

# Citizens Advice Scotland Response to 'Strategic Review of Charges 2021-27: Draft Determination'

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Scotland's Citizens Advice Network empowers people in every corner of Scotland through our local bureaux and national services by providing free, confidential, and independent advice. We use people's real-life experiences to influence policy and drive positive change. We are on the side of people in Scotland who need help, and we change lives for the better.

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## Summary

Citizens Advice Scotland welcomes the opportunity to respond to WICS' Strategic Review of Charges 2021-27: Draft Determination consultation. Citizens Advice Scotland is the consumer representative body for water, energy, and post sectors in Scotland.

### **Citizens Advice Scotland's key points:**

- We understand that prices must increase over the longer term:
  - a. To protect customer services against diminution and expensive restoration
  - b. Intergenerational equity: to ensure current and future customers pay a fair share of the overall cost of longer-term investment
- We understand that charges during 2021-27 are capped at an average of CPI+2%, and although this maximum position may be applied, some years may require lower increases.
- We welcome further financial support measures by the Scottish Government to protect low income households from price shocks however, view this as a potentially time-bound position. However, we believe that those eligible for the Water Charges Reduction Scheme (WCRS) should not pay a higher proportion of their weekly income on water and sewerage charges at the end of the regulatory period than they currently pay. Furthermore, longer-term financial support based on income rather than Council Tax banding will more effectively target financial support to low income households, including those that may struggle to pay but are not eligible to receive WCRS reduction.
- We will continue to monitor the real impact of price increases on low income households through our research programme and work with the Scottish Government to identify affordability policy that meets the needs of low-income households.
- We would welcome any flexibility applied by Scottish Water, within the context of customers' views on price profile, to price increases during year 1 and 2 of the 2021-27 regulatory period to provide much needed breathing space for households and businesses recovering from the impact of Covid-19.
- We welcome the Draft Determination's position on embedding the customer and community voice into decision making. However, such a process is time and resource intensive and will require to be adequately funded.

## Context to CAS' consultation response:

1. Prior to March 2020, water industry partners worked collaboratively and extensively to establish the framework for the current price review process and to prioritise investment needs. Following substantive work carried out by Scottish Water to better understand overall asset health, we recognise that greater investment is required, beginning with the 2021-27 period, to address emerging issues and commitments within the industry. These include:
  - Ageing assets needed to be replaced, including MEICA installed 20 years ago and now at the end of its life
  - Population migration from west to east 'topping out' existing infrastructure capacity
  - Net zero emissions targets by 2040
2. CAS also recognises that to delay investment will result in diminished customer services and a more costly outlay to restore services later. Furthermore, delaying increasing customer charges to fund this would unfairly burden future customers with the cost of doing so, which was unfair. It is important to ensure that current and future customers pay their fair share of the cost of longer-term investment.
3. Covid-19 has had a significant financial and circumstantial impact on both household and non-household customers across Scotland. Subsequent non-payment and deferral of water and sewerage charges have placed further pressure on Scottish Water's available financial resources to deliver against increased commitments. Reconciling the need for greater income to protect service levels, at a time of increasing financial burden on the customer base, will require careful consideration of timing and any impact that further increases may have on those who may struggle to recover.
4. Recent CAS statistics show that debt enquiries within CABs have overtaken employment enquiries. Approximately one third<sup>1</sup> of householders in Scotland are concerned about their ability to pay debt and Council Tax, and buy food and other essentials. Fraser of Allander reported<sup>2</sup> that '*the various employment support schemes have softened the initial impact of Covid19 on the Scottish labour market*'. However, there are concerns that the removal of employment support schemes will see a sudden escalation in unemployment and redundancy. 39% of respondents in a recent CAS survey<sup>3</sup> were concerned about the security of their job in the next 12 months.
5. Whilst we welcome the Scottish Government's proposed increase in the WCRS from 25% to 30% for those on Council Tax Reduction, it is important to ensure that the additional benefits of the discount scheme cover the cost of any increase in household charges over the regulatory period. Furthermore, CAS research<sup>4</sup> identified that not all low-income households qualify for WCRS. Such households may include those working for minimum wages who are more likely to find that any increase in bills beyond any increase in their income may affect their ability to pay for other essentials such as food or energy.
6. The current Covid-19 pandemic presents a significant challenge for the water industry, and in particular, to Scottish Water. A Scheme of Charges for 2021-22 and beyond must strike a careful balance between the need for longer term capital investment, whilst recognising and responding to the impact that Covid-19 has had, and will continue to have, on household and organisational finances. WICS has set an average cap of CPI+2% which offers flexibility to facilitate discretionary decision making on pricing. We welcome, and view as essential, further customer research by Scottish Water to inform its Scheme of Charges.

