

TRANSPORT AND THE ENVIRONMENT COMMITTEE

Tuesday 19 December 2000
(Afternoon)

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TRANSPORT AND THE ENVIRONMENT COMMITTEE 32nd Meeting 2000, Session 1

CONVENER

Mr Andy Kerr (East Kilbride) (Lab)

DEPUTY CONVENER

*Nora Radcliffe (Gordon) (LD)

COMMITTEE MEMBERS

*Bruce Crawford (Mid Scotland and Fife) (SNP)
Helen Eadie (Dunfermline East) (Lab)
*Donald Gorrie (Central Scotland) (LD)
*Robin Harper (Lothians) (Green)
*Janis Hughes (Glasgow Rutherglen) (Lab)
*Cathy Jamieson (Carrick, Cumnock and Doon Valley) (Lab)
Fiona McLeod (West of Scotland) (SNP)
*Des McNulty (Clydebank and Milngavie) (Lab)
*Mr Murray Tosh (South of Scotland) (Con)

*attended

THE FOLLOWING ALSO ATTENDED :

Euan Robson (Roxburgh and Berwickshire) (LD)

WITNESSES

Mr Sam Galbraith (Minister for Environment, Sport and Culture)
Jim Gibson (Campaign for Lower Water Charges)
Jim Lugton (Scottish Council for Voluntary Organisations)
Martin Sime (Scottish Council for Voluntary Organisations)

CLERK TO THE COMMITTEE

Shelagh McKinlay

SENIOR ASSISTANT CLERK

Tracey Hawe

ASSISTANT CLERK

Alastair Macfie

LOCATION

Committee Room 2

Scottish Parliament

Transport and the Environment Committee

Tuesday 19 December 2000

(Afternoon)

[THE DEPUTY CONVENER *opened the meeting in private at 14:03*]

14:12

Meeting continued in public.

Water Inquiry

The Deputy Convener (Nora Radcliffe): I welcome members of the press and public to the 32nd meeting of the Transport and the Environment Committee this year. I also welcome the Minister for Environment, Sport and Culture and his officials. It is the first time that we have had the pleasure of welcoming you to our committee, Mr Galbraith, and we look forward to hearing from you.

We have received apologies from Andy Kerr—that is why I am in the chair today—and from Fiona McLeod. Des McNulty and Helen Eadie will probably be late. I also welcome back Lynn Tullis, who was our clerk until she went off on maternity leave. It is nice to have you back, Lynn, if only for a day. Shelagh McKinlay is working on stage 3 of the Transport (Scotland) Bill, which will be debated in Parliament tomorrow. She may join us later, but we are pleased that Lynn will be helping us out for today—[*Interruption.*] This is probably a good moment to remind everybody to switch off mobile phones and pagers.

I invite the minister to make an opening statement.

The Minister for Environment, Sport and Culture (Mr Sam Galbraith): I would like to make a slightly longer statement than I usually make. Is that okay?

The Deputy Convener: That is perfectly all right.

Mr Galbraith: I am grateful that I have been invited to attend the committee to deal with the complex and difficult matter of the water industry. We have a duty to explore all the options. I hope that the committee will be able to give us advice on the options, proposals and challenges that we face and on how best we can deal with them.

There is no doubt that this is a period of fairly substantial change for the water industry in Scotland. There are pressures on two main fronts: first, we must increase substantially our investment in water and sewerage works; secondly, competition is playing an even greater role than it used to in waste water management.

The first key point that I want to get across is that the investment needs of the industry are real and substantial. Secondly, competition already affects the industry, day in, day out—it is not something that is over the horizon—and is here to stay. We must be able to deal with that. Thirdly, there are no easy answers to the funding challenge—large sums are required. Fourthly, improving efficiency has a major role to play in the future of the water industry. The final—and probably the most important—message that I want to get across is that the Executive's role is to foster a sustainable, viable and competitive public sector water industry. Privatisation is not an option for us. I repeat: privatisation is not an option.

