

# **Modernising the Water Industry's Use of Rateable Value to Charge Non-Households for Water and Sewerage Services**

## **Consultation**

**Summer 2016**

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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.

In our Statement on the Principles of Charging for Water Services<sup>1</sup> we confirmed that surface water and roads drainage charges<sup>2</sup> should continue to be calculated by reference to Rateable Values.

We decided that there is a need to improve the consistency in the way that Rateable Values are used for charging purposes by the water industry and that this should be achieved by using the Rateable Values most recently assigned by the Assessors. Currently, the historic Rateable Values used to calculate charges for the majority of businesses are generally not the same as the rateable values in the current valuation roll used for Business Rates purposes. As a consequence there are significant differences between the amounts charged for similar premises. This is inconsistent with our principles of cost reflective and harmonised charges.

The move to use the most recent Rateable Values assigned by the Assessor is not designed as a revenue generating measure and therefore charges will be revised to ensure that income levels are sufficient to generate no more income than allowed by Scottish Water's economic regulator, the Water Industry Commission for Scotland.

The Scottish Government recognises that an unavoidable consequence of moving to the Rateable Values most recently assigned by the Assessor will mean that some businesses will benefit from charge reductions, while others will see their charges increase.

I invite you to express your views on the details and timing of the change to use current Rateable Values to calculate drainage charges. 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.

The Government will confirm the arrangements in Winter 2016.

**Roseanna Cunningham**

**MSP**

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<sup>1</sup> <http://www.gov.scot/Resource/0045/00459866.pdf>

<sup>2</sup> Water and sewerage charges are also calculated by reference to Rateable Values where meters cannot be installed.

## 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 Autumn 2014, we set out the improvements that Scottish Water must deliver to services during the period 2015-21. We also set how customers should pay for the water and wastewater services provided in a Statement on the Principles of Charging for Water Services<sup>3</sup> issued on 1 October 2014.

In that statement we noted that from a date to be specified by Ministers, the Rateable Values most recently assigned by the Assessor must be used by the water industry to calculate surface water drainage charges for non-household premises as well as water and sewerage charges at non-household premises that are not metered.

Non-household premises include all properties such as those that are owned or leased by businesses and 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 most appropriate way for the water industry to make this change – in particular:

- The date from which the most recent Rateable Values should be used; and
- The case for transition arrangements.

This paper is in 3 parts:

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

**Part 2** sets out the Government’s proposals; and

**Part 3** explains what the Government wants to know.

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<sup>3</sup> <http://www.scotland.gov.uk/Resource/0045/00459866.pdf>

## **CONSULTATION ARRANGEMENTS**

The Government appreciates that businesses are responding to the squeeze on household budgets and is 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 aspect 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 **23 September 2016**. We would welcome early responses.

Your responses will be used to inform decisions on the timing of the move to use the most recent Rateable Values for the purposes of calculating some water and sewerage charges and any transitional arrangements.

## PART 1 – WHY CHANGE IS NECESSARY

### Background

In Scotland, water industry charges for some premises are based on the most recently assigned Rateable Value (currently the 2010 valuation roll), the same as used by local authorities for business rates. However for many, water industry charges are based on a historic Rateable Value. This historic Rateable Value, dating back to the 1995 valuation roll in many cases, may be higher or lower than the Rateable Value most recently assigned by the Assessor.

As a result of using a mixture of historic and most recently assigned Rateable Values, there is inconsistency of charging for water services between otherwise similar business premises. In response to this inconsistency, the Statement on the Principles of Charging for Water Services for the period 2015-21, which was issued by Ministers on 1 October 2014, confirmed that the Scottish Government would require, from a date to be specified by Ministers, that water industry charges which are based on Rateable Values must be based on those most recently assigned by the Assessor.

The change to use the most recent Rateable Value is not a revenue raising measure. This means that sums raised through increases in charges for some customers will be offset by charge reductions for others.

