

S E E R A D

PAYING FOR WATER SERVICES 2006 - 2010

**Consultation on the Principles of Charging
for Water Services**

SUBMISSION BY

SCOTTISH ESTATES BUSINESS GROUP

12 October 2004

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1. Background - SEBG

- 1.1 SEBG represents a group of progressive land-based estates with significant agricultural and rural business interests. It aims to promote a modern business approach in the management of Scotland's land resource in ways which deliver social, economic and environmental benefits. The group seeks to secure a sustainable and prosperous future for rural areas.
- 1.2 Estates are proven business models that assist the development of smaller rural businesses, and landowners and estates have a vital role to play in the ongoing and future development and prosperity of Scotland.
- 1.3 SEBG is committed to rural economies and its members work hard across Scotland to stimulate enterprise and economic development, whether through small localised initiatives, or through larger schemes such as the Group's recent conference with Scottish Enterprise and Highlands and Islands Enterprise on providing broadband to rural areas.

2. Principles

- 2.1 SEBG agrees with the Scottish Executive's objective that as Scottish Water provides a national service, customers in the same category should pay the same rate for the same service, wherever they are in the country. We would be concerned if those customers who cost more to serve, for example by virtue of their rural or remote locality, were obliged to pay charges which reflected the higher cost of serving them, since this would undermine efforts for rural economic development and sustainability.
- 2.2 SEBG welcomes recognition that the need for water conservation is not as significant a consideration in Scotland as it is in England and Wales. We agree that it would be impractical to require installation of meters in all 2.2 million premises currently un-metered, and that the cost of extensive metering cannot be justified in Scotland. We welcome, therefore, the proposal to continue with a charging regime based on a flat-rate charge for the majority of customers.
- 2.3 We also recognise the argument that, given the high proportion that fixed costs contribute to Scottish's Water's costs, it would be appropriate to continue with a relatively high standing charge and low charge for each unit consumed for those on measured supplies. However, this proposal fails to address adequately the position of those who use relatively small amounts of water.

SEBG suggests that for the minority of premises that are metered, customers should be charged in the same way as for other utilities, with the major portion of cost being based on consumption.

- 2.4 Given the commitment of SEBG to work to secure a sustainable and prosperous future for rural areas, we welcome recognition that any increases in costs that are to be applied to non-households as a consequence of the current review could have a negative effect on economic viability. We agree that where costs are to be increased, that they be phased in – with our preference being for over as long a period as possible, rather than just the lifetime of this review.

3. Application of Principles

- 3.1 SEBG appreciates the Executive's intention that distinct consumer groups within the non-household sector should be expected to cover the costs of serving those respective groups as a whole, through the charges they pay. However, we are concerned that the proposal to introduce different charges for different non-household user groups would only increase the complexity and cost of the charging system.
- 3.2 The current position whereby Scotland's non-household sector provide 37% of Scottish Water's income, compared to charges for water services for non-household businesses in England and Wales of 21–34%, is unsustainable. We agree that this seems to be a surcharge on the operations of business customers in Scotland that businesses in England and Wales do not have to face, which could serve to undermine the prospects of some businesses.
- 3.3 SEBG welcomes, therefore, the Executive's consideration of whether to provide for the cross-subsidy of the household sector by the non-household sector to be withdrawn – and urge it to do away with this inequity.
- 3.4 A move away from rateable value as the basis of setting charges for surface and highway drainage and use instead of the surface area of the property drained as the basis for charging might seem, in principle, to be more straightforward. However, aspects such as size of car park are currently already taken into account when rateable valuations are set. SEBG would also question how a series of bands, based on surface area in square metres, would be able to take account of restrictions on use, which current rateable values are able to reflect. There is also the question of how unused properties would be handled and whether a discount would be available in these circumstances.
- 3.5 Therefore we urge caution in the introduction of such changes. Given the need for any proposed new regime to be carefully thought out, SEBG welcomes recognition by the Executive that any changes, were they to be introduced, would not come into effect until the following review period of 2010-2014. We further suggest and that any new charging regime for surface and highway drainage should be the subject of further consultation.

- 3.6 Similarly, for non-metered non-household premises a move from charges based on rateable value to a measure that uses bands of likely levels of consumption – similar to that proposed for surface and highway drainage – would need to be considered in depth to ensure it was applied equitably. The criteria for inclusion in whichever of the two or three bands proposed would need to be carefully and equitably applied. Again, we welcome the Executive’s intention to retain the current arrangements meantime and suggest wide consultation before a final scheme is devised for introduction in 2010-2014.
- 3.7 SEBG is concerned at the proposal that where expenditure is required to provide additional capacity for specific local developments, those bringing forward those developments should be expected to meet the cost of the additional capacity, rather than existing customers. The costs involved in supplying new infrastructure may render some proposed new developments uneconomic and mean that they do not go ahead. This cannot be in the best interests of many rural communities, irrespective of whether the development is for housing or commercial subjects.
- 3.8 New developments often bring gains to communities and other local businesses in addition to the proposed developments individually. Indeed, the new water service infrastructure required for one new development may itself render other, separate, developments economically viable, and act as a catalyst for further local regeneration and development.
- 3.9 Further, consideration of public water / sewerage development on a site-by-site basis is inefficient and obstructs the flow of development. SEBG suggests that a more coherent and effective approach would be for increases to the capacity of the system to be funded by the service provider’s capital account, supported by EU or national regeneration budgets where available. Scottish Water’s capital funding should be allocated on accordance with Local Plans; its capital budget should be sufficient to provide for the new build projections issued by the Scottish Executive. The developer should pay for connection costs to the upgraded system, or upgrades to the existing connection.
- 3.10 We also suggest that consideration should be given to the provision of some form of sinking fund that could be used to co-finance projects that meet specific criteria, including benefit to the local community and to rural sustainability. Any surplus revenue that Scottish Water is able to generate over costs could be siphoned into such a fund, rather than clawed back by the Scottish Executive.

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