

Scottish Government

GENERAL STATEMENT OF POLICY - PRINCIPLES OF CHARGING FOR WATER SERVICES 2015-2021

Scottish Ministers make the following statement in relation to the principles that must apply to water charges for 2015-21. This statement supports the delivery of the Government's Purpose of focussing government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. The following principles will guide the Water Industry Commission for Scotland when determining the charge limits that Scottish Water is able to set during 2015-21.

Ministers recognise that since Scottish Water was formed in 2002, the quality and efficiency with which services are delivered to customers have been transformed. As a result of these dramatic improvements and policies set out in statements relating to previous regulatory periods, Ministers are confident that customer charges are now broadly cost-reflective and generate sufficient income to ensure that Scottish Water has a secure financial position in the long-term. Ministers wish the industry to build on these achievements and ensure that charges for all customers remain stable and affordable.

These high-level principles have been prepared in consultation with Scottish Water (SW), the Water Industry Commission for Scotland (the Commission), the Drinking Water Quality Regulator, the Scottish Environment Protection Agency and Citizens Advice Scotland and reflect decisions taken following consultations on "Investing in and Paying for Your Water Services from 2015" published in June 2012 and "Water and Sewerage Charges – Exemption Scheme for Small Third Sector Organisations" published in November 2013.

Principles

Principle 1 – Stable charges

1. Ministers recognise the importance that customers attach to stability and certainty in charging. The Commission will determine charges that give customers certainty about the maximum level of charges they will face over the regulatory period.

Principle 2 – Level of charges

2. Ministers' policy is for charges that do not rise by more than inflation, as measured by the Consumer Price Index, across the period.

Principle 3 - Full cost recovery

3. Charges should cover the full costs of providing services to customers.

Principle 4 - Harmonised charges

4. Ministers require that charges should, for similar services provided to customers of a similar category, be the same for each customer in that category regardless of location in Scotland.

Principle 5 - Cost-reflective charges

5. Charges should remain broadly cost-reflective. In particular charges for given services (for example drinking water) to particular customer groups (for example households) should be set to recover the cost to SW nationally of providing that service to that group as a whole.

Additional Requirements

Household charges

6. Ministers confirm that, in relation to unmetered households, the present collection arrangements and the tariff structure should continue for the period 2015-21, that is in general:

- Local Authorities will continue to bill and collect unmeasured household water and sewerage charges - Ministers will ensure that an order under section 37 of the Water Industry (Scotland) Act 2002 is in place to secure this.
- The bandings for household water and sewerage charges should replicate council tax bandings, with reductions on water and sewerage charges also mirroring the discounts that apply to council tax. The exceptions are outlined in Annex A to this statement.

7. Purpose-built student accommodation is only brought into charge whilst it is not occupied solely by full-time students studying at a Scottish University or College.

8. Metered and unmetered household charges should continue to include appropriate elements to recover the cost to Scottish Water of draining:

- Roofs and other impermeable surfaces from household premises; and
- Those public roads that are connected to its sewers.

Business charges

9. Ministers confirm that, in relation to non-domestic charges, wholesale charges should continue to be set in line with these principles and should take note of the following:

- *Paying for public roads drainage* - wholesale charges should continue to include an appropriate element to recover the cost to SW of draining public roads.
- *Surface drainage* – wholesale charges should include an element set to recover the costs of draining roofs and other impermeable surfaces within private properties where properties are connected to public sewers.

- *Vacant non-domestic properties* - In support of Ministers' policy of cost-reflective charging, Ministers confirm their intention to bring vacant non-domestic properties into charge during the period 2015-21 and will consult on the most appropriate way to implement this. This policy will be confirmed in the light of that consultation.

10. In relation to wholesale charges which are based on Rateable Value, including roads drainage and surface drainage charges, such charges should continue to be made by reference to the Rateable Value using practices as described in the 2014-15 Scheme of Charges. From a date to be specified by Ministers the relevant charges will be based on the Rateable Values most recently assigned by the Assessor.

Financing

11. Ministers confirm that, in relation to the financing of SW, the following should apply:

- *Financial Strength* - SW's financial strength should be appropriate to the governance framework within which it operates.
- *Dividend* - The Government will not take a dividend from its ownership of SW.
- *Lending* - The Government will continue to make finance available through lending to SW in the 2015-21 period in support of its investment programme. The Government wishes to ensure that this lending is at the lowest practicable level consistent with the principle of stable charges. Ministers will provide the amount advised by the Commission up to a maximum of £720 million during the period¹.
- *Financial Performance* - Financial performance should be monitored in line with the financial tramlines as set out by the Commission. These will also ensure that customers will only be asked to meet additional costs beyond those allowed for in a charges determination, where these arise as the result of external factors beyond the influence of SW. This arrangement protects the position of customers and ensures that they do not compensate SW for inefficiency or poor management. Any financial outperformance will be distributed in line with Ministers' approval.

