them as set down by Ministers in their Direction of September 2005.

## **BACKGROUND – THE STRATEGIC REVIEW OF CHARGES**

6. The Strategic Review of Charges is commissioned by Scottish Ministers and undertaken by the Water Industry Commission in accordance with the Water Services etc. (Scotland) Act 2005. The Commission, which was established in July 2005, is Scottish Water's independent economic regulator. It has a statutory duty to set charge caps, at lowest reasonable overall cost, that provide Scottish Water with the financial resources that are sufficient to enable it to meet Ministers' objectives.

7. The Strategic Review of Charges will conclude in November 2009 with the Commission setting limits on the water and sewerage charge levels that Scottish Water can apply for 2010-14. The Scottish Government will take account of this consultation before confirming the principles of charging to be used in the review in March 2008.

8. Ministers' other input to the Strategic Review of Charges is to determine the objectives to be achieved by Scottish Water for 2010-14 (including a range of quality and environmental improvements and continued removal of development constraints). These were set in 2005 and are the basis for the investment programme undertaken by Scottish Water, funded through the Strategic Review of Charges.

9. This consultation takes account of the introduction of competition in the provision of retail services (i.e. customer facing services such as billing, reading meters, handling complaints etc.) to non-household customers from 1 April 2008. As a consequence of this change the principles of charging for 2010-14 will be applied by the Commission when setting wholesale charge levels only for these customers<sup>1</sup>. Subject to any relevant licence conditions set by the Commission, it will be for individual retailers to decide how they charge customers for the retail services provided. This change does not affect household customers. Charging principles will continue to apply to end charge levels (i.e. wholesale and retail) for these customers.

10. The former Executive initiated the Strategic Review of Charges in their letter to the Commission of December 2006 (see **Annex A**). They confirmed that the length of the next regulatory period should be 4 years (i.e. from 2010-14) and confirmed that the objectives Scottish Water should achieve for that period were those defined by the Ministerial direction of September 2005 covering the period 2006-14.

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<sup>1</sup> Wholesale Charges are those that Scottish Water will levy on those retailers that the Commission will licence to compete in the retail market from 2008; Retail Charges are those charges that retailers will charge to customers.

11. The timetable for delivery of the 2010-14 Strategic Review of Charges is:

- Throughout 2007: The Commission consulted on its methodology to ensure that the process would be open and transparent.
- Autumn 2007: The Scottish Government will consult on the principles to be applied by Scottish Water and the Commission in setting charges.
- May 2008: Scottish Water will submit a first draft business plan to the Commission setting out how much revenue it will need to deliver Ministers' objectives.
- September 2008: Ministers will issue guidance on the principles of charging and objectives to be delivered.
- March 2009: Scottish Water will submit a second draft business plan to the Commission which sets out its final view on the costs of delivery.
- June 2009: The Commission will provide a scrutiny on the plan in the form of a draft determination.
- September 2009: Scottish Water and others can make representations on the draft determination.
- November 2009: The Commission will produce its final determination of what the costs of delivering Ministers' objectives should be.
- January 2010: Scottish Water can either accept the conclusions of the final determination or appeal it to the Competition Commission.
- Each year during the 2010-14 period, Scottish Water will submit to the Commission for approval detailed charging schemes based on the principles of charging determined by the Scottish Government and within the charge caps set by the Commission.

## SUMMARY OF CURRENT PRINCIPLES OF CHARGING 2006-10

12. The Principles of Charging statement for 2006-10 (see **Annex B**) was issued in September 2005 following consultation and research. Its key features are summarised below.

### *Full cost recovery*

13. Charges should cover costs. Public expenditure support to Scottish Water in the provision of its core services would only be in the form of government lending - no grant would be paid. Further, customers would only be asked to meet additional costs beyond those allowed for in a charges determination, where these arose as the result of external factors beyond the control of Scottish Water. This arrangement protects the position of customers and ensures that they do not pay twice for the same services or compensate the company for inefficiency or poor management.

### *Stable and affordable charges*

14. Charges should be affordable and stable during the charging period and sustainable in the long-term. In setting this principle, Ministers wished to ensure that Scottish Water would have the resources to deliver the maximum affordable improvements in public health and environment protection standards, support housing and economic growth through investment in new water and sewerage capacity taking account of the essential and desirable objectives identified in their direction.

### *Financial sustainability and the level of Ministers' lending to Scottish Water*

15. As a minimum, Scottish Water's financial strength should be maintained during the period and if possible, slowly improved. Levels of borrowing should be consistent with long-term financial sustainability and be consistent with the optimum maximum size of the capital programme.

16. In determining charges, the Commission would determine the amount of lending required by Scottish Water for each year of the period 2006-10 to support the investment programme, subject to a maximum level of £182 million per year which Ministers were prepared to make available.

### *Harmonised charges*

17. Customers in any part of Scotland would pay the same rate for the same service.

### *Affordable charges for low income households*

18. Charges paid by low-income households should be affordable as far as possible. The 25% discount on water and sewerage services charges available to single-adult households should remain in place. Households with two or more adults and in receipt of Council Tax Benefit should also have their charges reduced by up to 25%. These measures are now in place.

### *Cost reflective charges*

19. Charges in general should be broadly cost-reflective – i.e. charges for given services to particular customer groups should be set to recover the cost to Scottish Water nationally of providing that service to that group as a whole. Affordable charges for low income households are an exception to this general principle.

### *Phasing of increases*

20. Achieving stable charges in real terms could be consistent with some charges rising above inflation and others falling, for example where tariff rebalancing is justified. Any increases in charges should be phased over the regulatory period unless there is a more effective means of minimising the adverse impact on customers.

### *Paying for roads drainage*

21. Scottish Water household and non-household charges should continue to include an appropriate element to recover the cost to Scottish Water of draining roads.

### *Paying for increased local capacity*

22. Where enhancements to the local infrastructure are required to enable new developments to be connected to the public networks, developers should meet the net cost to Scottish Water of such enhancements.

### *Future charging arrangements for non-household customers*

23. Following a commitment in the previous statement and consultation in late 2006, proposals to introduce general metering for non household customers and to change the basis of charging for surface drainage to one based on area drained are being implemented. Roads drainage would continue to be recovered with water services charges by reference to the rateable value of individual premises.

