FINANCE COMMITTEE

AGENDA

15th Meeting, 2002 (Session 1)

Tuesday 10th September 2002

The Committee will meet at 10.00am in Committee Room 2 to consider the following agenda items:

1. **Items in Private:** The Committee will decide whether to take item 4 in private.

2. **Work Programme:** The Committee will consider its work programme.

3. **Budget Process 2003-04:** The Committee will consider an options paper for meeting outwith Edinburgh at stage 2 of the budget process 2003-04.

4. **Water Environment and Water Services (Scotland) Bill:** The Committee will consider its lines of questioning for agenda item 5.

5. **Water Environment and Water Services (Scotland) Bill:** The Committee will take evidence on the Bill’s financial memorandum from:
   
   Dr Jon Hargreaves, Chief Executive, Scottish Water;
   
   Professor Alan Alexander, Chairman, Scottish Water;
   
   Douglas Millican, Finance Director, Scottish Water;
   
   John Ford, Director of Finance and Corporate Support, Scottish Environment Protection Agency;
   
   Evan Williams, Sustainable Development Team Leader, Scottish Environment Protection Agency;
   
   John Thomson, Director of Operations and Strategy, Scottish Natural Heritage.

6. **Water Environment and Water Services (Scotland) Bill:** The Committee will take further evidence on the Bill’s financial memorandum from:

7. **PFI/PPP Report (in private):** The Committee will consider a draft report.

David McGill
Clerk to the Committee
The papers for this meeting are:

**Agenda item 2**

Paper by the Clerk

**Agenda item 3**

Paper by the Clerk

**Agenda item 4**

Paper by Adviser

**Agenda item 5**

Water Environment and Water Services (Scotland) Bill

Explanatory Notes

Policy Memorandum

Submission from CoSLA

Submission from Scottish Natural Heritage

Submission from Scottish Water

Submission from Scottish Environment Protection Agency

Submission from Aberdeenshire Council

Submission from Falkirk Council

Submission from Fife Council

Submission from Glasgow City Council

Submission from Highland Council

Submission from Inverclyde Council

Submission from Renfrewshire Council

Submission from Stirling Council

Submission from West Dunbartonshire Council

**Agenda item 7**

PFI Draft Report
## FINANCE COMMITTEE WORK PROGRAMME (as at 2 September 2002)
### September 02 to December 02

<table>
<thead>
<tr>
<th>Date</th>
<th>Committee Business</th>
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</table>
| **Tuesday 10 September**  CR2 | - Work Programme  
- Meeting outside Edinburgh  
- Water Environment & Water Services (Scotland) Bill Evidence from Orgs  
- Evidence from SE  
- PFI draft report (private) |
| **Tuesday 24 September**  CR2 | - SR 2002 – Briefing from Arthur Midwinter  
- 2003-04 draft budget – briefing from Arthur Midwinter  
- Financial Scrutiny Review update  
- Cross-cutting reviews update  
- Consideration of Stage 1 response  
- Consideration of FM report on Water Bill |
| **Wednesday 25 September** (CR3 1pm prov) | - Informal session with Peter Peacock on SR 2002 |
| **Tuesday 8 October**  CR1 | - Consideration of SPCB Budget Proposals  
- Consideration of Audit Scotland Budget Proposals  
- Holyrood Quarterly Report  
- Outcome Budgeting – responses to consultation |
| **Monday 14 October – Friday 25 October**  | **Recess** |
| **Tuesday 5 November**  Chamber | - Evidence from CBI etc. on Draft Budget  
- Cross-cutting reviews - interim reports  
- Evidence from SE depts on Draft Budget (focus on Modernising Government Fund) |
| **Monday 18 November** (Meeting outside Edinburgh) | - Consideration of subject committee reports  
- Evidence from local orgs  
- Evidence from Minister  
- Autumn Budget Revision |
| **Tuesday 19 November**  CR1 | - May not be required if meeting outside Edinburgh on 18 November |
| **Tuesday 3 December**  CR1 | - Draft Stage 2 report |
| **Tuesday 17 December**  Chamber | - final reports on cross-cutting reviews |
| **23 December – 6 January** | **Recess** |
**Other business**

Evidence and reports on Financial Memoranda for Bills introduced may require to be added to the above or be the subject of separate meetings.

Additional meeting may be required to agree Stage 2 budget report if not agreed on 3 December.
Options Paper
2003/04 Budget Process – Meeting Outside Edinburgh

Background

The Committee agreed in the first full year of the budget process that it would meet outwith Edinburgh at stages 1 and 2 in order to obtain a local perspective on national spending plans. Accordingly, as part of the 2002/03 budget process the Committee met in Perth at stage 1 and in Kirkcudbright at stage 2. As Members will recall, the Committee met in Orkney earlier this year as part of the stage 1 deliberations for the 2003/04 budget process.

Timing

As always, the timescale for completion of stage 2 is tight. The debate in the Chamber is likely to take place in the week commencing 16 December and we should be in receipt of the stage 2 reports from subject committees by 7 November. Allowing time for the compilation and publication of the report, Monday 18 November would therefore appear to be the most feasible date for meeting outwith Edinburgh.

We have been advised that there is Ministerial availability for the above date.

Locations

As stated above, the Committee met in the Orkney Islands as part of stage 1 of the 2003/04 budget process. The Committee may wish to continue the island theme for stage 2 although transport difficulties and expense would have to be considered. Skye may be an option as transport to the island is relatively straightforward. No other committee has met there to date. Many of our witnesses in Orkney compared and contrasted their situation with Skye and the Western Isles which they saw as having more favourable conditions despite being of similar size in terms of population.

