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**Consultation on Water and Sewerage Charges – Options for Revenue Raising  
Department for Infrastructure - Northern Ireland**

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Scottish Water welcomes the opportunity to comment on the Northern Ireland Department of Infrastructure's Consultation on Water and Sewerage Charges and share our experiences of funding public water and waste services in Scotland.

Scottish Water was created from three regional water authorities in 2002, having previously evolved from a Local Authority function in the 1990s. As a publicly owned utility company, Scottish Water provides water and sewerage services to 2.6 million households and 160,000 business premises across Scotland's diverse geography.

A critical foundation for establishing Scottish Water as a successful public utility provider was to ensure its financial stability and sustainability. Legislation established an independent economic regulator and defined the relationship with Scottish Government. Scottish Government defines objectives for the water sector, including principles of charging, but the regulator defines the level of funding allowed (and therefore the necessary annual increases in Scottish Water's prices) for each regulatory period covering 6 years. Scottish Water is 90% funded from customer charges with the remaining funding from Scottish Government borrowing.

This structure has been successful in providing Scottish Water with a stable and reliable source of funding for the long-term investment needed to maintain its asset base and improve services to customers. For a business operating infrastructure with multi-generational lifespan, this long-term investment is critical to protect services for today and for the future. Stable multi-year funding is also critical to establish the efficient and effective supply chain necessary to deliver a large capital investment programme.

A key part of this regulatory structure has been the separation of annual pricing decisions from the day-to-day political pressures of government budget setting. Regulatory settlements provide a stable price path for each 6-year period. The Scottish Government's Principles of Charging for each regulatory period define the policy objectives which pricing approaches must support.

Scottish Water's responses on the specific questions asked are provided as follows.

**1. Which option do you think is the best way to decide how much people should pay for their water in Northern Ireland?**

A range of tariff structure options are presented in question 1, and each has its advantages and disadvantages from the different stakeholder perspectives. Selecting a preferred tariff structure is dependent upon the pricing principles that the Northern Ireland Government considers key in setting its charges.

Scottish Water's approach to household charges is derived from its origins as a Local Authority function in the 1990s. Currently, almost all household customers pay fixed annual charges for their services based on their Council Tax band with an associated framework of discounts, exemptions and reliefs to provide support for the vulnerable. The billing and provision of affordability measures is managed by each Local Authority on behalf of Scottish Water.

This approach is well understood and accepted by customers and has served Scottish Water well in delivering a stable revenue stream, high collection rates and an efficient cost base by facilitating billing and collection by the Local Authorities on our behalf. The similar approach set out in Options 2 or 3 may provide Northern Ireland with a cost-effective means to transition to raising household water charges which would be significantly less complex to implement than the alternatives. Linking charges to capital value rather than applying a standard fixed charge (as set out in Option 1) provides some connection (albeit approximate) to property size and therefore likely usage. It is also a charge structure with which customers will already be familiar from local taxation. Option 3 is potentially preferable in better reflecting the high fixed cost of providing the service.

It should be noted that using Council Tax band or capital value to set charges has limitations. Given the increased investment required to maintain aging assets and adapt to climate change, it is desirable to send price signals which encourage households to consider the value of water and adjust their water use where possible. Options 2 and 3 do not provide these price signals or provide incentives for property owners to repair leaks and invest in water saving measures. Reducing customer demand can provide the opportunity to reduce and defer investment expenditure, contributing to lower household bills in the long-term.

Options 4 and 5 would provide stronger price signals to customers to consider their usage but, as noted by the consultation, would involve significant investment and time to implement. They would also represent a far greater change for customers who will already be required to adjust to paying directly for water services for the first time.

Whilst Option 3 (or potentially 2) is likely to be the lowest risk option to introduce household charges, Options 4 and 5 may offer greater long term benefit by developing price signals to customers and encouraging more efficient use of natural resources.

**2. Do you think any customers should be entitled to relief from water and sewerage charges?**

Given water services are an essential service, Scottish Water has found that support for financially vulnerable customers is required. Regardless of the tariff structure adopted, there will be customers who will struggle to pay their charges.

The question of affordability may be considered from the point of view of 'water poverty', defined as a household spending more than 3% of its disposable income on their combined water and sewerage bills. This may include households not in receipt of welfare support, e.g. low income households struggling with the cost of living and not qualifying for government financial assistance.

