



## **Consultation Response: Investing in and Paying for Your Water Services from 2021**

**September 2018**

Citizens Advice Scotland uses research and evidence to put consumers at the heart of policy and regulation in the energy, post and water sectors in Scotland. We work with government, regulators and business to put consumers first, designing policy and practice around their needs and aspirations.

### **Introduction**

We welcome the work that has been undertaken by water industry stakeholders within the current regulatory period to address longstanding issues. These include unwinding cross subsidies, and continuing to amend charging policy to ensure it is fair to consumers and in alignment with the Principles of Charging. Recent examples of this work include bringing non-domestic vacant properties and gap sites in to charge; reviewing the Charitable Exemption Scheme; and aligning non-domestic water and sewerage charges with new rateable values.

Generally, and as part of the Scottish Government's Long Term Charging Group, CAS has worked with Scottish Water, Scottish Government and the Water Industry Commission for Scotland to address many of the issues raised within the 'Investing in and paying for your water services from 2021' consultation.

CAS conducted research into the affordability of water charges in 2018. This has informed this consultation response. Other emerging themes, such as strategic capacity, which focuses on the proportion of costs developers should pay to support future growth in such a way that ensures fairness to customers both now and in the future, have also been addressed.

Although this regulatory period has seen significant progress, the water industry faces considerable challenges in the 2021 -2027 regulatory period to balance increasing demands on the industry which may require greater revenue, with affordable and stable customer charges. This includes:

- Supporting strategic capacity to meet economic growth whilst recognising that this may require additional investment at considerable expense.
- Ensuring charges remain affordable for all of Scottish Water's customers using adequate and targeted financial support to protect the wellbeing of those households that need it most.
- Continuing to meet consumers' expectations in terms of service delivery and value for money against the future cost of delivering more resilient infrastructure and mitigating risk.

- Legislative obligations on drinking water quality<sup>1</sup>.
- Responding to pressures resulting from Scotland’s changing demographic profile, including:
  - migration from West to East and the resultant demands on water and wastewater infrastructure as more houses are built in key geographies such as East Lothian
  - population growth forecast which will place an additional burden on Scottish Water’s infrastructure
  - an increase in single occupancy houses which increases the number of properties being built, and places pressure on water and sewerage infrastructure as well as drainage, and further questions the fairness of any discount offered to single status households.
- Reducing the industry’s carbon footprint and finding ways to deliver more sustainable services.
- Engaging effectively with individuals and communities on efficient water and energy usage, the delivery of capital investment projects, and the impact of their behaviour on water infrastructure and the environment.
- Making sure the delivery of water and sewerage services meet the needs of consumers that find themselves in vulnerable circumstances and ensuring Scottish Water’s approach to registering and supporting vulnerable consumers matches the latest regulatory developments in England and Wales, and best practice in sectors across the UK that provide essential services.

CAS believes that Scottish Water should consider its role in delivering broader social benefits to Scottish citizens, for example through the development of a ‘social contract’ between the company and consumers. A strategy to deliver these benefits would help Scottish Water to more clearly map where it supports the delivery of national and international frameworks, such as the United Nation’s Sustainable Development Goals, the Scottish Government’s National Outcomes, and SEPA’s One Planet Prosperity strategy, and also what more it requires to do to more fully meet these goals.

CAS broadly supports the policy framework set out within the consultation, but also encourages the industry to continue to identify further opportunities to broader public benefit, consistent with its status as a publicly owned company.

### **Q1- do the key policy objectives provide a sound basis on which to plan the delivery of services from 2021?**

#### **A consumer-focused framework**

CAS considers there would be benefit in a more overt commitment to a consumer-centric culture and behaviours across public and private service sectors. We apply a set of seven

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<sup>1</sup> For example the *Directive of the European Parliament and of the Council on the quality of water intended for human consumption*

consumer focused principles (access, choice, safety, information, fairness, representation, redress), which we use to assess policy and practice, and to communicate with regulators and service providers, on what is needed to drive better outcomes for consumers.