Should the Committee decide that it wishes to remain on the mainland but retain the examination of remote communities, consideration may be given to Ullapool or other towns in the northwest area.

Format for meeting

The general consensus following the Orkney meeting was that the workshop session with representatives of local organisations provided a valuable insight into how national priorities and spending plans impact on the local area, and the level of engagement local organisations have with the budget process. It is suggested that, in addition to taking evidence from the Minister, the Committee may wish to undertake a similar exercise.
Procedure

A fully costed request to hold a meeting outside Edinburgh must be made to the Bureau and other than in exceptional circumstances, such a request will not be considered unless it has been referred to it from the Conveners’ Liaison Group.

Recommendation

Members are asked to agree the date and format for the meeting as well as a preferred location. After investigations, the Clerks will bring forward a paper at a future meeting with detailed arrangements for the meeting and suggested witnesses for the session with local organisations.

David McGill
4 September 2002
5 September 2002

David McGill
Clerk to the Finance Committee
Room 2.1
Committee Chambers
The Scottish Parliament
Edinburgh
EH99 1SP

Dear David

WATER ENVIRONMENT AND WATER SERVICES (SCOTLAND) BILL

I refer to the letter to COSLA’s Chief Executive dated 15 August 2002 which invited COSLA to submit evidence on the above Bill and in particular on the Bill’s Financial Memorandum. As discussed with you on the telephone, COSLA will not be sending a representative to the Committee on 10 September, but will be submitting its evidence by way of this letter.

You may be aware that COSLA submitted evidence to the Transport and Environment Committee on the Water Environment and Water Services (Scotland) Bill. As part of this submission, COSLA commented on the Financial Memorandum as follows:

‘COSLA also found the Financial Memorandum to be informative, though there is still a concern as to possible hidden costs that may fall to local authorities in respect of Part 2 of the Bill. Equally, COSLA has concerns as to the figures outlined in paragraph 156 of the Financial Memorandum. As the Financial Memorandum suggests that the majority of costs will fall in period 2007 – 2011, COSLA notes that this goes beyond the current Spending Review period, which ends in 2006. It is therefore essential that the burden on councils concerning this aspect of the proposed legislation is recognised by additional resources being given to the local government sector’.

This comment is still relevant and we would wish this view to be expressed to the Finance Committee. We would also wish to express the view that any additional costs are adequately funded by additional resources and where it is anticipated that these costs will be offset by ‘benefits’, that this is fully taken account of.

There is still a great deal of uncertainty at this stage on the financial implications of the Bill and COSLA would like to lay down a marker at this stage that local government should be given adequate funding for any additional costs as a result of the implementation of the Bill.
Should you require any further assistance, please do not hesitate to contact me.

Yours sincerely

[Signature]

Brenda Campbell
Head of Finance
Our Ref: PS302/02

David McGill
Clerk to the Finance Committee
Room 2.1
Committee Chambers
The Scottish Parliament
Edinburgh EH99 1SP

September 2002

WATER ENVIRONMENT AND WATER SERVICES SCOTLAND BILL

I write in response to the letter from the Convenor of the Finance Committee, Mr McNulty, inviting views on the financial implications of the above Bill for Scottish Natural Heritage.

We have mentioned this issue briefly in our written evidence to the Transport & Environment Committee. Since submitting that evidence, we have had the opportunity to discuss resourcing issues in a little more detail with the Scottish Executive and SEPA, and to assess further our internal capacity to assist SEPA. Our evidence to the Finance Committee (attached), reflects these developments.

We would be happy to expand further on this evidence, orally or in writing, if required. In the meantime, if you have any further queries, please contact David Howell (Tel: 0131 446 2436; e-mail: david.howell@snh.gov.uk) or Dominic Counsell (Tel: 0131 446 2418; e-mail: dominic.counsell@snh.gov.uk).

Ian Jardine

cc. Roz Wheeler, Clerk to Transport & Environment Committee
Annex

WATER ENVIRONMENT & WATER SERVICES (SCOTLAND) BILL
STAGE 1: FINANCE COMMITTEE

EVIDENCE FROM SCOTTISH NATURAL HERITAGE

Summary of main points:

• SNH has doubts about its capacity, within existing resources, to provide SEPA with the assistance that it is seeking in the implementation of the Water Framework Directive. We have alerted the Scottish Executive to these concerns, which we have also voiced in our evidence to the Transport and Environment Committee.

• SNH is working with SEPA and the Scottish Executive to examine the implications for SNH’s existing programmes, of trying to absorb any additional resource costs within existing budgets, as envisaged in the Financial Memorandum to the Bill.

• The deadlines imposed by the Directive oblige SNH to decide how far we can contribute before our role has been defined in statute and before Ministers have been able to provide us with any formal guidance on it.

• The Water Environment & Water Services Bill has many other financial implications, some being of particular interest to SNH. We have commented on these in earlier consultation responses, and in evidence to the Transport & Environment Committee.

Introduction – SNH interest in the Water Framework Directive

1. Scottish Natural Heritage (SNH) is the Government’s statutory adviser on the conservation, enhancement, enjoyment, understanding, and sustainable use of the natural heritage of Scotland.

2. SNH has followed the progress of the Water Framework Directive (WFD) since the 1990s, providing advice to SEPA and the Scottish Executive throughout this period. This has included contributing to the UK negotiating line on the text of the WFD, and in examining how best to implement it in Scotland. For example, SNH joined the SEPA-chaired group which drafted the current consultation paper on WFD Annexes II and V, and our response to that paper is available on www.snh.gov.uk. SNH staff are also involved in several WFD working groups and research projects at Scottish, UK and EU scales.