Blanket assumptions, such as supporting all customers who have reached pension age, will include wealthy financially independent households who do not require assistance. The trade-off is the administrative burden associated with identifying households for the purpose of providing more targeted financial support.

Scottish Water's experience has been that providing relief to those customers currently receiving other income-related benefits is the simplest approach to targeting support towards those likely to be at greatest need.

**3. What level of relief do you think should be given to those who may be eligible for relief from domestic water and sewerage charges?**

Further to the response to question 2, it is very difficult to nominate how much financial support should be provided without understanding the form and the impact on individual households of the proposed charges in order to test it against the definition of water poverty.

In Scotland, The Water Charges Reduction Scheme (WCRS) provides bill relief for eligible unmetered households with a Scottish Water service. A discount of up to 35% for water and wastewater charges is provided for customers eligible for a Council Tax Reduction (CTR). This was increased from 25% in 2021. In addition, a 25% discount is provided for single person households. The maximum combined discount from both schemes is capped at 35%. The process is managed by the Local Authorities and the support is funded from the charges paid by all customers. For further information see Annex A [Water services - charging principles: 2021 to 2027 - gov.scot \(www.gov.scot\)](#) and [Council Tax - Citizens Advice Scotland](#). Around half of all household customers receive financial support with their charges via either a discount, exemption or reduction.

A further issue to consider is the owner-occupier relationship to create incentives to save water at a household level. For example, if charges are based on metered water use, what incentives are there for the owner to ensure the property is water efficient and what protects the occupier, who is paying the bill, from excessive charges?

**4. How do you think domestic water and sewerage charges should be billed and collected?**

In Scotland, unmetered billing and collection, along with the application of discounts, exemptions and reliefs for households is managed by Local Authorities on Scottish Water's behalf. This has avoided the need for Scottish Water to invest in a large-scale billing system for households and minimises costs for customers by sharing public sector billing and collection functions.

However, this approach does limit the extent of Scottish Water's relationship with households and is limits the tariff structures that may be considered. In Scottish water's experience, we have found that water services are typically regarded as a 'silent service', as they are bundled into and dwarfed by the Council Tax Bill. This means that water efficiency messages can be difficult to convey and when there are unplanned service outages, Scottish Water does not have sight of customer details to enable targeted messaging to impacted households.

A further option to mitigate these issues could be to introduce metering but without using it as a basis for billing. This would provide improved visibility of consumption, and would provide a communication tool to support customers to reduce demand and help to identify where there may be leaks within the customer's property.

Billing and collection along with existing local taxation billing is the lowest risk and least disruptive initial solution for the introduction of household water charges.

**5. Do you agree that the domestic allowance should be removed from non-domestic customers?**

Scottish Water does not provide a domestic allowance to non-domestic customers. Double charging is avoided at part-residential premises by either applying business charges to all usage at the premises or by distinguishing the household and non-household elements of usage and applying household and business charges respectively. Based on the Scottish Government charging principle of harmonised charges, the domestic component of non-household charges should align to household charges. Further, the basis of providing cost reflective charges for domestic-type use means they should align to the average cost of providing the service for each property. These principles recognise that the same level of service is being received for all domestic-type water use.

**6. Do you agree that customers should be charged to have their septic tank desludged?**

Scottish Water applies charges to households and businesses for septic desludging. It is important to ensure septic tanks continue to routinely maintained to prevent risks to health and the environment.

**7. Do you agree that the costs of roads drainage should be recovered from all water and sewerage customers?**

Roads drainage represents a significant public benefit for households and businesses, whether or not they have a water and/or wastewater service. This is expected to become a greater issue as climate change creates more extreme flood events, requiring additional infrastructure for roads drainage. In order that this service is properly funded, Scottish Water recovers these costs from all household customers with sewerage connection and from all non-household customers with a property drainage connection.

**8. Do you have any comments on the draft Equality Impact Assessment?**

No comment.

**9. Do you have any comments on the draft Rural Needs Impact Assessment?**

No comment.

**10. Do you have any comments on the draft Regulatory Needs Impact Assessment?**

No comment.

**11. Do you have any comments on the draft Human Rights Assessment?**

No comment.