We welcome the work Scottish Water is undertaking to develop a set of consumer focused principles relevant to its work, and their engagement with CAS on this. We believe that this will help the organisation to develop internal processes and culture that assesses policy and practice from a consumer perspective and the consumer principles will support Scottish Water to deliver better outcomes for those that use its services.

## Consumer Principles



### Charges for customers

CAS agrees that charges for customers should be affordable and stable whilst also providing appropriate and sustainable financing for Scotland's water industry.

CAS research indicated that charges are not affordable for all. Our research found that 12% households in Scotland spend more than 3% of their weekly income on their water and

sewerage charges<sup>23</sup>, and that being on a low income is the most accurate indicator of if a household is likely to find their charges affordable. These research findings have already informed and influenced policy development around the provision of financial support to those that may find their charges unaffordable. However further research is required to evaluate the success of the present proposals, and potentially identify additional methods of targeting financial support to those who need it most.

## **Size and nature of the investment programme**

CAS welcomes the principle that investment priorities must support sustainable economic growth and opportunities for all of Scotland to flourish. In order to achieve this ambition, there is a requirement on Scottish Water to more effectively engage with communities to identify where more can be done to benefit both Scottish citizens and the water industry. CAS believes that the development of robust community engagement policy and skills is essential. Communities must be viewed as legitimate stakeholders when considering the delivery of capital investment projects. This will deliver social, environmental and economic benefits for both the community and Scottish Water, including: increasing consumer trust in Scottish Water; bringing legitimacy to solutions; more informed decision making through listening to and acting upon local concerns and preferences; and more empowered and sustainable communities.

CAS also believes that substantive evidence must be provided by Scottish Water to support any increase in funding for investment.

## **Government financing**

Stronger policy should be considered by the Scottish Government to improve how we use water in Scotland. For example using non-potable water for tasks such as toilet flushing and amending building regulations to promote the take up of measures such as rainwater harvesting and grey water use.

Water efficiency measures may result in less pressure on Scottish Water infrastructure. For example, having to deliver less water than me otherwise be required, or less frequently having to clear blocked sewers because of changed consumer behaviours in how they dispose of products This could reduce the need for as much spending on new infrastructure or maintenance than may otherwise be required.

Greater water efficiency relies on changes in consumer behaviour and their use of natural and technical resources. There is a need for greater education and awareness to engage and educate consumers in how to use resources more sustainably. As part of Scottish Water's financing in future the organisation should look at encouraging these changes in behaviour for long term financial savings.

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<sup>2</sup> Fraser of Allander 'The Affordability of Water and Sewerage Charges in Scotland' Technical Report 2018

<sup>3</sup> % of weekly income is a commonly accepted threshold for affordable water and sewerage charges (CAS 2018; Ofwat 2015)

The document refers to 'a sustainable water industry'. It is unclear if this is referring to a financially sustainable industry, or an industry that is properly funded and is managing its resources in a sustainable way. CAS would welcome clarification of the term 'sustainable'.

## **2 Do you agree that the current Principles of Charging remain broadly appropriate for the next regulatory period?**

CAS agrees that the current Principles of Charging for the next regulatory period should:

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

Stakeholder discussions have affirmed that the principles continue to guide policy development related to charging.

As mentioned above, we welcome further policy development around issues related to affordability.

We believe that a move towards more universal and effective affordability policy in the longer term will require the innovative use of data and systems in order to better target those in need. However, we understand and recognise the complexities associated with seeking ways to more comprehensively support those living on low incomes.

## **3 Do you agree the vacant household premises exemption should be removed?**

CAS agrees that Scottish Water should bring vacant properties into charge on the basis that there is no convincing cost justification for the existing vacant property discount. The cost to the industry of serving vacant properties is the same as for an occupied property, and as such, vacant properties should pay a fair charge and not be cross subsidised by charges from occupied properties.

Furthermore, this will bring domestic charging in line with non-domestic policy for vacant properties, which were brought into charge during the 2015 – 2021 regulatory period.

## **4 Do you agree with the proposal to reduce the single occupant status discount from 25% to 10%, using the revenue to improve support for customers facing affordability constraints?**

Broadly, we agree with this proposal.