Paying for increased local capacity

12. Ministers confirm that existing arrangements in relation to paying for enhancements to the local infrastructure should continue. Where these are required to enable new developments to be connected to the public networks, developers should meet the net cost to SW of such enhancements. The Commission should continue to provide for SW to levy infrastructure charges for each new property connected to the water or sewerage infrastructure.

¹ This assumes that £110m is made available in 2014-15 to support the completion of the 2010-15 programme. Any adjustments to this would be reflected in the amounts made available to Scottish Water over the 2015-21 period.

Assistance for Charitable organisations

13. Ministers recognise the contribution that charities make to Scotland's well-being and prosperity and confirm that a new scheme is to be implemented for 2015-21 to provide an exemption or a reduction on water and sewerage charges payable by charities. £4.5 million of this scheme is to be funded by the generality of non-household customers and the remainder through a grant to Scottish Water from the Government. The scheme will be subject to the conditions set out in Annex B.

Paying for economic regulation and customer representation

14. Ministers confirm that the cost of economic regulation and customer representation should be covered by an annual levy on SW funded out of charge income.

Preparing a Detailed Statement

15. Ministers will issue, following consultation with stakeholders, a detailed statement consistent with the terms of s29 of the Water Industry (Scotland) Act 2002 which sets out the approach to the key principles listed at paragraphs 1 to 5 above to be taken by Scottish Water in setting the Annual Scheme of Charges during the regulatory period. This Statement should be completed by 31 December 2014.

Preparing for Future Regulatory Periods

16. Ministers require that preparatory work be undertaken for the 2021-27 period. The charging policies as contained within this document should be reviewed to ensure that they meet the Government's overall policy priorities.

October 2014

Reductions to apply to water and sewerage charges at unmetered Households

1. Reductions to water and sewerage charges at unmetered households should apply in relation to dwellings (where "dwelling" has the same meaning as in part II of the Local Government Finance Act 1992) where all the following circumstances apply:-

- a. A person is liable to pay water and/or sewerage charges under a charges scheme; and
- b. The dwelling in respect of which the charges are payable is not one to which the Council Tax (Discount for Unoccupied Dwellings) (Scotland) Regulations 2005 apply.

2. Where the dwelling is subject to a Council Tax discount under section 79 of the Local Government Finance Act 1992, the discounts to be applied to unmetered water and sewerage charges shall be the same as those applied to Council Tax charges. If there is no such discount under section 79, but a person receives Council Tax Reduction in respect of the dwelling, the following formula should be used to calculate the level of reduction for which that dwelling is eligible.

$$R = 25 \times A \div B$$

Where:

- R is the percentage discount to be applied to water and/or sewerage charges;
A is the amount of Council Tax Reduction which a person receives in respect to that dwelling in that year; and
B is the council tax for which that person is liable in respect to that dwelling in that year.

3. No reduction in water charges should be applied for 2nd homes or to dwellings supplied through a water meter.

Assistance for Charitable organisations

Ministers confirm that there is to be a new scheme to assist charities with the payment of water and sewerage charges. Assistance is to be provided to an organisation which meets the following criteria subject to any further technical exclusions that may be considered necessary. These will be confirmed in the final scheme details:

- It is either registered:
 - with the Office of the Scottish Charity Regulator as a charity; or
 - with HMRC as a Community Amateur Sports Club (CASC) operating in Scotland.
- Where it has a gross annual income of less than £200,000 as disclosed in its most recent set of accounts submitted to the relevant regulatory body it will be exempt from the payment of water and sewerage charges.
- Where it has a gross annual income of more than £200,000 but less than £300,000 it will be eligible for a 50% reduction in wholesale water and sewerage charges. Water and sewerage retail charges will be subject to a cap to be determined by the Water Industry Commission for Scotland.

Other conditions:

1. Any eligible charity or CASC seeking exemption or a reduction must:
 - Apply to their Licensed Provider.
 - Renew their request for exemption annually.
2. Where organisations are awarded charity or CASC status, exemption or a reduction will be granted from the beginning of the financial year in which the award is made.
3. Exemption or a reduction will only be awarded where the records held by OSCR or HMRC are up to date and in line with the regulator's expectations.

Transition Arrangements

4. All exempt organisations that are eligible under the 2010-15 exemption scheme as set out in <http://www.scotland.gov.uk/Topics/Business-Industry/waterindustry/scot/publications/Polycystatments/poc10to15>) will retain their exemption in 2015-16.
5. In 2016-17 any exempt organisation that is eligible under the 2010-15 exemption scheme but is not eligible under the new scheme, will receive a 50% reduction in wholesale water and sewerage charges.
6. From 2017 only organisations that meet the qualification requirements of the new scheme will receive support with their wholesale water and sewerage charges as outlined in the new scheme.

Review Arrangements

7. The Scheme which replaces the current arrangements is to be reviewed in 2017-18.