24. Pending introduction of these changes, Ministers announced on 31 August 2004 that those premises which had been eligible for exemption from paying charges from 1 April 2002 to 31 March 2006 under the Water and Sewerage Charges (Exemption) (Scotland) Regulations 2002 should continue to be eligible in the period 1 April 2006 to 31 March 2010.

## CHARGING STRUCTURE

25. The previous section described the principles which the Commission applied when determining charge levels for 2006-10. This section describes the water services provided to household and non-household customers in respect of which charges are due.

26. Most household and non-household customers receive and pay for four water services:

- the supply of drinking water;
- the removal and treatment of sewage;
- the removal and treatment of drainage from private roofs and car parks including private roads (surface drainage), and;
- the removal and treatment of drainage from public roads (roads drainage).

Some non-household customers also dispose of trade effluent through the sewerage system and pay for this service separately.

### *Household Charges*

27. Since 1996 domestic water and sewerage charges have been billed and collected by individual local authorities for Scottish Water together with Council Tax. Water and sewerage charges for domestic properties are linked to the Council Tax banding system. The vast majority of households in Scotland are billed for their water and sewerage services in this manner. A small minority of households choose to pay for their water services on a measured or metered basis.

28. An aspect of the joint system of billing and collection is that many existing Council Tax discounts also apply to water charges - with the exceptions of second home discounts and Council Tax Benefit. Additionally, on 1 April 2006, Ministers introduced a water services charges reduction of up to 25% for households with two or more adults in receipt of Council Tax Benefit and no other discounts. The purpose of the reduction is directly to assist vulnerable households which had previously not been eligible for any or only a very limited reduction in their water services charges.

29. While domestic wastewater charges cover costs related to surface drainage and roads drainage, charges for this element of water services are not shown separately on the Council Tax bill.

30. The table below shows domestic charges for 2007/08:

Council Tax Band	Water	Waste Water	Combined	Combined with 25% Discount
Band A	£114	£129	£244	£183
Band B	£134	£151	£285	£213
Band C	£153	£173	£325	£244
Band D	£172	£194	£366	£274
Band E	£210	£237	£447	£335
Band F	£248	£280	£528	£396
Band G	£286	£324	£610	£457
Band H	£343	£388	£732	£549

31. Average household charges in Scotland are now lower than in England and Wales. While charges in England and Wales are due to rise by more than inflation, in Scotland they will rise by less. This means that by 2010, Scottish Water will have lower water and sewerage services charges than 8 out of the 10 privatised water and sewerage companies in England and Wales.

#### *Non-household Charges*

32. There are approximately 130,000 non-household customers in Scotland. Of these roughly 80,000 currently pay for their water services on a metered basis and 50,000 are un-metered.

33. In advance of the retail market opening, un-measured non-household customers currently pay Scottish Water's retail subsidiary, Scottish Water Business Stream, for services received by reference to the rateable value of their property. Measured non-household customers pay Scottish Water Business Stream for their water services on a metered basis.

34. There is a programme underway to meter all non-household customers to coincide with the introduction of retail competition in the non-household sector from 1 April 2008.

## CHANGES IN PROGRESS

35. A number of changes are in progress to the current basis of charging non-household customers.

### *Introduction of metering and surface drainage charges for non-household customers*

36. In February 2005, the former Executive announced its commitment in principle to introduce changes to the basis on which Scottish Water and the Commission set charge levels for water services to non-household customers. This followed an extensive period of public consultation and recognised customers' concerns that the existing link between non-household premises and their rateable values bore little relation to the cost of providing these services.

37. In November 2006, the former Executive consulted further on the detailed proposals which were developed in discussion with Scottish Water and the Commission for achieving this change. The change includes the introduction of general metering for all currently un-metered non-household premises and the creation of a system that would place all non-household premises and their surrounding surface areas into one of a number of charge bands intended to reflect the area of roof, car parking etc. that discharges to the public sewers.

38. This is a more cost-reflective means of charging non-household customers for their water services. The changes to the surface area drainage element will ensure that charges for this element reflect more closely the cost to Scottish Water of draining and treating run-off from car parks etc. Similarly, those proposals related to water usage will mean that those customers who use less should attract a smaller charge. Customers who place the least burden on the water system should pay the least which is a fairer approach for all customers.

39. The Commission and Scottish Water have agreed a programme of meter installation for all currently un-metered non-household premises where it is practicable to do so. The majority of meters should be installed by April 2008, with the programme finally complete by April 2009. Changes to the charging basis for surface drainage will not be introduced until 2010 given the level of preparatory work required.

40. The former Executive confirmed in February 2007 that the introduction of measured wholesale charges would be phased in over four years, extending into the 2010-14 period. This approach is consistent with the current principles of charging. Subject to views received on this consultation, the Scottish Government would expect Scottish Water and the Commission to ensure a similar phased approach for the introduction of banded surface drainage wholesale charges.

#### *Retail competition*

41. As this paper has previously described, retail competition is being introduced in the non-household sector from 1 April 2008.

42. The only part of Scottish Water's activities that the 2005 Act does not reserve exclusively to it are those connected with retail water and sewerage services (i.e. those customer facing activities such as billing, meter reading and complaints handling) to the 130,000 or so business customers served by the public systems. The 2005 Act required Scottish Water to establish a retail undertaking as a separate business licensed by the Commission to provide these services. Consequently, Scottish Water Business Stream was established in 2006 and has been initially licensed by the Commission to provide these services in competition with any private sector firms which the Commission may licence from 1 April 2008.

43. Retail competition will mean that licensed retailers (including Scottish Water Business Stream) will compete to provide retail services to non-household customers in a similar manner to other utility industries e.g. gas or electricity. The introduction of competition in the non-household sector means that the principles of charging that Scottish Water and the Commission will apply when setting charge levels for 2010-14 for non-household customers will apply only to Scottish Water's wholesale charges.

44. Licensed retailers will offer their own tariffs to customers. They will be subject to a licence condition requiring them also to offer alternative default tariffs. The Government agrees with the Commission that the application of default tariffs should act as a safety net to protect customers from any unexpected increases in bills.

## **PROPOSED PRINCIPLES OF CHARGING FOR 2010-14**

45. This section sets out the Scottish Government's proposed principles of charging for 2010-14. Many of the existing principles (including full cost recovery, cost reflectivity, geographical harmonisation of charges, phasing of increases, paying for increased local capacity and stable charges) should continue to apply during 2010-14. A number of other issues require closer consideration including the financial sustainability of Scottish Water, affordability, unwinding of cross-subsidies between groups of charge payers, the small organisation exemption scheme and roads drainage.