### Analysis

Scottish Water has made an assessment using the 2010 valuation roll (the values that are available today). Its analysis indicates that around 57% of businesses would see a reduction in their Rateable Value based water industry charges, if charging were to be based on the most recently assigned Rateable Values (those currently used to calculate business rates).

The table below (table 1) shows the percentages of business customers which will see increases and decreases and the scale of the changes.

	Number of businesses		Total
	Bill reduced	Bill increased	
Change less than £100	37.39%	26.66%	64.05%
Change between £100 and £500	14.49%	10.99%	25.48%
Change between £500 and £1,000	2.75%	2.48%	5.23%
Change between £1,000 and £5,000	2.34%	2.23%	4.57%
Change between £5,000 and £10,000	0.21%	0.25%	0.46%
Greater than £10,000	0.08%	0.14%	0.21%
<b>Total</b>	<b>57.26%</b>	<b>42.74%</b>	<b>100.00%</b>

Table 1

Scottish Water's analysis also shows that, to ensure that no additional revenue is raised as a consequence calculating charges using Rateable Values assigned by the Assessor as available in 2015, the charge per £ of Rateable Value will need to reduce by around 30%. If applied to the rates applicable in 2016-17, the maximum

combined property and roads drainage charge of 4.5p / £RV would be reduced to 3.1p / £ RV. This means that businesses that see their Rateable Value (as used by the water industry) increase by less than 40% should benefit from lower water industry charges.

### Illustrating the Changes

The level of inconsistency can be illustrated by considering five fictitious businesses where the Rateable Value most recently assigned by the Assessor to each business is £30,000. In this example assume that under the water industry's current charging rules, four of these businesses are charged for some of their services on historic Rateable Values ranging from £7,500 to £37,500. In 2016-17 the maximum combined property and roads drainage charge is 4.5p / £RV which means that, as shown in table 2 below, the property and roads drainage bills will vary between £338 and £1,688. Discrepancies of comparable scale are known to exist between current customers.

	<b>Business 1</b>	<b>Business 2</b>	<b>Business 3</b>	<b>Business 4</b>	<b>Business 5</b>
Water Industry RV	£37,500	£30,000	£22,500	£15,000	£7,500
Property + roads drainage (Retail Default) (p/£ RV)	4.5	4.5	4.5	4.5	4.5
Current property & roads drainage bill	£1,688	£1,350	£1,013	£675	£338

Table 2

Applying this rebased charge to the most recently assigned Rateable Value of each of the fictitious businesses, as shown in table 2, will result in them all being charged £945 for their property and roads drainage services. This represents a reduction in charge of £743 for business 1, which currently pays the highest charge, while business 5, which is currently paying the least, will see an increase of £607 per year.

	<b>Business 1</b>	<b>Business 2</b>	<b>Business 3</b>	<b>Business 4</b>	<b>Business 5</b>
*SAA RV	£30,000	£30,000	£30,000	£30,000	£30,000
Current charge per £ RV (reduced by 30%)(p/£RV)	3.15	3.15	3.15	3.15	3.15
Future bill = SAA RV x reduced p/£ RV	£945	£945	£945	£945	£945
Current property & roads drainage bill	£1,688	£1,350	£1,013	£675	£338
Change from current bill	-£743 reduction	-£405 reduction	-£69 reduction	£270 increase	£607 increase

\*Current RV is that currently entered in the 2010 valuation roll by the Assessor (these can be searched on the website of the Scottish Assessors Association)

Table 3

## **Date for Introduction**

The Scottish Government has legislated for the next rates revaluation to take place on 1 April 2017, and the move to use the most recent Rateable Values is not proposed to start before this time. Given the time to make the necessary system changes, the timescales associated with the 2017 valuation roll and time to allow for customers to be notified of the changes to their bills, it is proposed that the new values should be used from 1 April 2018.

## **Summary**

The discussion above shows that all businesses will be affected by the change to using the Rateable Value most recently assigned by the Assessors. As the individual Rateable Values that will be introduced for business rates in April 2017 are not yet known, the actual impact on individual businesses cannot be assessed at this stage.

