

Investing in and paying for your water services from 2021: Final Consultation

**An invitation to provide your views on
the final draft Principles of Charges and
Ministerial Objectives**



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FOREWORD



In the 2015-21 regulatory period Scottish Water has continued to make good progress in creating the improving and high performing water and wastewater services that we need. The Government is determined to build on that progress in the next regulatory period (2021-27) and beyond.

This is a long term industry and we must ensure that we take an appropriately long term view of its needs. The challenges that lie ahead are clear. The imperative of repairing and refurbishing key assets as they age is significant and must be carefully planned. Economic growth must be supported and population growth and movement catered for. Scottish Water is already responding to the impacts of climate change, but during 2019 the First Minister recognised the global climate emergency and responded by setting world-leading climate change targets. Scottish Water has already stepped up, by committing to increase the renewable energy generated or hosted on its land and assets to three times its annual energy usage by 2030 and to achieve net zero emissions by 2040. Research undertaken by Scottish Water, the Customer Forum and other industry stakeholders shows that customers rightly expect Scottish Water to address these issues. However, these factors mean that to sustain Scottish Water's level of performance, future levels of investment must rise.

This makes the process of determining charges for the 2021-27 period particularly important. It is likely that we shall see higher levels of charges in future to meet those increasing investment needs. We must therefore ensure that resources are planned and used efficiently so that customers benefit.

The documents on which we are now consulting set the parameters for the charge review. We consulted on initial drafts in 2018 – these revised drafts seek your views on the final draft documents, which reflect both the feedback gathered during the 2018 consultation and other developments.

Last year the Scottish Government, Scottish Water and other industry stakeholders came together to co-create a long term vision, which describes the future industry we are working together to build to meet the needs of customers and society. I welcome this long

term vision, which is fully aligned with the Government's National Performance Framework and the UN Sustainable Development Goals. I fully expect Scottish Water to take the lead in realising this vision during the next regulatory period and beyond. This expectation is now clearly set out in these documents.

Key changes have also been made to reflect the need to respond to the climate emergency and to introduce additional support for customers who might face difficulty paying bills. New proposals have also been included to expand the domestic customer base, ensuring all customers receiving a service are paying for it where it is appropriate for them to do so, and to introduce new arrangements associated with providing capacity in network assets to support development.

I have been impressed by how Scottish Water and its stakeholders are working closely together using the principles of ethical business regulation – this is a new and exciting approach, which is possible because of the high levels of trust and respect between Scottish Water and its stakeholders. As a publicly owned utility we expect Scottish Water to do nothing other than the right thing and continually work to show that it deserves the high level of trust that we place in it.

I look forward to receiving your views on these draft documents so that we can work together to ensure the sustained success of Scotland's publicly owned water industry that fully serves our needs and of which we can all be proud.

A handwritten signature in black ink, appearing to read 'R. Cunningham', written in a cursive style.

Roseanna Cunningham
MSP

Purpose of Engagement

The availability of wholesome drinking water and the safe treatment of wastewater are crucial to public health and a clean environment. In July 2018, the Government consulted on its proposals for the policy framework which will guide Scottish Water in the 2021-27 period.

That consultation gave broad support for the proposed framework. However, in the light of detailed comments received and some further developments in the interim, a number of important changes have been made.

Views are now invited on these changes, in particular on:

- Improving support for customers facing difficulty paying their bills.
- Bringing vacant dwellings into charge.
- Meeting the costs of providing additional capacity to support development.
- Responding to the climate emergency.
- Creating a long term vision for Scotland's water industry.

The paragraphs below describe these changes. To allow you to consider them in the context of the full policy framework, the full updated documents can be found in Annex B and Annex C.

If you would like to comment on the issues raised in this paper please respond via Citizen Space at <https://consult.gov.scot/energy-and-climate-change-directorate/water-services-final-consultation>. The closing date for responses is 5th April 2020.

Information gathered from this process will inform Ministers' final decisions on the policy framework that should apply to the Scottish water industry in the next regulatory period.

We welcome early responses.

INTRODUCTION

Scottish Water - Performance since 2002

Scotland is enjoying the real benefits that have been delivered to drinking water quality, the environment and customer service since Scottish Water's creation in 2002.

As a result of the Scottish Government's focus on the need to improve the quality and standards of services, and the commitment shown by Scotland's water industry, drinking water quality, environmental performance and service are at some of their highest levels ever.

The achievements in the previous regulatory period were published in a [report](#) by the water industry. Since then progress has continued and at 31 March 2019, over half-way through the 2015-21 regulatory period:

- Scottish Water had invested over £2.4 billion of its £3.9 billion capital programme to improve services, protect the environment and contribute to the economy.
- Scottish Water had provided connections to more than 90,000 new homes and businesses.
- Scottish Water's service performance continued to improve, exceeding targets set for both its household and non-household customer service measures.
- Its performance against the Overall Performance Assessment (a basket of measures that look at a range of service aspects, including low pressure, leakage, drinking water quality and security of supply) also exceeded the water industry 'leading' threshold in 2018/19.
- Scottish Water invested an additional £1.8 million to detect and fix leaks in 2018/19, reducing leakage by 12 million litres each day to its lowest ever level.
- Drinking Water compliance continues to be high, with 99.92% of tests complying with strict regulatory standards in 2018/19.
- Average household charges remained £46 lower than the average in England and Wales in 2018/19.
- Since 2013, Scottish Water has increased the renewable generation capacity on the assets it owns by almost three times to 63GWh/annum, which equates to more than twice its annual energy use.

Looking to the future, it is important to ensure that the policy framework continues to support Scottish Water to build on these achievements and improve the standards of service it provides to all customers over the long term.

THE STRATEGIC REVIEW OF CHARGES

The Strategic Review of Charges is the process undertaken by the Water Industry Commission for Scotland (WICS) – the independent economic regulator of Scottish Water – which determines the charges payable by Scottish Water’s customers for the next regulatory period.

The Strategic Review of Charges for 2021-27 will be the sixth undertaken in the Scottish water industry. Ministers initiated the review by means of an official letter to the WICS in January 2017. This set out the initial policy framework and timetable for the Review.

A revised letter was issued to the WICS in June 2019 (see Annex A), which reflected a number of developments in the approach being taken to the Strategic Review. This included taking account of the findings of the initial 2018 consultation on the Principles of Charging and Objectives, and asking the industry to develop and work towards a coherent vision, describing the long term nature of the industry and what it can achieve.

A timetable, showing the key updated dates for the Strategic Review, is included below.

Commissioning Letter to (WICS)	January 2017
Publication of WICS methodology	April 2017
Publication of Draft Scottish Water Strategic Projections	March 2018
Draft Principles of Charges	Summer 2018
Draft Objectives	Summer 2018
Publication of WICS methodology refinements and clarifications	November 2018
Scottish Water shares its outline Strategic Plan with water industry stakeholders	December 2018
Final Draft Principles of Charges*	January 2020
Final Draft Objectives*	January 2020
Scottish Water’s co-created Strategic Plan finalised	February 2020
WICS Draft Determination	May 2020
Final Principles of Charges	June 2020
Final Objectives	June 2020
WICS Final Determination	September 2020
Start of New Regulatory Period	April 2021

* These documents are the subject of the present consultation

A significant amount of work has already been undertaken by WICS and by Scottish Water, which included the publication of the [revised methodology document](#) in November 2018 and a number of [‘Decision Papers’](#), which offer WICS’ views on issues key to the review.

Ministerial Inputs

Scottish Ministers make 2 specific inputs to the Statutory Review in the form of statements which set out:

- the Principles that should underpin charges for water services, (known as the Principles of Charging statement); and
- the Objectives which define the standard of services to be delivered in the 2021-27 period.

The Scottish Government wishes to ensure that the policy framework takes full account of the views and concerns of customers and stakeholders. This consultation therefore seeks views on the final drafts of these documents, particularly around the Principles of Charging statement, which now includes a number of changes to address issues highlighted in the 2018 consultation.