### ***Essential principles of charging***

46. Subject to the responses to this consultation, Ministers propose that the following principles should continue to apply for the charge period 2010-14:

- Stable charges (i.e. a regime in which charges do not rise faster than general inflation).

Stable charges in the 2006-10 period have given customers certainty and are providing sufficient revenue to allow the essential and desirable objectives set out in Ministers' investment Direction of September 2005 to be taken forward by Scottish Water. The company is also improving its financial strength and value. Ministers believe that this progress can be maintained under a framework of stable charges in 2010-14.

Ministers therefore propose to maintain the principle that the desirable objectives should be delivered only to the extent that they are consistent with stable charges during 2010-14. Ministers recognise that achieving constant average charges in real terms could be consistent with some charges rising above inflation and others falling in real terms, for example where tariff rebalancing is justified. Ministers expect the Commission to inform them if the desirable objectives cannot be achieved within a stable price framework in order that they can reconsider priorities.

- Customers in the same category pay the same rate for the same service wherever they are in the country.
- Charges in general should be broadly cost-reflective - i.e. charges for given services to particular customer groups should be set to recover the cost to Scottish Water nationally of providing that service to that group as a whole.

- A corollary to this is full cost-recovery - that is, charges should cover costs. Where, for whatever reason, this principle gives rise to significant charge increases for individual customers, the Commission and Scottish Water must have regard to Ministers' requirement that such increases be phased gradually to minimise the impact of any increases in any one year unless a more effective means can be found.
- Inefficiencies by Scottish Water which led to any financial under-performance would have to be met by direct financial support from the Government. This reflects the key principle that the customer should pay only the proper economic charge for the service received and should not pay twice to cover poor performance. This is a strong discipline on Scottish Water and on Government as owner.
- Where enhancements to local infrastructure are required to enable new developments to be connected to the public networks developers should meet the net cost to Scottish Water of such enhancements. In doing so, Ministers recognise that this is a new system, which it would make sense to review, prior to the next strategic review of charges.

### ***Key Issues for further consideration***

47. In a number of areas the principles of charging require careful consideration.

#### *Investment programme*

48. The size of Scottish Water's investment programme is a key determinant of the levels of revenue required to be delivered through its charges to customers.

49. As specified in the Ministerial Objectives, Scottish Water's investment programme must maintain its assets, improve the system in order to comply with statutory requirements in relation to environmental and quality performance and accommodate growth in the system. That programme must be deliverable.

50. The 2005 regulatory settlement costed Scottish Water's capital programme for 2006-10 at £2.5bn. It is clear that the current investment programme is at the absolute limits of what can efficiently be managed by a company of Scottish Water's size. Over the remainder of the current regulatory period, Scottish Water is expected to invest at levels at the highest known in the UK water industry – over £600m per year. This is a huge challenge.

51. Both Scottish Water and the Commission have made their view known to Ministers that maintaining this level of investment beyond 2010 is not sustainable and to attempt to do so would risk non-delivery and inefficiency. Previous programmes have seen significant amounts of investment being deferred into the subsequent regulatory period. This is undesirable, leading, amongst other things, to deferment of benefits and inefficient planning.

52. Ministers accept this view. They therefore propose that the investment programme for this period should be set at a level that is efficiently manageable by a company of Scottish Water's size. This should include any deferred investment from 2006-10 and early start investment for the 2014-18 period. Overall therefore Ministers expect the programme to be smaller than the 2006-10 programme. Ministers will look to the Commission and Scottish Water for advice on the optimum level.

53. Ministers will look to the present Strategic Review of Charges process to confirm that an investment programme at an efficiently manageable level will secure the Ministerial objectives for 2010-14 as set out in the Direction of 2005.

#### *Finance*

54. There are a number of important issues relating to the financing and financial position of Scottish Water as a publicly owned utility.

- *Borrowing*

It is essential that Scottish Water is able to finance the investment programme.

Scottish Water has two sources of funding – customer charges and borrowing from the Scottish Government. Unlike other owners, the Government does not extract any funds in the form of a dividend from its ownership. Any surplus on revenue over operating costs, interest and tax is reinvested and supports the capital programme. Without such surpluses maintaining the investment programme at desired levels would require higher levels of lending by the Government or increases in customer charges. Roughly £50m each year (over the period 2002-06) was foregone as a potential dividend to the Government and was instead used to support the investment programme. The Government will take no dividend in the coming regulatory period.

Ministers also recognise the importance of borrowing to the achievement of the Ministerial objectives. The size of the capital programme and the level of revenue gained from stable charges determine the borrowing requirement.

Ministers will therefore ensure that Scottish Water has access to borrowing at, or around, current levels during 2010-14, subject to Government spending review decisions. The Commission should therefore determine charges for 2010-14 taking into account the availability of this maximum level of borrowing per year. In its determination the Commission should identify the amount of borrowing required by Scottish Water for each year, subject to this maximum level.

- *Financial strength and resilience*

As owners of Scottish Water, Ministers also wish the company to improve its financial stability and sustainability. It should be profitable and resilient. Charges are on average lower in Scotland than elsewhere in the UK and the overall financial strength of Scottish Water is improving. Ministers believe that this progress can be maintained under a stable charges framework for the 2010-14 period.

In the 2006-10 statement Ministers required that, as a minimum, Scottish Water's financial strength should be maintained and if possible, slowly improved. They specified that Scottish Water should strive to outperform the regulatory settlement thereby further improving its financial strength and increasing the value of the company. In assessing the financial strength of the company the Commission has made reference to a number of financial ratios used by OFWAT.

The Commission proposed in its recent consultation on its methodology for the 2010-14 review that it would continue to apply the financial ratios used by OFWAT to the private industry elsewhere in the UK in order to assess its financial strength. The Government has no evidence that these ratios are not appropriate for a publicly owned utility such as Scottish Water. Efficiency targets are drawn from the private industry and it is consistent that the assessment of its financial strength should be driven by the same financial and managerial disciplines.

Ministers expect the Commission to inform them if the financial strength of Scottish Water cannot at least be maintained within a stable price framework taking into account the level of lending that they have indicated that they are willing to make available to Scottish Water.