3. SNH has also responded to the Scottish Executive’s WFD consultation papers (dated June 2001 and March 2002). Our evidence below is based in part on
those responses (dated September 2001 and April 2002 respectively: copies are available on our website).

Implications of the Directive for SNH workload and resources

4. SNH’s involvement so far has been largely strategic, contributing to technical and policy discussions about how the WFD should be implemented. It has been possible so far to accommodate the associated resource demands largely by redeploying research funds and the efforts of existing staff as appropriate. This has all been manageable within our normal bidding processes: the SNH ‘Operational Plan’ which covers each financial year, and the ‘Corporate Plan’ which rolls forward over a 3-year horizon, all within the context of the Scottish Executive’s Spending Reviews.

5. We expect to continue our current involvement with preparatory work in Scottish, UK and EU fora. Some aspects of WFD implementation are still several years away. The balance of work is, however, already starting to change, with implementation tasks rapidly becoming necessary alongside policy development in order to meet some of the WFD’s early deadlines. These operational aspects of WFD are increasingly local in emphasis.

6. Previous SNH consultation responses about WFD implementation have included clear statements that it would be difficult for SNH to assist SEPA further without additional resources. We were surprised to learn (via the Financial Memorandum) that Ministers expected such WFD commitments to be absorbed within our existing budget. We also note that, if early WFD deadlines are to be met (such as those in December 2004), work needs to begin on the relevant tasks before domestic legislation and Ministerial guidance have formally assigned the responsibilities for undertaking it.

7. There have been difficulties for all parties in making accurate predictions about the WFD’s resource implications. However, a clearer view is now emerging about how WFD requirements are likely to translate into workloads. This has enabled SEPA to make more accurate assessments of what it considers is needed to implement the Directive, its internal capacity to deliver this, and hence the level of assistance likely to be required from other bodies, such as SNH.

8. As a result, there are several areas of early WFD implementation where SEPA is seeking additional assistance from SNH this financial year, as well as in future years. These have particular implications for staffing and research priorities over the next 3-4 years, and they include tasks such as:

- describing the natural variation of Scottish waters, and dividing them into different ‘types’;
- defining ‘water bodies’ in Scotland for WFD management, monitoring and reporting purposes;
- describing the pressures of human activity on Scottish waters, and the environmental impacts of these pressures;
- provisionally classifying water bodies according to their ‘water status’;
- delivering particular requirements relating to nature conservation sites to be listed in ‘Protected Areas Registers’;
- developing environmental monitoring techniques and associated protocols.

9. We are discussing this in detail with SEPA, and examining our capacity to help. We are also discussing with our sponsor division whether meeting SEPA’s requests within existing resources might compromise our ability to address existing Ministerial priorities, or to pursue other activities central to our statutory duties and corporate priorities.

10. We are now working up an estimate of additional costs, in collaboration with SEPA and staff from our respective sponsor divisions in the Scottish Executive. When this is available, we would expect it to inform further budget allocations within SNH and, in due course, statutory Ministerial guidance to SNH regarding our WFD roles and responsibilities.

Other financial aspects of the Bill of interest to SNH

11. The paragraphs above have focused on the most immediate implications of the Bill for SNH’s budget, and in particular for our staff resources and research costs. There are other, wider, aspects of the Bill which are of interest to us. These include:

- SNH funding of catchment & Firths projects (‘sub-basin plans’ in terms of the Directive);
- interactions between SNH grant spend on aquatic and waterside habitat improvements and possible WFD regulatory requirements to improve habitat;
- interactions between payments we make to influence the management of protected nature conservation areas and possible WFD regulatory requirements;
- interactions between WFD regulatory requirements and the public expenditure programmes which support the enterprise network and the forestry, agriculture, fisheries, aquaculture and tourism sectors; and
- the basis for calculating the costs and benefits of the environmental improvements which the Directive will require, and in particular, how the ‘non-market benefits’ of a high quality environment can be captured in cost-benefit analyses.
12. We have commented on these issues in previous consultation responses and, to a lesser extent, in evidence to the Transport & Environment Committee. We have not commented on them in detail in this evidence, as they relate more to policy matters than to the financial and other resource issues that are of primary concern to the Finance Committee. However, we would be pleased to expand further on these points if required.

Scottish Natural Heritage
September 2002
04 September 2002

Dear Mr McGill

WATER ENVIRONMENT AND WATER SERVICES (SCOTLAND) BILL

I am pleased to enclose Scottish Water’s response to the Finance Committee’s call for evidence on the financial implications of the above Bill.

The enclosed response focuses on the financial implications to Scottish Water and the additional obligations likely to fall on Scottish Water. As the detail of secondary legislation has not yet been defined, it has not been possible to provide cost estimates for many activities. Scottish Water will be pleased to provide further cost information once the content of the secondary legislation has been finalised.

Yours sincerely

Douglas Millican
Finance Director
Douglas.Millican@scottishwater.co.uk
CONSULTATION ON THE WATER ENVIRONMENT AND WATER SERVICES (SCOTLAND) BILL

Response to Call for Evidence by Finance Committee

4 September 2002
Introduction

As the primary supplier of both water and wastewater services in Scotland, Scottish Water (SW) recognises the important role that it has to play in protecting the water environment in which it operates. Scottish Water welcomes the opportunity to comment on the financial implications of the Water Environment and Water Services (Scotland) Bill (the Bill).

Scottish Water recognises that it will require to undertake relevant additional obligations associated with the Water Framework Directive provided that funding for these activities is made available. Scottish Water is, at this stage however, unable to determine the full operational and financial implications of the Bill as the detail of the secondary legislation associated with this Bill is still to be determined.

