

ANGUS COUNCIL

INFRASTRUCTURE SERVICES COMMITTEE
RESOURCES AND CENTRAL SERVICES

14 OCTOBER 2004
21 OCTOBER 2004

**SUBJECT: INVESTING IN WATER SERVICES AND PAYING FOR WATER SERVICES
CONSULTATION PAPERS**

**REPORT BY DIRECTOR OF PLANNING AND TRANSPORT and
DIRECTOR OF FINANCE**

Abstract: This report comments on and provides a suggested response to two Scottish Executive Consultation Papers on Investing in Water Services 2006 – 2014 and Paying for Water Services 2006 – 2010.

1 RECOMMENDATION

It is recommended that the Committee:-

1. note the far reaching proposals for developing the Quality and Standards III Project guiding the future investment programme for Scottish Water and on the principles of charging for water services as set out in the Consultation Papers;
2. agree this report, including detailed comments on consultation points identified in Appendices 1 and 2, as the Council's formal response to the Consultation Papers; and
3. agree to advise the Scottish Executive of particular concerns arising for effective development planning, and of the need to ensure that in Quality and Standards III a clear priority for Scottish Water is directed toward enabling and servicing new development in locations considered acceptable on planning grounds in accordance with Structure Plan and Local Plan requirements and policies.

2 INTRODUCTION

- 2.1 The Scottish Executive have published two important Consultation Papers on future priorities for the water industry. This includes consultation on the standards and objectives that Scottish Water should meet, and also the principles that should be applied in sharing between customers the cost of delivering the standards and objectives.
- 2.2 Taken together these two Consultation Papers are intended to help Scottish Ministers set the policy objectives for the water industry within the new regulatory framework both in terms of forthcoming investment requirements and the principles to be used in determining the charges water customers should pay.
- 2.3 Based on Ministers' decisions in January 2005 about both Scottish Water's objectives (including the investment programme) and the principles of charging, the Water Industry Commissioner will undertake a Strategic Charges Review, in which he will determine the customer charge levels required for Scottish Water to deliver its

objectives at the lowest reasonable overall cost. Draft charge limits will be published in June 2005.

- 2.4 Copies of both Consultation Papers have been placed in the Members Lounge. In order to meet the timescale for responses by 12 October 2004, a copy of this report has been forwarded to the Scottish Executive as the draft response of Angus Council subject to confirmation following consideration by this Committee.

3 INVESTING IN WATER SERVICES 2006 - 2014

- 3.1 This Consultation Paper outlines the Quality and Standards (Q & S) III Project and seeks views on the scale and content of future investment in water and sewerage services in the period from 1 April 2006 to 31 March 2014. Along with other research and analysis of investment needs, this consultation will inform Ministers' decisions on the establishment of an affordable and deliverable investment programme for the industry over that period. In light of the outcome of this consultation, Ministers will announce in January 2005 what they require Scottish Water to deliver in terms of water quality, environment protection and customer service standards 2006 – 2014.

- 3.2 The paper is presented in nine main chapters (and includes 19 Consultation Points detailed in Appendix 1 to this report) which cover the following issues:-

- Chapter 1 – outlines the scale and impact of current investment and seeks views on the four guiding principles the Scottish Executive proposes to use to establish the next investment programme for the Water Industry (Consultation Point 1).
- Chapter 2 – explains the process underway to establish the successor investment programme to Quality and Standards II and seeks views on the criteria to be used to refine investment into a deliverable and affordable programme (Consultation Point 2).
- Chapter 3 – considers the level of investment required to keep the industry's existing assets working properly (Consultation Points 3-5).
- Chapter 4 – looks at the need to provide additional capacity within the water and waste water infrastructure to allow new housing or businesses to connect or to allow existing properties to connect for the first time (Consultation Points 6-9).
- Chapter 5 – discusses the investment required to secure compliance with current and new environmental standards (Consultation Points 10, 11).
- Chapter 6 – outlines investment in meeting drinking water quality and water resources standards (Consultation Points 12, 13).
- Chapter 7 – discusses investment requirements for other priorities for the customer including odour from wastewater treatment works, water pressure and sewer flooding (Consultation Points 14-19).
- Chapter 8 – comments on managing uncertainty.
- Chapter 9 – contains a summary and conclusions.