- *Financial reserve – the gilts buffer*

In the last Strategic Review of Charges, Ministers and the Commission agreed the creation of a financial reserve in Scottish Water to enable it to manage risk more effectively.

The Commission was keen to have an incentive-based approach to regulation whereby they set financial constraints that can be out-performed by a determined management. Ministers believe that incentive based regulation is key to delivering an efficient and effective water industry in Scotland, at least cost to customers. An incentivised management and workforce is essential to meeting that objective.

Ministers and the Commission agreed that financial surpluses beyond the limits set in the determination – out-performance – should be held by Scottish Water in the form of gilts (the gilts buffer). This reserve would be used to ease the impacts of any financial or other shocks on Scottish Water customers. Scottish Water would only be able to sell the gilts with the approval of the Scottish Government following confirmation from the Commission that such a sale would be in the customer interest. The purpose of this reserve is to protect both the owner and customer against the financial impact of unforeseen events. Customers would not have additional costs imposed on them and the Government would not have to find additional finance outwith planned lending.

In its methodology consultation for 2010-14 the Commission sought views on setting a target level for the gilts buffer. The Government will be interested in the views that the Commission receives on this issue and will reach a view on whether an appropriate target can be identified in the light of the responses to the consultation. Meantime, Ministers remain committed to incentive based regulation and the development over time of a reserve in the form of gilts.

#### *Affordability & the impact of moving from council tax to a local income tax*

55. Ministers continue to regard the issue of affordability as significant and propose to explore how the present benefits can be maintained during 2010-14.

56. The Government is committed to the abolition of Council Tax and its replacement with a local income tax. It will be consulting separately on its proposals in this area. This change has a number of important implications for water charges;

- domestic water charges are currently set with reference to council tax bands;
- local authorities currently bill and collect water charges on behalf of Scottish Water together with Council Tax, and;

- Water customers receive a range of discounts by virtue of the link with the present Council Tax system.

57. The Scottish Government has not yet formulated its policy in relation to these issues. They are being closely examined at present and will be subject to further consultation at a later stage.

#### *Unwinding of cross-subsidies between customers*

58. An area of particular concern to some non-household customers in recent years has been the extent to which charges paid by them have exceeded their fair share of Scottish Water's costs. In 2004, Ministers commissioned economic consultants Stone & Webster to determine the levels by which the non-household sector subsidises the household sector and to recommend what action should be taken to address these. The consultants' report concluded that there was robust evidence that Scottish Water over-recovers costs from non-household customers, resulting in households paying in aggregate £44m a year less (on the water side) than it costs Scottish Water to supply them. Ministers therefore required the Commission to determine charge limits for the current period 2006-10 in such a way that these imbalances were corrected without causing average household charges to increase in real terms.

59. The consultants also reported that data quality needed to be improved and other cross subsidies would probably be identified. In response, Ministers required the Commission and Scottish Water to conduct further work to establish with greater certainty the nature of other imbalances. In light of that work the Commission was to advise Ministers of any further rebalancing that would be required to achieve greater cost-reflectivity in charging in the period 2010-14.

60. The Commission has now concluded this work on the basis of latest available evidence and has identified a number of imbalances between customer groups and in respect of individual services. It has advised the Scottish Government that Scottish Water still over-recovers £25m a year from non-household customers. The Commission's advice is that unwinding these cross-subsidies within a stable charges framework should be achievable, provided that capital investment remains at a deliverable level.

61. Scottish Water also over recovers, on the water side, about £3m from small to medium non-household customers while under-recovering similar costs from large volume non-household water users. Correcting this imbalance implies increases of up to 30% for a small number of large non-household customers.

62. There are also a number of imbalances within non-household sewerage charges. The Commission's estimates are that Scottish Water over-recovers costs for foul waste and under-recovers costs for both surface drainage and trade effluent. Correcting these imbalances could lead to increases of around 10% for some non-household customers who pay for surface drainage and around 75% for trade effluent customers. The impact on individual customers' bills would depend on the mix of services that customers receive. While reductions in foul sewerage charges would reduce the effects of increases for some customers, others would face steep increases.

63. This is a significant issue. While Ministers wish to move towards a properly cost-reflective position, they expect Scottish Water and the Commission to apply the principles which Ministers set out in unwinding these cross-subsidies in the least disruptive manner to customers.

#### *Small organisation water services charges exemption scheme*

64. Prior to the creation of Scottish Water, reliefs were granted by the former water authorities to certain water customers on a discretionary basis. These reliefs were removed in the interests of fair and sustainable charging. The current water services charges exemption scheme was introduced to help those organisations with modest financial resources (including charities and voluntary organisations) to adjust to the withdrawal of these reliefs and to prepare to pay for their water services.

65. In 2004, Ministers extended the exemption scheme to 2010. This was to allow more time for that preparation and to ensure that those paying for the first time would not start paying until a more obviously cost-reflective system of charging non-household customers was introduced. That new system is now being put in place.

66. The current exemption scheme costs around £2.4m annually. Scottish Water does not receive public funding for these exemptions which are met from customer charges.

67. The Scottish Government believes that we must now address whether or not to continue with reliefs on water charges. We have to consider whether all customers, including charitable organisations, should contribute to the cost of the water services that they use. We also have to consider if the present scheme should continue, or continue in a revised fashion, if it places an undue burden on other customers, including vulnerable domestic customers and small businesses through increased charges.

68. Ministers therefore propose to confirm, in light of this consultation exercise, whether in their principles of charging statement for 2010-14 there should be plans to extend the exemption scheme on its expiry in April 2010.

### *Roads Drainage*

69. Scottish Water and the Commission estimate that the costs of roads drainage are about £100m a year. While the link between non-household premises and their rateable value has been replaced, this change did not extend to roads (or highway) drainage. Although many non-household customers consider it unreasonable to pay these charges, the Government has yet to be advised of a practicable alternative. Roads drainage is paid for through water charges in other parts of the UK. The only current alternative would be for the cost to be met by local councils and the highway authorities, placing a new burden on Council Tax, business rates or central government support. Consequently, the Scottish Government proposes that roads drainage charges will continue to be recovered in 2010-14 from wastewater services charges set by reference to the rateable value of individual premises.

## CONCLUSIONS

70. The issues on which views are sought are set out below.

### *Essential Principles of Charging*

- The existing principles of charging that are critical to delivering water services efficiently at fair and affordable cost to customers should be maintained. These include full cost recovery, cost reflectivity, geographical harmonisation of charges, phasing of increases, paying for increased local capacity and stable charges.