Responses to this paper will complement other processes of the Strategic Review, including the work of the Customer Forum and Scottish Water's own engagement and research. Together these activities will ensure that the widest range of customer views is available to inform Ministers' decisions on the final documents.

These documents will be issued in their final form in June 2020.

Policy Framework

The following features of the policy framework have been key to previous regulatory periods and the Government considers that they remain appropriate.

Charges for Customers - Charges for all customers should ensure the sustainable funding of the water industry, whilst remaining affordable and broadly stable.

Size and Nature of the Investment Programme - Overall, investment priorities must support the Scottish Government's core purpose of creating a more successful country, with opportunities for all of Scotland to flourish. In particular, the investment programme should:

- Be developed such that the industry's capacity for investment is recognised and efficiency of delivery is optimised.
- Be programmed in a manner so as to avoid excessive peaks and troughs in investment.
- Include the development of well-informed plans for asset repair, refurbishment and replacement, to ensure the continued serviceability of Scottish Water's assets.

Government Financing - Scottish Water is financed from customer charges and borrowing from Government. For planning purposes, it should be assumed Ministers will provide the annual amount advised by WICS, up to a maximum of £1.02 billion across the 2021-27 period. This will be confirmed in the final Principles of Charging Statement when it is published in June 2020.

Looking Beyond the Regulatory Period

The Scottish Government considers that the present 6 year regulatory period has proved effective in improving long-term planning for the industry and its supply chain; and giving customers certainty of pricing over a number of years. WICS have therefore been asked to determine prices for the 6 year period, covering 2021-27.

The Government is also aware of significant longer term challenges facing the industry – many of which were identified and analysed in Scottish Water’s Strategic Projections (February 2018). Significant among these is the need to plan for the replacement of major assets in the years ahead and to respond effectively to the climate emergency.

The need for rising levels of investment has been demonstrated in the detailed work undertaken by WICS, Scottish Water and other stakeholders. To guide that investment, a long term water sector vision has been co-created to describe the future industry that the Scottish Government, Scottish Water and other stakeholders are working together to build.

Water Industry Vision

Scotland's water sector will be admired for excellence, secure a sustainable future and inspire a Hydro Nation.

Together we will support the health and wellbeing of the nation. We will ensure that all of Scotland gets excellent quality drinking water that people can enjoy all of the time. Scotland's wastewater will be collected, treated and recycled in ways that generate value and protect the environment. We will enable the economy to prosper.

We will transform how we work to live within the means of our planet's resources, enhance the natural environment and maximise our positive contribution to Scotland achieving net zero emissions.

We will involve and inspire Scotland's people to love their water and only use what they need. We will promote access to the natural environment and encourage communities to enjoy and protect it.

We will be agile and collaborate within the sector and with others to be resilient to the challenges which will face us. We will keep services affordable by innovating and delivering the greatest possible value from our resources, helping those who need it most. We will serve all customers and communities in a way that is fair and equitable to present and future generations.

We are a vital part of a flourishing Scotland.

The Vision is included as an Addendum to the final draft Investment Objectives.

The Government is keen to avoid shocks to customer charges over future periods as these longer term challenges are addressed. It has therefore asked WICS to give indicative profiles of prices for subsequent regulatory periods in the light of the developing understanding of continuing investment requirements.

PRINCIPLES OF CHARGING - FINAL DRAFT

The charges that customers pay provide the finance required to sustain Scottish Water's operations and to deliver improvements to services through a large programme of capital investment in all parts of the country.

The level of charges is determined through the Strategic Review. The manner in which charges are calculated for individual customers is governed by a set of principles issued by Ministers in the Principles of Charging (PoC) Statement. The final draft statement for 2021-27 is included at Annex B.

Question 1 – Do you agree that the final draft Principles of Charging are appropriate for the next regulatory period?

The Government considers that for the most part, the Principles of Charging set for the present regulatory period are satisfactory and should continue. The draft statement therefore provides that charges should continue to:

- Be Stable.
- Cover the full costs of providing services to customers.
- Be Harmonised across Scotland.
- Be Cost-reflective.

For households, the structure of charges should continue to be set by reference to Council Tax bands (as at April 2015) and charges should be collected with Council Tax bills by local authorities.

Whilst these principles should continue, the Scottish Government considers there is a case for change in the following areas.

Support for Customers

The Government recognises that a number of customers face difficulty in paying their water bills. A range of support measures for customers has been part of the charging framework for many years and currently amounts to around £159m each year. This includes £92m of discounts to 965,000 households (based on the number of occupants in the dwelling liable for council tax), £56m of exemptions granted to 145,000 households, and £11m of reductions to 141,000 households (based on their financial situation). The Government has carefully considered how these arrangements could be improved.

The Government noted the concerns raised during the 2018 consultation regarding the proposal to reduce the 25% discount for households with only one adult liable for Council Tax, even though the additional revenues were to be used to improve support for

customers facing affordability constraints. Ministers have therefore withdrawn that proposal, meaning the 25% single person discount will remain for the 2021-27 period.

The Government now proposes to increase the level of support provided through the Water Charges Reduction Scheme, from a 25% reduction to a 30% reduction, which will benefit around 141,000 households. The scheme will also be extended to include households that receive Council Tax Reduction and some other form of Council Tax discount, benefitting a further 291,000 households.

The revised proposal will mean that householders that receive 100% Council Tax Reduction will receive a 30% reduction against the full water and sewerage charge for their dwelling, while householders that receive 80% Council Tax Reduction will receive a 24% reduction against the full water and sewerage charge for their dwelling. Overall this change is expected to cost £7m per year, which WICS will take account of when setting the overall level of charges.

Questions

2 - Do you agree that the level of financial support provided for households that receive Council Tax Reduction should be increased?

3 - Do you agree that the eligibility criteria for this financial support should be extended to include all those in receipt of Council Tax Reduction and some other form of Council Tax discount?

Bringing Vacant Dwellings in to Charge

There are a range of circumstances which currently result in dwellings being exempted from water and sewerage charges. Some of these exemptions only apply when a dwelling is vacant. Respondents to the July 2018 consultation supported the proposal that vacant dwellings should be subject to charge, as they continue to impose costs on Scottish Water which have to be met by other customers. Applying charges at vacant dwellings would better align with the arrangements for non-household premises, where water and sewerage charges are already applied at vacant premises.

Therefore, in the 2021-27 period, the following three categories of currently exempt dwellings will be brought in to charge. This is expected to account for additional revenues of between £5-9m per year.

- 1. New dwellings** - An unoccupied and unfurnished dwelling in respect of which—
 - (a) less than 6 months have elapsed since the effective date for the first entry in the valuation list; and
 - (b) there was no entry in the valuation roll immediately prior to that effective date.
- 2. Empty dwellings** - A dwelling—
 - (a) which is both unoccupied and unfurnished; and

- (b) in respect of which less than 6 months have elapsed since the end of the last period of 3 months or more throughout which it was continually occupied.

3. Dwellings under repair - An unoccupied dwelling—

- (a) which—
- (i) is undergoing or has undergone (since the last occupation day) major repair work to render it habitable; or
 - (ii) is undergoing or has undergone (since the last occupation day) structural alteration;
- (b) in respect of which no more than 12 months have elapsed since the last occupation day; and
- (c) in respect of which no more than 6 months have elapsed since the major repair work or structural alteration in question was substantially completed.

