

Scottish Government

General statement of policy – Principles of Charging for water and sewerage services 2021-27

The Scottish Ministers make the following statement of policy regarding charges, for the period from 1 April 2021 to 31 March 2027 (the “2021-27 period”), under section 29D of the Water Industry (Scotland) Act 2002 (the “2002 Act”). This statement of policy includes high level principles and supporting mechanisms, and is intended to allow Scottish Water to achieve the Objectives set by Ministers for the period, in particular to make progress towards achieving net-zero emissions by 2040 and to play its significant part in delivering the long term water sector vision.

This statement of policy has been prepared in consultation with statutory consultees Scottish Water, the Water Industry Commission for Scotland (the Commission), Citizens Advice Scotland (CAS), water and sewerage services providers and in addition to the statutory consultees the Drinking Water Quality Regulator (DWQR), and the Scottish Environment Protection Agency (SEPA). It follows the feedback gathered during two public consultations in 2018 and 2020 and associated work undertaken by the Commission.

This statement of policy 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.

Under section 29C of the 2002 Act, the Commission and Scottish Water must (so far as consistent with other specified duties) give effect to this statement of policy when exercising certain charging functions under the Act. In particular, it will guide the Commission when determining under section 29B of the 2002 Act the maximum amounts of charges with which Scottish Water must comply during the regulatory period. In determining the maximum amounts, the Commission will set out the uncertainties in growth of demand for Scottish Water's services and the implications of these uncertainties.

Ministers welcome the industry wide commitment to embrace Ethical Business Practices.

Principles

Scottish Water and the Commission should apply the following principles of charging. In applying the principles, Ministers expect the Commission and Scottish Water to take account of the prevailing economic circumstances facing customers in the context of COVID-19, whilst also ensuring the industry can continue to make progress to address the long term challenges it faces.

Principle 1 – Stable charges

1. Ministers recognise the importance that customers attach to stability and certainty in charging. The Commission will determine the maximum amounts of charges having regard to the level of inflation, as measured by the Consumer Prices Index (CPI).

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.

Principle 5 – Fair, equitable and affordable charges

5. In determining the maximum amounts of charges, the Commission should ensure Scottish Water is sustainably funded to play its significant part in delivering the water sector vision over successive regulatory periods. The Commission and Scottish Water must also take into account that charges should be affordable and set at a level that is fair and equitable to present and future generations.

Additional Requirements

Household charges

6. Ministers confirm that the collection arrangements and tariff structure applying to unmetered household charges in 2015-21 should continue for the 2021-27 period. That is:
 - 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 paragraph 7.
 - No discounts or reductions in water, sewage or drainage charges should be applied for second homes or to dwellings supplied through a water meter.
7. Ministers confirm the Water Charges Reduction Scheme (WCRS) should remain the primary means by which the water industry supports those customers least able to pay water and sewerage charges. Detailed provisions are set out at Annex A.
8. Metered and unmetered household charges should continue to include appropriate elements to recover the cost to Scottish Water of dealing with rainwater that drains to its sewers from:
 - roofs and other impermeable surfaces from household premises; and
 - public roads.

Wholesale charges

9. Ministers confirm that, in relation to wholesale charges, Scottish Water should continue to include appropriate elements to recover the cost to Scottish Water of dealing with rainwater that drains to its sewers from roofs and other impermeable surfaces from business premises and from public roads.
10. Wholesale charges related to rainwater drainage from roofs and other impermeable surfaces from business premises should generally be calculated by reference to Rateable Value, as shown in the current valuation roll.
11. A review was requested by Scottish Ministers to consider alternatives to the current application of Rateable Value as the basis for calculating the above charges. The review highlighted the need for charging arrangements to adapt, in order to address situations where customers take steps to significantly reduce their demands on Scottish Water's drainage infrastructure and Scottish Water should take account of this in their scheme of charges. The review indicated that either Rateable Value or Surface Area is a reasonable basis for charging. Ministers have requested that a

full cost analysis of sewerage services, capturing monetary costs and non-monetary benefits including the use of innovative drainage approaches, should be carried out in this regulatory period including engagement with customers by 31 March 2025, such that the findings can inform preparations for the period beyond 31 March 2027.

Financing

12. 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, consistent with 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 therefore confirm they will provide to a maximum of £1.03 billion for the 2021-27 period.
- Financial Performance - Financial performance in relation to on-going operating and broadly recurring costs should be considered in line with the financial ranges set out by the Commission. 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' approval. Scottish Water should provide stakeholders with separate reporting relating to expected and delivered capital expenditure.

Paying for additional capacity

Meeting the needs of housing development and the domestic requirements of the non-household sector

13. Ministers confirm the costs associated with meeting the needs of new housing developments and the domestic requirements of new and expanding commercial and industrial developments should be funded as follows:

- Extending Local Infrastructure – the costs of providing and installing new local infrastructure associated with developments up to the connection with existing Scottish Water Network assets will be funded by Scottish Water through reasonable cost arrangements up to a maximum limit under the Provision of Water and Sewerage Services (Reasonable Cost) (Scotland) Regulations 2015. The limit applies cumulatively to the costs of extending local infrastructure and the costs of enhancing existing assets associated

with the development. Individual developers will be required to meet additional costs above this limit.

