WATER SERVICES ETC. (SCOTLAND) BILL
[AS AMENDED AT STAGE 2]

SUPPLEMENTARY FINANCIAL MEMORANDUM

INTRODUCTION

1. As required under Rule 9.7.8B of the Parliament’s Standing Orders, this supplementary Financial Memorandum provides information on the financial implications of additions to the Water Services etc. (Scotland) Bill during Stage 2 consideration. In addition, it reports on changes to estimates given in the Financial Memorandum published on Introduction.

PART 1 – WATER CUSTOMER CONSULTATION PANELS (SECTION 3A)

Costs on the Scottish Administration

2. There are no cost implications for the Scottish Administration.

Costs on local authorities

3. There are no cost implications for local authorities.

Costs on other bodies, individuals and businesses

4. Section 3A of the Bill makes several significant enhancements to the statutory role of the Water Customer Consultation Panels. The Customer Panels are funded by the Water Industry Commissioner and will be funded in future by the Water Industry Commission, who is required under the Water Industry (Scotland) Act 2002 to remunerate the Convener, Deputy Convener and ordinary Panel members, and to supply the Convener and each Customer Panel with such property, staff and services they require, as approved by Scottish Ministers. The Commission will continue to provide this funding through its levy on Scottish Water, as approved by Ministers. This means that all water customers share the costs of the representation provided by the Customer Panels, and Scottish Ministers through approving their budget are responsible for ensuring that this provides good value for money.

5. The additional resources required by the Customer Panels to carry out their new functions are largely staff resources to support their new statutory functions. These will be offset by a small reduction in costs to the Water Industry Commission in respect of the complaints handling function which is transferred from the Commission to the Convener of the Customer Panels.

6. Following preliminary discussion with the Convener of the Panels, the resources required have been estimated at 3 extra members of staff, at a cost of around £80,000 per annum, bringing the staff complement in the Convener’s office up to 6, and a total staff budget of around £152,000 per annum. However this is an initial estimate, and the Executive considers it important both to allow the Convener and the Panels further time to consider this estimate, and,
once they have taken on their new functions and gained experience in delivering these, to allow their resources to be reviewed.

PART 2 – SCOTTISH WATER: WATER AND SEWERAGE SERVICES UNDERTAKING

Costs on the Scottish Administration

7. Section 12A provides new powers, in addition to those already available to Ministers to fund Scottish Water and its subsidiaries under the Water Industry (Scotland) Act 2002, to directly fund the retail undertaking established under section 12. Our best estimates of the costs involved in establishing retail competition are set out in the original Financial Memorandum and section 12A does not alter these. Instead it simply provides a basis for alternative funding methods, direct from Scottish Ministers, which may prove more transparent in terms of scrutinising the retail undertaking's funding and relationship with Scottish Water. If the powers are used, Ministers will have to ensure that any assistance to the retail undertaking is compliant with any applicable EU State Aids rules. Whether the powers are used and to what extent will depend on proposals put forward by Scottish Water when the long term position of the retail undertaking is more clear. In relation to any borrowing under the new section 12A(2)(a), this must not in any event exceed the amount specified in the relevant Budget Act.

Costs on local authorities

8. There are no cost implications for local authorities.

Costs on other bodies, individuals and businesses

9. Costs to Scottish Water of establishing a retail undertaking are set out in the original Financial Memorandum, and section 12A does not alter these.

PART 2 – SEWERAGE NUISANCE: CODE OF PRACTICE (SECTIONS 19B AND 19C)

Costs on the Scottish Administration

10. It is estimated that consultancy costs of around £30,000 will be incurred by the Scottish Executive in 2005-06 to produce the draft and finalised statutory code of practice and provide other advice in connection with sewerage nuisance.

Costs on local authorities

11. In relation to local authorities, the only difference between the previous legislation under the Environmental Protection Act 1990 and the proposed statutory code is the additional duty on local authorities to assess compliance with the code, rather than simply carrying out an inspection as now. It is difficult to estimate the costs to local authorities as the main determinant of this can be expected to be the duty to assess compliance, and the frequency with which this is required is still being considered in work on the draft voluntary code. Our current projection is that inspection of compliance might be required at works which serve a population of more than 250. There are around 500 such works, and assuming a single compliance inspection per annum, at a cost of £100 in officials’ time, an estimate of £50,000 costs might be estimated. Costs will
also arise in relation to investigating complaints but we would not expect these to exceed the costs incurred currently in enforcing Part III of the Environmental Protection Act 1990.

**Costs on other bodies, individuals and businesses**

12. It is not possible to estimate the costs of complying with a code of practice under new sections 19B and 19C of the Bill at this stage, because these are dependent on the terms of the code of practice, of which a draft is still to be consulted on, and the objectives for Scottish Water that will be set by Ministers under the Quality and Standards 3 process for investment in the period 2006-2014. Section 18 of the Bill requires Scottish Water to be funded to deliver the objectives set by Ministers under new section 56A of the Water Industry (Scotland) Act 2002, as inserted by section 19 of the Bill. It is likely that these objectives will include action to address sewerage nuisance but the costs that arise in this way will depend on the objective set by Ministers. Costs to Scottish Water and its PFI operators to comply with the proposed statutory code are currently being considered as part of the Quality and Standards 3 process for determining Scottish Water’s investment objectives over the period 2006-2014.

13. These objectives will be announced shortly, and these will set parameters for the likely work required to comply with a code of practice under section 19B. However until the statutory code is finalised following consultation and guidance on ‘best practicable means’ and technical standards are completed, it is not possible to provide a meaningful estimate of the overall costs that will be incurred.
These documents relate to the Water Services etc. (Scotland) Bill as amended at Stage 2
(SP Bill 23A)

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