

Strategic Review of Charges 2006 – 10: The Draft Determination

LINK Freshwater Task Force (FTF) response to the consultation by the Water Industry Commissioner

Scottish Environment LINK is the forum for Scotland's voluntary environment organisations representing a broad spectrum of environmental interests with the common goal of contributing to a more environmentally sustainable society.

Thank you for the opportunity to comment on the above consultation. The Freshwater Taskforce of the Scottish Environmental LINK has a wide range of knowledge and experience of freshwater policy issues. LINK has actively participated in the transposition of the Water Framework Directive in Scotland, and significantly contributed to the success of the Directive's implementation. We have also responded to previous consultations on the Quality and Standards III, raising issues of the importance of a comprehensive investment programme in the environment to achieve compliance with EU Directives.

The Freshwater Taskforce of the Scottish Environment LINK welcomes WIC's consultation prior to the new Water Industry Commission setting charge caps on Scottish Water's investment programme. **We welcome WIC's proposals to deliver both the essential and desirable objectives as set out in the Ministerial Statement of February 2005. These objectives are necessary to contribute towards meeting the requirements of European environmental regulations.** However, we are concerned that the approach taken by the WIC and Scottish Water does not allow for long-term strategic planning. We are concerned that the WIC and Scottish produced such different estimates of costs for the programme, which perhaps suggests that there is a difference of opinion in what should be delivered under the ministerial objectives.

Our main concerns about the Draft Determination are summarised below.

1. Consultation process

We are extremely disappointed that the consultation has had such an extremely low profile, a very limited distribution, and did not encourage public involvement. The information was presented in a very technical language, which was difficult to understand. The WIC has not encouraged public, or stakeholder input into this process, which is extremely disappointing.

The consultation document did not explain which factors have been used in the decision to cut the costs of the proposed projects. This made it very difficult to judge decisions taken by the WIC and to respond appropriately. We are especially concerned over cost reductions when dealing with CSOs and sewage treatment works, which can cause great environmental harm. For example, Glasgow Strategic Drainage Plan did not even appear as a 'notified' project.

2. Dealing with the backlog of historic under-investment in assets and infrastructure

We are concerned that the political pressure to keep prices down will result in underinvestment in water and sewerage assets. **Scotland has the worst asset condition in the UK, with water**

leakage rates approaching 50%. Leakage of water that has been treated and pumped around the water network is a waste of energy and resources. **The role of the WIC is to help Scottish Water to tackle this issue under SW's duty for sustainable development.** However, Scotland suffers from a backlog of historic underinvestment in maintaining and replacing assets, a trend which appears to continue today and as the consultation would suggest, into the near future. **Ignoring this problem will cause problems for future customers by increasing the rate of asset failures as well as the risk of non-compliance with regulatory obligations, resulting in increased environmental and/or financial costs in the next review period.**

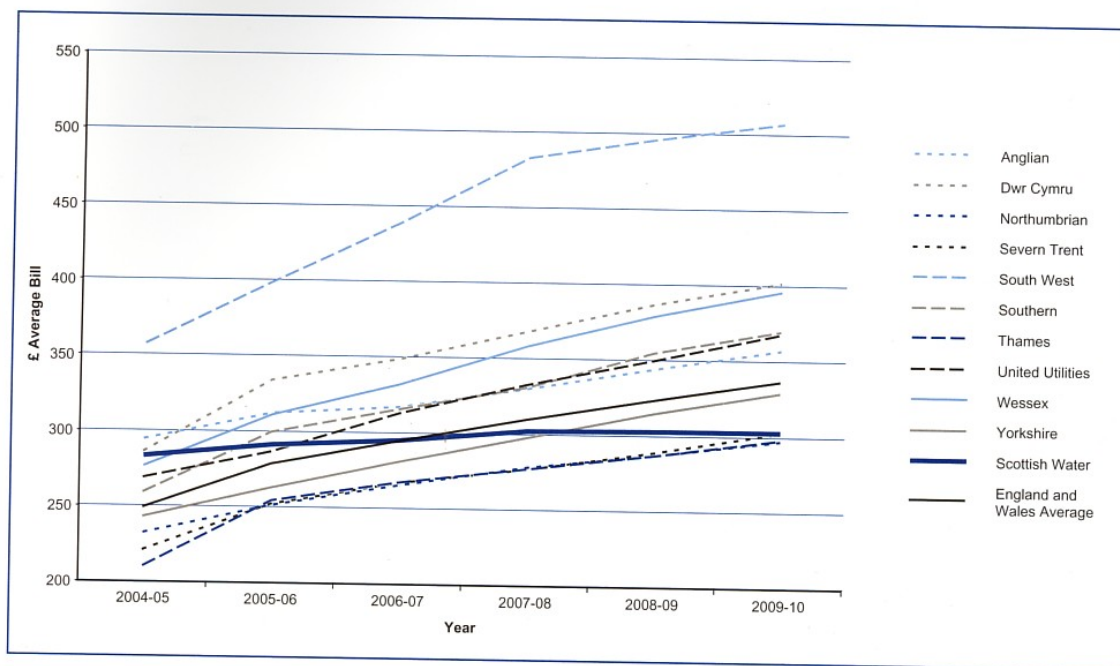
For example, only £50million has been allocated by the WIC to actively address the issue of water leakage. This appears to be a wholly inadequate response when compared with the level of investment in England and Wales.

We would strongly encourage Scottish Ministers to increase the level of investment in terms of objectives and invest more into dealing with the appalling state of SW's assets. We are concerned that much still remains to be done to ensure a better, more sustainable and reliable water services in Scotland. Yet, the Scottish Ministers made a decision not to increase water charges beyond the rate of inflation. We are concerned that this decision could jeopardise Scotland's environmental record and potentially cause problems in future.

3. Water charges

We are concerned over the WIC's proposals to deliver the investment plan at a rate of water charge increase, which will be **4% below the inflation rate.** **Scottish customer will enjoy the third lowest water charges in the UK by 2010, but at a price of continuously bad environmental and economic performance.** The graph below, reproduced from the consultation document, represents the flat rate of increases in water charges in Scotland compared to the rest of UK. It is important to highlight that **even with the proposed investment programme, Scottish Water will still have the worst leakage rates in the UK as well as the worst state of assets, yet the water charges will be the third lowest in the UK.**

Figure 7.4: Comparison of household bills in Scotland with those in England and Wales 2006-10



The Quality and Standards III consultation process showed that customers are prepared to pay a little bit extra to achieve better environment and more sustainable water services. When this is compared with the recent periodic review in England and Wales, where charges will rise by an average of 18% over 5 years to fund a £16.8 billion investment programme, **the level of expenditure agreed by the Commissioner/Scottish Ministers in comparison appears miserly**. This could prove damaging to the environmental reputation of Scotland, and risks costly infraction of EU environmental directives.

SUMMARY AND RECOMMENDATIONS

- **All Ministerial objectives, essential and desirable must be met to achieve a degree of compliance with environmental regulation.**
- **This programme cannot be delivered without adequate funding, and strategic long-term planning.**
- **Efforts must be made in the forthcoming investment period to deal with the backlog of historic underinvestment in assets and infrastructure. The impact of not dealing with this backlog will result in great costs in future and a large increase in water charges in the next review period.**
- **We urge the Water Industry Commission and Scottish Ministers to ensure that Scottish Water is able to meet its legal environmental obligations, as well as obligations towards sustainability.**

A submission by the Freshwater Taskforce of the Scottish Environment LINK
30 September 2005

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