

Water and Sewerage Charges: Charges for Vacant Non-Household Properties

Consultation

Spring 2015

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FOREWORD



Thriving businesses underpin Scotland's economic growth and future prosperity. Our approach to charging for water services has an important part to play in this.

Following our consultation "Investing in and Paying for Your Water Services from 2015", we noted our intention to charge vacant business properties for water and sewerage services received. Even though the properties are vacant, the owners continue to benefit from the services provided by Scottish Water. The cost of providing those services is, at present, met by other customers. This cross subsidy means that charges for those customers are higher than they need to be. It is therefore appropriate that owners of vacant properties should meet those costs. The additional revenue generated by removing this cross-subsidy will be used to restrict increases in charges to business customers.

I invite you to express your views on the timing and details of the introduction of charges for vacant business properties by writing to us. Should you prefer a face-to-face discussion, please indicate this in your reply. My officials are keen to discuss these proposals with the business sector in particular and to ensure affected organisations are prepared for the changes.

I will confirm the arrangements in Autumn 2015.

A handwritten signature in black ink, which appears to read "Derek Mackay". The signature is fluid and cursive, written on a white background.

Derek Mackay
MSP

PURPOSE OF ENGAGEMENT

The availability of wholesome drinking water and the safe disposal of wastewater are crucial to public health and a clean environment. In summer 2012 we asked stakeholders to give us their views on the improvements required to services and how customers should pay for the water and wastewater services provided. In that consultation, and subsequently in the Principles of Charging Statement¹ issued on 1 October 2014, we noted that we would consult on policies regarding the charging of vacant non-household properties. Non-household properties include all premises such as those that are owned or leased by businesses, public sector or similar organisations that are not classed as “dwellings” and for which water and sewerage charges are collected by licensed water and sewerage providers. Such properties may also be known as “eligible premises” or “non-dwellings”.

This paper invites customers and stakeholders to consider the case for change – in particular:

- What are the key principles which should apply to charging of vacant non-household properties; and
- When should any new arrangements take effect?

This paper is in 2 parts:

Part 1 provides the background. In particular it sets out the origins of the current arrangements and presents an analysis of the shortcomings; and **Part 2** sets out the Government’s proposals.

CONSULTATION ARRANGEMENTS

The Government appreciates that businesses are responding to the squeeze on household budgets and are therefore keen to ensure that the costs of doing business are kept to a minimum. It is keen to receive views and comments from:

- Businesses;
- Representative organisations;
- Licensed Water and Sewerage Providers; and
- Water industry stakeholders.

Written comments on any elements of the proposals should be provided in the relevant sections of the respondent form at **Annex A**. Should you wish to discuss these proposals with officials, please indicate this in your response. The closing date for responses is Monday 10 August 2015. We would welcome early responses.

Your responses will be used to inform decisions on when and under what conditions the owners of vacant non-household properties should be charged for water and sewerage services.

¹ <http://www.scotland.gov.uk/Resource/0045/00459866.pdf>

PART 1 – GENERAL INTRODUCTION

The engagement undertaken in summer 2012 on “Investing in and Paying for Your Water Services from 2015” confirmed that the Scottish Government would consult further on the introduction of water and sewerage charges for vacant non-household properties thereby ending the current exemption. The Government noted that:

- Charging for empty properties across the household and non-household sectors is inconsistent; and
- It intended to explore with stakeholders how charging policy for vacant non-household properties should be modified so that charges are consistent with the cost recovery and cost reflective principles.

Current Arrangements

Charges for non-household properties include three elements: water, sewerage and drainage. Water and sewerage charges consist of standing and metered charges whilst drainage charges are calculated by reference to a property’s Rateable Value.

At present, owners of vacant non-household properties are not charged for water, sewerage and drainage services. Such arrangements were broadly comparable with those discounts offered previously for business rates – however, these discounts have been curtailed as of 1 April 2013.