4 PAYING FOR WATER SERVICES 2006 – 2010

- 4.1 This paper sets the context within which the consultation on paying for water services is taking place and seeks views on the approach to be adopted in charging different customer groups for water services in the period 1 April 2006 to 31 March 2010. In light of the outcome of this consultation, Ministers will announce in January 2005 their decisions on the principles of charging, that is, how different customer groups are to be charged. These principles will be applied to charges 2006 – 2010.
- 4.2 The paper is presented in three main sections (and includes eight Consultation Points detailed in Appendix 2 to this report) which cover the following issues:-
- Section 1 – summarises, and invites views on, the principles that the Executive proposes should underpin charge limits and charge schemes in the period 2006 – 2010 (Consultation Points 1 and 2).
 - Section 2 – considers and seeks views on how the principles outlined in Section 1 might be applied in a number of different cases (Consultation Points 3-8).
 - Section 3 – outlines arrangements for stakeholder participation in the consultation exercise.

5 DISCUSSION

- 5.1 Members will recall raising serious concerns, at the Strategic Policy Committee on 16 March 2004, relating to the uncertainty of timing of investment by Scottish Water to resolve drainage issues in Angus and in particular the lack of any resolution to the current drainage constraint affecting Kirriemuir. This uncertainty and concern arose primarily from the implementation of the Quality and Standards (Q & S) II investment programme by Scottish Water which covered the period 2002 – 2006.
- 5.2 Scottish Water's current investment programme (Q & S II) is guided by a number of environmental and quality drivers which have been set and agreed by Scottish Ministers based on advice from the Water Regulator. In practice, provision for new development is not recognised in Q & S II as an investment driver thereby precluding investment by Scottish Water where this would only be for the purposes of enabling development. Furthermore where investment is being made by Scottish Water to address an agreed driver, the scale and nature of that investment is targeted to meet the needs of existing customers with little or no additional capacity built in to accommodate new development.
- 5.3 The national planning framework for Scotland, published by the Scottish Executive in April 2004, recognised that lack of capacity in wastewater or water supply infrastructure is becoming a significant constraint on development in some areas of Scotland. In practice the framework document understates the extent and severity of the problem arising from the Scottish Water Q & S II programme which is constraining development in both urban and rural areas across many parts of Scotland, including parts of Angus.
- 5.4 The current position, which has resulted in a serious threat to effective development planning and to the future well being of local communities, needs to be addressed as

a matter of urgency in Quality and Standards III as the successor investment programme to Quality and Standards II.

- 5.5 A fundamental issue, which underpins several of the questions raised as Consultation Points in the two Consultation Papers, therefore, concerns the approach to providing additional capacity within the water and wastewater infrastructure to allow new housing, business and other development to connect. The approach adopted to date in Q & S II is clearly unsatisfactory and unsustainable. It is therefore essential that the future economic and social requirements of the wider community are fully recognised in Q & S III.
- 5.6 Scottish Water provides an essential public service. It is therefore vital that this should enable and support rather than frustrate the proper future planning of how communities develop which, unfortunately, is too often the case at present.
- 5.7 Several of the questions raised in the Consultation Papers concern the approach to funding investment to extend Scottish Water infrastructure to meet new development needs. This includes consideration of charges to customers versus general taxation, together with requirements for contributions from developers. Current legislation also requires Scottish Water to provide a domestic connection where it is practical to do so at a "reasonable cost". Forthcoming regulations under the Water Environment and Water Services (Scotland) Act 2003 will revise the mechanism by which Scottish Water determines "reasonable cost" for both new development and first time provision.
- 5.8 Given the scale of investment requirements (£1 billion) estimated in the Consultation Papers to resolve all identified development constraints across Scotland, there may be a case for considering a combination of funding from all three sources of customer charges, general taxation and contributions from developers. Also, an element of funding provision could be achieved by the implementation of challenging efficiency targets. In any event it is vital that where lack of capacity in wastewater or water supply infrastructure is constraining appropriate development that suitable mechanisms are put in place to facilitate necessary investment in improvements in the interests of the whole community.
- 5.9 This could include Scottish Water providing up front funding of increased waste water treatment capacity from customer charges/general taxation, with developer contributions being required to fund other associated elements specifically required by the development and/or to recoup part of the up front funding as development proceeds.
- 5.10 A key principle and priority in whatever mechanism is adopted should be that Scottish Water is clearly directed toward enabling and servicing new developments in locations acceptable on planning grounds in accordance with Structure Plan and Local Plan requirements and policies.
- 5.11 The introduction of a water charging regime which does not mirror Council Tax collection arrangements will result in increased administration costs in respect of: public understanding; computer systems; increased correspondence and staff training. If there are increased administration costs for local authorities resulting from the new water charges regime, these should be fully recoverable by local authorities and should not result in an indirect subsidy levy on the Council Tax payer.