The number of single occupancy households in Scotland has increased by over one fifth since 1961. The cost to Scotland's water industry and paying customers, of the Single Status Discount is currently £85 million per annum, and the cost to serve single status properties is similar to multiple occupancy properties. We believe that the proposed Scottish Government policy to

reduce the Single Status Discount to 10% is consistent with the principles of cost reflectivity and believe that this is a move to a fairer position for all consumers.

Some households currently on Single Status Discount are likely to also receive Council Tax Reduction and so are eligible for the Water Charges Reduction Scheme. Although their Single Status Discount will be reduced to 10%, they will automatically be transitioned to receive the increased Water Charges Reduction Scheme reduction of up to 50% therefore will continue to receive financial support.

### **Increasing the maximum discount for households in receipt of Council Tax Reduction**

In 2018, CAS research<sup>4</sup> found that 12% (around 297,000) of households in Scotland spend more than 3% of their weekly income on their water sewerage charges<sup>5</sup>. The proposals set out within the consultation document are a significant step forward in charging policy and acknowledges the need to provide further financial relief to low income households. We welcome the Scottish Government's proposal to increase the maximum reduction for recipients of the Water Charges Reduction Scheme from 25% to 50% and the additional support it will provide to those in receipt of Council Tax Reduction.

However, while Council Tax Reduction is currently the best available means of targeting support at those who need it most, not all households which may struggle to afford their charges are in receipt of Council Tax Reduction. An evaluation of the success of this proposal, alongside any measures to increase the take up of Council Tax Reduction, should be carried out at an appropriate point. Further consideration of alternative methods of targeting support at those on low incomes may ultimately be necessary.

Our research found that Council Tax Reduction is the most effective proxy currently available to target financial support, though it does not result in support to all households that need it to make their water charges affordable. At present though a better alternative, or additional, proxy for low household income isn't available.

Additionally, the current take up of Council Tax Reduction is low compared to other means tested benefits. This means that not all households eligible for the Water Charges Reduction Scheme are receiving it. To increase the number of households receiving the Water Charges Reduction Scheme CAS recommends that:

- Eligible consumers are encouraged to apply for Council Tax Reduction. This could be achieved through targeted campaigns to increase consumers' awareness of their eligibility and their need to apply. The process could be supported by frontline agencies, such as Citizens Advice bureaux, which engage with the public. For Universal Credit

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<sup>4</sup> There was underreporting of Council Tax Reduction recipients in the Family Resources Survey 2015/16 of 11% so the number of households supported may be higher in practise.

<sup>5</sup> The research was conducted using the Family Recourse Survey. This survey is conducted annually and used by the Scottish Government and agencies such as the Department for Work and Pensions to develop policy and measure policy success.

recipients, journal correspondence<sup>6</sup> could be used to remind recipients to apply for Council Tax Reduction.

- Universal Credit data is shared with all Scottish local authorities (depending on which boxes in the Universal Credit application that the individuals has completed), and DWP and individual local authorities do have agreements in place that allow such data to be shared. However, there is no universal policy on how a local authority will treat that information in relation to CTR, e.g. whether they will take that data share as the start of a CTR application, or will require a separate application. A universal policy that ensures a universal credit application was treated as the start of a CTR application would seem a helpful step forward to make it easier for eligible consumers on Universal Credit to receive Council Tax Reduction without having to apply twice.

## **Providing financial relief for low income households not eligible for Council Tax Reduction**

The consultation proposals will increase financial support for those households receiving Council Tax Reduction. However, our research showed that approximately 21% of households that spend more than 3% of their weekly income on their charges receive Council Tax Reduction.

CAS recommends that a review should be carried out during the 2021 – 2027 regulatory period to evaluate the success of increasing the Water Charges Reduction Scheme in providing financial support to households that need it. If the recommendations CAS has made around Council Tax Reduction take up are enacted on, the success of activities to increase Council Tax Reduction take up should also be reviewed.

