Paying for Water Services 2010-14

The UNISON Scotland response to the Scottish Government consultation paper Paying for Water Services 2010-14.

February 2008

Introduction

UNISON is Scotland's public service trade union representing over 160,000 members. In addition to being the largest trade union in the water industry, UNISON represents staff employed in many sectors that rely on the effective delivery of water and wastewater services.

This paper constitutes UNISON Scotland's response to the Scottish Government paper 'Paying for Water Services 2010-14' a consultation on the principles of charging for water services.

Background

This consultation paper recognises the key role Scottish Water plays in Scotland, providing essential services to the community. It also importantly confirms the Government's commitment to the continued success of Scottish Water as publicly owned utility. UNISON Scotland welcomes this commitment.

The consultation seeks views on the principles of charging that the Scottish Government will require the Water Industry Commission to apply to the determination of water charges for the next regulatory period 2010-14. UNISON Scotland broadly supports these principles although we would wish to see some changes to the regulatory approach.

Our response to this consultation paper should be viewed in the context of our views on the development of Scottish Water as set out in the STUC paper 'It's Scotland's Water'. In that paper the water industry trade unions argue that the current regulatory approach is driving the industry towards greater privatisation. Instead we argue for the greater democratisation of Scottish Water as a public service.

Principles of Charging for 2010-14

Stable Charges

UNISON Scotland supports a regime in which charges do not rise faster than general inflation as measured by the Retail Price Index. However, it should be recognised that this will place a limit on the desirable objectives that can be achieved during the next charging period. The paper also makes reference to the financial strength of 'The Company'. This is factually incorrect as Scottish Water is not a company it is a public corporation. This sloppy wording reflects a broader attempt to commercialise this vital public service.

Customer Charging

UNISON Scotland agrees that customers in the same category should pay the same rate for services wherever they are in the country. It should be recognised that this is a form of cross subsidy essentially from urban areas to rural areas. We have no difficulty with the principle of cross subsidy that is an essential feature of public service provision.

As a consequence we do support the rigid application of cost-reflective charging or full-cost recovery. Whilst this may be generally appropriate there may be sound public policy reasons for not applying these principles in specific instances.

We strongly support the full cost recovery of enhancements to the system to enable new developments.

Investment Programme

UNISON Scotland agrees that the current investment programme is at the absolute limits of what can be efficiently managed. We have previously argued that the programme should have been phased over a longer period. The pressures in terms of cost and capacity continue and this should be reflected in the next investment programme.

Finance

We remain unconvinced that the Regulatory Capital Value system adopted from the privatised industry in England is appropriate for the public service approach in Scotland.

These arguments are summarised in the STUC paper 'It's Scotalnd's Water' and in more detail in the STUC commissioned report from the Public Interest Research Network (PIRN) at the University of Strathclyde (www.publicinterest.ac.uk) - *Scottish Water: The drift to privatisation and how democratisation could improve efficiency and lower costs*. This report was launched at the STUC Water Conference in October 2006. The summary paragraph is reproduced below.

"In summary, it could be argued that regulation is a 'good thing', because the regulator ensures that water companies do not hike their prices to unreasonable levels (which as monopoly suppliers of an essential service they could easily do). However, what the regulator does in effect is to ensure that the Regulatory Capital Value (a proxy for the market value of the company) is used to ensure that a 'fair' return is given to the investors in water companies. While the regulatory model could be said to 'encourage' much needed investment in the water industry, in practice, it contains serious flaws. These flaws mean that expenditure on repairs is disincentivised while companies which invest in capital projects (new fixed assets) can earn excess profits. Moreover, there is no transparency or public debate about what should be invested in from a broader social perspective. This is an accountability issue. The hidden costs of privatisation are simply not captured by regulatory accounts."

UNISON Scotland does not support the sections in the consultation paper on financial strength and resilience. In essence the references to 'the company' again reflect a muddled and fundamentally flawed approach to the financing and regulation of Scottish Water. In particular the financial ratios used by OFWAT are not appropriate for a public service as they are designed for the privatised industry in England.

Affordability and the impact of a local income tax

The introduction of a 'local' income tax will have significant implications for water charges. UNISON Scotland favours reform to the Council Tax rather than the introduction of what is claimed to be a 'local' income tax.

Cross-subsidy between customers

As indicated above we have no difficulty in principle with cross subsidy. This already applies in effect between urban and rural areas and between different income levels.

Exemption Scheme

There are a range of sound public policy reasons for exemptions from water charges. If the Government wishes to continue to treat Scottish Water in a quasi privatised manner then exemptions should be funded by the Government. If as we would argue Scottish Water was run as a public service, then a democratic debate about cross subsidy and/or public funding would be appropriate.

Conclusion

UNISON Scotland broadly supports the key principles as set out in this paper in relation to the size of the capital programme. However, we do not support the regulatory approach to pricing that is taken from the privatised industry in England. Scottish Water is a public service and should be treated as such.

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