5.12 Further comments are included in Appendices 1 and 2 in response to the 27 specific Consultation Points raised in the two Consultation Papers. Overall it is considered that the future investment strategy of Scottish Water should be based upon:-

- Recognition of the duty to engage constructively in Community Planning.
- To engage constructively in the Statutory Development Plan and Development Control procedures.
- To ensure a co-ordinated approach to future investment which is based upon the scale and location of future development as agreed through the Statutory Development Plan process even if the investment is part funded by developers.
- To make timely investment to release development with priority given to land identified in Development Plans and to protect the environment.
- To ensure an equitable distribution of investment which has regard to the contribution made by the customers within geographic areas.

6 FINANCIAL IMPLICATIONS

6.1 There are no immediate financial implications arising directly from this report. Future resource implications for Scottish Water, which may also be significant for Angus Council, will only become more fully apparent depending on how issues in the current consultation document are taken forward by the Scottish Executive.

7 HUMAN RIGHTS IMPLICATIONS

7.1 There are no human rights implications arising directly from this report.

8 CONSULTATION

8.1 The Chief Executive, Director of Law & Administration and Director of Property Services have been consulted in the preparation of this report.

9 CONCLUSION

9.1 The Consultation Papers on the water industry issued by the Scottish Executive raise important questions on the scale, direction and funding of future investment in water services throughout Scotland. It is vital that this future investment is closely aligned with the needs of existing and future development and has full regard to planning priorities as expressed in Structure Plans and Local Plans.

9.2

NOTE

The following background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973, (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.

- Investing in Water Services 2006 – 2014 (The Quality & Standards III Project) : Scottish Executive, July 2004
- Paying for Water Services 2006 – 2010 : Scottish Executive, July 2004

AA/CGR/KW
1 October 2004

Alex Anderson
Director of Planning and Transport

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APPENDIX 1

**RESPONSE TO CONSULTATION POINTS ON INVESTING
IN WATER SERVICES 2006 - 2014****Consultation Point 1**

*The key aim of **Quality & Standards III** is to produce a cost-effective, deliverable, affordable and sustainable investment programme. Do you think these are the right criteria?*

Response : These appear to be relevant criteria but do not guarantee that the scale and direction of investment will address outstanding areas of concern arising from the previous Quality & Standards II programme. In particular the sustainable criterion should encompass the need to properly service new development allowing the removal of constraints in the interests of the future economic and social requirements of the wider community.

Consultation Point 2

Do you agree that the following are the correct questions each working group should use to assess each individual investment option?

- *Is it legitimate for customers alone to pay for the investment under consideration?*
- *Is the proposed investment option the most cost effective available?*
- *Are the planning assumptions which lie behind the requirement reasonable?*
- *Is there any flexibility built into the requirement (either to meet a lower standard of compliance or invest over a longer period), and, if not, should there be?*
- *What level of priority should be attached to the individual investment requirements?*

Response : These seem appropriate questions, but can only properly be considered in the context of the investment requirements of different aspects of the Scottish Water services industry which have been the subject of examination, as discussed in Chapter 2 of the Consultation Paper. In particular the identification and definition of the drivers of future investment must include provision for new development.

Consultation Point 3

*Do you agree that maintaining serviceability levels (as defined in this Chapter) should be an essential objective of **Quality & Standards III**?*

Consultation Point 4

What are the most important serviceability standards? (please refer to full Chapter).

Consultation Point 5

If you wish to see a higher level of serviceability, do you wish to see this benefit secured from (a) higher charges; or (b) lower spend on other areas of capital investment?

Response : Capital investment to maintain existing infrastructure and prevent its deterioration is entirely appropriate and in accordance with long-term sustainability considerations. Serviceability measures and standards for wastewater and water as identified in the Consultation Paper appear relevant and appropriate. The relative importance among various standards is less significant than the timescale required to address an identified problem. For example, immediate action is required in response to a sewer collapse whereas action to remedy a failing wastewater treatment works may take some time. Higher levels of serviceability do not necessarily require higher charges or lower

spend on other areas of capital investment. Rather efficiency measures and a co-ordinated approach to investment has the potential to deliver significant improvements.

Consultation Point 6 (extending the network to accommodate new developments)

We hope to be able to include provision within the forthcoming investment programme to fund the deeper elements of connection. Should this element be paid for by (a) higher charges; or (b) lower investment in other areas?

Consultation Point 7

Where there is a requirement made by Local Authorities for detailed modelling work to inform the viability of strategic sites in Structure and Local Plan processes, who do you think should fund this work?

