

Partial
Business and Regulatory Impact Assessment

**Modernising the Water
Industry's Use of Rateable Value
to Charge Non-Households for
Water and Sewerage Services
(no new legislation required)**

June 2016

Partial Business and Regulatory Impact Assessment

Title of Proposal

MODERNISING THE WATER INDUSTRY'S USE OF RATEABLE VALUE TO CHARGE NON-HOUSEHOLDS FOR WATER AND SEWERAGE SERVICES (no new legislation required)

Purpose and intended effect

- **Background**

Water Industry Charges (drainage charges and, in some cases, water and sewerage) for business premises are calculated by reference to the Rateable Value (RV). The RV used is the value assigned to the property when it was built or extended. Because the values have not been updated in line with the Rates Revaluations, this means that business premises with identical RVs (as assigned by the Scottish Assessor) today can be billed different amounts.

- **Objective**

To introduce consistent basis of charging for ALL business properties. This will:

- Remove the cross-subsidy
- Support Ministers' policy that charges should be cost reflective
- Delivers Ministers' policy as presented in the Principle of Charging Statement: <http://www.gov.scot/Resource/0045/00459866.pdf> .
- Ensure that customers pay for the services received and supports the "polluter pays" principle.

- **Rationale for Government intervention**

The Government has made this proposal because it removes a current cross-subsidy. It is not a Revenue generating policy – it will redistribute the costs of the industry more fairly within the Business sector.

This supports the Healthier & Fairer and Greener Objective.

Consultation

- **Within Government**

This principle was included in the consultation "Investing in and Charging for your water services" in 2012. Since then, the policy has been widely discussed with: Scottish Water, Water Industry Commission for Scotland, SEPA, Drinking Water Quality Regulator, Citizens Advice Scotland and SPSO.

Ministers have confirmed their policy that non-household properties should be charged by reference to the Rateable Value most recently assigned by the Scottish Assessor in their Principles of Charging Statement.

- **Public Consultation**

Formal Consultation was undertaken in 2012. No comments were received on the policy. The consultation ran for 12 weeks.

Ministers have indicated in their Principles of Charging Statement that they will determine the date upon which the relevant charges will be based on the Rateable Values most recently assigned by the Assessor.

Extensive informal consultation – through a working group consultation has been undertaken with water industry stakeholders. The Federation for Small Businesses, Scottish Property Federation and Licensed Providers have also been contacted.

Formal consultation – draft consultation document attached. Consultation will last 12 weeks and will be undertaken in late Summer 2016.

- **Business**

Formal consultation to be undertaken in Summer 2016.

Options

Option 1 - Do nothing – Ministers have already committed to removing the cross-subsidy and ensuring that charges for all businesses are calculated on a consistent and fair basis. Do nothing is therefore not an option and was discounted following the consultation in 2012.

Option 2 – Move to current Rateable Values without any transition measures – All businesses will be affected by this change to a greater or lesser extent. Overall some 57% are expected to be better off and 43% worse off. A lack of transition will result in a small proportion of businesses (5%) facing increases of more than £500.

Option 3 - Move to current Rateable Values with transition measures – Transition measures will ensure that increases and decreases in charges are phased.

Sectors and groups affected

All Non-household properties – All non-household properties will see a change in those parts of their water and sewerage bill that are calculated by reference to the Rateable Value. Those for whom a current RV is used are likely to see reductions in their charges whilst those for whom historic RVs are used are likely to see increases. Table 1 in the consultation sets out the proportions of businesses that are likely to see increases/decreases and likely scale of the change. Overall the policy is revenue neutral.

Third Sector – Charities and Community Amateur Sports Clubs that are members of the current Exemption Scheme will not be affected.

Benefits

Option 1 - Do nothing

- Maintains a benefit to the owners/occupiers of non-household properties which use historic Rateable Values.
- Over time the benefit to owners/occupiers of non-household properties which use historic Rateable Values will continue to grow as the underlying value of the business sector increases.

