The Committee will meet at 9.30 am in the Hub, Castlehill, Edinburgh, to consider the following agenda items:

1. **Lines of Questioning (in private):** The Committee will consider possible lines of questioning for the witnesses on the Water Industry (Scotland) Bill.

   *Not before 9.45 am*

2. **Water Industry (Scotland) Bill:** The Committee will take evidence at Stage 1 on the general principles of the Water Industry (Scotland) Bill from—
   
   - Ian Jones, Chairman and Chief Executive, Quayle Munro Group
   - John Downie and Jane Todd, Federation of Small Businesses
   - Trisha McAuley, Scottish Consumer Council
   - Jim Lugton and Lucy McTernan, Scottish Council for Voluntary Organisations
   - Peter Bolton and Janette Wilson, Scottish Churches Committee
   - Zoe Clelland and Lisa Schneidau, Scottish Environment Link

3. **2002-03 Budget Process (in private):** The Committee will consider a draft report to the Finance Committee at Stage 2 of the 2002-03 Budget Process.

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The following public papers are relevant for this meeting:

| Submissions on the Bill relevant to the meeting  
| (Agenda item 2) | TE/01/26/1 |
Federation of Small Businesses in Scotland
October 2001

Summary comments on Water Services Bill

Scottish Parliament Transport and Environment Committee

Scottish Executive Statistics 2000 show that 98% of the 300,000 Scottish businesses are micro (0-9 employees) or small (employing 10-49). The Federation of Small Businesses has a UK wide membership of 165,000 small business owners, just under 10% of which are based in Scotland.

- FSB supports the principle of a single Scottish water authority.
- Scottish Water must be subject to exactly the same licensing system as new entrants. Anything less would discriminate against new entrants and would undermine the credibility of Scottish Water (which would be seen by the business community as an unlicensed operator).
- The FSB recommends that Scottish Water acts as a supplier of last resort to businesses as well as domestic customers.
- Small businesses see no role for rateable value in the calculation of water costs for businesses. Costs must be based on simple volume of usage.
- Harmonisation of per unit water costs across Scotland is desirable (whilst fully recognising the implications for costs in certain areas) as it provides a level playing field for small businesses.
- The fitting of water meters must also be on an equal, no cost, basis across Scotland.
• Small businesses believe that the cost of their metered water supplies may effectively subsidise non-metered or domestic supplies - any such existing subsidy should cease immediately.

• The FSB strongly opposes any disproportionate burden of water costs being placed on the small business community.

• The FSB supports proposals for Scottish Water to bill its customer base directly, rather than through the local authorities.

• Small business would like to see access to premises or land by the water authority operating on the same basis as the electricity or gas utilities.

• Small businesses want to see Scottish Water taking a proactive role in enabling businesses to minimise waste-water and effluent treatment costs.

• The FSB recommends a realistic assessment of potential water cost and an analysis of the best way minimise the adverse impacts of any cost increases on the small business sector.

• The FSB recommends awareness raising amongst the business community of impending cost increases - including realistic predictions of costs over a minimum of 5 years to allow budgeting, appropriate and understandable explanation of the reasoning and illustration of the implications of not pursuing the changes in the Scottish water services.

• Water Customer Consultation Panels must include substantive small business representation.
Consultation on the Water Industry (Scotland) Bill
Submission on behalf of the Scottish Churches Committee

The Committee represents the major Christian religious denominations in Scotland, namely the Church of Scotland, the Roman Catholic Church in Scotland, the Scottish Episcopal Church, the Free Church of Scotland, the Baptist Union, the United Free Church, the Free Presbyterian Church, the Methodist Church, the United Reformed Church and the Associated Presbyterian Church in relation to temporal matters affecting the churches themselves. The denominations concerned have a total membership in Scotland of over 1.5 million and a significant number of adherents in addition. The Committee also has links with the Scottish Council of Jewish Communities.

The Committee has since the setting up of the three Water Authorities been much concerned about the effect on congregations of increasing charges for water and sewerage services and by the uncertainty over future methods of charging.

Only a minority of churches and church halls have a metered water supply, with most congregations of all denominations paying charges based on 25% rateable value. Historically, under the Water (Scotland) Act 1980, the 75% reduction for water comprised 2 elements: a mandatory 50% reduction, and a discretionary 25% figure. For wastewater, the 75% reduction derived from the Local Government Finance Act 1992 (Schedule 11, paragraph 21). This provided that the fraction of rateable value to be applied to the levying of wastewater charges should be the same as that applied to water. It was a special provision for churches and charities, to reflect low use.

