The river basin management plan for the Scotland river basin district 2009–2015

Annex 3: Cost recovery

This annex has been produced to outline the practical steps and measures taken to apply the principle of recovery of the costs of water use in accordance with Article 9 of the Water Framework Directive.

CHAPTER GUIDE

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1. Introduction

River basin management planning will deliver the long term sustainability of our rivers, lochs, coasts and groundwater, with all water users and responsible bodies playing their part in the achievement of our aims and objectives stated elsewhere in this plan.

It is recognised that a wide variety of mechanisms and measures will be required to ensure this approach is successful. Water pricing policies can make a valuable contribution to the sustainable management of our water resources. These can act as an incentive to reduce pollution and improve the efficiency of water usage and they can also help to ensure that available resources are effectively allocated between water uses.

We have taken steps to introduce such policies in accordance with the polluter pays principle, as one element of our integrated Water Framework Directive implementation programme. These various components, taken as a whole, aim to achieve the directive's requirements.

In developing the approach to cost recovery, the likely social, environmental and economic effects of such recovery have been taken into account, as well as the geographic and climatic conditions of the Scotland river basin district (the Scotland RBD). These matters are discussed in more detail Chapter 3: Achieving our environmental objectives, which can be accessed via SEPA's website at: www.sepa.org.uk/water/river_basin_planning.aspx

2. Description of steps taken

Practical approaches to incorporating water pricing policies within our implementation framework have been introduced. There are two key mechanisms for the recovery of costs in respect of water use, which are discussed below. These relate to:

- the provision of water services by our public water authority;
- our control regime for ensuring sustainable water use across the environment.

2.1 Provision of water services by our public water authority

Our water and sewerage services provider, Scottish Water, is a publicly owned body and a responsible authority under the Water Environment and Water Services (Scotland) Act 2003. As a responsible authority Scottish Water must exercise its water supply and sewerage functions to enable the achievement of our environmental objectives as required by the Water Framework Directive. Scottish Water operates within a regulatory framework established by the Scottish Parliament in which Scottish Ministers, acting on behalf of the people of Scotland, set the objectives for the industry to be delivered at least cost to customers. Key players in this regulatory framework are Scottish Water's economic regulator, the Water Industry Commission for Scotland; the customer representative body - Waterwatch; the Drinking Water Quality Regulator and the Scottish Environment Protection Agency.

The costs of providing water supply and sewerage services are fully recovered by Scottish Water through customer charges. This includes the recovery of charge revenue from non-household customers, including businesses and agriculture and also from households. To extend WFD principles to Scottish Water customers, the Water Services etc. (Scotland) Act 2005 set up a independent economic regulator, the Water Industry Commission for Scotland who determines the financial resources required by Scottish Water to deliver all of its public policy objectives, including environmental objectives, and the charges that it can set. The principles according to which charges should operate over every (4-5 year) regulatory control period are set down by Scottish Ministers. Their statement for the current regulatory control period and the forthcoming one can be viewed at: www.scotland.gov.uk/Resource/Doc/1057/0022138.pdf and www.scotland.gov.uk/Resource/Doc/917/0088612.pdf Within these principles, annual charges are set by the Water Industry Commissioner for Scotland and Scottish Water.

In their statement, Scottish Ministers confirmed that there should be full cost recovery of water services (paragraph 3 in both statements) and that charges should be cost-reflective between customer groups (paragraph 14 and 4 respectively). Indeed Scottish Ministers recognised in 2005 that there was an imbalance of cost recovery[1] between business and households. Steps that have been taken to rectify this imbalance include:

- A major project to meter all non-household customers (including industry and agriculture operators) where practicable. Metered charges in respect of this change will be phased in from 1 April 2009 and fully implemented by 2011. This will help ensure an adequate contribution to water services is provided by industry and agriculture users and to improve implementation of the polluter pays principle.

[1] The method used to calculate the cost recovery rate was produced by Frontier economics and can be viewed at: www.watercommission.co.uk/UserFiles/Documents/rep_revenuecost%20balance_26-09-07.pdf

- From 1 April 2008 retail competition was introduced for all non-domestic water customers which is a world first. It is already clear that the separation of the retail activities from wholesale sharpens the incentives for water retailers to find solutions for their customers that minimise water use and the discharges to sewers.

In addition, if cross subsidies are identified between households, industry and agriculture these are unwound across the relevant regulatory period by the setting of annual charges.

The Water Industry Commission's detailed implementation of these principles can be viewed in its Final Determination of Charges for 2006-10 and for 2010-15 at: www.watercommissioner.co.uk/SRC_2006-2010/ [10-15 published on 26 November].