The Government also proposes that dwellings in the following circumstances will continue to be exempt from water and sewerage charges during the 2021-27 period, up to the maximum exemption period shown in the table below:

Exemption	Description	Period of Exemption
Dwellings last occupied by charitable bodies	An unoccupied dwelling - (a) in respect of which - (i) a body established for charitable purposes only is a qualifying person; and (ii) less than 6 months have elapsed since the last occupation day; and (b) which was on that day occupied in furtherance of the objects of the body in question.	Up to 6 months
Dwellings last occupied by persons living or detained elsewhere	An unoccupied dwelling which on the last occupation day was the sole or main residence of a person who - (a) is, and has throughout the period since that day been, a relevant person; and (b) is a qualifying person.	Unlimited
Deceased owners	A dwelling - (a) which is not the sole or main residence of any person; and (b) in respect of which any liability to pay council tax (but for the terms of The Council Tax (Exempt Dwellings) (Scotland) Order 1997 would fall to be met solely out of the estate of a deceased person and either - (i) no grant of confirmation to the estate of that person has been made; or	Unlimited up to grant of confirmation 6 months after grant of confirmation

	(ii) no more than 6 months have passed since such a grant was made.	
Dwellings empty under statute	A dwelling - (a) the occupation of which is prohibited by law; or (b) which is kept unoccupied by reason of action taken under powers conferred by or under any Act of Parliament, with a view to prohibiting its occupation or to acquiring it.	Unlimited
Dwellings awaiting demolition	A dwelling which - (a) is owned by a local authority, a registered social landlord, or Scottish Homes; and (b) is kept unoccupied with a view to having it demolished.	Unlimited
Dwellings for occupation by ministers	A dwelling which - (a) is not the sole or main residence of any person; and (b) is held by on or behalf of a religious body for the purpose of being available for occupation by a minister of religion as a residence from which to perform the duties of his office.	Unlimited
Dwellings occupied by students, etc.	A dwelling which— (a) is occupied by at least one person who is— (i) a student; (ii) a student's spouse or dependent, being in either case a person who is not a British citizen and who is prevented by the terms of his leave to enter or remain in the United Kingdom from taking paid employment or from claiming benefits; (iii) a person disregarded for the purposes of discount in terms of paragraph 2 of Schedule 1 of the Local Government Finance Act 1992 or paragraph 3 or 6 of the Schedule to the Council Tax (Discounts) (Scotland) Regulations 1992; or (iv) a person under the age of 18 years; and (b) is not the sole or main residence of any person other than a person described in sub-paragraph (a)(i) to (iv) above.	Unlimited
	An unoccupied dwelling - (a) which is not the sole or main residence of any person other than a student or a person falling within paragraph 10(a)(ii) of Schedule 1 of the Council Tax (Exempt Dwellings) (Scotland) Order 1997;	Up to 4 months

	<p>(b) which, when last occupied, was occupied by at least one student; and</p> <p>(c) in respect of which less than 4 months have passed since the last occupation day.</p>	
	<p>A dwelling—</p> <p>(a) which is not the sole or main residence of any person; and</p> <p>(b) in respect of which each qualifying person is a student.</p>	Unlimited
Reposessed dwellings	<p>A dwelling—</p> <p>(a) which is not the sole or main residence of any person;</p> <p>(b) in respect of which the qualifying person (or, where there is more than one such person, one or more of them) is a debtor, or one of the joint debtors, in a heritable security secured over the dwelling; and</p> <p>(c) lawful possession of which has been entered into by the creditor in that heritable security.</p>	Unlimited
Agricultural dwellings	<p>An unoccupied and unfurnished dwelling which—</p> <p>(a) is situated on lands and heritages used for agricultural or pastoral purposes only, or as woodlands, market gardens, orchards, allotments or allotment gardens, or on lands exceeding one tenth of an hectare used for the purpose of poultry farming; and</p> <p>(b) when last occupied and used, was occupied together with and used in connection with the lands and heritages on which the dwelling is situated.</p>	Unlimited
Dwellings for old or disabled persons	<p>A dwelling which—</p> <p>(a) is not the sole or main residence of any person;</p> <p>(b) falls within the description mentioned in paragraph (a) of section 61(4) of the Housing (Scotland) Act 1987(7);</p> <p>(c) is held by a registered housing association for the purpose of being available for occupation by persons of pensionable age or disabled persons who are likely in future to have their sole or main residences in other dwellings falling within the same description which are provided by the association.</p>	Unlimited

Halls of residence	A dwelling which is, or is part of, a hall of residence provided predominantly for the accommodation of students, and which— (a) is owned and managed by— (i) an institution within the meaning of paragraph 5(4) of Schedule 1 to the Local Government Finance Act 1992; or (ii) a body established for charitable purposes only; or (b) is the subject of an agreement allowing such an institution to nominate the majority of the persons who are to occupy the accommodation so provided.	Unlimited
Barracks, etc.	A dwelling— (a) of which the Secretary of State for Defence is the owner; and (b) which is held for the purposes of armed forces accommodation.	Unlimited
Dwellings occupied by young people	A dwelling which is the sole or main residence of one or more persons under the age of 18 years and of no other person.	Unlimited
Difficult to let dwellings	An unoccupied dwelling— (a) which either— (i) forms part of premises which include another dwelling; or (ii) is situated within the curtilage of another dwelling; (b) which is difficult to let separately from that other dwelling; and (c) in respect of which a qualifying person has his sole or main residence in that other dwelling.	Unlimited
Garages and storage premises	A dwelling which falls within either of the classes of lands and heritages specified in paragraphs (2) and (3) of regulation 2 of the Council Tax (Dwellings) (Scotland) Regulations 1992.	Unlimited
Dwellings of persons made bankrupt	A dwelling— (a) which is not the sole or main residence of any person; (b) an interest in which is vested in a permanent trustee by virtue of subsection (1) or (10) of section 31, or subsection (6) of section 32, of the Bankruptcy (Scotland) Act 1985; and (c) in respect of which that trustee is the only qualifying person.	Unlimited

Visiting forces	A dwelling in respect of which any of the qualifying persons is a person who has a relevant association, within the meaning of Part I of the Visiting Forces Act 1952, with a body, contingent or detachment of the forces of a country to which any provision in that Part applies.	Unlimited
Dwellings occupied by severely mentally impaired persons	A dwelling which is occupied only by one or more persons who are disregarded for the purposes of discount by virtue of paragraph 2 of Schedule 1 to the Act.	Unlimited
Prisons	A dwelling falling within the scope of regulation 2(1) of the Council Tax (Dwellings) (Scotland) Regulations 1997.	Unlimited
Prescribed housing support services accommodation	<p>(1) A dwelling that meets all of the requirements in sub paragraph (2).</p> <p>(2) Those requirements are that the dwelling is –</p> <ul style="list-style-type: none"> (a) the residence of one or more persons who are resident by virtue of a licence to occupy, or a tenancy of, or a sub-tenancy of the dwelling; (b) a dwelling in respect of which a registered prescribed housing support service is being provided to at least one licensee, tenant or sub-tenant of the dwelling; and (c) a dwelling in respect of which every licensee, tenant, and sub-tenant (as the case may be) has the right to share the use of a kitchen, bathroom, shower-room or toilet-room, and where such use is shared with at least one other person who is not resident in the dwelling. <p>(3) A dwelling that meets the requirements of sub-paragraph (2) is not exempt where every licensee, tenant and sub-tenant (as the case may be) of that dwelling also has the exclusive right to use–</p> <ul style="list-style-type: none"> (a) a kitchen; and (b) either a bathroom or shower-room, and where either the bathroom or shower-room contains a toilet, or there is a separate toilet-room which every such licensee, tenant or sub-tenant also has a right to use. <p>(4) For the purposes of sub-paragraphs (2) and (3)–</p> <p>“prescribed housing support service” has the same meaning as in section 91(8) of the Housing</p>	Unlimited

	(Scotland) Act 2001 (grants for housing support services); and “registered” means that Social Care and Social Work Improvement Scotland has granted an application for registration of a prescribed housing support service under section 60 of the Public Services Reform (Scotland) Act 2010 (grant or refusal of registration).	
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Question 4 – Do you agree with the proposals regarding charging at vacant dwellings?

Financing New Capacity

Respondents to the July 2018 consultation supported a review of how the costs of meeting the demands of growth on the water and wastewater infrastructure are met.