### *Key issues*

- Scottish Water's capital programme for 2010-14 should be set at a level that is efficiently manageable by a company of its size.
- Charges should be set at a level which will maintain and improve the level of financial sustainability and resilience of Scottish Water.
- There should be further movement towards more obviously cost-reflective charges within the next 4 year regulatory period but this should be done in the manner least disruptive to customers.
- Whether there should be plans to further extend the water services charges exemption scheme on its expiry in 2010.
- Recovery of roads drainage charges with water services charges on the basis of the rateable value of individual premises should be maintained.

## **RESPONDING TO THE CONSULTATION**

Please send your views and comments on the proposals in this paper to:-

Email: [waterdivision@scotland.gsi.gov.uk](mailto:waterdivision@scotland.gsi.gov.uk) 'or'

Post to:

*Ian Alexander*

*The Scottish Government*

*Climate Change & Water Industry Directorate*

*Area 1-H North*

*Victoria Quay*

*Edinburgh EH6 6QQ*

Further information about how to respond to the consultation and how your responses will be handled are included at **ANNEXES C & D**.



## SCOTTISH EXECUTIVE

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Deputy Minister for Environment & Rural Development  
**Rhona Brankin** MSP

Pentland House  
47 Robb's Loan  
Edinburgh EH14 1TY

Sir Ian Byatt  
Water Industry Commission for Scotland  
Ochil House  
Springkerse Business Park  
Stirling  
FK7 7XE

Telephone: 0845 774 1741  
scottish.ministers@scotland.gsi.gov.uk  
<http://www.scotland.gov.uk>

Our ref:

15 December 2006

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### **STRATEGIC REVIEW OF WATER CHARGES: 2010 -2014**

I am writing to inform you of the broad arrangements that the Executive wishes to be followed in the next Strategic Review of Water Charges (SRoC).

#### **SRoC arrangements: background**

The Water Industry (Scotland) Act 2002, as amended by the Water Services etc. (Scotland) Act 2005, places duties on both the Scottish Ministers (Ministers) and the Water Industry Commission (the Commission).

The duties on Ministers include to:

- Specify the time period for the determination of charges (SRoC );
- Specify the date by which the determination must be made;
- Set the standards and objectives (statement of objectives) to be achieved by Scottish Water in the provision of core services during the period to be covered by the strategic review; and
- Issue a statement of policy regarding charges (principles of charging), having consulted the Commission, the Convenor of Waterwatch Scotland and Scottish Water.

The duties on the Commission include to:

- Determine the limits on charges for the time period and by the date specified by Ministers. The limits have to be set for each of the years covered by the review period and must be consistent with the principles of charging set by Ministers.
- Ensure that, in determining charge limits the revenue from the limits, when taken with the borrowing authorised by the Executive, is sufficient to allow Scottish Water to perform its core functions and meet the stated Ministerial objectives at the lowest reasonable overall cost.
- Publish a draft determination, invite representations and have regards to these in the final determination.

### **SRoC 2010-14: Ministerial Specifications**

The following set out the requirements Ministers wish followed in the next Strategic Review of Charges.

Time period of and date of publication for the determination: The Commission is to undertake a strategic review of charges for the four year period 2010 to 2014, consistent with the planning horizon used in the Quality and Standards 3 process and the indicative charge limits provided as part of the Strategic Review of Charges 2006-2010. The determination should be published by the end of November 2009.

Principles of Charging: Ministers will issue a consultation on the principles of charging in November 2007 and confirm the principles of charges to be applied by way of a public statement in April 2008.

Statement of Objectives: The objectives to be achieved by Scottish Water during the next period are those specified in the Explanatory Note attached to the Scottish Water (Objectives for 1<sup>st</sup> April 2006 to 31<sup>st</sup> March 2010) Direction 2005<sup>2</sup>. These objectives were established by Ministers following advice of the Quality and Standards 3 Board and in-depth public consultation and research. In specifying these requirements Minister recognise Scottish Water's duty under Section 51 of the Water Industry (Scotland) Act 2002 to act in a manner best calculated to contribute to the achievement of sustainable development and we would welcome specific assessment of this issue in the Strategic Review.

I understand that the Commission intends to publish its timetable for the Strategic Review shortly and that as part of the process Scottish Water will be required to submit a first draft business plan at the

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<sup>2</sup> <http://www.scotland.gov.uk/Resource/Doc/1057/0022201.pdf>

end of May 2008, with the Commission commenting on it by the of July 2008. This provides a useful evidence base to allow for Ministers to review their statement of objectives and principles of charging. Ministers will either revise or confirm the objectives and the principles of charging by the end of September 2008.

### **SRoC 2010-14: Arrangements to support greater continuity of investment planning**

The development of objectives for the industry which cover more than one regulatory period is, I believe, a positive development toward providing greater continuity in investment planning and delivery of longer term objectives, for instance the Water Framework Directive. Improving the planned delivery of objectives is to the benefit of customers. Nevertheless, it is appropriate to consider whether there are further developments which could assist in this process and remove unnecessary uncertainty.

With this in mind, I would ask that the Commission considers whether there are further opportunities to support greater continuity of investment planning in the current processes. Such options might include arrangements which facilitate an early start to Ministers' objectives, thereby minimising any hiatus between investment, and the ability to take account of delivery requirements which will take longer than any single regulatory period to address. For example, the requirement to address waste water infrastructure issues in the Glasgow area as well as the broader requirements to address sustainable development and climate change issues.

You will be aware that the Q&S3 Board endorsed the Common Framework Approach to assess Scottish Water's requirements for capital maintenance in its report to Ministers and that Ministers accepted that advice. I note that you have advised that you will not be able to apply this approach due to lack of data in the Strategic Review 2010-14. To help avoid unnecessary uncertainty, I would encourage the Commission to work with Scottish Water to develop a suitable interim arrangement whilst continuing to encourage the enhancement of Scottish Water data to a sufficient level to support the operation of a Common Framework Approach.

Finally, I wanted to raise with you my plans to develop a longer term vision for the water industry in Scotland. While the objectives for the next review are already stated, it will be necessary to begin consideration of how to develop objectives for subsequent periods so that an acceptable longer term vision for Scottish Water, the service customers receive and the water environment can be established. Such a vision would help further to ensure that the objectives financed by successive reviews contribute effectively to longer term aims. As well as sustainable development and climate change

mentioned above, such a vision could take account of the interaction with River Basin Management Planning and Water Safety Plans.