CAS supports the decision not to pursue an 'on-application' support scheme as take up by those requiring support may be low. In England and Wales on-application schemes are common but for some company schemes, take up is well below the total capacity of the schemes. Low take up can be influenced by: low awareness of schemes; ease of application; whether or not consumers are willing to apply to a means-tested scheme; and whether or not consumers are willing to apply on a recurring basis<sup>7</sup>.

## **Affordability policy in relation to asset rich, cash poor households**

CAS research found that there are a number of 'asset rich, cash poor' households that spend more than 3% of their weekly income on their water and sewerage charges. These are households within higher Council Tax banded (E-H) properties that have the highest charges, but which do not necessarily have correspondingly high incomes. Therefore proportionately, the amount their weekly income they spend on charges is more than 3%. Occupants of these households are more likely to be pensioners.

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<sup>6</sup>Universal Credit recipients have an online journal. The journal is used "to send messages to [the recipient's] work coach, and they can use it to reply or send their own messages to [the recipient]."

<https://www.understandinguniversalcredit.gov.uk/already-claimed/if-you-have-an-online-account/>

<sup>7</sup> Consumer Council for Water 'Staying Afloat' 2017

CAS believes that further research into the proportion of pensioner households paying over 3% and how they view their ability to pay would help to inform clear policy from the Scottish Government on the provision of additional support to 'asset rich, cash poor' households.

### **5 Do you agree that the costs of meeting the demands of growth on the water and wastewater infrastructure should be reviewed?**

CAS believes that the current split between developers' charges and current and future customer charges may not be fair to paying customers and therefore should be reviewed. We welcome plans to do so.

Some new developments within Scotland will place pressure on existing water and wastewater infrastructure. This problem can be seen in areas such as East Lothian, where the additional of new homes to the wastewater system risks 'topping out' or going over maximum capacity. Scottish Water has a duty to facilitate and respond to economic growth, and therefore such developments require it to invest in expensive infrastructure enhancements to increase capacity and ensure ongoing service delivery to consumers.

Currently, customers bear growth costs through both existing and future charges (borrowing). For example, Scottish Water (through customer charges) is responsible for paying part 4 of infrastructure upgrades, which covers the full cost of strategic assets, such as water or waste water treatment works. As costs for strategic growth are likely to increase, these costs could be greater in future. We believe that developers should contribute an appropriate amount to ensure that customers are not shouldering the burden of these costs and that customer charges can be freed up to improve other services.

We welcome ongoing discussions with stakeholders on funding for strategic growth to ensure policy is developed that apportions it fairly between developers and customers.

We would wish to highlight the need to protect some groups of consumers from the adverse effects that new policy may incur regarding the potential for increased costs being passed on to them by the developer:

- Any increase to developer costs should not have a significantly adverse effect on individuals who build their own houses.
- Those purchasing affordable housing: policy would need to ensure that higher developer charges do not result in housing becoming unaffordable to consumers.
- Those living in rural areas where infrastructure costs per household are higher: policy would need to ensure that developers are not dis-incentivised from building within certain areas through higher associated costs. This could lead to a housing shortage for local consumers and a shortage of suitable houses being built could impact on the sustainability and wellbeing of smaller, rural communities.

## **6 Do the draft investment objectives outlined above and set out in Annex C identify all areas where investment will continue to be necessary?**

CAS broadly supports the investment objectives. However we believe that an overarching principle of clear individual and community engagement policy and strong underlying policy would successfully underpin the investment principles.

CAS believes that Scottish Water could go beyond just maintaining compliance with regard to water quality and the environment, and should consider how it can work collaboratively with communities to deliver services. Scottish Water is one of the best placed organisations to engage with and educate consumers on how their behaviour can and does impact upon the environment. For example, encouraging them to waste less water; correctly dispose of household waste; and protect the natural environment. Comprehensive and robust community engagement policy will support longer term and intergenerational awareness among consumers of their need to adopt different behaviours that will ensure protection of the water environment and infrastructure for future generations.

Under 'Standards of service', CAS recommends adding that Scottish Water should consider paying specific regard to the service and additional support needs of those customers that find themselves in vulnerable circumstances. This is set out more fully in the last section of our response.