During 2019, Scottish Water and the Scottish Government assessed the current arrangements against concerns that have been previously raised by the developer community. This identified refinements that would simplify responsibilities, minimise the administration burden between developers and Scottish Water, reduce the financial and construction risks faced by developers, improve the viability of many development sites and, in a number of cases, is likely to reduce the costs faced by the developer.

The main proposal relates to the financing arrangements for situations where existing network assets require to be enhanced to provide additional capacity to support the needs of individual developments, or to meet the needs of expected background growth.

At present the costs of enhancing existing network assets to meet the needs of new housing development and the domestic requirements of commercial and industrial developments are financed in two ways.

Where additional capacity is required to meet the needs of specific developments, the costs are covered by reasonable cost arrangements. Where the additional capacity cannot be attributed to individual developments (i.e. background growth) the changes are financed from Infrastructure Charge revenues, which are paid by developers.

To simplify these arrangements, the Government proposes that the costs of enhancing existing network assets to meet the needs of new housing development and the domestic requirements of commercial and industrial developments should all be met through Infrastructure Charges, up to a maximum limit. Under these proposals individual developers would be required to meet additional costs above the maximum limit.

The proposals in detail

It is proposed that revenues from Infrastructure Charges, which are paid by developers based on their individual developments, would be used to enhance existing network assets to ensure there is adequate capacity to meet the needs of new housing development and the domestic requirements of commercial and industrial developments.

An upper limit would be set on the use of Infrastructure Charges to finance these asset enhancements, with individual developers being required to meet additional costs above the upper limit.

Scottish Water and the WICS would be asked to agree the upper limit referred to above and the appropriate level of Infrastructure Charges, to ensure that the provision of additional capacity in existing network assets is financed by developers generally.

In relation to housing development, Infrastructure Charges would continue to be charged for each dwelling to be connected to Scottish Water's water services and for each dwelling to be connected to Scottish Water's sewerage services.

In relation to non-household development, it is proposed that Infrastructure Charges would be applied on an "equivalent dwelling" basis, rather than per connected premises. This would ensure that the costs of providing additional capacity to meet the needs of house building and the domestic requirements of commercial and industrial developments are proportionate and shared more appropriately by these sectors.

In line with the Infrastructure Charge proposals, the current reasonable cost arrangements would be modified, so that only the costs associated with new, development specific, water and sewerage assets (i.e. those that are provided by developers as part of their development) would be included in the reasonable cost assessment.

The timing of the reasonable cost payments from Scottish Water to developers has also been reviewed and it is believed to be appropriate that they continue to be made at the time of vesting. Scottish Water will be instructed to consider how it can optimise the vesting process, to facilitate the earliest practicable reasonable cost payments, whilst continuing to ensure customers' long term interests are protected.

Should these changes proceed, Scottish Water and the WICS will assess the effectiveness of the revised arrangements during the period and advise the Scottish Government should further changes be required.

Question 5 – Do the revised arrangements provide a suitable basis for financing the provision of additional capacity in existing network assets to meet the needs of development?

MINISTERIAL OBJECTIVES – FINAL DRAFT

Scottish Ministers are required to set the investment objectives for the water industry in Scotland. It is important that these fully support the Government's core purpose - to create a more successful country, with opportunities for all of Scotland to flourish.

Final Draft Objectives for 2021-27 and beyond

The draft statement of investment sets out Ministers' policies in relation to the standards of service that must be delivered in the period 2021-27. Over the past year the Government has worked with Scottish Water, the regulators and customer representatives to formulate a final draft set of Ministerial Objectives. These are based on progress made to date, studies undertaken in the current regulatory period, and known legislative requirements. The final draft statement is attached at Annex C.

This statement is largely aligned with the initial draft consulted on in 2018 but builds on it in the following particular areas:

- ensuring Scottish Water is taking the lead in working with partners to pursue action towards the realisation of the co-created sector vision; and
- including the commitments made by Scottish Water in the 2019 Programme for Government, to develop and implement a strategy that will see it take a leadership role in working with others to increase the renewable energy generated or hosted on its land and assets to 300% of its annual usage by 2030 and to achieve net zero emissions by 2040.

The statement sets objectives in the following areas:

1. Long Term Water Sector Vision – Scottish Water should take the lead in working with partners to begin to pursue action towards the realisation of the co-created vision.
2. Standards of service – Scottish Water should maintain or improve current levels of service over the long term.
3. Asset Maintenance – Scottish Water should develop an evidence-based strategy that will inform the long term capital maintenance needs of the industry.
4. Supporting Sustainable Economic Growth – Scottish Water should continue to invest in water, sewerage and drainage infrastructure to provide capacity to enable development.
5. Drinking Water - Scottish Water should comply with drinking water quality duties and develop investment plans to remove contact of potable water with lead pipes in its network.
6. Environment - Scottish Water should build upon compliance levels with its current environmental licences and develop investment plans that address risks of impacts on the environment from its assets.
7. Flooding/Surface Water Management – Scottish Water should pursue further partnerships with Local Authorities and other stakeholders to develop delivery and

monitoring arrangements that will secure improvement for storm water management.

8. Security & Resilience – Scottish Water should develop, and act upon, strategies and plans, which will maintain and improve the resilience and security of Scottish Water’s services and protect its network and information systems from malicious attack.
9. Climate Change, Adaptation and Mitigation - Scottish Water should understand the impacts of climate change on its assets and implement its plans for adaptation measures necessary to protect services. In response to the climate change emergency, it should also develop and implement a strategy that will see it take a leadership role in utilising its land and assets, and working with others, to achieve its climate change commitments.
10. Private Finance Initiative funded contracts - Scottish Water should develop plans to manage its PFI contracts to secure the best value for money for the future operation of these facilities.

Further detail on these requirements can be found in Annex C. Whilst we are not seeking specific feedback on the draft Investment Objectives, we would welcome general comments.

Question 6 – Do the key policy objectives provide a sound basis upon which to plan the delivery of services from 2021?

The document is set at a very strategic level at this time, but will be developed into a statutory direction to Scottish Water following the consultation.

SUMMARY AND NEXT STEPS

The Scottish Government is committed to ensuring that Scottish Water continues to provide the services that customers require and for which they are prepared to pay. The participation of customers and stakeholders is essential to ensuring this outcome.

This paper has set out, and seeks views on, the Government’s policy framework in relation to Scottish Water for the next regulatory period and beyond. In particular, it has identified some specific aspects of the charging framework that require further consideration and has offered an updated view on the improvements which will be required to services.

The Government would welcome your views on these issues. If you wish to comment please complete the form at <https://consult.gov.scot/energy-and-climate-change-directorate/water-services-final-consultation>.

Annex A – Revised Commissioning Letter

Energy and Climate Change Directorate

Water Industry Division

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Professor Donald Macrae
Water Industry Commission for Scotland
First Floor
Moray House
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26 June 2019

Dear Donald,

STRATEGIC REVIEW OF WATER CHARGES: 2021-27

This letter updates and replaces my letter of 31 January 2017. It reflects a number of developments since then in the detailed approach being taken to the Strategic Review of Charges for the period 2021-27 commissioned by that letter.

The principal changes are to revise the timing of the determination in line with the Commission's revision of its methodology. The letter also takes account of developments arising from the 2018 consultation on Principles of Charging and Objectives and makes reference to the emerging longer term vision for the water industry in Scotland.

Strategic Review of Charges

The Commission is to undertake a Strategic Review of Charges for the six-year period 2021 to 2027. In their 2018 consultation Ministers also requested the Commission to give indicative profiles of prices for subsequent regulatory periods in the light of the developing understanding of continuing investment requirements.

The Final Determination of Charges should be published by the end of September 2020.