In the following evidence Scottish Water have attempted to identify the key areas of operational impact and where possible attribute costs.

Areas of Operational and Financial Impact on Scottish Water.

In response to the Finance Committee’s request for written evidence, Scottish Water has identified the following key areas where changes in the current regime will impose additional costs upon the organisation. In assessing the impact Scottish Water is uncertain as to whether it will be named a responsible authority.

<table>
<thead>
<tr>
<th>Impact on Scottish Water</th>
<th>Cost Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in sewage treatment activities to comply with environmental objectives</td>
<td>Estimated at £28m / year 2007-11 by WRC plus 10% operating costs (SW considers this to be conservative)</td>
</tr>
<tr>
<td>Increase in SEPA licensing costs (abstraction)</td>
<td>Not yet defined, subject to content of future regulations</td>
</tr>
<tr>
<td>Costs associated with being a responsible authority (monitoring/admin/consultation)</td>
<td>Not yet defined, subject to content of future regulations</td>
</tr>
<tr>
<td>Costs associated with meeting targets for priority substances and the elimination of priority hazardous substances</td>
<td>Not yet defined, subject to content of future regulations</td>
</tr>
<tr>
<td>Costs associated with changes to regulations of engineering activities</td>
<td>Not yet defined, subject to content of future regulations</td>
</tr>
<tr>
<td>Changes to the charging regime to encourage economic use of water</td>
<td>Not yet defined, subject to content of future regulations</td>
</tr>
</tbody>
</table>
Financial Memorandum
The Financial Memorandum refers to research conducted by WRc plc in conjunction with the University of Glasgow and the University of Dundee1. This research estimates the investment required by Scottish Water and relates to upgrades to sewage treatment works, discharges, combined storm overflows and emergency overflows which contribute to the current downgrading of 222 km of waterbodies. These costs are estimated to be in the region of £28m/year for the period 2007-2011.
Scottish Water considers that the estimates contained within the Financial Memorandum are low for the following reasons;
- It is based on assumptions made of good ecological status which are not yet defined
- The estimate is based upon extrapolation for a large cross-section of the business due to the lack of availability of key data.
- It is based on assumptions made about the environmental objectives which will not be finalised until 2009.
- Historical evidence shows that directives have always proved more costly than initial estimates

Priority Hazardous Substances
The costs to Scottish Water of treating and removing the priority hazardous substances (PHS) and priority substances from discharges cannot yet be estimated as the list of PHS has not been finalised. Many of these substances emanate from general anthropogenic activity and source control is necessary. In a worst case scenario Scottish Water could be required to remove these substances which could involve expensive absorption treatment such as activate carbon filters.

Monitoring, Administration, Consultation
The costs associated with being a responsible authority are not yet quantifiable but are expected to be significant. Already, Scottish Water has incurred substantial costs in the form of manpower for involvement in consultations, staff briefings and organisational impact assessments. In future Scottish Water expects to have a significant involvement in the River Basin Planning process. Scottish Water has already been approached by SEPA for additional information to assist in the characterisation process. It is expected that the process will require a number of full time staff, extension of current monitoring regimes and increased data gathering and handling.
Scottish Water would be pleased to be involved in future consultations regarding the secondary legislation and believe there is scope to rationalise monitoring systems. In particular SEPA could reduce the overall costs through increased self monitoring by Scottish Water.

SEPA Charges

The Financial Memorandum states that the majority of extra regulatory and administrative costs imposed upon SEPA will be recovered through increasing its charges. It is also understood that SEPA will move towards a charging scheme which is based on the impact of pollutants.

As the principal supplier of waste water treatment in Scotland, Scottish Water is minimising pollution generated by others. As such, it is inappropriate for Scottish Water to be penalised by additional costs under a revised charging regime. It could be beneficial to both SEPA and Scottish Water if the charging system was simplified whereby Scottish Water paid SEPA an agreed annual lump sum.

Scottish Water's income up to March 2006 has already been fixed under the Strategic Review of Charges. Should SEPA impose additional charges not allowed for within this review period, it would create an additional unfunded burden on Scottish Water.

**Charges for Water Services**

The Water Framework Directive encourages water conservation through financial charging schemes which are proportional to water usage. Scottish Water’s household tariffs and some business tariffs are currently based on rateable value and not usage.

The Water Industry Commissioner for Scotland’s advice in his Strategic Review of Charges 2002/06 to the Minister for Environment and Rural Development, which was accepted, was “Scottish Water should seek to develop tariffs that more broadly reflect the economics of the service provided. This will require that the fixed element of the charge faced by customers increases significantly from the current level.” Full implementation of this advice, to the effect that charging structures reflect underlying cost structures, may be in conflict with the requirements of the Water Framework Directive.