## PART 2 – THE GOVERNMENT’S PROPOSALS

The Scottish Government recognises that while the change to use the most recently assigned Rateable Values will benefit the majority of customers, it will have an adverse impact on others. The Government believes that the change should be made soon. However, it also recognises that because of the Rates Revaluation in 2017, the time necessary to inform customers and to make the necessary changes to billing systems, the earliest practicable start date is 1 April 2018. From that point onwards, the current Rateable Values as set by the Scottish Assessors (and used to calculate business rates) will be used by the water industry.

In the past, the water industry has modernised its approach to charging and removed numerous cross-subsidies by phasing these changes over three or four years. This phasing has sought to strike a balance between those facing increased charges and those benefiting from lower ones, the latter category being those who would wish to have the new system introduced as quickly as possible. It also provides sufficient time for those businesses facing increased charges to plan for the impact.

Once introduced, the water industry will update rateable values as they change either as the result of changes at the premises or subsequent rates revaluations. The need for transitional arrangements to phase in changes due to future rates revaluations will be considered at each Revaluation.

### Transitional arrangements

The Scottish Government believes that transitional arrangements should be complete by April 2020 to coincide with the final year of the water industry’s current charging period. This would result in a transition phased over three years between April 2018 and April 2020. The steps are illustrated below using the same fictitious businesses on page 7.

	<b>Business 1</b>	<b>Business 2</b>	<b>Business 3</b>	<b>Business 4</b>	<b>Business 5</b>
2017/18	£1,683	£1,346	£1,010	£673	£337
2018/19	£1,436	£1,212	£987	£763	£539
2019/20	£1,189	£1,077	£965	£853	£741
2020/21	£942	£942	£942	£942	£942

Table 4

## **PART 3 - WHAT THE GOVERNMENT WANTS TO KNOW**

The Scottish Government has already confirmed that, from a date to be specified by Ministers, the Rateable Values most recently assigned by the Assessor must be used by the water industry. It therefore invites your views on the timing and arrangements for introducing this change. In particular:

- Whether transitional arrangements should be put in place to ensure increases and decreases are phased; and
- If April 2020 is an appropriate date, when charges should be calculated solely on the basis of the most recent Rateable Values.

**Question 1 - do you agree that the water industry should use the most recent Rateable Values to calculate charges from April 2020?**

**Question 2 – if you have replied ‘yes’ to question 1, do you agree that there should be transitional arrangements?**

**Question 3 – If you have replied ‘yes’ to question 2, do you agree that transitional arrangements should be from 1 April 2018 to 1 April 2020?**

**Question 4 – if you have replied ‘no’ to question 3, what do you think is the appropriate period for transitional arrangements?**

**Question 5 – If you have replied ‘no’ to question 1, on what date should the most recent Rateable Values be used to calculate charges?**

### **Financial implications**

There are no financial implications for either Scottish Water or Licensed Providers, in general, as this measure is revenue neutral.

There will be marginal costs associated with the set-up of the new arrangements and the automation of the data transfer from the Assessors. These costs are bundled with other changes associated with the notification in changes of occupancy arising from the Water Resources (Scotland) Act 2013. These are expected to be offset from efficiencies generated from the greater automation of data transfers between the Assessors and water industry and improved data quality.

### **Legal Considerations**

No primary or secondary legislation is required to enable the use of the most recent Rateable Value as assigned by the Assessor as the basis for calculating surface drainage and roads drainage charges.

## **Equality Impact Assessment**

The objective of this policy – to modernise the water industry’s use of Rateable Value to charge non-households for some of its water and sewerage services - is in support of the Government’s stated commitment to cost reflective charging. The policy is not expected to have an Equality Impact.

## **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, the way in which the industry should introduce the use of the Rateable Value most recently assigned by the Assessor as the basis of calculating its Rateable Value based charges at non-household premises.

It requests your views by 23 September 2016. The new arrangements will be confirmed by winter 2016.

## Responding to this Consultation

We are inviting responses to this consultation by 23 September 2016.