In conducting the Review, Ministers look to the Commission to work with Scottish Water, Consumer Advice Scotland and other regulators and stakeholders to build on the arrangements put in place successfully in previous regulatory periods. Those arrangements have developed and evolved over successive reviews. They have ensured

stability and continuity in financing and investment planning and have created a framework within which Scottish Water has significantly improved levels of efficiency and service delivery. This has ensured that the water industry has made an essential contribution to the Government's purpose of increasing sustainable economic growth.

It will be important that these regulatory mechanisms continue to evolve. In particular Ministers invite the Commission to ensure the processes of the Review give customers an enhanced voice in the consideration of levels of charges and service priorities. Ministers also wish for a wide engagement on the final determination of charges to ensure it is widely understood in terms of the investment and services it intends to support.

Ministers also recognise that the coming regulatory period will present some important challenges to Scottish Water and accordingly invite the Commission to work with Scottish Water to ensure they are properly addressed. These include most significantly:

Capital Maintenance - Over this and future regulatory periods, Scottish Water should continue the transition to a risk based approach to maintaining the overall condition and performance of its assets so as to ensure no deterioration of service levels to customers over the long term. Ministers recognise the increasing importance of capital maintenance in achieving and maintaining service levels and statutory obligations in relation to drinking water quality and the environment and to reflect customer priorities that may affect longer term asset planning. This requires to be efficiently planned and delivered over successive regulatory periods. They wish the Commission to ensure that there is a stable and sustainable funding regime for this important part of the investment programme.

Resilience – Ministers recognise the progress Scottish Water has made in developing a strategic approach to identifying the work required to ensure the resilience of the network and requests that the Commission provides assurance that Scottish Water's approach is proportionate, fit for purpose over the long term and represents value for money for customers.

Strategic Capacity – Ministers wish to ensure that Scottish Water is properly financed and incentivised to provide water and sewerage assets in a manner that does not place a constraint or restriction on the achievement of their housing and economic development targets. To achieve this Ministers look to the Commission to ensure that finance is available to Scottish Water for this purpose over the regulatory period and that the funding arrangements for additional capacity (including the Reasonable Cost Contribution) remain fit for purpose and strike the correct balance of cost between existing customers, new customers and borrowing.

Private Finance Initiative funded Projects - Ministers recognise that 3 of the 9 PFI contracts mature in the period 2021-27. They have asked Scottish Water to consider the options and costs for the future operation and funding of these assets. They request that the Commission undertake a full examination of Scottish Water's approach to establishing the options and costs.

Partnership Projects – Ministers recognise the progress that Scottish Water has made in delivering improvements in partnership with other stakeholders, and in particular Local Authorities. They consider that, increasingly, delivering outcomes particularly in relation to the reduction of flood risk and compliance with bathing water standards will require Scottish Water to work closely with Local Authorities and communities. Ministers therefore request that the Commission ensures that the funding arrangements are sufficiently flexible so that Scottish Water can deliver to agreed timetables.

Supporting innovation – Ministers look to Scottish Water to contribute to inclusive and sustainable economic growth to which end they are encouraged to be innovative in their operation and with regards to capital enhancement and maintenance. In addition, Scottish Water is expected to support the Hydro Nation programme through their renewable energy and energy efficiency programmes and by working with communities and customers in Scotland and, through SWI, overseas. Ministers therefore request that the Commission ensures that the financing and funding arrangements for Scottish Water's regulated elements create appropriate incentives towards efficient delivery of these objectives.

Principles of Charging:

Ministers recognise that their Principles of Charging for previous regulatory periods have provided a framework which has secured significant stability and clarity for Scottish Water, its customers and stakeholders. Ministers have consulted on Draft Principles of Charging for 2021-27 and will confirm the final Principles of Charges to be applied no later than June 2020.

Ministers would wish the Commission to give priority to measures that ensure a smooth transition of customer pricing and investment activity during the final year of 2015-2021 period and the following period

Ministers will consider the advice from the Long-Term charging group on the modernisation of water charges so as to ensure that these continue to deliver the principles of cost reflectivity and cost recovery. As in previous periods, the Principles of Charging will indicate the level of finance they are willing to make available in support of the investment programme.

Statement of Objectives

Ministers consulted on their draft objectives in April 2018 and will finalise their objectives no later than June 2020.

In the light of that consultation Ministers expect that the objectives for the period 2021-27 will be broadly consistent with those set in 2014. In the time since that consultation the importance and relevance of these objectives have become clear not only through the work of the Commission, Scottish Water and its stakeholders, but the concerns of the wider stakeholder group and customers generally in relation to the challenges of climate change.

Ministers will look to the water industry to develop and work towards a coherent vision describing the longer term nature of the industry and what it can achieve. The Commission has played an important part in the development of that vision and should continue to do so.

The current objectives recognise the importance of the security of Scottish Water's physical assets, the evolution of new threats to public services requires also that, relevant security standards in relation, IT systems and personnel, as advised by Scottish Government Resilient Essential Services, should be met. They also require a fully appropriate response by Scottish Water to mitigate and adapt to the challenges of climate change.

Ministers expect that the programme of outputs identified to achieve these objectives should reflect the best possible value for money in terms of the improvement in outcome achieved for the investment made. Average annual expenditure on the investment programme should remain of a size that allows efficient delivery whilst facing up properly to the challenges the industry faces.

Ministers expect that, with advice from the Outputs Monitoring Group, a suitable governance structure be developed, to identify the outputs necessary to deliver these objectives. Consistent with Ministers' policy of continuity of investment, and the development of the longer term vision for the water industry, draft objectives for the subsequent period 2027-33 and beyond should also be developed. As for previous investment periods, these must demonstrate how they will contribute to the Government's purpose of increasing inclusive and sustainable economic growth and make progress towards delivering the longer term vision. Scottish Water will also be required to continue to meet and where appropriate exceed their statutory obligations to respond to climate change making necessary climate change related adaptations to operational practice and assets and should ensure systematic monitoring and reduction of carbon emissions.

Timetable

In agreeing the timetable for this SRC, Ministers ask that all parties ensure that, in keeping with good practice, sufficient time is made available to ensure appropriate consultation with the wider stakeholder group, communication with customers and for the Government's own public engagement.

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

I am copying this letter to the Chair of Scottish Water, the Chair of Scottish Environment Protection Agency, the Drinking Water Quality Regulator for Scotland, the Chair of Citizens Advice Scotland and the Chair of the Competition Commission.

Yours sincerely



Bob Irvine

Scottish Government

GENERAL STATEMENT OF POLICY - PRINCIPLES OF CHARGING FOR WATER SERVICES 2021-27

Scottish Ministers make the following statement of the principles that must apply to water charges for 2021-27. 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 and inclusive economic growth.

The following principles will guide the Water Industry Commission for Scotland when determining the maximum charge limits with which Scottish Water must comply during 2021-27 regulatory period.

These high-level principles have been prepared in consultation with Scottish Water, the Water Industry Commission for Scotland (the Commission), the Drinking Water Quality Regulator (DWQR), the Scottish Environment Protection Agency (SEPA) and Citizens Advice Scotland (CAS) and reflect decisions taken following consultations on "Investing in and Paying for Your Water Services from 2021" published in December 2018.

Principles

Principle 1 – Stable charges

1. Ministers recognise the importance that customers attach to stability and certainty in charging. The Commission will determine charges having regard to the level of inflation, as measured by the Consumer Prices Index, that give customers certainty about the maximum level of charges they will face over the regulatory period.

Principle 2 - Full cost recovery

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

Principle 3 - Harmonised charges

3. 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 4 - Cost-reflective charges

4. 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 Scottish Water nationally of providing that service to that group as a whole.

Additional Requirements

Household charges

5. Ministers confirm that, in relation to unmetered households, the collection arrangements and tariff structure applying to charges in 2015-21 should continue for the period 2021-27, 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 the council tax bandings that were in place at April 2015 and apply the discounts and reductions that apply to council tax, subject to the provision set out at Principle 6.
- The exemptions defined in the Council Tax (Exempt Dwellings) (Scotland) Order 1997 will continue to apply to water and sewerage charges, subject to the proposed provisions set out at Annex B, which relate to bringing vacant domestic properties in to charge in three specific circumstances.