**Revision of Reasonable Cost Contribution to Developers**

Section 26 of the Bill will alter the current definition of “Reasonable Cost” from a fixed lump sum to a contribution based on a fair and objective cost benefit analysis. Scottish Water currently pays developers around £17m/year towards new infrastructure. Under the regime in England & Wales the net cost to Scottish Water would be nil. Scottish Water would encourage the Scottish Executive to introduce greater parity under the forthcoming regulations.
### Summary of Additional Duties Imposed by Each Section of the Bill

<table>
<thead>
<tr>
<th>SECTION OF THE BILL</th>
<th>IMPLICATIONS FOR SCOTTISH WATER AND ASSOCIATED COSTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. General duties: Scottish Water may be a responsible authority. Scottish Ministers may give directions to responsible authorities.</td>
<td>The scope of what a responsible authority entails is yet to be fully defined, therefore associated costs are difficult to quantify. In order to comply with the obligations of a responsible authority, Scottish Water would require to dedicate a number of full-time staff to the role.</td>
</tr>
<tr>
<td>3. The water environment: definitions</td>
<td>The final definition could vary the financial impact. In particular, the final definition of recreational waters would impact upon the cost incurred to Scottish Water</td>
</tr>
<tr>
<td>4. Establishment of river basin districts</td>
<td>The cost to Scottish Water will depend upon the number of river basin districts and the chosen approach to cross-border river basins</td>
</tr>
<tr>
<td>5. Characterisation of river basin districts</td>
<td>Scottish Water will have to comply with numerous additional information requests, for example, detailed abstraction data, leakage, CSO discharges, untreated sewage. Scottish Water will incur costs if it is to be involved in the characterisation process and monitoring.</td>
</tr>
<tr>
<td>6. Bodies of water used for the abstraction of drinking water</td>
<td>Scottish Water is likely to have additional monitoring requirements, the extent is at present unknown. Potential to mitigate costs if SEPA accepts self-monitoring by Scottish Water.</td>
</tr>
<tr>
<td>9. Environmental Objectives</td>
<td>The financial impact on Scottish Water will depend on the final definition of good ecological status.</td>
</tr>
<tr>
<td>10. River basin management plans</td>
<td>Scottish Water will incur costs of being involved in the RBMP process.</td>
</tr>
<tr>
<td>11. RBMPs: publicity &amp; consultation</td>
<td>Scottish Water will incur costs of being involved in the RBMP process.</td>
</tr>
<tr>
<td>15. Sub-basin plans</td>
<td>Scottish Water will incur costs of being involved in sub-basin plans</td>
</tr>
<tr>
<td>16. Duty to have regard to river basin management plans</td>
<td>The environmental objectives will not be finalised until 2009 therefore the implications are at present open-ended.</td>
</tr>
<tr>
<td>17. River Basin District Advisory Groups</td>
<td>Scottish Water would incur costs if involved in the advisory groups</td>
</tr>
<tr>
<td>18. Power to obtain information</td>
<td>Scottish Water will incur costs of additional information requests from SEPA. Additional SEPA monitoring costs could be offloaded onto Scottish Water in the form of increased charges.</td>
</tr>
</tbody>
</table>
## 20. Regulation of controlled activities

**Licences**
- Ensuring wastewater discharges compliant with ensuring good water quality status
- Cessation of priority hazardous substances by 2020 and progressive reduction of priority substances.

Requirements for WFD have been implemented earlier than necessary, which allows more time to meet the objectives by the statutory deadlines.

SEPA will incur additional administration costs in the setting up and operating of the abstractions licensing system. These costs are likely to be passed to Scottish Water in the form of higher charges.

WRc estimates this will cost Scottish Water around £28m / year between 2007-2011. Scottish Water considers this to be low – see body of text.

There are no estimates of the cost to Scottish Water. The list of priority hazardous substances has not yet been finalised. The cessation of these substances could involve expensive absorption treatment e.g. activated carbon filters.

## 21. Controlled activities regulations

Scottish Water will incur costs in being involved in consultations.

Cross-border river basin: there will be a financial impact should the regulations differ from England and Wales.

## 22. Remedial restoration measures

Will there be retrospective costs to Scottish Water? How far back will this apply?

## 23. Fixing of charges for water services

Clarification is needed from the Scottish Executive since there is a conflict in approach to setting charges between the Water Industry Commissioner and the Directive.
Dear Mr McGill

SEPA’s response to the call for evidence by the Finance Committee on 10th September 2002 concerning the Water Environment and Water Services (Scotland) Bill

1 1.0 Introduction to SEPA
SEPA regulates potentially polluting emissions to land, air and water; the storage, transport and disposal of controlled waste; and the keeping and disposal of radioactive materials. It also provides environmental advice and information and works in partnership with many public, voluntary and private sector organisations.

2.0 Financial Memorandum
The Financial Memorandum is based upon the work undertaken by WRc into the costs and benefits of the introduction of the Water Framework Directive. SEPA was closely involved in this project and in the preparation of the previous report covering UK costs and benefits published 1999 by DETR.

2.1 SEPA considers that the Financial Memorandum has been constructed in a methodologically sound manner. The authors are academically and professionally competent. Indeed Professor Nick Hanley (professor of Environmental Economics at Glasgow University) is justifiably regarded as one of the world’s foremost experts on valuation.

2.2 The costs to industry identified in the financial memorandum are in all likelihood over estimates and paragraph 143 reflects this “likely to represent the worst case estimates of the costs that might arise”. The WFD provides for the delivery of the most “cost effective combinations of measures” and provides for less stringent objectives where costs would be disproportionate. Both of these provisions are likely to reduce the cost burden falling on any individual sector or individual. There is also a reasonable expectation that the bill will allow delivery of other (existing) regulation in a more efficient manner because of the degree of integration and increase in SEPA’s charging base that will come with the development of river basin management plans.
2.3 The WRc report identifies substantial benefits arising from the implementation of the WFD in the range £131m to £325m per annum with a “best guess central estimate of £228m per annum”. This compares to the estimated annual cost of implementation which is estimated at £60m. This coincides with SEPA's view, that overall the WFD will bring very substantial benefits for Scotland by introducing a form of environmental planning for the water environment which is based upon the principles of sustainable development.