Such arrangements are inconsistent with other utilities where charges must be paid unless services are disconnected.

Impact of Current Arrangements

Whilst vacant properties may not be in active use to produce goods and services, owners of properties rely on the continued availability of services provided by Scottish Water. There is a reliance, in particular, on drainage services to ensure that rainwater from roofs and car parks continues to be drained so that properties are not flooded. Subsequent occupation of these premises is also dependent on the premises being fully serviced – that is - with access to services such as water and sewerage.

The amount of wholesale revenue forgone by exempting vacant non-household properties is estimated at some £15 million. This is currently funded through a cross-subsidy from other non-household customers. This is equivalent to an uplift of some 5% in all non-household charges. These figures are based on the Scottish Assessors Valuation Roll on 1 April 2013.

PART 2 – THE GOVERNMENT’S PROPOSALS

The Government proposes to introduce water, sewerage and drainage charges for vacant non-household properties. This will eliminate the cross-subsidy between occupied and vacant non-household properties and ensure that owners of vacant properties pay for the water and sewerage services provided. The additional revenue raised will benefit business customers by being used to restrict increases in the charges they pay.

The Final Determination published by the Water Industry Commission for Scotland on 20 November 2014² set out a maximum level of charges offered to non-household customers for a particular level of service (the Default Tariffs). This has confirmed that a nominal freeze in the Default Tariffs is possible throughout the 2015-21 regulatory period provided the current exemption for vacant properties is removed in 2017.

The Government wishes to consult on the details of the removal of this exemption including the nature of the charges that should be introduced and the date upon which the current exemption should be removed. Should the exemption be retained or the removal delayed until later in the 2015-21 regulatory period, the additional cost will need to be recovered through increased non-household wholesale charges as determined by the Water Industry Commission for Scotland.

Question 1 – Do you agree, in principle, that vacant non-household properties should be charged for water, sewerage and drainage services?

The Government understands that properties can become vacant on either a temporary or permanent basis for a variety of reasons including change of occupant, refurbishment etc. On the basis that these premises remain connected to services, it proposes that no distinction should be made in the charging regime to recognise the cause or nature of the vacant status.

Question 2 – Do you agree that water and sewerage charges for vacant properties should be the same as those for occupied properties regardless of the reason for the vacant status?

Water and Sewerage Charges

Although a property is vacant, it has on-going drainage service needs and will require continued access to water and sewerage services for the new owner and/or occupier. For properties that are likely to remain vacant on a long-term basis, for example because it is no longer suitable for occupation, then arrangements should encourage the disconnection of services to minimise any risk to public health from these disused connections.

To reflect the continuous availability of water and sewerage services and to incentivise disconnection³, where appropriate, it is proposed that full charges – both

² <http://www.watercommission.co.uk/UserFiles/Documents/Final%20Determination%20-%20Final.pdf>

³ Charges are levied for disconnection and these reflect the costs incurred by Scottish Water when disconnecting services. Disconnection costs vary according to the nature of the site and can range

standing and metered charges - should apply, thus removing the current cross-subsidy in its entirety.

Drainage Charges

Drainage charges reflect the costs of collecting and treating surface water from roofs, paved surfaces and public roads and are calculated according to the Rateable Value of the property. Owners of vacant non-household properties do not currently pay drainage charges even though they are reliant on these services to ensure that surface water is removed from their property. It is proposed that owners of vacant properties should pay the full charge unless alternative treatment and discharge arrangements are made for the rainwater collected from roofs and car parks. Alternative arrangements should conform with current pollution control guidance (http://www.sepa.org.uk/water/water_regulation.aspx) and may need to be agreed with SEPA.

Question 3 - Do you agree that drainage charges should be the same as those for occupied properties?

Financial implications

The additional revenue raised by the introduction of water, sewerage and drainage charges for vacant properties will be used to restrict increases in the charges payable by non-household customers. These measures are expected to raise some £15 million.