6. Following a review of the appropriateness of discounts, exemptions and reductions offered to certain households, Ministers intend to raise the reduction available through the Water Charges Reduction Scheme for those in receipt of Council Tax Reduction (CTR) from 25% to 30% of the level of CTR applied to the full water and sewerage charge for the dwelling, and extend its availability to households that receive both CTR and some other form of Council Tax discount. Ministers ask that the impact of these arrangements (as proposed in Annex A) be assessed within the period.

7. 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

8. Ministers confirm that, in relation to non-domestic charges, wholesale charges should continue to be set in line with the principles set out above 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 Scottish Water of draining those public roads that are connected to its sewers.
- *Paying for surface drainage* – wholesale charges should recover the costs to Scottish Water of dealing with rainwater that drains to Scottish Water's infrastructure from roofs and other impermeable surfaces within private properties.

- *Basis for calculation* – drainage charges should generally be calculated by reference to the Rateable Value as shown in the current valuation roll, though this approach will be subject to reconsideration following completion of the ongoing industry wide review. This review was requested by the Scottish Government, to consider alternatives to the current application of RV as a basis for charging, and is due to be completed by March 2021. The review has already highlighted a need for charging arrangements to adapt in the near-term, in order to address situations where customers take steps to significantly reduce their demands on Scottish Water’s drainage infrastructure. Arrangements to support this initial change will be considered in early 2020 and will be confirmed in the final Principles of Charging Statement in June 2020.

9. Further consultation on the basis for charging will then follow, should any significant changes be proposed as a result of the ongoing industry wide review.

Financing

10. Ministers confirm that, in relation to the financing of Scottish Water, the following considerations should apply:

- *Financial Strength* – Scottish Water should be sustainably and prudently financed appropriate to the governance framework within which it operates.
- *Dividend* - The Government will not take a dividend from its ownership of Scottish Water.
- *Lending* - The Government will continue to make finance available through lending to Scottish Water in the 2021-27 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 £1.02 billion during the period.
- *Financial Performance* - Financial performance in relation to ongoing operating and refurbishment costs should be considered in line with the financial tramlines as set out by the Commission. Scottish Water should provide stakeholders with separate assurance relating to expected and delivered capital expenditure. This will 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 Scottish Water. This arrangement protects the position of customers and ensures that they do not compensate Scottish Water for inefficiency or poor management. Any financial outperformance will be deployed in line with Ministers’ decisions.

Providing additional capacity in network assets to support development

11. Following a review of the appropriateness of existing arrangements associated with paying for additional capacity, Ministers propose that the following revised arrangements are introduced, subject to the detailed provisions set out at Annex C:

- ***Existing Network Assets*** - At present the costs of enhancing existing network assets to meet the needs of new housing development and the domestic requirements of commercial and industrial developments that cannot be attributed to individual developments are financed from developers, generally

through Infrastructure Charge revenues, while enhancements that are required to support individual developments are covered by reasonable cost arrangements.

To simplify these arrangements it is proposed that the costs of all enhancements to existing network assets to meet the needs of all new housing development and the domestic requirements of commercial and industrial developments should be met through Infrastructure Charges, up to a maximum limit. Under these proposals individual developers would be required to meet additional costs above the maximum limit.

Scottish Water and the Commission would agree the maximum limit referred to above and the appropriate level of Infrastructure Charges, to ensure that the provision of additional capacity in existing network assets is financed by developers generally.

In relation to housing development, Infrastructure Charges would continue to be levied for each dwelling to be connected to Scottish Water's water services and for each dwelling to be connected to Scottish Water's sewerage services.

For non-household development, it is proposed that Infrastructure Charges would be levied on an equivalent dwelling basis for each premises to be connected to Scottish Water's water services and for each premises to be connected to Scottish Water's sewerage services.

- ***New Network Assets*** – At present the costs of providing new development specific network assets and enhancing existing network assets to meet the needs of individual new housing developments and the domestic requirements of individual commercial and industrial developments are covered by reasonable cost arrangements.

The proposals relating to Existing Network Assets (above) would mean that, going forwards, only the costs associated with providing new development specific network assets would be included in reasonable cost assessments.

Should these changes proceed, Scottish Water and the Commission will assess the effectiveness of these revised arrangements during the period.

Assistance for Charitable organisations

12. Ministers recognise the contribution that charities make to Scotland's well-being and prosperity and confirm that the scheme implemented for the 2015-21 period is to be continued. This Scheme will provide an exemption or a reduction on water and sewerage charges payable by charities or Community Amateur Sports Clubs subject to the conditions set out in Annex D. This scheme is to be funded by the generality of non-household customers.

Paying for regulation and customer representation

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

14. Ministers confirm that the costs of the Drinking Water Quality Regulator in regulating Scottish Water's core functions should be funded out of charge income.

15. Ministers confirm that the costs of the Scottish Environment Protection Agency (SEPA) in regulating Scottish Water should be funded from charges levied by SEPA in accordance with its charging regime.

Preparing for Future Regulatory Periods

16. Ministers require that preparatory work be undertaken for the 2027-33 period. The charging policies as contained within this document will be reviewed to ensure that they meet the Government's overall policy priorities.

Reductions to apply to water and sewerage charges at unmetered Households

Following a review of the appropriateness of discounts, exemptions and reductions offered to certain dwellings against unmeasured household water and sewerage charges, Ministers are proposing to amend the Water Charges Reduction Scheme (WCRS) which is currently awarded to dwellings that receive Council Tax Reduction (CTR), but do not receive any other Council Tax Discounts.

The proposal is to:

- increase the maximum level of support provided by WCRS to 30% of the level of CTR; and
- extend WCRS eligibility to include all dwellings that receive CTR, so that dwellings that receive CTR will pay the lesser of:
 - the full water and sewerage charges for the dwelling less any status discounts awarded for Council Tax, or
 - the full water and sewerage charges for the dwelling less a reduction through WCRS equivalent to 30% of the level of CTR awarded for Council Tax.

Subject to further consultation, the proposed changes will be reflected in the final document.

Reductions to apply to water and sewerage charges at unmetered Households

1. Reductions to water and sewerage charges at unmetered dwellings 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;
 - b. CTR applies; and
 - c. 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.
3. If a person receives CTR in respect of the dwelling, the following formula should be used to calculate the level of reduction for which that dwelling is eligible.

$$R = 30 \times A \div B$$

Where:

- R is the percentage discount to be applied to unmetered water and/or sewerage charges;
 - A is the amount of CTR 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.
4. Dwellings are only eligible to receive one discount or reduction on unmetered water and sewerage charges. Therefore, where the dwelling is subject to a Council Tax discount under section 79 of the Local Government Finance Act, and that dwelling also receives CTR, it will be awarded the discount or reduction which results in the lowest level of water and sewerage charges.
5. No discounts or reductions in water charges should be applied for 2nd homes, or to dwellings supplied through a water meter.

Exemptions from water and sewerage charges for unmetered dwellings

1. Following a review of the appropriateness of discounts, exemptions and reductions offered to certain dwellings against unmeasured household water and sewerage charges, Ministers confirm that the following exemptions, defined in the Council Tax (Exempt Dwellings) (Scotland) Order 1997 (as amended), will not apply to water and sewerage charges in 2021-27:

- **New dwellings** - An unoccupied and unfurnished dwelling in respect of which—
 - less than 6 months have elapsed since the effective date for the first entry in the valuation list; and
 - there was no entry in the valuation roll immediately prior to that effective date.

- **Empty dwellings** - A dwelling—
 - which is both unoccupied and unfurnished; and
 - in respect of which less than 6 months have elapsed since the end of the last period of 3 months or more throughout which it was continually occupied or furnished.