Consultation Point 8 (extending the network to existing properties)

Do you think that the forthcoming investment programme should include provision for new connection where the costs to customers exceed those that are currently considered "reasonable"?

Consultation Point 9

If so, should the inclusion of such an element be paid for by (a) higher charges; or (b) lower investment in other areas?

Response : All of the above Consultation Points should be viewed in the context of Scottish Water providing an essential public service which should enable and support the proper future planning of how communities develop. Given the scale of investment required there may be a case for considering a combination of funding from general taxation, efficiency measures, customer charges and contributions from developers. A priority for Scottish Water should be an investment programme which is clearly directed toward enabling and servicing new development in locations acceptable on planning grounds in accordance with Structure Plan and Local Plan requirements and policies.

Consultation Point 10

What should the top environmental priorities be?

Consultation Point 11

Should the inclusion of these priorities be paid for by (a) higher charges; or (b) lower investment in other areas?

Response : The principal objective is to protect and enhance the water environment, therefore environmental priorities should be gauged and measured against this objective having regard to a Best Value approach to achieving improvements. The upgrading of wastewater treatment plants is vital not only to achieving environmental improvements but also to delivering economic and social benefits and as such should be accorded high priority. As with previous comments this is not simply a matter of higher charges or lower investment in other areas but rather the adoption of a more inclusive and sustainable approach to determining, funding (including use of challenging efficiency targets) and delivering the investment programme.

Consultation Point 12

What should the top drinking water quality and water resource priorities be?

Consultation Point 13

Should the inclusion of these priorities be paid for by (a) higher charges; or (b) lower investment in other areas?

Response : Drinking Water Quality and Water Resources should be overarching priorities in the requirements placed on Scottish Water to provide wholesome drinking water and ensure adequate supply. Considerable opportunities exist to promote a more sustainable approach to our consumption and use of water that should be viewed alongside investment requirements.

Consultation Point 14

Do you think that the forthcoming investment programme should include provision for odour control at wastewater treatment works?

Consultation Point 15

If so, should the inclusion of such an element be paid for by (a) higher charges; or (b) lower investment in other areas?

Consultation Point 16

Do you think that the forthcoming investment programme should include provision to improve water pressure for those properties suffering from low water pressure?

Consultation Point 17

If so, should the inclusion of such an element be paid for by (a) higher charges; or (b) lower investment in other areas?

Consultation Point 18

Do you think that the forthcoming investment programme should include provision to address sewer flooding in addition to that contained under capital maintenance?

Consultation Point 19

If so, should the inclusion of such an element be paid for by (a) higher charges; or (b) lower investment in other areas?

Response : The above issues are important to customers of Scottish Water in particular areas. The priority for expenditure to address such issues can only be realistically considered at a local level having regard to the particular circumstances applying in that area. However, there is a general need to include some provision in the overall investment programme to enable these issues to be addressed as required at a local level. This need not be funded by lower investment in other areas particularly where it is contributing to other objectives e.g. sewer flooding and environmental priorities.

APPENDIX 2

**RESPONSE TO CONSULTATION POINTS ON
PAYING FOR WATER SERVICES 2006-2010**

General Comments

- There will be increased administration costs to local authorities if the new water charges regime does not mirror Council Tax arrangements in respect of: -
 - Public understanding
 - Computer systems
 - Increased correspondence
 - Staff Training
- If there are increased administration costs for local authorities resulting from the new water charges regime, these should be fully recoverable by local authorities and should not result in an indirect subsidy on the Council Tax payer.
- There will be further increased administration if the changes are introduced on a phased basis.

Consultation Point 1

You are invited to comment on the principles 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.*

Response : This principle raises the issues of equity and affordability of the charging regime. It would seem fair and equitable that those who benefit from the provision of public water and sewerage services should bear the full cost of its provision – including those developers who necessitate enhancement of the current infrastructure. However, there are affordability issues from such an approach, given: -

- The scale of the investment requirement estimated in the Consultation Papers in order to resolve all identified development constraints across Scotland;
- Ongoing concerns in respect of particular groups such as those on low incomes, charitable organisations and small businesses.

In light of the above, there may be a case for the use of funding from general taxation to alleviate the investment burden either in overall terms or the impact onto those charges for particular interest groups. Such funding is not without precedent as the Scottish Executive has made resources available in the past to Scottish Water in respect of the Water Charges Reduction Scheme.