Please respond to this consultation using the Scottish Government's consultation platform, Citizen Space. You view and respond to this consultation online at <https://consult.scotland.gov.uk/water-industry/use-of-rateable-value-to-charge-non-households>. You can save and return to your responses while the consultation is still open. Please ensure that consultation responses are submitted before the closing date of 19 September 2016.

If you are unable to respond online, please complete the Respondent Information Form (see "Handling your Response" below) to:

Surface Water Charges Consultation  
Water Industry Team  
Scottish Government  
Area 1-D (South)  
Victoria Quay  
EDINBURGH  
EH6 6QQ

## Handling your response

If you respond using Citizen Space (<http://consult.scotland.gov.uk/>), you will be directed to the Respondent Information Form. Please indicate how you wish your response to be handled and, in particular, whether you are happy for your response to be published.

If you are unable to respond via Citizen Space, please complete and return the Respondent Information Form attached included in this document. If you ask for your response not to be published, we will regard it as confidential, and we will treat it accordingly.

All respondents should be aware that the Scottish Government is subject to the provisions of the Freedom of Information (Scotland) Act 2002 and would therefore have to consider any request made to it under the Act for information relating to responses made to this consultation exercise.

## Next steps in the process

Where respondents have given permission for their response to be made public, and after we have checked that they contain no potentially defamatory material, responses will be made available to the public at <http://consult.scotland.gov.uk>. If you use Citizen Space to respond, you will receive a copy of your response via email.

Following the closing date, all responses will be analysed and considered along with

any other available evidence to help us. Responses will be published where we have been given permission to do so.

## **Comments and complaints**

If you have any comments about how this consultation exercise has been conducted, please send them to [waterindustry@gov.scot](mailto:waterindustry@gov.scot)

## **Scottish Government consultation process**

Consultation is an essential part of the policy-making process. It gives us the opportunity to consider your opinion and expertise on a proposed area of work.

You can find all our consultations online: <http://consult.scotland.gov.uk>. Each consultation details the issues under consideration, as well as a way for you to give us your views, either online, by email or by post.

Consultations may involve seeking views in a number of different ways, such as public meetings, focus groups, or other online methods such as Dialogue (<http://ideas.scotland.gov.uk>)

Responses will be analysed and used as part of the decision making process, along with a range of other available information and evidence. We will publish a report of this analysis for every consultation. Depending on the nature of the consultation exercise the responses received may:

- indicate the need for policy development or review
- inform the development of a particular policy
- help decisions to be made between alternative policy proposals
- be used to finalise legislation before it is implemented

While details of particular circumstances described in a response to a consultation exercise may usefully inform the policy process, consultation exercises cannot address individual concerns and comments, which should be directed to the relevant public body.

Modernising the water industry's use of rateable value to charge non-households for water and sewerage services



**RESPONDENT INFORMATION FORM**

**Please Note** this form **must** be returned with your response.

Are you responding as an individual or an organisation?

- Individual
- Organisation

Full name or organisation's name

Phone number

Address

Postcode

Email

The Scottish Government would like your permission to publish your consultation response. Please indicate your publishing preference:

- Publish response with name
- Publish response only (anonymous)
- Do not publish response

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?

- Yes
- No

**Written Responses – Questions**

**The Government’s Proposal**

**1) Question 1 - do you agree that the water industry should use the most recent Rateable Values to calculate charges from April 2020?**

Yes  No

Comments

**2) Question 2 – if you have replied ‘yes’ to question 1, do you agree that there should be transitional arrangements?**

Yes  No

Comments

**Question 3 – If you have replied ‘yes’ to question 2, do you agree that transitional arrangements should be from 1 April 2018 to 1 April 2020?**

Yes  No

Comments

**Question 4 – if you have replied ‘no’ to question 3, what do you think is the appropriate period for transitional arrangements?**

Yes  No

Comments

**Question 5 – If you have replied ‘no’ to question 1, on what date should the most recent Rateable Values be used to calculate charges?**

Yes  No

Comments



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