- **Dwellings under repair** - An unoccupied dwelling—
 - which—
 - (i) is undergoing or has undergone (since the last occupation day) major repair work to render it habitable; or
 - (ii) is undergoing or has undergone (since the last occupation day) structural alteration;
 - in respect of which no more than 12 months have elapsed since the last occupation day; and
 - in respect of which no more than 6 months have elapsed since the major repair work or structural alteration in question was substantially completed.

2. All other exemptions defined in the Council Tax (Exempt Dwellings) (Scotland) Order 1997 (as amended), will apply to water and sewerage charges in the 2021-27 period.

Providing additional capacity in network assets to support development

Scottish Water operates separate water and sewerage assets to provide dwellings, businesses and industrial premises with water and sewerage services.

Water network assets transport water from water treatment works to customers' premises and include water mains, pumping stations and tanks for storing treated water. Homes, businesses and industrial premises are connected to water mains by communication pipes.

Sewerage network assets collect sewage, surface water (rainwater) and trade effluent from customers' premises, and include sewers, sewerage pumping stations, storm overflows and sustainable urban drainage systems (SUDS). Some sewers only collect rainwater, some only carry waste from premises, while others carry both waste and rainwater. Homes, businesses and industrial premises are connected to sewers by pipes referred to as sewer tails.

Following a review of the arrangements associated with paying for additional capacity to support development, Ministers are proposing to introduce revised arrangements, as set out below.

- ***Existing Network Assets*** - At present the costs of enhancing existing network assets to meet the needs of new housing development and the domestic requirements of commercial and industrial developments that cannot be attributed to individual developments are financed from developers generally through Infrastructure Charge revenues, while enhancements that are required to support individual developments are covered by reasonable cost arrangements.

To simplify these arrangements it is proposed that the costs of all enhancements to existing network assets to meet the needs of new housing development and the domestic requirements of commercial and industrial developments should be met through Infrastructure Charges, up to a maximum limit. Under these proposals individual developers would be required to meet additional costs above the maximum limit

Scottish Water and the Commission would agree the maximum limit referred to above and the appropriate level of Infrastructure Charges, to ensure that the provision of additional capacity in existing network assets is financed by developers generally.

In relation to housing development, Infrastructure Charges would be charged for each dwelling to be connected to Scottish Water's water services and for each dwelling to be connected to Scottish Water's sewerage services.

Under the current arrangements for non-household development, Infrastructure Charges are applied for each new premises to be connected, irrespective of the demand the premises will place on Scottish Water's water and sewerage services. It is

proposed that in future, for non-household development, Infrastructure Charges would be levied on an equivalent dwelling basis for each premises to be connected to Scottish Water's water services and for each premises to be connected to Scottish Water's sewerage services.

- **New Network Assets** – At present the costs of providing new development specific network assets and enhancing existing network assets to meet the needs of individual new housing developments and the domestic requirements of commercial and industrial developments are covered by the Reasonable Cost arrangements.

In line with the proposals outlined above, only the costs associated with providing new development specific network assets would be included in reasonable cost assessments.

Should these changes proceed, Scottish Water and the Commission will assess the effectiveness of these revised arrangements during the period.

- **Non-network assets** -Scottish Water shall continue to provide capacity in all other assets to meet the needs of new housing development and the domestic requirement of commercial and industrial developments.

Assistance for Charitable organisations

1. Ministers confirm that there is to be a 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:

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.

2. 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.
3. Where it has a gross annual income of £200,000 or more, 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.

4. Other conditions:

(a) Any eligible charity or CASC seeking exemption or a reduction must:

- Apply to their Licensed Provider; and
- Renew their request for exemption annually.

(b) Where organisations are awarded charity or CASC status, exemption or a reduction will be granted from the date upon which charity or CASC status is awarded.

(c) 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.

(d) Charities or CASCs in possession of permanent alcohol licence will not qualify for assistance.

(e) Charities or CASCs which operate a full-time retail outlet will not qualify for assistance.

STATEMENT OF PROPOSALS – Investing in Water and Wastewater Services 2021-27

Investment Areas

1. Long Term Water Sector Vision

Ministers are supportive of the long term vision set out by the water industry (see Annex A) and ask that Scottish Water take the lead in working with partners, and engaging with customers and communities, to start to pursue action towards its realisation.

2. Standards of service

Ministers expect that current levels of service shall be maintained or improved over the long term. They expect Scottish Water to engage with stakeholders and customers to establish appropriate standards of service for the 2021-27 regulatory period, and beyond, and to report annually on performance against these standards. They also request that performance assessment criteria are reviewed to ensure that they remain fit for purpose.

3. Asset Maintenance

Ministers recognise that maintaining high levels of performance are dependent on adequate maintenance, and when appropriate, replacement of existing assets. They request that Scottish Water develops an evidence-based strategy that will inform the long term asset replacement needs of the industry. The strategy should also set out the programme being undertaken to understand the condition of assets in particular those of a critical nature for maintaining service delivery.

This strategy must command the confidence of Scottish Water's regulators and ensure that asset maintenance is fully integrated with other areas of the investment programme.

4. Supporting Sustainable Economic Growth

To support the Scottish Government's purpose to increase levels of sustainable economic growth, Ministers confirm that Scottish Water should continue to invest in water, sewerage and drainage infrastructure to provide capacity to enable development.

Ministers recognise that, in a number of locations in Scotland, the levels of headroom available to accommodate new demand is not sufficient to support future forecast demand for capacity. They ask Scottish Water to work with stakeholders to influence strategic development in areas where there is already capacity and to

consider all possible measures to release capacity in existing assets before requiring enhancement of water and wastewater infrastructure.

Ministers recognise that a small percentage of Scotland's population currently relies on private water and sewerage arrangements. In line with their commitment to delivering the United Nation's Sustainable Development Goal 6, Ministers expect that Scottish Water will work with the Scottish Government to support the Government's objective of ensuring reliable and sustainable rural water and waste water services.

5. Circular Economy

Ministers wish Scottish Water to consider opportunities highlighted in Scotland's strategy "[Making things last](#)" and to apply the principles of a circular economy to water and wastewater services, in particular exploring the potential for resource recovery from sewerage.

6. Drinking Water

Ministers expect Scottish Water to comply with drinking water quality duties, ensuring that plans are in place to address failures, including the risk of failures, of standards in the interests of further enhancing public health protection. They also request that the plans already developed to address the resilience of supplies be updated and that progress be made to secure further improvements.

In the light of expert advice from the World Health Organisation, Ministers request that Scottish Water develops investment plans to remove contact of potable water with lead pipes in its network. These plans should be informed by studies and pilots undertaken in the 2015-21 period, should ensure Scottish Water delivers water which is compliant with the lead standard and regulations, and should highlight the continued removal of lead as a priority for the 2021-27 period. In developing and pursuing action towards the water sector vision, Ministers expect Scottish Water to play a leading role in collaborating with the Scottish Government, DWQR and other stakeholders towards a lead-free Scotland.

7. Environment

Ministers expect Scottish Water to build on the current level of compliance with its environmental licences, by continuing to develop and implement investment plans that address risks of impacts on the environment from its assets.

Ministers have set out, their objectives for Scotland's water environment in their River Basin Management Plan (RBMP), in particular, how public bodies, businesses and land managers will work together to protect and improve the environmental quality of Scotland's rivers, lochs and seas over the period to 2027. They request that Scottish Water, as a key player, sets out in its 2021-27 Delivery Plan how improvements to water and sewerage infrastructure in the period 2021-27 are expected to contribute effectively to the RBMP objectives. Regular updates from

Scottish Water should then detail the progress it has made towards delivering its RBMP obligations.

Ministers commend Scottish Water's efforts to develop drainage and wastewater management plans so as to gain a better understanding of the performance of sewer networks and to plan for improvements. They expect these to be further developed with a view to limiting the amount of plastics reaching the water environment through these routes.