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<sup>1</sup> Diffley Report October 2020, commissioned by CAS (*unpublished*)

<sup>2</sup> Fraser of Allander, 'Labour Market' Scottish Economy / October 13, 2020

<sup>3</sup> Diffley Report October 2020, commissioned by CAS (*unpublished*)

<sup>4</sup> CAS 'Charting a new course: a study in developing affordability policy for water and sewerage charges' September 2018

## Specific points:

7. CAS welcomed the introduction of and EBR / EBP approach by WICS within the current price review period. A lengthy process of collaborative co-design provided much needed insight and shared understanding of stakeholders' role, perspectives, and priorities, built trust and facilitated open and transparent discussion. It has provided us with a basis upon which to identify common ground and goals, culminating in a new water sector vision. And it has offered an opportunity to work together to better understand the real challenges the sector is facing during the years ahead, removing surprises and supporting an agreed direction of travel and shared outcomes.
8. CAS is keen to understand EBP in practice, particularly around work with non-household market organisations, and welcomes the extended invitation from WICS to share in workshop sessions. We welcome the view that *'Customer and community complaints should reflect only relatively small and genuine human errors. There should be no systematic issues that could be identified by a review of customer and community contacts'* and believe that this core principle should also be a priority within the non-household market.
9. We have welcomed WICS' consultative approach of sharing draft decision papers throughout the SR21 process, and inviting comments. We believe that this has supported greater understanding of the overall challenges for the water industry and helped to identify preferred outcomes.
10. The SR21 price review process has helped identify values beyond economics and funding and embedded a commitment to evidence the customer and community voice within decision making. CAS welcomes this. However, we believe that if the national engagement strategy is to be delivered successfully, it will require Scottish Water to understand service provision and empowerment from a customer and community perspective, rather than corporately. Making customers and communities feel that their contributions are valued and that they are an important part of the process is essential if we are to increase their value of water and win their support for higher charges. CAS will continue to work with Scottish Water to support this transition.
11. We welcome the ring-fenced fund of £133m to support a move towards longer term and more innovative capital investment. Furthermore, we welcome inclusion of customer and community views to identify additional benefit. However, investing in 'empowering customers and communities' is time and resource intensive. Effective and successful engagement with the public to ensure that decision making is fully informed will require to be adequately resourced both in terms of funding and skills. We anticipate that greater transparency in to how this will be achieved will form part of the transformation planning process.
12. We welcome many of the developments set out with the Draft Determination such as a greener Scotland, a flourishing environment, best value for customers and a more prosperous Scotland. The SR21 process has supported a process of moving away from a shorter-term focus towards lasting and sustainable change and identifying culture and working practices that will more effectively support this. CAS believes that to do this well, customers and communities must be viewed as equal and invested stakeholders.
13. We welcome Scottish Water's commitment to making further 1% year on year efficiency savings whilst addressing emerging needs and maintaining levels of services to customers. Previous efficiencies have helped to keep customer prices stable and have indeed demonstrated value for money. Moving to a 25-year strategic planning process provides a more flexible basis upon which to plan for and invest to meet business as usual, whilst creating space to accommodate changing priorities.
14. Covid-19 has reduced water services usage within the non-household market and increased water usage among domestic customers. Scottish Water has experienced a reduction in

income from the non-household market, yet no increase in income from domestic users. CAS would welcome a review of the longer term impact this may have on Scottish Water's revenue and the commission's views on how it will ensure that the cost allocation ratio between household and non-household customers remains fair and representative.

15. CAS welcomes the financial support measures that have been put in place to support non-household customers impacted by Covid-19. However, we remain concerned about the longer-term impacts that the pandemic will have on businesses, particularly SMEs. Additionally, recent CAS research<sup>5</sup> has highlighted that some licenced providers did not pass on the benefits from Covid-19 measures to their customers. Therefore, we would welcome further insight from the Commission on additional support beyond the existing scheme and how it will ensure that this is extended to customers.
16. We welcome the Customer Forum's involvement in the two areas set out within the Draft Determination for Scottish Water's Transformation Plan to reflect customers' expectations and to support Scottish Water to deliver on its commitment to become more customer-centric and community focused. Whilst we acknowledge that disruption around Covid-19 was unanticipated and constrained the role of the Customer Forum in the final stages of the price setting process, we look forward to working with the Commission's and Scottish Water to review how customers and communities will be independently embedded within the next price review process.
17. CAS is aware that borrowing supports stable customer charges, keeps charges lower, and funds capital investment. The Draft Determinations acknowledges that '*borrowing now only leads to higher bills in the future*', particularly around interest payments. CAS would welcome further discussion to better understand the Commission's and the Scottish Government's thinking on longer term borrowing vs customer charges to fund Scottish Water.
18. We welcome the development of additional funds that will deliver broader benefits to communities. We believe that by working collaboratively with communities, Scottish Water will become a leader in inclusive initiatives that utilise communities' capacity and potential to deliver greater shared spaces and wellbeing.

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<sup>5</sup> 'Understanding SMEs' experiences of the non-domestic market in Scotland Report', October 2020 (*unpublished*)