In addition, we believe that stronger policy is required to incentivise changes within the non-domestic market, which will protect the environment. For example, there are cases where non-domestic consumers are deterred from investing in better surface water management because this increases the property's Rateable Value and results in higher charges. We believe that more informed and joined up policy should more effectively engage the non-domestic sector to drive for more sustainable outcomes.

## **7 Do you agree that that Scottish Water should be directed to address these additional requirements?**

CAS agrees that Scottish Water is best placed to address the four additional requirements within the consultation. However, we also believe that its success in achieving these requirements would be better assured with the support of robust consumer engagement policy to effect change:

- To increase the reliability and resilience of services by partnering with service users, as mentioned in Q6 above. Engaged consumers are more likely to take better care of infrastructure once they understand how their behaviour can and does negatively impact it, and wider society.
- Investment in infrastructure will protect services for current as well as future consumers. The question of how resilient infrastructure should be funded is an intergenerational issue and requires effective engagement with Scottish Water's customers to understand how

willing to pay customers are to mitigate the possibility of higher charges for future customers.

- As set out above, CAS believes that as well as working with SEPA on controlling plastics entering the environment, Scottish Water needs to meaningfully engage with consumers to educate and reduce the amount of plastic entering into the natural environment via the wastewater system. Information and education needs to be inclusive, simple and effective.
- Likewise, Scottish Water is ideally placed to support the development of empowered and resilient communities through the use of effective engagement measures. This may include issues such as flooding. Supporting the development of empowered and informed communities will help to improve their response to adverse natural events, and better protect people, properties and businesses. Additional benefits from community engagement may include increasing consumers' understanding of how their use of Scottish Water assets can help to protect the natural environment.
- We would welcome policy that engages and educates consumers on taking greater ownership and responsibility for local management of surface water. For example, incentivising consumers not to use impervious surfaces to allow surface water to drain naturally; better use of water collection systems that slow down the rate at which water enters into the drainage system such as water butts; and encouraging the development of more sustainable urban drainage systems and green spaces. CAS recognises that this will require closer partnership working with other public agencies, and policy support from the Scottish Government.
- We agree that Scottish Water should develop plans to manage its PFI contracts to secure the best value for money for the future operation of these facilities. It is vital that where Scottish Water has no direct control over assets, infrastructure or services that ultimately affect its customers, it must have appropriate controls in place to ensure its customers' interests are protected, for example where consumers are being affected by odour from a PFI run wastewater treatment works.
- In addition, we would welcome Scottish Water developing a clear strategy for addressing consumer vulnerability. This should be supported by a monitoring and reporting framework to measure outcomes addressing the service and support needs of customers in vulnerable circumstances. This would be in line with Ofwat's regulatory demand under the PR19 process that that water companies take measures to improve their service levels to vulnerable customers and report on their<sup>8</sup> progress. CAS recommends that, in the absence of any specific regulation of Scottish Water in this area, the Principles of Charging would provide the best route for tackling this current gap.

## **8 Any additional Comments?**

### **Supporting the delivery of wider societal goals and delivering a social contract**

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<sup>8</sup> OFWAT Delivering W2020: Our final methodology for the 2019 price review 2018



The Water Resources (Scotland) Act 2013 extends powers to Scottish Water to develop the value of Scotland's water resources. This includes economic, social and environmental benefits deriving from Scotland's water resources. For example the Hydro Nation agenda focuses on "maximising the value of our water resources by sharing knowledge and collaborating with other countries to grow the international water economy"<sup>9</sup>.

Scottish Water's public ownership model provides it with a unique opportunity to support the delivery of a wide range of environmental, social, community, and economic benefits to Scotland. These take the form of numerous high level strategies including:

- SEPA's one planet prosperity strategy
- Scottish Government's national outcomes
- The United Nation's Sustainable Development Goals

CAS believes that a social contract between Scottish Water and the people of Scotland could help it to achieve these goals. Scottish Water, as befits its status as a publicly owned company, should always seek to achieve a broader public benefit where possible from its delivery of water and waste water services.