Ministers recognise that pollution of the water and marine environment arises, not only from assets but also from product design and customer behaviour. They request that Scottish Water supports SEPA in working with the manufacturing sector, the Government, customers and stakeholders to control, at source, plastics and priority substances.

8. Flooding/Surface Water Management

Scotland needs to focus on surface water management to address customer flooding, water quality issues, climate change and growth. Ministers commend the partnership working between Scottish Water and Local Authorities to develop a greater understanding of the performance of drainage and sewerage networks. Ministers request that Scottish Water pursue further partnerships with Local Authorities and other stakeholders to develop delivery and assurance arrangements that will secure improvements to storm water management, including those for which joint delivery solutions will be required.

9. Security & Resilience

Ministers request that strategies and plans are developed and acted upon, in order to maintain and improve the security of Scottish Water's network and systems, and protect them from malicious attack.

Similarly, they request strategies and plans be developed and acted upon, subject to appropriate prioritisation, to maintain and improve the resilience of the Scottish Water network to best ensure continuity of service.

Such strategies and plans should be prepared in line with advice from Government security advisers and informed by industry best practice.

10. Climate Change, Adaptation and Mitigation

Scotland is already feeling the impacts of climate change. Ministers request that Scottish Water ensures that it understands the impacts of climate change on its assets and implements its plans for adaptation measures necessary to protect services.

In response to the Scottish Government's recognition of the global climate emergency, Scottish Water committed to achieve net zero emissions by 2040 and

to increase the renewable energy generated or hosted on its land and assets to 300% of its annual energy usage by 2030. In line with these commitments, Ministers expect Scottish Water to develop and implement a strategy that will see it take a leadership role in utilising its land and assets, and working with others. In doing so it should make substantive progress in the 2021-27 period and ensure it is on an appropriate trajectory to meet or exceed these targets.

Ministers support the introduction of Scottish Water's network of Top Up Taps. Ministers ask that Scottish Water continue to work with customers and the wider industry to support measures that reduce water use in homes and businesses, and ensure only appropriate items are flushed down the toilet or put down the sink.

Before the end of 2020 Ministers expect Scottish Water to commission a competition amongst all Scottish Universities for the creation of a new Chair under the title of 'Scotland the Hydro Nation: Chair of Water Studies'. Once appointed, Scottish Water should continue to support the Chair throughout the 2021-27 period, ensuring they receive appropriate financial support, which will help the water industry manage the challenges of climate change and the transition to net zero emissions.

11. Private Finance Initiative funded Projects

Ministers recognise that 3 of the 9 PFI contracts mature in the period 2021-27. They request Scottish Water develops plans to manage these contracts to secure the best value for money for the future operation of these facilities. Plans should be prepared for contracts that end in the period following 2027.

Water Sector Vision

Scotland's water sector will be admired for excellence, secure a sustainable future and inspire a Hydro Nation.

Together we will support the health and wellbeing of the nation. We will ensure that all of Scotland gets excellent quality drinking water that people can enjoy all of the time. Scotland's waste water will be collected, treated and recycled in ways that generate value and protect the environment. We will enable the economy to prosper.

We will transform how we work to live within the means of our planet's resources, enhance the natural environment and maximise our positive contribution to Scotland achieving net zero emissions.

We will involve and inspire Scotland's people to love their water and only use what they need. We will promote access to the natural environment and encourage communities to enjoy and protect it.

We will be agile and collaborate within the sector and with others to be resilient to the challenges which will face us. We will keep services affordable by innovating and delivering the greatest possible value from our resources, helping those who need it most. We will serve all customers and communities in a way that is fair and equitable to present and future generations.

We are a vital part of a flourishing Scotland.

Annex D - Responding to this Consultation

We are inviting responses to this consultation by 5 April 2020.

Please respond to this consultation using the Scottish Government's consultation hub, Citizen Space (<http://consult.gov.scot>). Access and respond to this consultation online at <https://consult.gov.scot/energy-and-climate-change-directorate/water-services-final-consultation>. You can save and return to your responses while the consultation is still open. Please ensure that consultation responses are submitted before the closing date of 5 April 2020.

If you are unable to respond using our consultation hub, please complete the Respondent Information Form to:

Water Industry Team
Scottish Government
3F South
Victoria Quay
Edinburgh, EH6 6QQ

Handling your response

If you respond using the consultation hub, you will be directed to the About You page before submitting your response. Please indicate how you wish your response to be handled and, in particular, whether you are content for your response to be published. If you ask for your response not to be published, we will regard it as confidential, and we will treat it accordingly.

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.

If you are unable to respond via Citizen Space, please complete and return the Respondent Information Form included in this document.

To find out how we handle your personal data, please see our privacy policy: <https://beta.gov.scot/privacy/>

Next steps in the process

Where respondents have given permission for their response to be made public, and after we have checked that they contain no potentially defamatory material, responses will be made available to the public at <http://consult.gov.scot>. If you use the consultation hub to respond, you will receive a copy of your response via email.

Following the closing date, all responses will be analysed and considered along with any other available evidence to help us. Responses will be published where we have been given permission to do so. An analysis report will also be made available.

Comments and complaints

If you have any comments about how this consultation exercise has been conducted, please send them to the contact address above or at waterindustry@gov.scot.

Scottish Government consultation process

Consultation is an essential part of the policymaking process. It gives us the opportunity to consider your opinion and expertise on a proposed area of work.

You can find all our consultations online: <http://consult.gov.scot>. Each consultation details the issues under consideration, as well as a way for you to give us your views, either online, by email or by post.

Responses will be analysed and used as part of the decision making process, along with a range of other available information and evidence. We will publish a report of this analysis for every consultation. Depending on the nature of the consultation exercise the responses received may:

- indicate the need for policy development or review
- inform the development of a particular policy
- help decisions to be made between alternative policy proposals
- be used to finalise legislation before it is implemented

While details of particular circumstances described in a response to a consultation exercise may usefully inform the policy process, consultation exercises cannot address individual concerns and comments, which should be directed to the relevant public body.

Annex E –

Respondent Information Form

Investing in and paying for your water services from 2021: Final Consultation

Please Note this form **must** be completed and returned with your response.

To find out how we handle your personal data, please see our privacy policy:

<https://beta.gov.scot/privacy/>

Are you responding as an individual or an organisation?

- Individual
- Organisation

Full name or organisation's name

Phone number

Address

Postcode

Email

The Scottish Government would like your permission to publish your consultation response. Please indicate your publishing preference:

- Publish response with name
- Publish response only (without name)
- Do not publish response

Information for organisations:

The option 'Publish response only (without name)' is available for individual respondents only. If this option is selected, the organisation name will still be published.

If you choose the option 'Do not publish response', your organisation name may still be listed as having responded to the consultation in, for example, the analysis report.

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 Scottish Government to contact you again in relation to this consultation exercise?

- Yes
 No

Written Responses – Questions

Principles of Charging

- 1) Do you agree that the final draft Principles of Charging are appropriate for the next regulatory period?

Yes No

Comments

Affordability

- 2) Do you agree that the level of financial support provided for households that receive Council Tax Reduction should be increased?

Yes No

Comments

- 3) Do you agree that the eligibility criteria for this financial support should be extended to include all those in receipt of Council Tax Reduction and some other form of Council Tax Discount?

Yes No

Comments

Household Vacant Exemptions

- 4) Do you agree with the proposals regarding charging at vacant dwellings?

Yes No

Comments

Providing additional capacity in network assets to support development

5) Do the revised arrangements provide a suitable basis for financing the provision of additional capacity in existing network assets to meet the needs of development?

Yes No

Comments

Investment Objectives

6) Do the key policy objectives provide a sound basis upon which to plan the delivery of services from 2021?

Yes No

Comments

Other

7) Please include any other comments you wish to make on 'Investing in and paying for your water services from 2021: Final Consultation' below:

Comments



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