3.0 Implications for SEPA
The WFD has very substantial implications for SEPA. SEPA currently uses £20m out of its budget of £42M to protect and improve the water environment. This work is primarily based upon powers to control discharges of polluting matter under the Control of Pollution Act (1974). The WFD will introduce additional powers to control diffuse sources of pollution, abstractions, impoundments and engineering work in rivers. It is considered that this will increase SEPA's regulatory workload by three fold. To support these regulatory regimes new forms of environmental monitoring will need to be developed to assess the impacts of the newly regulated sectors. In addition, SEPA will be responsible for leading the River Basin Management Planning system and developing a new competence in Economic Analysis of water use. As a consequence, all of SEPA activities associated with the water environment will be subject to major changes.

3.1 In order to deliver these requirements SEPA started to prepare for the Directive in 1999 with the appointment of 3 WFD project officers. Currently SEPA is devoting 40FTE to WFD preparations (20 based upon new duty funding and 20 by reallocating staff). Current projections suggest that the additional resource requirements (based upon the 2003/04 baseline) will increase to £2.5m by 2005/06 and to over £5m by 2009/10.

3.2 In order to managed the three fold increase in regulatory effort SEPA will transform the way it works to deliver protection for the water environment. This will be possible given the innovative approach to regulation proposed in the Bill which allows for the introduction of a range of regulatory tools appropriate for different levels of risk.

3.3 Another important financial implication of the Bill will be the effect upon SEPA ability to recover its costs. SEPA currently recovers £9m out of the £20m used to protect the water environment. The current review of COPA charges will if approved by Ministers increase the level of cost recovery to £11m. Current projections suggest that the scale in the increase in water users covered by the regulations should so increase SEPA's charging base, that costs should not increase for discharges currently covered by SEPA's COPA charging scheme. Indeed under some scenarios charges could fall.
4.0 **Effects upon other public bodies**
Although the financial implications of the WFD are greatest for SEPA, a range of other public bodies will be affected. It is important that WFD funding requirements for other organisations such as local authorities, SNH, Scottish Water and the Fisheries Research Service are addressed. This will allow them to effectively participate in the River Basin Planning Process and to contribute to the Scottish Monitoring Strategy which will deliver the environmental monitoring requirements of the Directive in a cost-effective manner.

I hope that these comments are of assistance. If you require further clarification please contact Evan Williams or Martin Marsden at this office. There is no objection to this response being placed in the public domain.

Yours sincerely

M PATRICIA HENTON
03 September 2002

Dear Sir

WATER ENVIRONMENT AND WATER SERVICES (SCOTLAND) BILL

I refer to your letter of 15 August 2002 concerning the above.

I understand that my colleague, Iain Gabriel, Director of Transportation and Infrastructure for Aberdeenshire Council has already written to the Scottish Executive with a detailed response on the operational implications for his service of the proposals included in the Bill.

Aberdeenshire Council is concerned that the full financial impact on local government of the measures proposed in the Bill may not have been adequately considered.

I note from the explanatory notes accompanying the Bill that you expect additional administration costs for local government to be absorbed within existing budgets. You will already be aware that local government budgets are under significant pressure and the imposition of these additional costs may have a more significant impact on service delivery than you have indicated.

The compliance costs arising from the regulation of controlled activities in terms of Aberdeenshire Councils’ role as Roads and Coastal Protection authority and activities associated with flood protection may be considerable. I note that you have indicated that costs to be in the range of £25 millions to £65 millions. Even at the lower end of the scale the impact of this additional burden on service provision will be considerable.
Local government in Scotland should receive sufficient additional grant monies to allow us to meet the additional demands placed upon us by this proposal.

I would be grateful if you would pass on these views to the Finance Committee of the Scottish Parliament.

Yours sincerely

Charles Armstrong
Director of Finance
Enquiries to: Mr Jannetta
Telephone No: (01324) 506300
Date: 29 August 2002

David McGill
Clerk to the Committee
Room 2.1
Committee Chambers
The Scottish Parliament
EDINBURGH
EH99 1SP

Dear Sir,

WATER ENVIRONMENT AND WATER SERVICES (SCOTLAND) BILL.

I refer to your letter of 15 August inviting comments in relation to the above Bill’s financial aspects. In so far as the cost implications (Part 1) that local authorities may incur, both in terms of administration and compliance, (notwithstanding some may be offset by certain benefits) these nevertheless still represent an additional burden on local authorities. As such, Councils will no doubt be looking to the Scottish Executive to provide resources to bridge any “funding” gap.

Finally, from the information given, it is difficult to comment on whether the assumptions on the financial implications as contained within the Bill’s Financial Memorandum are accurate.

Yours faithfully,

[Signature]

Director of Finance

Our Ref. 99/59/AJ/FH

Your Ref.
Dear Mr. McGill,

WATER ENVIRONMENT AND WATER SERVICES (SCOTLAND) BILL

I refer to Des McNulty’s letter dated 15th August, 2002 and with regard to the Financial Implications of the above Bill.

With regard to clause 155 and given the Council’s recent experience with the related area of flood prevention I can advise that anticipated additional revenue costs would be in the region of £100,000 per year. Clearly additional staff would require to be employed to fulfill the Council’s role as a “Responsible Authority”.

Whilst it is difficult to place any figure on the likely impact of clause 156 I can advise that existing flood prevention budgets are projected to have a £300,000 shortfall in relation to needs once all water course assessments have been completed. Clearly additional revenue demands stemming from the provisions of this clause will exacerbate this position.

In terms of Capital Funding, the Bill will have a significant impact on a wide range of engineering and road projects where additional and environmental measures will require to be implemented. Whilst this is difficult to estimate if you use the suggested Scottish figures, capital needs in Fife might be expected to be in the range of £2 - £6m.