We would welcome the development of a contract or agreement that commits Scottish Water to supporting the broader public interest. This could include:

- Supporting Scottish SMEs to grow through a local procurement policy, which may deliver spin off benefits to local communities by keeping spend circulating within local economies.
- Bathing water quality being maintained at a sufficient level to allow it to be used safely by the public.
- Creating community assets, for example using green spaces around reservoirs and other assets for publically accessible recreation.
- Innovative consumer messaging and education on conserving water and the correct use of wastewater services.
- Reducing carbon emissions to help meet the Scottish Government's targets to reduce greenhouse gas emissions and transition to a low carbon society<sup>10</sup>.

Such approaches would benefit everyone in Scotland on some level. We believe that Scottish Water needs to do more to capture where it is already delivering such benefits and to more clearly set these against wider performance and environmental frameworks such as SEPA's One Planet Prosperity<sup>11</sup> and the United Nations' Sustainable Development Goals<sup>12</sup>.

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<sup>9</sup> <https://beta.gov.scot/policies/water/hydro-nation/>

<sup>10</sup> <https://www.gov.scot/Topics/Environment/climatechange>

<sup>11</sup> SEPA One Planet Prosperity – Our Regulatory Framework 2016

<sup>12</sup> United Nations Sustainable Development Goals 2015



This will raise awareness of its work amongst consumers and will help elevate Scottish Water to a position of trusted, known and respected public resource.

We believe that a more planned approach of responding to national frameworks and aspirational goals will support the development of strategies within Scottish Water to achieve them. CAS would welcome further discussion with Scottish Water and other partners such as the Customer Forum, on what a social contract could deliver.

### **Performance measurement**

CAS is part of ongoing discussions into how the performance measurements metrics could better measure what Scottish Water delivers from a consumer perspective. CAS welcomes the continuation of these discussions to ensure that measures are developed for the 2021 – 2027 regulatory period that better reflect consumers' experience of Scottish Water, including where engagement with communities has influenced outcomes.

### **Consumer vulnerability**

CAS will shortly be publishing a review which has looked across various sectors at how to improve registration for consumers in vulnerable circumstances. Over the last few years this has become an area of significant focus for regulators, utilities and other providers of essential services across sectors. The review has identified that Scottish Water appears out of step with other sectors in terms of how its offerings for vulnerable consumer, although it has made a positive contribution to the research and is committed to this area of work as a priority.

The review also notes an apparent gap in the regulatory framework surrounding Scottish Water in this specific area. The Water Industry Commission for Scotland has a general statutory responsibility to promote the interests of customers, but unlike other UK regulators this does not include specific regard to the interests of consumers in vulnerable situations.

CAS recommends that Scottish Water should adopt and publish a clear strategy to address consumer vulnerability, together with robust reporting arrangements against agreed metrics.

We would also welcome close working with related sectors, such as energy and providers of other essential services within the public sector. This could include data sharing, where appropriate, and in the medium to longer term, moves towards achieving an integrated registration process or, a single register.

### **Use of average price**

While we understand the reasons for the use of an 'average' charge for water and sewerage services in Scotland, for reasons of brevity and in comparing it to England and Wales, it does not accurately reflect true costs. A more accurate picture of charges would be achieved by expressing them as a range across different Council Tax bands.

### **Leakage**



CAS would welcome further research into the economic levels of leakage calculations and to better understand if Scottish Water has taken account the potential impacts of reducing action on leakage on areas such as pressure (where costs to fix pressure measures may outweigh the cost of going above the economic level of leakage). CAS would also welcome further research into whether or not customers consider action on leakage a priority, and for this to feed in to Scottish Water's investment priorities.

### **Funding surplus**

Scottish Water can accumulate a funding surplus from a number of sources. In the current spending period it has been agreed that, above a set level any such surplus requires Scottish Water to consult with the Scottish Government and the Customer Forum on how it is spent.

However, currently any surplus can allocated as Scottish Water wishes, which in practice has meant that a surplus large enough to trigger consultation with the Scottish Government and the Forum has not been accrued.

The current working presumption by Scottish Water is that any surplus is allocated to the investment programme. While investment will have a customer benefit, there are alternative ways in which such surplus could be spent, including reducing customer charges, or accruing up funds to meet future challenges.