The costs incurred by the owner of a vacant property will vary according to the size of the water meter. For the smallest water meter size, the fixed (also known as standing) charge for water and sewerage services is some £300 per year. Drainage charges are additional and are calculated by reference to the Rateable Value of the property.

from a few hundred to a few thousand pounds. Disconnection removes the on-going liability for water and/or sewerage charges.

Legal Considerations

No primary or secondary legislation is required to implement the charging of vacant properties. The Water Services etc. (Scotland) Act 2005 already provides for the charging of all “eligible premises”, that is, all non-household properties. Furthermore, occupiers and owners of properties will be required under the Water Resources (Scotland) Act 2013 to notify Licensed Water Suppliers of changes of occupier and occupancy status of a property. The introduction of charges, whether at full or partial rate, would help to ensure that owners and occupiers have a financial incentive to comply with the requirements of Section 33 of this Act.

Equality Impact Assessment

The objective of this policy - charging of vacant non-household premises – is to deliver on the Government’s stated commitment to cost reflective charging. The policy is not expected to have an Equality Impact.

Timetable for introduction

Scottish Water’s current six year charging period (also known as regulatory period) started on 1 April 2015. For this period, the Water Industry Commission for Scotland’s Final Determination of wholesale charges has assumed, in line with the policy intentions set out by Ministers, that charges will be introduced for vacant premises on 1 April 2017.

Question 4 – Do you agree that the current exemption should be removed from 1 April 2017?

SUMMARY AND NEXT STEPS

The Scottish Government is committed to ensuring that charges payable by customers recover the costs incurred by Scottish Water of providing services. This paper has set out, and seeks views on, proposals for the removal of the water and sewerage charge exemption for vacant non-household premises.

It requests your views by 10 August 2015. The new arrangements will be confirmed in Autumn 2015.

Respondent Form

WATER AND SEWERAGE CHARGES: CHARGES FOR VACANT NON-HOUSEHOLD PROPERTIES - Consultation

RESPONDENT INFORMATION FORM

Please Note this form **must** be returned to ensure that we handle your response appropriately

Please ensure that we receive your response by 10 August 2015. We would welcome early responses.

Responses should be sent:

- By email to: waterindustry@scotland.gsi.gov.uk
- Or by post to
Water and Sewerage Charges – Vacant Properties
Water Industry Team
Scottish Government
Area 1-D (South)
Victoria Quay
EDINBURGH
EH6 6QQ

1. Name/Organisation

Organisation Name

Title Mr Ms Mrs Miss Dr Please tick as appropriate

Surname

Forename

2. Postal Address

<input type="text"/>		
Postcode	Phone	Email

3. Permissions - I am responding as...

Individual / **Group/Organisation**

Please tick as appropriate

(a) Do you agree to your response being made available to the public (in Scottish Government library and/or on the Scottish Government web site)?

Please tick as appropriate

Yes No

(b) Where confidentiality is not requested, we will make your responses available to the public on the following basis

Please tick ONE of the following boxes

Yes, make my response, name and address all available

or

Yes, make my response available, but not my name and address

or

Yes, make my response and name available, but not my address

(c) The name and address of your organisation **will be** made available to the public (in the Scottish Government library and/or on the Scottish Government web site).

Are you content for your **response** to be made available?

Please tick as appropriate

Yes No

(d) We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Scottish Government to contact you again in relation to this consultation exercise?

Please tick as appropriate

Yes

No

4. Written Responses – Questions

The Government's Proposal

1) Do you agree, in principle, that vacant non-household properties should be charged for water, sewerage and drainage services?

Yes No

Comments

2) Do you agree that water and sewerage charges for vacant properties should be the same as those for occupied properties regardless of the reason for the vacant status?

Yes No

Comments

Charges – Drainage Services

3) Do you agree that drainage charges should be the same as those for occupied properties?

Yes No

Comments

Timetable for introduction

4) Do you agree that the current exemption should be removed from 1 April 2017?

Yes No

Comments



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