14:15

There is general consensus that we need to implement a substantial programme of investment in our water and sewerage networks, but the scale of that investment is perhaps not clear to everyone. European and national legislation rightly demands higher standards for the quality of our drinking water and for the treatment of waste water. The European directives demand substantial new infrastructure, in particular to meet waste water treatment standards. To that investment we must add decades of underinvestment, low maintenance and, in some cases, poor quality infrastructure, which is now coming to the end of its life.

The combined effect of those pressures is that we need to invest close to £2 billion over the next four years—a substantial investment. Those are real needs, which we have identified through a structured process that considers the outputs that need to be achieved. We will consult on the quality and standards process in the next few weeks. If we do not invest that amount of money, there will be burst mains, interruptions to supply, a risk of outbreaks of cryptosporidiosis, contamination of rivers and beaches and consequences for the tourism industry. We would run the risk of action in the European courts if we failed to meet our obligations—that is a costly financial risk; I notice that Greece is being fined £200,000 a day, plus interest. There is also the threat of withdrawal of structural funds. The financial penalties for not meeting our obligations are substantial.

We are preparing a consultation paper on how much we should invest in environmental protection and drinking water quality. It will inform the second

quality and standards paper, which will cover investment from 2002 to 2006, discuss the work to be carried out by the water authorities over the period and invite comments on the different investment options to be introduced.

I want to emphasise once again that most of the investment must take place to meet European requirements. Those requirements are unavoidable, legal obligations, which set deadlines—we have no intention of failing to meet them.

Our task is to provide a framework that allows competition to function in water and sewerage services that are on the public network. However, although our task is to produce the legislation to allow that to happen, we must recognise—I made this point at the start—that a more immediate issue for the water authorities is the fact that competition already exists and is having a significant effect on them.

In the commercial and business sector, companies have been able to look for alternative, off-line solutions in the delivery of water and sewerage services. Other companies from England and further afield are seeking and winning business in those services in Scotland, with real consequences for the water authorities. The market is changing fast. For example, non-domestic or business customers are looking to strike single national contracts to manage water and sewerage services on all their sites, crossing local providers' boundaries.

Competition for services such as water management and sewage pre-treatment has an effect on the volume of demand for water authorities. That in turn reduces their revenue. If we lose business to competition or there is a reduced amount of business because of better management, the costs fall back on the rest of us—on the domestic customer—because the industry is a fixed-cost industry. It is essential that water authorities do everything they can to retain non-domestic customers, even if that means keeping charges down for them. I was reminded recently of when Ravenscraig closed down. Strathclyde Water Authority lost £1.25 million overnight, as it had a system of fixed costs, which had to be paid for by the other customers.

Competition has so far been confined to services that are not delivered on the authorities' own networks. The Competition Act 1998 will introduce new forms of competition. The act came into force in March this year and opens up the possibility of third parties competing to provide services using the authorities' networks—on-line provision—whether through common carriage or other arrangements.

There is no framework for controlling

competition in the Scottish water industry. The existing Scottish water and sewerage legislation is geared to services provided by public monopolies. It makes no provision for third parties serving customers through access to, or use of, the public networks. A proposal for a new statutory framework for the Scottish water sector was therefore at the centre of our recent consultation exercise on competition, "Managing Change in the Water Industry". Such a framework is necessary to safeguard public health, the environment and social objectives, as competition develops.

If third parties are to have access to the authorities' facilities, they must share the authorities' obligations. We must be confident that those that enter the market are both financially secure and technically competent so as to safeguard the security, reliability and safety of the supply of water to the public network and to maintain the quality of waste water treatment and discharge to the environment. We intend to ensure that new entrants' obligations will include paying a reasonable share towards the cost of maintaining an accessible and affordable service for all our customers.

