

FMO/IMS

Institute Members in Scotland

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Paying for Water Services
Consultation
Scottish Executive Environment and Rural Affairs Dept
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Dear Sir

PAYING FOR WATER SERVICES 2006-2010

On behalf of the Institute Members in Scotland (IMS) Group of the Institute of Chartered Accountants in England and Wales (ICAEW), I am pleased to set out below comments on the above consultation paper.

Principle 1

We are in broad agreement that charges should be set to recover full costs incurred by Scottish Water and should not require supplementing through general taxation. This provides for comparability with the rest of the UK where privatised water and wastewater companies set their charges on a commercial basis.

Scottish Water we believe has a responsibility to build and improve its infrastructure. Such infrastructure serves both the needs of current and future customers. Therefore charges we suggest should reflect the life of these assets through normal capital accounting practice, and Scottish Water should follow the principles of ensuring that borrowing to fund such assets is sustainable.

Principle 2

Low income households are typically eligible for receipt of means tested benefits. Such benefits are administered on a national basis by the DWP, and include in such benefits an element towards the costs of water and sewerage. Given that the benefits are national, the introduction of further benefit in Scotland may interact in an undesired way.

Low income households have benefited from The Water Reduction Scheme in recent years. This operates with a threshold below which there is no entitlement to the benefit. This has meant that there has been no benefit to people living in the lowest banded households – who are amongst the poorest in their community. Benefit has been targeted to those in larger houses, whose water service charges are higher, but who are in receipt of Council Tax Benefit.

Breaking the link of charging in line with the Council Tax system we believe should be considered in addressing this in addressing affordability issues.

It is important that water charges are affordable as water is an essential of life. However, this should be set against the principle of paying a fair share. As most (c80%) of the costs are fixed, then there is a strong argument for these being borne equally by all households, with only a small portion being variable according to usage or household size.

There is, therefore, a balance to be struck between charging a fair share and ensuring that costs are affordable. When assessing this balance, consideration should also be given to the proposals for reform of the Council Tax.

If charges are not affordable, they will simply be unpaid, increasing costs for the remainder of customers.

Raising charges disproportionately on low income households based on the principle of charging a fair share, will simply increase levels of arrears and, therefore, increase charges for all. From this practical point of view, we, therefore, agree that charges should as be affordable as possible for low income households.

We would also suggest an increase in the amounts deductible through Attachment of Benefit Orders.

Principle 3

We agree that charges should be set on a harmonised basis throughout the whole of Scotland based on the principle of universal service obligation.

Principle 4

Similarly we support the principle that charges for particular groups should be set to recover the total cost of serving those groups. However, in assessing these total costs, appropriate consideration should be given to usage levels, either actual or approximate such that a significant element of the total costs, well above the additional marginal costs, are borne in relation to usage.

Principle 5

We agree that any significant change in charge levels should be introduced gradually over a 3-4 year period, and should be intimated as early as possible to allow customers to plan for such changes. The costs of a transitional relief scheme should be borne by those benefiting from reductions in charges.

Consultation Point

The examination of cross subsidies between customer groups should be extended to compare absolute levels of charges for those customer groups versus the levels of charges experienced by similar groups in England and Wales. Business competition in Scotland is only damaged if their English and Welsh competitors benefit from much lower charges. If charges in England and Wales are not substantially lower for businesses, then there is no concern about the sustainability of any significant subsidy flowing from non-household to household customers. If this examination shows Scottish business customers to be paying higher levels of charges than their counterparts elsewhere, then we would not advocate changing the current balance of charges. However, if the reverse is true, then there would be a case for withdrawing these cross subsidies over time. Any transitional scheme should be simple and phase in completely within a 4-year period giving customers time to plan for and mitigate significant increases where desired.