I look forward to receiving regular reports on the progress of the strategic review.

I am copying this letter the Chairman of SEPA, the Drinking Water Quality Regulator for Scotland, the Chairman of Scottish Water, the Convenor of Waterwatch Scotland and the Chairman of the Competition Commission.

**RHONA BRANKIN**

**WATER INDUSTRY (SCOTLAND) ACT 2002****SCOTTISH MINISTERS' STATEMENT OF POLICY REGARDING  
CHARGES****Introduction**

1. The Scottish Ministers ("Ministers") in performance of the duty placed on them by section 29D of the Water Industry (Scotland) Act 2002 ("the 1002 Act"), having consulted the Water Industry Commission for Scotland ("the Commission"), Scottish Water ("Scottish Water") and the Convener of the Water Customer Consultation Panels ("the Convener") make the following statement of policy regarding charges under a charges scheme under section 29A, and a determination of maximum charges under section 29B, of the 2002 Act for the period 1 April 2006 to 31 March 2010 ("the period").

**Ministers' policy regarding charges***General policy objectives*

2. Ministers' policy is for maximum charges to be determined for the period and for successive charges schemes under that determination in the period to be made so as to enable Scottish Water to:
- a) achieve the maximum affordable improvements in public health and environment protection standards;
  - b) support housing and Ministers' top priority of economic growth in communities across Scotland through investment in new water and sewerage capacity, and;
  - c) achieve the preceding two outcomes, and also improvements in operating performance, on the basis of charges that are affordable and stable across the period and that are sustainable the long term.

*Full cost recovery: Ministers' policy on providing financial support to Scottish Water*

3. Ministers have decided that public expenditure support to Scottish Water in the provision of its core services throughout the period will take the form solely of lending from Ministers to Scottish Water, and that no grant will be paid in respect of these services during the period. Information about the level of that lending is given in the next section.

4. It is the policy of Ministers that customers should be asked to meet additional costs beyond those allowed for in a charges determination only where these have arisen as the result of external factors beyond the control of Scottish Water. The purpose of this policy is to protect the position of customers. To provide similar protection for public expenditure, it is the policy of Ministers not to increase their lending to Scottish Water to meet costs already provided for by a determination. The purpose of this policy is to ensure that the determination provides Scottish Water with firm financial limits for the period covered by the determination.

*Stable charges, financial sustainability and the level of Ministers' lending to Scottish Water*

5. Having had regard to the advice submitted to them by the former Water Industry Commissioner for Scotland (in his letters to them of 2 December 2004 and 10 May 2005), Ministers have established as a policy objective that average charge levels should be kept constant in real terms during the period. Consequently, insofar as is practicable, and subject to the conditions set out at paragraphs 6 and 7 below, Ministers require the Commission and Scottish Water to discharge their respective functions under sections 29A and 29B of the 2002 Act in such a way that maximum charges are determined and charges schemes are made with a view to securing that objective.

6. Achieving constant average charges in real terms could be consistent, with some charges rising above inflation and others falling in real terms, for example where tariff rebalancing is justified. Where this is necessary, Ministers require the Commission and Scottish Water to minimise the impact on those customers affected by any increase. Consequently, maximum charges should be determined and charges schemes made in a manner that delivers the most regular and smooth charges profile possible in the circumstances. In particular, Ministers require the Commission and Scottish Water to avoid reductions in charges one year if such a reduction could not be sustained, or if it would need to be followed in subsequent years by an increase in real terms. The Commission and Scottish Water should ensure, where a permanent increase in a given tariff is necessary, that the increase is phased over the review period unless there is a more effective means of minimising the impact of the increase.

7. Ministers do not wish stable charges in the period to be secured at the expense of Scottish Water's longer-term financial sustainability. That is to say, they do not wish charges to be kept low in the medium term by building up debt whose servicing costs would add to Scottish Water's cost base and would result in charges in the longer term being higher than would otherwise have been the case. To safeguard the position of customers in the longer term, Ministers' policy is, as a minimum, that Scottish Water's financial strength should be maintained during the period and that if possible it should be improved slowly over that time.

8. Ministers recognise that the level of borrowing during the period that would be consistent with long-term financial sustainability will be dependent on the maximum size of the capital programme that the Commission as part of the assessment required in determining maximum charges, judges Scottish Water to be capable of delivering efficiently in the period. Therefore, Ministers wish the Commission to determine the amount of lending that they should make available to Scottish Water in, each year of the period that would be necessary to support a capital programme of the scale set by the Commission and that would be consistent with a gradual and steady improvement in the long-term financial sustainability of Scottish Water. This requirement is subject to the amount of lending by Ministers in anyone year in support of the investment programme being no greater than £182 million, which is the maximum sum that the Executive has set aside for lending to Scottish Water in the each year of the period, pending the determination of maximum charges and the Commission's decision on the sustainable level of borrowing required to underpin the determination and the investment programme.

9. In addition to the lending that Ministers will make available for the achievement of their objectives during the period, Ministers will make available any lending provided for the period 1 April 2002 to 31 March 2006 that has not be drawn down by Scottish Water and which is required to meet the costs of any investment from that period, but which is completed between 1 April 2006 and 31 March 2010.

#### *Harmonised charges*

10. A fundamental tenet of Ministers' policy regarding charges is that customers in the same group should pay at the same rate for the provision of the same service, regardless of their location, or of the actual cost of serving one such customer as against another. Section 29D (2) of the 2002 Act enshrines this principle in statute by requiring Ministers to set policy regarding charges that secures that outcome. Consequently, Ministers confirm that charges for all of Scottish Water's core services in the period must be recovered from customers on the basis of all tariffs being set at a nationally

averaged rate for Scotland as a whole. This means that charges in respect of given services to particular customer groups should be set to recover the cost to Scottish Water nationally of providing that service to that group as a whole. Where, for whatever reason, this requirement gives rise to significant charge increases for individual customers, the Commission and Scottish Water are required to have regard to Ministers' requirement that such increases be phased gradually over the period to minimise the impact of any increase in anyone year.

#### *Affordable charges for low income households*

11. Ministers' policy regarding charges generally is directed towards charges being affordable for all customers. Ministers are concerned in particular to ensure that the charges paid by low income households are made as affordable as possible for such households.