E-mail address: david.mcgill@scottish.parliament.uk

Mr. David McGill, 
Clerk to The Scottish Parliament  
Finance Committee,  
Room 2.1,  
Committee Chambers,  
The Scottish Parliament,  
EDINBURGH,  
EH99 1SP.
I also note that the Bill makes no provision for sustainable urban drainage systems. This issue equally has cost implications which will be significant and additional to those encompassed by the Bill.

In addition there may be a need to upgrade or remediate operational landfill sites. These are not covered by the capital grant scheme for remediation of contaminated land which only applies to closed sites. The costs of this, which do not appear to have been identified, could be substantial and raise disposal costs sharply.

The link to the sampling already undertaken for private water supplies is not clear and it may be that a wider set of parameters of more frequent testing would be required which would also raise costs. Although the private water supplies regulations make provision for recovering some sampling costs, the bulk of the burden falls to the Local Authority.

Clause 164 estimates a need to accelerate the clean up of contaminated land at £200,000 per site. Within the Local Authority sector this will often relate to former landfill sites which may have little or no containment of leachate. Depending on the standards set, remediation may exceed the estimate for the sites by quite a margin. Experience is also showing the Council that a surprising number of new schemes designed in response to requirements for better treatment of effluent have led subsequently to nuisance problems with severe odours in their vicinity. It is experience of this Council that insufficient attention is paid to this aspect when planning new or upgraded works often leading to years of misery for nearby residents. The Council would strongly recommend that you take the costs of this into account to ensure solving one problem does not simply give rise to another.

I trust the Council's response will assist your Committee in its consideration of the Bill and thank you for the opportunity to so comment.

Yours sincerely,

Douglas Sinclair.
5 September 2002

Mr David McGill
Clerk to the Committee
Room 2.1,
Committee Chambers
The Scottish Parliament
EDINBURGH
EH99 1SP

Dear Mr McGill

WATER ENVIRONMENT AND WATER SERVICE (SCOTLAND BILL)

Further to the letter of 15th August 2002 from the Convener of the Finance Committee, I would like to make the following comments in relation the Bill.

The Financial Memorandum sets out the financial implications of Part 1 and Part 2 of the Bill. In relation to Part 1, Glasgow City Council would ask that consideration be given to the source of funding for the additional capital costs which could fall to local authorities as a result of compliance. The current mechanism for capital funding of flood prevention should form part of this review to ensure that no detriment is suffered.

The Financial Memorandum specifically mentions costs in relation to the rehabilitation of watercourses modified for Flood Prevention. The research by WRC plc is generalist in nature and the Council would be concerned if the average figures quoted were used as the basis for the distribution of funding. Any funding distribution should take cognisance of the specific and different needs of authorities.

The Financial Memorandum also states that no financial implications would fall to Local Authorities as a result of Part 2 of the Bill. Glasgow City Council is concerned that additional costs could fall to the authority mainly as a result of its responsibility for Road Construction and Maintenance and would ask that the Finance Committee also consider this area.

Some additional costs are likely to be passed on to Water consumers as a result of the Bill. Any real increase in water and sewerage costs for users are unwelcome particularly for domestic users who benefit only in part from a Transitional Relief Scheme. Glasgow City Council would also be concerned about the implications for Collection of Council Tax should joint billing still be in place.

I trust you will find these comments useful. If you require any further information please contact Morag Johnston on 0141 287 4822.

Yours sincerely

JAMES ANDREWS
CHIEF EXECUTIVE
Clerk to the Committee  
David McGill  

Dear Mr McGill  

I refer to the above and write to thank you on behalf of Highland Council TEC Services for the opportunity to express views on possible financial implications for this authority. In particular I would comment on the following paragraphs contained in the Financial Memorandum:-  

Para 151: The Executive could also find itself bearing some of the costs of cleaning up contaminated land that is affecting the water environment in cases where liability for the clean up can not be established. These costs are unlikely to fall directly on the Executive. However the Executive may need to provide support to local authorities and to SEPA towards some of these costs.  

As the Authority does not hold funds to cover any costs of clean ups full cost support would be required from the Executive  

Para 154: Administrative and in some cases, monitoring costs may fall to other public sector authorities including, and in particular, Scottish Natural Heritage but also others such as British Waterways. It is currently anticipated that it will be possible to assimilate these costs into existing expenditure programmes. The Executive will return to this point in the context of drawing up the secondary legislation identifying the responsible authorities and the regulations setting out the environmental monitoring requirements.  

Staffing levels are set to cover the Statutory functions currently placed on this organisation. Information from these functions would be available if required. Any additional role with regards to monitoring would have to be assessed, quantified and funded.  

Para 156: Local authorities may also incur compliance costs from the regulation of controlled activities in connection with their functions as roads and coast protection authorities and for their flood prevention activities. For example, the rehabilitation of watercourses modified for flood protection works may be justified in certain cases. The majority of these costs would fall in the period 2007-2011. Total discounted costs could be in the range £25 million to £65 million.  

As the Authority does not hold funds to cover compliance costs full cost support would be required from the Executive.  

Regards  
Angus Hogg  
TEC Services  
01463 702662
I refer to your letter of 15 August in connection with the above matter and thank you for the opportunity to comment on the proposals.

My Council’s only comment relates to the fact that it is clear from the Bill as presently drafted that local authorities may find themselves bearing costs with respect both to complying with the terms of the legislation as well as costs associated with their role as “responsible authority” in the river basin planning process. We therefore believe that it would be appropriate to have attached to the Bill a cost analysis statement clearly indicating that the Bill will have additional financial implications for local authorities. In addition, part of the decision making process should include a mechanism for ensuring that an adequate transfer of funds takes place to allow the relevant bodies to fully implement the legislation.