Somewhat confusingly however, whilst all three Authorities announced last February that “reliefs” for such properties were to be phased out, it transpired that each was to adopt a different policy with WSWA moving to unmeasured charges being based on 100% R.V., ESWA having its theoretical unmeasured charges based on 50% R.V. and NOSWA basing water and wastewater charges respectively on 50% and 100% R.V.

The Committee feels that the introduction of such inconsistency in place of a uniform and justifiable charging arrangement is regrettable and, on the assumption that the creation of a single all Scotland public water authority will lead to the return to a consistent charging policy and the gradual erosion of the current charging differential across the three Authority areas, welcomes the proposed setting up of Scottish Water.

The Water Authorities have justified their decision to phase out “reliefs” to church bodies and charities on the ground that these are subsidies which would result in giving such bodies “undue preference”. They have favoured the approach that non domestic premises should be metered since it is “fairer” that charges should be based on use. The Committee is of the view that it can be demonstrated that overall the former 75% remission did in fact represent a proxy for low use rather than any form of subsidy. It considers that unmeasured charges should remain based on 25% of R.V. for churches and halls. In any event, it is not practical to meter all church
buildings many of which are remotely sited. In many cases, current standing charges would greatly exceed present charges. Churches as well as providing the ordinances of religion to their members and others also play a major role in the community through voluntary work and outreach into the wider community. Church buildings and in particular church halls provide a base for such community work and most are used not only by church members but also by other community groups such as playgroups, the uniformed organisations and other youth groups, pensioners’ lunch clubs etc. The Committee therefore considers that there are socio-economic grounds for providing for specifically reduced measured and unmeasured charges for Church bodies and other charities and supports the recommendation to this effect made by the Scottish Charity Law Review Commission.

Whilst the Committee welcomes the greater degree of flexibility which the provisions in the Bill relating to charges would appear potentially to confer on Scottish Water, it considers that specific legislative provisions should be incorporated providing for reduced charges for church bodies and charities as was the case prior to the setting up of the three Authorities in 1994.

Following upon the announcement by the Authorities of the withdrawal of “reliefs” the Committee lodged formal complaints to the Water Industry Commissioner as did a number of individual church congregations. The Committee was unhappy with the manner in which these complaints were dealt with. The Commissioner did however eventually and most courteously receive a delegation from the Committee but it seemed could do little to assist in the light of his limited legislation powers.

The Committee considers that the views and interests of customer requires better representation than at present and welcomes the introduction of Customer Panels and the formalisation of complaints procedures.
The Scottish Consumer Council (SCC) welcomes the general principles in the Bill, particularly the proposed establishment of Scottish Water and the new arrangements for consumer representation. From our perspective, the key issues in the Bill are outlined below. We give our reasons for supporting the general principles and highlight some areas where we believe the specific provisions in the Bill need to be strengthened.

Scottish Water

- The SCC supports the establishment of a unitary water authority for Scotland. The current structure of the industry around three geographical areas raises serious issues of equity in that some consumers, particularly in the north, are paying significantly more for an essential service as a result of living within artificially constructed boundaries. Consumers will benefit from the expected harmonisation of charges. We also agree that the critical mass which will ensue should provide a sound base for achieving the efficiencies which are needed to improve the service given to consumers and equip the public sector industry to operate effectively in the competitive arena.

- There are key issues in relation to the performance and governance of Scottish Water, proposals for commercial freedom and charging schemes. We are content that the provisions in the Bill will ensure that Scottish Water’s performance is monitored effectively by the Water Industry Commissioner, that commercial freedom should not detract from the provision of Scottish Water’s core functions, and that Ministers and the Commissioner have ultimate responsibility for ensuring that charging arrangements are equitable and justifiable.

- There remains a failure to have in place a proper, long-term solution to the real problems some people face in paying their bills. However, we welcome the fact that Section 37 of the Bill contains provision for Ministers to set regulations allowing for payment of reduced charges.

Customer Consultation Panels

- We have argued for some time that the current arrangement for consumer representation are weak in that there are three consultative committees which are chaired by the regulator (the Water Industry Commissioner). We believe
that consumer representation must be independent of the regulator who has to balance both the consumer and industry interests. We are pleased that our concerns have been addressed in the bill and that there will be new Customer Panels with an independent Convener, appointed by Ministers. The Panels will have operational independence from the Commissioner’s office. This is a major step forward in ensuring that the needs of consumers are identified and addressed properly.