12. The 25% discount on water and sewerage charges that single adult households receive automatically at present is one means of assisting many low income households. Ministers confirm that this discount will remain in place after 1 April 2006. In addition to this, Ministers have decided that households with two or more adults and receiving CTB should have their charges reduced by up to 25% from, 1 April 2006. They will make regulations, under, section 40 of the 2002 Act, which will provide for the new reduction to be introduced. The reduction will be a permanent means of assisting those receiving CTB. Therefore, the present water and sewerage services charges transitional relief scheme, which is also based on CTB eligibility, but is temporary, will come to an end on 31 March 2006, rather than continuing until 31 March 2007 as planned previously.

13. As far as is possible, the cost of providing the new reduction should be met from the additional revenue that Scottish Water will recover as a consequence of the discount on water charges that has been available to the owners of premises falling within the scope of the Unoccupied Dwellings Regulations being abolished. In the event that the reduction would result in Scottish Water suffering a shortfall in its revenue that is not made up by the extra revenue accruing from the abolition, that shortfall is to be made good by increasing limits on charges generally.

#### *Cost reflectivity of charges*

14. An aspect of Ministers' policy on harmonised charges is Ministers' expectation that charges in general should be broadly cost reflective. That is to say, charges in respect of given services to particular customer groups should be set to recover the cost to Scottish Water nationally of providing that service to that group as a whole.

15. Ministers recognised concerns in some quarters that charges might not be fully cost reflective and therefore could be balanced unfairly as between one group of customers and another. Consequently, they commissioned economic consultants Stone and Webster to establish and analyse evidence of any imbalances between customer groups and to recommend what, if any, action should be taken to address any clearly identified imbalances.

16. Stone and Webster's report concluded that Scottish Water over-recovers costs from non-household customers. The most robust estimate that the report could provide was that this over-recovery results in households paying £44m a year less for water supply services that it costs to provide them with these services.

17. The report recognised that there are particular difficulties in attributing the costs of sewerage services across different customer groups at present. It expected these to diminish over time as the quality of Scottish Water's data improves. It recommended therefore that action to address a number of imbalances between sewerage customers should be left until after 31 March 2010.

18. In the period between 1 April 2006 and 31 March 2010, the report recommended a cautious approach that would achieve a measure of general rebalancing between household and non-household charges. It suggested, on the basis of its most robust estimate, that it would be prudent to correct the under recovery from household customers of £44 million.

19. The former Water Industry Commissioner advised Ministers that it would be possible to rectify the imbalances identified by Stone and Webster as most suitable for addressing in the period without average household charges having to increase in real terms. In light of this advice, Ministers require the Commission to determine charge limits for the period in such a way that these imbalances are corrected without causing average household charges to increase in real terms. In doing so, the Commission should have regard to the requirement that any change in tariffs is phased over the review period unless there is a more effective means of securing the change while maintaining stability in household charge levels.

20. The counterpart to this exercise will be a reduction in the amount paid by non-household customers. Ministers require the Commission to allocate the benefits of this reduction equally across all non-household customers.

21. Rectifying the imbalance identified by Stone and Webster is Ministers' priority in this area for the period. Ministers require the Commission and Scottish Water to conduct further work to establish with greater certainty the nature of other such imbalances, particularly in the case of sewerage services. In light of that work the Commission should advise Ministers of any further rebalancing that would be required to achieve greater cost reflectivity in charging in the period 2010-14.

22. Ministers require the Commission to set charges in such a way that any costs of retaining the link between household water and sewerage charges and Council Tax bands, and the new water and sewerage charges discount described at paragraph 12 above are both funded out of the generality of charges.

#### *Paying for increased local capacity*

23. Scottish Water's infrastructure can be divided into three parts: the pipes and drains from the boundary of individual properties that connect these properties to the local infrastructure; the local infrastructure, such as water mains, sewers, service reservoirs and wastewater pumping stations; and strategic assets, such as raw water intakes, water impounding reservoirs, aqueducts and treatment works.

24. The cost of connecting new developments to the local infrastructure has always been met by the developer. Ministers confirm that this should continue to be the case. In respect of strategic assets, Ministers' policy is that Scottish Water should meet the costs of providing whatever enhancements to the capacity of those assets are required to enable new developments to connect to Scottish Water's networks. Ministers require the Commission to ensure that its determination of charges provides sufficient financial resources for Scottish Water to achieve this objective.

25. Where enhancements to the local infrastructure are required to enable new developments to connect to the public networks, Ministers' policy is that developers should meet the net cost to Scottish Water or such enhancements, as determined by reference to the financial benefit to Scottish Water of the revenue that it will receive as a consequence of the new connection. Subject to the outcome of a public consultation on the matter, Ministers will provide for that policy to be achieved through regulations made under section 1 of the Sewerage (Scotland) Act 1968 and section 6 of the Water (Scotland) Act 1980. These will limit the contribution that Scottish Water is required to make to the local infrastructure costs to a sum that will reflect the additional charge income that it will receive as a result of the new infrastructure vesting in it.

26. The regulations will require that where additional or enhanced local infrastructure is required, developers fund the excess costs of the enhancement or connection above the contribution that Scottish Water will make in respect of the income that it will receive from the development. Consistent with the regulations, Ministers require the Commission to ensure that the level of borrowing that it sets for Scottish Water is sufficient to enable Scottish Water to fund the costs that it will incur in these cases through borrowing, rather than charge income, with reference to the cost of funds to Scottish Water and the period over which the contribution is to be amortised.

27. The approach described in the preceding paragraphs does not take into account the cost to Scottish Water of reinforcing its infrastructure in response to demand on capacity that cannot be attributed to particular developments. Ministers consider that these costs should be borne by developers generally. Consequently, they require the Commission to provide for Scottish Water to levy "infrastructure charges" of £250 for each new property connected to the water infrastructure and of £250 for each new property connected to the sewerage infrastructure.

#### *Future charging arrangements for non-household customers*

28. Ministers have announced, as a long-term objective of their charging policy that the rateable value of non-household premises should cease to be the basis upon which non-household customers are charged for any aspect of the services that they receive from Scottish Water. They are committed to the introduction of meters for all non-household premises not metered at present and to the creation of a system that would place all non-household premises and their surrounding surface areas into one of a number of bands intended to reflect the area of roof, car parking etc. that discharges to the public sewers.