However, Angus Council recognises that there are limited resources available to the Scottish Executive and that the provision of government grant to “subsidise” Scottish Water charges would necessitate equivalent reductions in other areas of the Scottish Block. It would be of

obvious concern to Angus Council if the resources available to local government were detrimentally impacted by such a course of action with the resultant impact on Council Tax levels and / or service levels. Any such considerations should, therefore, be subject of open dialogue and allow for consideration of the wider impact of any such funding decisions.

- *Charges for households should be set with a view to ensuring that they are as affordable as possible for low-income households.*

Response : Fundamentally, charges must be affordable. It is inconceivable that any new charging regime could be brought into being in the knowledge that they are unaffordable to a particular group of clients.

- *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.*

Response : The principle is agreed with.

- *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.*

Response : Whilst this principle is acceptable, care has to be taken that those household customers not on low incomes are not subjected to severe charge increases.

- *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.*

Response : This principle is agreed with, although further consultation should be undertaken in respect of defining "significant".

Consultation Point 2

If you do not agree that the principles outlined above provide an appropriate basis for setting charges, which principles would be appropriate and why?

Response : General acceptance of the principles outlined above is confirmed within the specific responses provided. However, it is not agreed that charges should necessarily be set to recover the full costs incurred (refer main report paragraphs 5.7 to 5.10, Appendix 1 to main report and consultation point 1 first bullet point response immediately above).

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?

Response : Affordability for domestic payers would have to be prominent in the removal of any cross-subsidy. It would be unacceptable to contribute to, and compound, increasing debt burdens for householders through such a course of action.

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?

Response : As stated previously, charges should, by necessity, be affordable to all groups. The removal of discounts for water charges would adversely affect all single person households – or households with disregarded people such as students, the mentally impaired etc. Those individuals who have incomes only marginally above that level required to qualify for benefit would be particularly vulnerable to such significant movements in their water charges. This position would be further exacerbated if these low-income households were also required to address the removal of any cross-subsidy from the non-residential sector.

It should also be noted that the proposal to remove discounts for water charges, while retaining them for Council Tax, will effectively mean that two tax systems are being created. The use of the Council Tax system to collect water charges has worked to date as the two have been identical. The Council Tax system is now being altered to achieve outcomes in respect of water charges that it was never designed for.

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?

Response : While it is recognised that there may be some inequity in the the current arrangements for charging non-household customers for surface and roads drainage, it is considered that moving to a measurement by area would be difficult to achieve in practice and would be likely to raise other inequities, for example some large out-of-town facilities may not contribute to the drainage system in proportion to their surface area e.g. through various means of source control, filtration methods in-situ etc. Also it is not clear how large public areas such as public open space, urban hard landscaping areas etc would be dealt with. There would also be the question of how for example car park areas in public ownership would be treated. On balance therefore our preference would be to retain the current arrangements.

Additionally the Council is aware that Scottish Water is currently developing their Sewers for Scotland 2 documents in consultation with COSLA amongst others, and that this work includes addressing SUDS and the principles of charging. It is understood that SW are desirous of the promotion of formalisation of Section 7 Agreements under the Sewerage for Scotland Act 1968, and that such agreements would be likely to form a basis for debate on the principle of charging for roads' water disposal. This obviously raises the potential for the Roads authority being charged for the disposal of roads' water. Although the consultation document does not specifically raise this point, Angus Council would agree with the sentiments expressed in paragraph 53 and would not therefore be supportive of such a proposal (should it be made) for those reasons.

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?

Response : Rateable value is not a particularly fair way of charging. Many businesses that have a high R.V. will also be very low water users and vice versa. On that basis metering would appear to be a much fairer system.

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

Response : The main factors would appear to have been identified. Regarding the borrowing level, the accounting depreciation of Scottish Water's assets recognises that they will provide a benefit to service users over a significant period of time. Enhancements undertaken now will benefit not only current users for many years but also new users in the future. It would seem only equitable that a certain level of borrowing is permitted to allow the cost of these benefits to be shared between these groups of clients. As to the actual level of debt, the main determinant should be affordability, in terms of both present and future charges levels. Such decisions regarding borrowing and charging requires to be balanced with investment requirements.

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?

Response : Depending on what is required to increase local capacity it may not be appropriate or feasible to attribute all costs to developers. A reasonable developer contribution should however be required and this could include Scottish Water providing up front funding of increased waste water treatment capacity from customer charges/general taxation, with developer contributions being required to fund other associated elements specifically required by the development and/or to recoup part of the up front funding as development proceeds. A key principle and priority in whatever mechanism is adopted should be that Scottish Water is clearly directed toward enabling and servicing new developments in locations acceptable on planning grounds in accordance with Structure Plan and Local Plan requirements and policies.