



T: 0300 244 4000
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[REDACTED]
[REDACTED]
Scottish Water

[REDACTED]

11 February 2022

Dear [REDACTED],

Thank you for the letter signed by [REDACTED], dated 2 February 2022, following our helpful discussion the day before, informing me of the Board's decision to review the scheme of water and sewerage charges for 2022-23 in light of the cost of living crisis.

As I said in the course of our call, the current rapid growth of pressures on household budgets is truly exceptional, and of such a degree and consequence to support the reconsideration of water charges in light of recently significantly-changed economic circumstances. I am grateful that the Board acted as quickly as it did in coming to a decision to set charges in line generally with inflation.

I can assure you I fully appreciate the Board's concerns about the potential impact of this decision on future years, particularly in terms of recovering revenue through charges and, in delivering against the objectives Ministers set for the industry at the start of the current regulatory period. I agree that officials should continue to work closely with their counterpart colleagues in Scottish Water and with others, including WICS, to maintain the strong focus on successful delivery that has been a mark of Scottish Water's success and I have asked to be kept regularly informed of developments.

Yours sincerely

MICHAEL MATHESON

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**Scottish
Water**

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2 February 2022

Michael Matheson MSP
Cabinet Secretary for Net Zero, Energy and Transport

Emailed to: cabsecnetzet@gov.scot

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Dear Mr Matheson,

Thank you for meeting [REDACTED] and me yesterday, and for your subsequent letter to [REDACTED] on water charges for 2022/23. The Scottish Water board met late yesterday to discuss your request, and our prospects for this regulatory period, in light of our discussion.

Since the start of this regulatory period, we have been committed to meeting the obligations and expectations placed upon us through Ministers Objectives for 2021-27, by delivering the increased investment, improvements, and transition towards net zero emissions set out in WICS final determination of charges. We appreciated the increased lending being made available by the Scottish Government, alongside higher customer charge limits set by WICS, to support delivery of this considerable investment.

We are conscious that increasing charges to pay for additional investment must take account of the difficult economic circumstances faced by many people and businesses across Scotland and yet recognise too that those conditions may continue to be challenging in the years ahead. We reflected those considerations in our original charging proposal, which would have enabled us to increase real charges smoothly across the regulatory period, by an average of CPI+2% pa, in line with Ministers Principles of Charging for 2021-27.

The board has carefully considered your request, set out in yesterday's letter, and the wider factors shared with us in our meeting.

The board has agreed to revise our 2022/23 charging proposals in line with your request, but this decision is made with deep concern. We recognise the financial pressures on households and businesses are likely to continue for some time and doubt whether it would be credible to suppress the charge increase for 2022/23 only to increase charges as a result by an even higher amount than previously envisaged, to an average of CPI+3% pa, across the rest of the regulatory period.

We therefore suggest that we work urgently with you, your officials, and other water sector stakeholders to explore the options going forward; either for adjusting the obligations placed upon us, and the timing expectations for achievement of Ministerial Objectives, or to reaffirm a commitment to the necessary price increases to enable us to meet our regulatory obligations.

Yours sincerely,

[REDACTED]

Non-executive Board Member



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[REDACTED]

[REDACTED]

Scottish Water

[REDACTED]

1 February 2022

Dear [REDACTED],

I am grateful for the consideration that the Board has given to the matter of water charge increases for the year 2022-23. Scottish Water has performed exceptionally strongly in recent years and looking ahead has a challenging set of Objectives to meet; I recognise that continued success requires adequate financing.

The Board rightly give consideration to customer feedback and insights in reaching their decisions, however, there has been a very significant change to the degree of pressure on household budgets and indeed on businesses cash-flow and that has grown more acute in the recent weeks since the board last considered charging matters. Given that rapidly emerging cost of living context, I would be grateful if the Board could review the charge levels it is proposing for next year.

A re-profiling of charges to allow for a cost of living increase in line with the accepted regulatory reference month of October would in my view demonstrate such a re-consideration. The implications of such a re-profiling will of course require careful consideration going forward and I would be pleased to discuss this with you in due course. I would be grateful if you could today consider the re-profiling and re-submitting of a scheme of charges to the Water Industry Commission for Scotland, in line with your responsibility to seek a level of charges that is consistent with the regulatory settlement over the period and which allows you to meet Ministerial Objectives and the Principles of Charging.

MICHAEL MATHESON

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