The Executive must help the water authorities to gear up to meet the challenge of competition and to improve their services to customers. Our job is to take on the competition and to beat it. I am fairly confident that we can do that. We will put our full weight behind the authorities' drive for significant efficiency gains in investment and operations. The water industry commissioner has made clear his belief that the authorities must become more efficient to deliver their services at competitive prices. I endorse that view.

We will work with authorities to promote their customer service levels and to respond to the changing demands of customers, not just in water but in all the other utilities. The authorities must respond to those demands as part of their strategies for retaining existing customers and winning new ones.

We will give the authorities backing to become outward-looking organisations with a commercial bent. In the interests of the authorities' long-term viability and of their customers, I want the authorities to win business where it makes sense for them to do so. That means that they will have to be imaginative and proactive in a crucial sector of the market. We are considering ways in which they can adapt. In some cases, it will make sense for authorities to work with other businesses in joint ventures. We will relax the guidelines for such joint ventures and give authorities greater flexibility to compete and to develop their expertise in new areas, such as waste minimisation. That will mean that the authorities will provide a better range of services to meet the needs of their customers.

Moving on to finance, we know that the water authorities are public sector bodies and, by definition, score in public expenditure totals. They are able to borrow from Government to provide additional resources for investment on top of the cash that they generate from their operations. Current arrangements allow the authorities to borrow to about the level at which they are adding to their assets. It would not be sensible for any organisation that operates in a commercial environment to borrow above that level, as that would add to its liabilities more than to its assets. That would be like taking out a mortgage for more than 100 per cent of a property's value, which would not make sense.

The use of resources by the water authorities scores on the Scottish assigned budget, wherever the money is raised. If the authorities were to raise their own bonds, they would merely increase their interest costs, and bonds would still be counted against the assigned budget. Subsidies that are paid directly to the authorities to reduce charge levels would also score against public spending and would contravene the rules on state aids.

There is no magic wand that would write off the debt, which would still have to be serviced and would become a burden on the Executive's budget. The cost of achieving a modern water and sewerage system cannot be made to disappear—someone will have to pay for it, and it is right that it should be paid for by those who use the services. There are no easy solutions for funding investment, the need for which, as we know, is most acute in the north of Scotland, where the problem is particularly pronounced. Borrowing can help to cushion the impact of increased investment on charges. For this year and next year, we have made some additional resources available to the North of Scotland Water Authority. However, all borrowing must be repaid and it would be irresponsible of us to build up unsustainable debt levels that would fall on future customers.

One of the keys to keeping charge rises to a minimum is for the authorities to improve their efficiency. I know that the water industry commissioner and the authorities are discussing ambitious efficiency targets. It is clear that significant gains need to be made, so that the authorities can keep their costs within manageable levels and so that they can bear comparison with their competitors from south of the border.

We strongly support the work that the authorities are undertaking to see how they can collaborate to improve services to their customers. We will do what we can to provide the right incentives for the authorities' management and staff to meet the efficiencies that are required.

Thank you, deputy convener, for indulging me in a rather long opening statement. I will conclude by

spelling out our vision for the Scottish water industry.

I believe that we can shape a public sector model that is sustainable and viable, that will meet the challenge of competition—rather than ignore it or try to block it out—and that will deliver a highly modernised infrastructure that is capable of delivering a top-class service to all of Scotland. However, achieving that model means change for the authorities. They must become more efficient and more customer focused, so that they become the supplier of choice and are not forced into becoming the supplier of last resort.

That means changing the legal framework to ensure that environmental, social and public health objectives can be met. It means substantial physical changes, as the infrastructure is expanded and renewed. It means change for the Executive, as we adapt to the challenges of owning, on behalf of the public, large-scale utilities that now compete in a commercial market. All those changes are preconditions for achieving our ultimate goal—an improved service to the Scottish public and Scottish business. We want a public sector service that can compete and deliver.

Thank you, deputy convener, for allowing me to make such a long introduction.