- Enhancing Existing Network Assets – the costs associated with increasing the capacity of existing network assets where they are not readily attributable to a particular developer will be financed by all developers through infrastructure charges and the enhancements will be delivered by Scottish Water. Where the costs of increasing the capacity of existing network assets associated with development up to the connection with existing Scottish Water Network assets are readily attributable to a particular developer, they will be funded by Scottish Water through reasonable cost arrangements, up to a maximum limit under the Provision of Water and Sewerage Services (Reasonable Cost) (Scotland) Regulations 2015. The limit applies cumulatively to the costs of extending local infrastructure and the costs of enhancing existing assets associated with the development. Individual developers will be required to meet additional costs above this limit.

- To support these arrangements, the Commission should provide for Scottish Water to levy infrastructure charges for:
 - Household Development – 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;
 - Non-Household Development - for the domestic requirement of each premises to be connected to Scottish Water's water services and for each premises to be connected to Scottish Water's sewerage services.

- Upgrading Strategic Infrastructure¹ – Scottish Water will be required to meet the costs of upgrading strategic infrastructure.

Review

14. Ministers ask that Scottish Water and the Commission assess the effectiveness of these arrangements by 31 March 2025, such that the findings can inform preparations for the period beyond 2027.

Assistance for charitable organisations

15. 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 will continue. 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 B. This scheme is to be funded by the generality of non-household customers.

¹ Assets such as raw water intakes, water impounding reservoirs, raw water pumping stations and aqueducts, and treatment works.

Paying for regulation and customer representation

16. Ministers confirm that the cost of Scottish Water's economic regulation and customer representation should continue to be covered by an annual levy on Scottish Water funded out of charge income.
17. Ministers note that the costs of SEPA in regulating Scottish Water are funded from charges levied by SEPA in accordance with its charging regime.

Preparing for Future Regulatory Periods

18. Ministers request work be undertaken to prepare for the period beyond 31 March 2027. This should take account of the impacts of changing economic and social circumstances, and the future investment that will be required to address the long term challenges facing the water industry.
19. The charging policies contained within this document will be reviewed by the Scottish Government, in consultation with water industry stakeholders, to ensure that they continue to meet the Government's overall policy priorities and to inform water industry policy for the period beyond 31 March 2027.
20. This work should inform the next Strategic Review of Charges, which will be commissioned by Ministers within the 2021-27 period.

Annex A

Reductions to apply to water and sewerage charges at unmetered Households

1. Ministers confirm that during the 2021-27 period the following provisions will apply to ensure that a maximum of 35% discount may be applied to water and sewerage charges under the Water Charges Reduction Scheme either directly or in combination with other discounts.

The Water Charges Reduction Scheme (WCRS)

2. 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. Council Tax Reduction (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.
3. The following formula should be used to calculate the level of reduction for which that dwelling is eligible:

$$R = (35 \times \left(\frac{A}{B} \right)) - D$$

Where:

Unless $R < 0$, R is the percentage WCRS reduction to be applied to W (defined below) in addition to Council Tax discounts that are also applied to water and sewerage charges.

A is the amount of CTR (£s) which a person receives in respect to that dwelling in that period.

B is the net council tax prior to the application of CTR (£s) for which that person is liable in respect to that dwelling in that period (i.e. after discounts and disabled relief but before the application of CTR).

D is the level of discount (expressed as a number) awarded against the Council Tax liability for the dwelling for which that person is liable in respect to that dwelling in that period.

W is the water and sewerage charge, prior to the application of discounts and reductions, in respect of that dwelling in that period for which the person would be liable if there were no discounts or reductions.

Annex B

Assistance for Charitable organisations

Ministers confirm there will continue to be a scheme to assist charities with the payment of water and sewerage charges for the period 2021-27, subject to the detailed arrangements outlined below.

Qualification Criteria

1. To be eligible to apply for the scheme, an organisation must:
 - (a) be registered with:
 - (i) the Office of the Scottish Charity Regulator (OSCR) as a charity; or
 - (ii) HMRC as a Community Amateur Sports Club (CASC), operating in Scotland.
 - (b) meet the financial criteria associated with its gross annual income, as disclosed in its most recent set of accounts submitted to the relevant regulator;
 - (c) apply to its Licensed Provider; and
 - (d) renew its request for exemption annually.

Exceptions

2. A charity or CASC is not eligible for support if:
 - (a) it is in possession of a permanent alcohol licence.
 - (b) it operates a full-time retail outlet.
 - (c) it operates a café which is open to the public and is operated on a regular basis to generate income.
 - (d) it is a local council or Arms-Length External Organisation (ALEO).

Financial Criteria

3. Ministers confirm the financial criteria associated with the 2015-21 scheme should be extended for the period 2021-27, as follows:
 - (a) Where an eligible organisation 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.
 - (b) Where an eligible organisation has a gross annual income of £200,000 or more, but less than £300,000, as disclosed in its most recent set of accounts submitted to the relevant regulatory body, 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.

- (c) An organisation with a gross annual income of £300,000 or more will not be eligible to apply for support.

Other Criteria

4. An exemption or a reduction will only be awarded where the records held by OSCR or HMRC on the organisation are up to date and in line with those bodies' requirements.
5. Where organisations are awarded an exemption or reduction through the scheme, it will be granted from the beginning of the financial year in which the award is made.