I trust the above comments are of interest.

Yours sincerely
Elaine Paterson
Director of Legal and Support Services
Inverclyde Council
Dear Mr McGill

Water Environment and Water Services (Scotland) Bill

Further to our telephone conversation of today's date, I enclose comments on the above bill. Chapter 3, Section 22 - Whilst this section enables the goal of achieving remedial restoration works the ability to recover any costs incurred in undertaking, or arranging to undertake, such measures from the appropriate persons needs to be paramount. The public bodies/responsible authorities should not be burdened with any cost as a consequence of the remedial restoration measures.

Chapter 3, Section 23 - Where Scottish Ministers sought to vary the charges in respect of water services to aid the protection of the water environment the collection of such charges from domestic households would be undertaken by local authorities on behalf of Scottish Water. In order that such sums recovered are able to be remitted to Scottish Water it would be sensible to make an alteration to the statutory instrument for Billing and Collection to allow the distribution of cash collected from payees to be allocated between the local authority and Scottish Water as an individual account basis rather than on an aggregated total.

Financial Memorandum - Paragraph 151 - Where a local authority incur costs in cleaning-up contaminated land, where liability cannot be established, the Executive needs to fund in full all costs incurred.

Financial Memorandum - Paragraphs 155-156 - In order to carry out new duties arising from the introduction of the Bill the Local Authorities are likely to incur costs in respect of administrative/compliance costs. The Executive needs to provide additional Revenue Grant Support and/or capital consent to allow Local Authorities to fulfil the new duties without any additional burden being placed on the council taxpayer.

If you require any further information in relation to any of the above points please feel free to contact myself.

Yours sincerely

BRIAN  COOK
Head of Operational Services
Letter:

Clerk to the Finance Committee
Room 2.1
Committee Chambers
The Scottish Parliament
Edinburgh EH99 1SP

Our ref: PP/32

Dear Sir

Water Environment and Water Services (Scotland) Bill

I refer to your letter of 15 August inviting Comments upon the Financial Memorandum relative to the above Bill.

It is noted that the Memorandum, at para. 155 anticipates “minor” administrative costs to local authorities arising from involvement in the river basin planning process. While this may well turn out to be the case, a significant difficulty in advising Councillors and colleagues of the implications of this legislation has been the wide range of potential scenarios for “river basin planning”. Assumptions based upon a small number of River Basin Districts and the likely capacity of SEPA to initiate ‘characterisation’ reports and Plans of great complexity within the first cycle of this planning process, would support a low impact on Council staff time and other resources. There is, however, no guarantee of this, or that ‘minor’ costs will continue to be the case in future planning cycles.

The other potential area of increased costs mentioned is flood prevention. My Council intends to carry out a package of flood prevention schemes over the next few years, at an estimated cost of about £1,000,000. It seems reasonable to assume that the vetting process leading to approval of such schemes will ensure compliance with any requirements likely to arise through the river basin planning process. However, there are also some inherited river engineering works for which the Council is now responsible but which were designed and carried out under previous Council regimes. These may at some stage fall foul of new standards, and compliance may be imposed.

It is not possible therefore, at this early stage, to anticipate the financial impact of the Bill on Local Authorities, and this Council would wish to have a commitment from the Scottish Executive that any capital costs arising from the Bill will be fully funded through additional resources.

Yours faithfully

Brian Devlin
Director of Environmental Services

cc Director of Civic Services
     Director of Finance & Information Services
     Director of Technical Services
Dear Mr McGill

Water Environment and Water Services (Scotland) Bill

I refer to the letter from the Convenor of the Finance Committee, dated 15 August 2002, and comment as follows:

On the basis of the information available to date it is not possible to provide precise financial costs that may be associated with the Water Environment and Water Services (Scotland) Bill, however, areas where there are likely to be additional costs for this Council are as follows:

i) The compilation of River Basin Management Plans and Sub Basin Plans will undoubtedly result in additional costs to the Council, particularly given the provision for the establishment of River Basin District Advisory Groups and the power that is to be given to the Scottish Environment Protection Agency under Section 18 of the Bill to enable them to obtain information and assistance from the responsible authorities. It is noted that Section 18, sub section 1, will result in a duty being placed on responsible authorities to provide such information and assistance as SEPA may reasonably seek. Given the fact that the compilation of River Basin Management Plans etc. have not been undertaken previously, it is anticipated that there will be considerable work involved in this task and it is considered that there will be commensurate cost. The assertion that costs are likely to be minor in relation to the overall expenditure on development planning is not accepted. Similarly it is not accepted that the extra costs that will be incurred “may well be offset by the benefits that will arise from the existence of a central repository of information on the water environment for planning authorities in the form of River Basin Management Plans”.

ii) The Council has responsibilities in relation to flood prevention and roads. It is anticipated that there may be costs associated with regulation of controlled activities and I note that this is acknowledged in the Financial Memorandum at page 24.
iii) The funding of new infrastructure for new developments.

Finally, there have been very large increases in water charges over the last few years. At the same time West Dunbartonshire Council has tried very hard to ensure Council Tax increases have been extremely low. The Council are very concerned at the impact of yet higher water costs on the local community particularly the effect on the more vulnerable and less well off members of our community and the Council would be very concerned if the provisions of the Bill were to result in further "above inflation" increases in water costs.

Yours sincerely

[Signature]

Mr T. Huntingford
Chief Executive