- The Panels should be required to demonstrate that they are responsive to local needs and that consumers know of their existence and feel confident in approaching them. They should be required to publish an Annual Report.

- However, the Bill stops short of specifying the customer base which the panels will be required to represent. This is a significant omission and the panels should be set up to represent domestic consumers, particularly those who are disadvantaged, and small businesses. Large business users have the buying power and resources to make their voices heard and their interests are likely to vary from, and often be at odds with, those of individual consumers. It will be important that resources are targeted towards those most in need of an advocate body.

- We welcome the fact that there will be a statutory requirement placed on the Commissioner to ensure that the panels are provided with the resources needed to do their job. The Bill specifies the provision of property, staff and services. This should be strengthened by giving the panels statutory rights to obtain relevant information from the Commissioner. We welcome the fact that the Commissioner will be required by law to take note of the panels’ advice. This should be supplemented by a requirement on the Commissioner to respond when he fails to act on that advice.

Scottish Water’s Code of Practice

- Section 26 of the Bill specifies that Scottish Water’s Code of Practice must be approved by the Commissioner and that Scottish Water can appeal to Ministers if the Commissioner is not prepared to approve the code. If Ministers modify the Commissioner’s recommendations after consultation with Scottish Water, there is no requirement on them to publish their reasons for doing so. We believe that there should be such a requirement, in line with the new requirement that Ministers publish their reasons for not accepting the Commissioner’s proposals for charges.
Scottish Environment LINK

LINK Freshwater Taskforce - Evidence to the Transport and the Environment Committee’s Stage 1 consideration of the Water Industry (Scotland) Bill: 31 October 2001

“Water is not a commercial product like any other, but rather a heritage which must be protected, defended and treated as such.”

Summary

• Water is a valuable part of our natural heritage that cannot just be considered a ‘commodity’ like any other. Scottish Environment LINK’s Freshwater Task Force (LINK FTF) urge MSPs to ensure that the environment value of water is reflected throughout the implementation of the Water Industry (Scotland) Bill.

• The draft Bill, as currently presented, does not give enough consideration to the Executive’s or Scottish Water’s responsibilities towards the environmental value of water, nor to requirements of the European Water Framework Directive on water pricing and the restoration of water bodies and groundwaters to good ecological status.

• Measures to integrate environmental considerations into the Bill will, in many cases, also lead to substantial financial savings, wiser use of water and give the consumer a more positive view of Scottish Water; all of which should give Scottish Water a competitive advantage.

Environmental considerations in the current draft Water Industry (Scotland) Bill

LINK FTF member bodies welcome the duties on Ministers and Scottish Water, under Section 47 subsections 3 and 4:

• to further the conservation and enhancement of natural beauty and the conservation of flora and fauna;
• to further the conservation of geological or physiographical features of special interest;
• to act in the best way calculated to contribute to the achievement of sustainable development (LINK seeks clarification on the details and implications of this new duty).

However, we do not consider that the wording in the current draft Bill under section 48 accords enough responsibility to Scottish Water to look after Sites of Special Scientific Interest or other statutory sites affected by its operations.

We urge the Committee to ensure that wording in the legislation will not encourage economic and social interests to override environmental interests. Scotland’s commitments to water quality and quantity, and water pricing, under the Water Framework Directive (WFD) are not mentioned in the draft Water Industry (Scotland) Bill. LINK FTF members do not believe that Scotland will be able to fulfil its commitments under the WFD unless there is a duty on both the Executive and Scottish Water to fully integrate environmental and sustainability considerations into their remits.

There should be adequate representation of environmental interests on the proposed new Water Customer Consultation Panels.

The value of water

Water is more than a commodity. The water that comes out of our taps is an integral part of our environment. Providing good quality water for household and business use means looking after the whole water system – not just the pipes and sewage facilities. It means ensuring good stewardship of our wetlands, including rivers, lochs, peatlands and seas and of the species that depend on these invaluable habitats. Consideration, and any reform, of the water industry must take into account the industry’s impacts on natural aquatic ecosystems.