29. Before these changes are implemented the Scottish Executive will work with the Commission and Scottish Water to develop detailed proposals for introducing general non-household metering and banded surface charges. It will consult on these proposals with a view to both changes being implemented as far as is practicable with effect from 1 April 2010. Meantime, Ministers require the Commission to determine charge limits for the period in respect of un-metered premises and of surface drainage on the basis of the existing links to rateable values, using the values held by Scottish Water and based on the rateable values in place in March 2000.

30. Pending introduction of these changes, Ministers' policy, as announced on 31 August 2004, is for premises eligible to be exempted from paying charges in the period 1 April 2002 to 31 March 2006 under the Water and Sewerage Charges (Exemption) (Scotland) Regulations 2002 to continue to be eligible for that exemption in the period 1 April 2006 to 31 March 2010. Ministers will make regulations under section 40 of the 2002 Act to give effect to that policy. They require the Commission and Scottish Water, in discharging their respective functions under sections 29A and 29B of the 2002 Act, to have regard to this intention.

#### *Paying for roads drainage*

31. At present all sewerage customers contribute to the cost of Scottish Water's drainage of roads. Non-household sewerage charges include a separate element to cover these costs; household charges include an unspecified element for the same purpose. Ministers confirm that this approach should continue. Consequently they require the Commission to determine sewerage charges for all customers, on the basis that such charges include an appropriate element to recover the cost to Scottish Water of draining roads.

#### *Paying for economic regulation*

32. Ministers confirm that the cost to the Commission of regulating Scottish Water should be covered by an annual levy on Scottish Water, the level of which they set, funded out of charge income. For the purposes of making its determination, the Commission should assume that during the period it will receive an annual levy broadly equivalent to the present base budget of £1.5 million a year. The Commission should allow for the base budget to be augmented by £150,000 in each year of the period to cover the additional costs arising from the creation of the Commission, by enough to meet the costs that are likely to arise in connection with preparing the determination of charges for 2010-14, and by enough to cover the reasonable costs of employing independent reporters throughout the period.

33. The Commission's costs in the period in connection with establishing the regime to license undertakings providing retail services to the non-household sector will be met from a grant that Ministers will pay to the Commission. Therefore, the determination should not make any provision for these costs.

The Scottish Executive

28 September 2005

## THE SCOTTISH GOVERNMENT CONSULTATION PROCESS

1. We would be grateful if you could clearly indicate in your response which questions or parts of the consultation paper that you are responding to as this will aid our analysis of the responses received.
2. This consultation, and all other Scottish Government consultation exercises, can be viewed online at <http://www.scotland.gov.uk/consultations>. You can telephone Freephone 0800 77 1234 to find out where the nearest public internet access point is.
3. The Scottish Government now has an e-mail alert system for consultations, SEconsult <http://www.scotland.gov.uk/consultations>. This system allows stakeholders, individuals and organisations to register and receive a weekly e-mail containing details of all new Scottish Government consultations (including web links). SEconsult complements, but in no way replaces, SE distribution lists and is designed to allow stakeholders to keep up to date with all Scottish Government consultations activity, and therefore be alerted at the earliest opportunity to those of most interest. We would encourage you to register.

### Handling your response

4. We need to know how you wish your response to be handled and, in particular, whether you are happy for your response to be made public. Please complete and return the **Respondent Information Form** (as at **Annex D** of the consultation paper) as this will ensure that we treat your response appropriately. If you ask for your response not to be published we will regard it as confidential, and we will treat it accordingly.
5. All respondents should be aware that the Scottish Government is subject to the provisions of the Freedom of Information (Scotland) Act 2002 and would therefore have to consider any request made to it under the Act for information relating to responses made to this consultation exercise.

### Next steps in the process

6. Where respondents have given permission for their responses to be made public (see the Respondent Information Form), these will be made available to the public in the Scottish Government library by the end of March 2008. We will check all responses where agreement to publish has been given for any potentially defamatory material before logging them in the library. You can make arrangements to view responses by contacting the Scottish Government Library on 0131 244 4556. Responses can be copied and sent to you, but a charge may be made for this service.

## **What happens next**

7. Following the closing date, all responses will be analysed and considered along with any other available evidence. We aim to issue a report on this consultation process in March 2008.

## **Comments and complaints**

8. If you have comments about how this consultation exercise has been conducted please send them to:

*Ian Alexander*

*The Scottish Government*

*Climate Change & Water Industry Directorate*

*Area 1-H North, Victoria Quay*

*Leith, Edinburgh*

*EH6 6QQ*

[Ian.Alexander@scotland.gsi.gov.uk](mailto:Ian.Alexander@scotland.gsi.gov.uk)

**RESPONDENT INFORMATION FORM****PRINCIPLES OF CHARGING 2010-14 - WATER SERVICES**

Name/organisation: .....

Postal address: .....

.....

1. Are you responding as: (please tick one box)

(a) an individual  (go to 2a&b and then Q4)(b) **on behalf of** a group or organisation  (go to Q3 and then Q4)**INDIVIDUALS:**

2a. Do you agree to your response being made available to the public (in Scottish Government library and/or on the Scottish Government website)?

Yes (go to 2b below) No, not at all  We will treat your response as confidential2b. **Where confidentiality is not requested**, we will make your response available to the public on the following basis (**please tick one** of the following boxes)Yes, make my response, name and address all available Yes, make my response available, but not my name or address Yes, make my response and name available, but not my address **ON BEHALF OF GROUPS OR ORGANISATIONS:**3. The name and address of organisations **will be** made available to the public (in the Scottish Government library and/or on the Scottish Government website). Are you content for your response to be made available?Yes No  We will treat your response as confidential**SHARING RESPONSES/FUTURE ENGAGEMENT**

4. We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for the Scottish Government to contact you again in the future in relation to this consultation response?

Yes No

Please return this information form with your comments on the proposed amendments by **Friday 29 February 2008**.

Your comment with this form may be sent by post, e-mail or fax to:-

Postal address:       Water Division  
                          Scottish Executive  
                          Area 1-H  
                          Victoria Quay  
                          Edinburgh  
                          EH6 6QQ

Email:                   [waterdivision@scotland.gsi.gov.uk](mailto:waterdivision@scotland.gsi.gov.uk)

Fax:                     0131-244 0259

The Scottish Government

November 2007