In Scotland, households as a group pay for the costs of the water services provided to them. At present the average price paid by domestic billed property is £0.89/day or £324/year. In setting water charges for households, Scottish Ministers balance a number of public policy considerations and it is established practice to take account of ability to pay, as permitted by the social and economic provisions of the directive, by charging households on a flat rate basis linked to local taxation. As Scotland is generally a water rich country it is believed that the lack of direct fiscal incentives on individual households to conserve water will not compromise the achievement of the objectives of the directive. Furthermore, national publicity campaigns to encourage households to conserve water are carried out regularly through press and TV advertising and the recently passed Climate Change (Scotland) Act places a duty on Scottish Water to promote water efficiency. Nonetheless, a significant metering trial is planned over the next five years to establish an evidence base on the costs and benefits of increasing the penetration of domestic meters.

Scottish Ministers confirmed in their principles of charging for the forthcoming period 2010-2015 that the cost recovery principles should continue to be maintained. In this period Scottish Water anticipates making capital investments in the order of £2.5bn. The amount of investment likely to be spent on environmental improvements will be confirmed in the final determination due to be published by the Water Industry Commission on 26 November 2009. This amount may change over the 2010-2015 period as the exact nature and scale of some environmental investment will only be confirmed after the completion of studies in the early part of the 2010-2015 period.[2].

In their 08/09 Annual Return, Scottish Water reported that 2,144 megalitres of water per day (Ml/d) were abstracted on average, their present costs of water services are £0.41/m^3 which do not include environmental and resource costs. Cross subsidy between different services provided by Scottish Water has been identified by recent analysis. This cross subsidy will be removed over the 2010-2015 regulatory period.

A further incentive promoting the sustainable management of the public water supply has been introduced through the Water Services (Scotland) Act 2005. Section 29E provides that where a customer can take action which reduces the costs on Scottish Water, the customer should share in the benefits.

These matters will be kept under review as part of the regular round of reviews of water charging policy and this approach will be revised if required in light of experience.

[2] Scottish Water's capital maintenance requirements are based on a bottom up assessment taking account of deterioration modelling, asset site surveys and project optioneering which is validated using a top down econometric approach.

2.2 Promoting efficient water use across the environment

A number of steps have been taken to encourage efficient water use across the whole water environment, as part of an integrated approach to water management.

- Firstly the new control regime, introduced in 2005, requires the prior authorisation of any activity likely to have an impact on the water environment. The regime requires operators to take any action necessary for the delivery of the environmental objectives, in line with the impact of their activity on the environment; and thus reflects the polluter pays principle. This regime is the key tool for delivering the programme of measures.

- The regime is risk-based and thus encourages operators to minimise any impact on the water environment. One key requirement of authorisation is the duty for the authorised person to take all reasonable steps to secure efficient and sustainable water use.

- SEPA, before authorising any controlled activity, must assess what steps may be taken to ensure efficient and sustainable water use; and may impose conditions to ensure such use. For example, SEPA has required the metering of volumes abstracted from the water environment where considered appropriate.

- As SEPA's evidence of the ecological impact of abstractions of individual water bodies increases as a result of its monitoring programme, it will take further steps to encourage efficient water use in those water bodies. This will be particularly important if areas prone to drought are identified, either in the short term or in the longer term as the result of climate change.

- SEPA has put in place a charging scheme to recover the costs of their implementation of the directive, directly linked to the regime described above. This charging scheme reflects polluter pays principles and applies to all those activities requiring authorisation, except those considered to pose a very low level of risk.

Key principles of the charging scheme are:

- it aims to allocate costs fairly across all water users, including industry, water service providers, and agriculture;

- it focuses upon activities that are likely to have the greatest impact on the water environment;

- it provides incentives which promote good practice;

- it provides greater incentives for those delivering an environmental service.

SEPA's charging scheme introduces a range of factors designed to deliver these aims, including financial bands reflecting the scale of the following authorised activities:

- Discharges
  - authorised volume that may be discharged;
  - chemical content of authorised discharge.

- Abstractions
  - volume of water that may be abstracted;

  - length of water body affected by authorised abstraction;
  - proportion of flow abstracted from water body.

- Impoundments
  - volume of water impounded;
  - provision of fish pass.

- Engineering
  - length of water body affected by engineering works.

In 2006 new lower levels of regulation (General Binding Rules and Registration) were introduced for low impact activities and removed charges for activities which deliver environmental improvement.

More details of how SEPA will apply the CAR charging scheme and the charge factors are explained in the Water Environment Charging Scheme Guidance on the SEPA website at www.sepa.org.uk/about_us/charging_schemes/current_legal_schemes.aspx alongside details of all of their charging schemes.

The risk-based control regime, together with the risk-based charging scheme described above, will make a significant contribution to the delivery of the stated environmental objectives. Together they provide adequate incentives to ensure efficient water use, and to minimise resource and environmental costs. Both the control regime and the charging scheme will be kept under review and revised if required in the light of experience.

3. Conclusion

Water pricing policies can act as an additional incentive for water users to use water efficiently. A number of such policies have been incorporated into the integrated water management programme, with a view to ensuring that the environmental objectives can be met in a proportionate and cost-effective manner, whilst having regard to the polluter pays principle. The effectiveness of these measures, as with all others described in this plan, will be kept under review.