It is essential that the environment is at the heart of the creation of Scottish Water. Whatever the system of ownership or control, it is vital that water suppliers are not allowed to cut environmental corners – rather, they should be building environmental goods into their business. Environmental protection and enhancement must be a responsibility of the industry, not an afterthought.

Wetland habitats have been polluted or damaged throughout Scotland as a result of activities such as agricultural intensification, inappropriate development on floodplains, and insensitive river engineering. Species such as water vole, freshwater pearl mussel, salmon – priority species in the Government’s Biodiversity Action Plan – and wading birds like redshank and lapwing have suffered population declines as a consequence of

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1 European Water Framework Directive recital, para 1
pollution and mismanagement. Social and economic consequences have also been significant. For example, flooding in recent years has been exacerbated by widespread land drainage and the loss of floodplains' sponge-like capacity to retain water. Areas downstream have suffered from reduced natural flood protection and the human and financial cost has been all too apparent.

We need to adopt a more holistic, sympathetic system of water and land management that works with, rather than against, natural ecosystems. **Clean, well-managed water is vital for Scotland’s environment, economy and society.** It is often cheaper, and better for the environment, to use naturally functioning rivers and reedbeds to filter out pollutants rather than build expensive effluent treatment systems. There are several examples of such systems working successfully in Scotland but these must become more widespread. There can be no doubting that such systems are better for the environment and cheaper to the public purse.

**Good water management is possible.** *East of Scotland Water’s “Watermark” initiative* – the Authority’s five year commitment to improve the environment of rivers and coastal areas, aims to ensure water quality through a combination of conservation and sound land management. However, such work needs to be a normal way of working rather than a special project. This will mean a change in the water industry – for example, away from the expensive treatment of polluted water towards up-front investment in the prevention of water problems. In the longer term, it is **cost-effective** for the water industry to work with, rather than against, natural systems.

**The Water Framework Directive**

LINK FTF is committed to the successful transposition and implementation of the Water Framework Directive (WFD). This legislation requires all Member States to achieve good ecological status for all rivers, lochs, coasts and groundwaters by 2015. Legislation to transpose the WFD into Scottish law must be in place by December 2003. Whilst welcoming many of the Scottish Executive’s proposals in their recent first consultation on the Directive, **Rivers, Lochs, Coasts: The future for Scotland’s waters,** members of the LINK FTF believe that there is much scope for improvement in the proposed new regimes - and in the promotion of proactive measures beyond regulation.

Scottish Water will be tasked with implementing many areas of the WFD, through River Basin Management Plans, regulatory measures and water pricing. Implementation of the WFD will provide for important environmental enhancements and safeguards, offer more certainty to business users of water, and ensure that communities and individuals benefit from water management. In short, it will encourage us to work together to manage water as a heritage, rather than as a commodity. Members of the LINK FTF **strongly encourage that the Executive and Scottish Water be given duties through the Water Industry (Scotland) Bill that will enable them to implement the WFD through the water industry in Scotland.**

**Water pricing**

Members of the FTF are concerned that, under the proposed legislation and that of the Water Environment Bill, increasing competition within the water industry will occur at the expense of the environment. A constant focus to drive down costs does not provide an economic signal to reinforce the message that water is a precious environmental commodity. **Duties placed on both Scottish Water and Ministers must recognise this issue.**

The Water Framework Directive recognises that water prices can be a powerful incentive for water users to change their behaviour in order to protect the environment. It requires Member States to have policies on water pricing that are linked to their policies on protecting the water environment, through control regimes and water charges levied by the water industry. It also stipulates that the full cost of water services, including environmental costs, must be recovered by water pricing. The current draft Water Industry (Scotland) Bill makes no mention of this, although the Executive has dedicated a whole chapter to the issue in their recent WFD consultation.

Whilst the present Water Authorities may recover the full costs of water supply and treatment from their customers, it is unlikely that they recover all environmental costs. Costs may also rise with the demand for improvements in infrastructure needed to meet WFD commitments. The Executive must ensure that all costs are recovered and economic instruments such as metering should be considered, in order to provide an incentive to increase water use efficiency. The new Scottish Water should be required to complement a water pricing policy that reflects environmental costs by investing in public education campaigns to raise consumer awareness of the environmental value of water and the need for efficient water use. Such initiatives can only be of ultimate benefit to the consumer and industry alike.

**This statement is supported by the following LINK member bodies; Scottish Wildlife Trust, RSPB Scotland, WWF Scotland**