Option 2 - Move to current Rateable Values without any transition measures

- This removes the cross-subsidy between non-household properties in one go. 57% of customers will benefit from decreases in charges.
- Brings consistency of charging to all non-household properties
- Is revenue neutral – Scottish Water will not gain any additional income as a consequence of this policy.

Option 3 - Move to current Rateable Values without any transition measures

- Removes the cross-subsidy in a series of steps that will provide time for those customers who will be required to pay more to plan for those increases.

- Brings consistency of charging to all non-household properties
- Is revenue neutral – Scottish Water will not gain any additional income as a consequence of this policy.

Costs

The only cost associated with this policy is that necessary to upgrade existing billing systems to take account of new rateable values as assigned by the Assessor. This policy is designed to be revenue neutral to Scottish Water.

Scottish Firms Impact Test

Discussions have already been held with the Federation of Small Businesses and the Scottish Property Federation. They have accepted that this is a revenue neutral policy. Discussions will be held with licensed providers, owners of properties, estate agents and other property managers during the consultation period. These discussions will be necessary to establish, in particular, the length of any transition period under Option 3.

Competition Assessment

This will make charging fairer. Using the Competition & Markets Authority Competition Filter questions we have concluded that the proposals will neither directly or indirectly limit the number or range of suppliers, limit the ability of suppliers to compete or reduce suppliers' incentives to compete vigorously.

Test run of business forms

No new forms to be introduced.

Legal Aid Impact Test

No new legislation is required. Existing legislation already provides for the charging of all non-household properties for water, sewerage and drainage services.

Enforcement, sanctions and monitoring

No changes are proposed to the way in which bills are issued or checked. Non-household properties will continue to pay for water and sewerage services via a Licensed Provider.

Implementation and delivery plan

Introduction is planned for 1 April 2018.

- **Post-implementation review**

Review to be undertaken in 2020 ahead of next Regulatory Period.

Summary and recommendation

The consultation proposes that the most recently Rateable Value as assigned by the Scottish Assessor be used from 1 April 2018. A three year transition period (to the next regulatory period) is proposed to phase the increases and decreases.

• **Summary costs and benefits table**

Option	Total benefit per annum: - economic, environmental, social	Total cost per annum: - economic, environmental, social - policy and administrative
1	Do nothing	<ul style="list-style-type: none"> - no cost as it mains status quo - continues a cross-subsidy within the business sector - the cross-subsidy will continue grow in size as successive revaluations increase the overall value of properties.
2	Move to current Rateable Values without any transition measures	<ul style="list-style-type: none"> - no cost as the policy is revenue neutral - removes the cross-subsidy within the business sector - cost to water industry billing systems are negligible as systems are already in place. Costs will therefore be associated with the automated transfer of data from the Scottish Assessors Association. - 57% of businesses will benefit from decreases as soon as the policy is introduced.
3	Move to current Rateable Values with transition measures	<ul style="list-style-type: none"> no cost as the policy is revenue neutral - removes the cross-subsidy within the business sector - cost to water industry billing systems are negligible as systems are already in place. Costs will therefore be associated with the automated transfer of data from the SAA - Phasing of increases/decreases in customer bills will allow the 43% of businesses who will pay more to plan and adjust for changes.

Declaration and publication

I have read the Business and Regulatory Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options. I am satisfied that business impact has been assessed with the support of businesses in Scotland.

Signed:A handwritten signature in black ink, appearing to read 'R. Cunningham', written in a cursive style.**Date: 8 June 2016****Roseanna Cunningham MSP
Cabinet Secretary for Environment, Climate Change and Land Reform****Scottish Government Contact point: Rosemary Greenhill, 0131 244 7971**



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This publication is available at www.gov.scot

Any enquiries regarding this publication should be sent to us at
The Scottish Government
St Andrew's House
Edinburgh
EH1 3DG

ISBN: 978-1-78652-323-5 (web only)

Published by The Scottish Government, June 2016

Produced for The Scottish Government by APS Group Scotland, 21 Tennant Street, Edinburgh EH6 5NA
PPDAS61174 (06/16)

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