Consultation Point 4

The single adult occupancy discount of 25% for households is one way to charge households in relation to usage of water. As the consultation paper states, many customers, particularly those who consider they use relatively small amounts of water, believe they should pay by reference to the amount they consume. Council Tax, in its current form, is a mix between a property tax and a personal tax. The single person discount reflects the personal element of this and we believe this is fair. In effect, it means that 50% of the total charge varies in proportion to adult usage.

In terms of the 50% discount on second homes, the draft regulations have now been published allowing local authorities the discretion to reduce this to 10% in certain cases. A very significant number of the recipients of the 50% discount are exempted from these regulations including:

- houses where all adult occupants are disregarded persons (e.g. students, severely mentally impaired);
- houses being repaired for up to 6 months;
- purpose built holiday homes that are not allowed (due to licence or planning permission or other reason) to be used, or are unfit for human habitation throughout the year;
- houses owned by someone dwelling elsewhere for the purposes of their job;
- unoccupied and unfurnished dwellings for up to 6 months.

The reduction will remove the majority of the discounts from those who are relatively well-off. It will also penalise the owners of long-term empty properties who make no usage of water and sewerage. Such owners are frequently not well-off and struggle to know what to do with property that may be uninhabitable, with little or no market value. Decisions taken locally about the reduction of the discount will reflect local housing needs, and the balance of these types of discounts. There is, therefore, a strong case for retaining the current system of discounts.

If eligibility for discounts were to differ from that for Council Tax, then there needs to be a radical re-appraisal of the joint billing and collection arrangements. Any system of amending discount criteria for water services charges would result in increased complexity of the joint bills for customers, and in additional administrative costs.

There would then be a clear case for billing and collecting these costs separately. The current joint billing arrangements are detrimental to local authorities with Scottish Water receiving more monies than they should due to the wording of the formula in the Billing and Collection Order and the fact that Scottish Water pays only a marginal cost share of total costs of joint billing and collection. Changes to discounts will exacerbate this situation. It is recommended, if the discount structure is amended from that in place for council tax, that water services charges are billed and collected entirely separately from the council tax.

Consultation Point 5

We believe further work needs to be carried out by the Scottish Executive to examine and report on the effects of moving to a banded system of charges for surface and highway drainage. Research we suggest required to establish the costs of creating and administering the bandings, and to establish the increased fairness of such bandings. Then consideration can be given to whether the additional administration costs are offset by the benefit from any increased fairness in charges.

Consultation Point 6

There is a proposal for a lowest banding for premises such as corner shops and newsagents where consumption is confined to narrow domestic purposes. Above this limited use of water services, we would suggest that all non-household premises using more than for narrow domestic purposes, should be metered.

Consultation Point 7

We agree that a balance has to be struck between today's charge payers and tomorrow's. This should be done by following similar principles to the Prudential Framework which now controls borrowing limits for Local Authorities. We suggest Scottish Water should have some freedom to determine reasonable cost levels taking into account the need to pay both loan charges and cover depreciation over the life of the asset.

Consultation Point 8

Only some 90% of properties are connected to the public sewer and some 95% have connection to public water supplies. In more rural parts of the country, connection levels can be much lower. Adding additional capacity for local developments can be costly, and we agree that for major developments the cost should be passed on to developers. However, we believe this should not mean that small developments of one or two houses are expected to suddenly bear disproportionately steep costs of increasing capacity. These should be reviewed on a case by case basis.

ICAEW Members in Scotland

In 2001, the ICAEW established the Institute Members in Scotland (IMS) Group to conduct the normal functions of participation and representation of its members available to ICAEW Members elsewhere in the UK and Northern Ireland. The Group represents over 1,200 Chartered Accountants, 75% of whom work in Scottish business organisations including financial services, oil, media and the public sector. The IMS Group can draw on the extensive resources of the ICAEW, a professional body with more than 125,000 members worldwide.

The IMS Group welcomes circulation of Scottish Executive consultations to allow our members to contribute to policy thinking. We hope that the comments on this consultation are helpful.

Yours faithfully



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On behalf of Institute Members in Scotland

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