The Deputy Convener: Thank you, minister. You have given us a comprehensive overview of the importance of the water industry and how the Executive thinks that it will develop. You may well have answered many of our questions, but I open the meeting up to members.

14:30

Mr Murray Tosh (South of Scotland) (Con):

The minister has given us a fairly clear outline of the Executive's priorities for the water industry. Will he give us a quick health check? What is the Executive's view on the rate of progress of the water authorities in achieving the necessary quality standards to meet the various European directives by the appointed dates? Is the Executive happy that the authorities' progress reflects the new legislative requirements on competition? Are the authorities on track?

Mr Galbraith: They got off to a slow start but they have since made good progress. Most of the requirements of the legislation, with only one or two exceptions, are being met, either right on time or within a few months of it, which will be acceptable to us.

The authorities regard competition as a necessary stimulus, which will help them to improve their delivery. They are keen to take on their competitors. Coming in from the outside, I would say that the authorities have made significant progress in improving efficiency and

standards. They are well on track.

Mr Tosh: You used the phrase

"Coming in from the outside".

The Executive is, in a sense, outside the industry, but the industry has to work towards the Executive's priorities. What is the accountability process? How will the Executive get the water authorities to do what it wants them to do? How controllable are they—if controllable is the right word? Are they the instruments of the Executive's will?

Mr Galbraith: The water authorities have been given freedom in certain operational matters. Accountability is mostly ensured through the quality and standards process, which reflects the views of the industry commissioners and the Executive. We consider the standards required and the requirements of the directives on water treatment, urban waste water and so on. We consider the deadlines. We then consider the level of investment that is required and, based on that, the level of charges.

We have other powers that allow us to comply with directives. Water authorities must give undertakings to do things within a certain time. Although we do not interfere in the day-to-day management of the water authorities, we have good control. We regulate drinking water directly; Europe, indirectly, regulates the rest and we ensure that that is done. I think that our powers over the water authorities are quite good.

Mr Tosh: How does the Parliament fit into that? Do we have a direct say over what the water industry does? Do we come into play in the fixing of charges, or will our primary means of exercising influence be through you, the minister, and our relationship with the Executive?

Mr Galbraith: Ultimately, Parliament has control because, in our democratic system, everyone is answerable to Parliament. Charges are fixed via the quality and standards process, which goes out to consultation. Everyone is involved in that. The committee will see that and will want to contribute to it. Members will consider the whole process; believe you me, whatever you say is important.

Robin Harper (Lothians) (Green): This will be quite a long question, minister, but it is important for establishing the real problems that the water industry faces. In the summer, nine in 60 of Scotland's bathing beaches failed to meet the mandatory standards under the EC bathing water directive and only 40 per cent of them passed the stringent guideline values. Given that 60 per cent or more of NOSWA's sewage flows into the sea untreated, that 34 per cent of Scotland's polluted river lengths are polluted due to sewage discharges and that sewage can be considered as

a resource product as well as an unwanted waste product, what is the way forward for the sewage industry in Scotland?

Mr Galbraith: We will get on top of most matters covered by the bathing water directive when we deal with sewage. For example, once the secondary treatment plants are installed at Turnberry, the problem is dealt with. Most such plants are either on stream or in the process of becoming on stream. That will help us to meet the standards.

The real problem with regard to the directive is not so much sewage that is discharged into the sea—that will soon not be the case at all—as seepage from agriculture. That is much more difficult to deal with, as it is more diffuse. We are turning our attention to that, but I am afraid that it will require regulations on farmers' use of nitrates and their handling of discharges and waste. We will have to concentrate on that in Ayrshire in particular.

Bruce Crawford (Mid Scotland and Fife)

(SNP): You have given us a useful overview, minister. I was particularly interested in the problems that could arise if there is too much borrowing. The water industry pointed out its concerns about that to us last week. The authorities do not receive enough money from charges to cover the level of borrowing and investment. There could be a problem a couple of years down the road if the authorities are not very careful about the level of borrowing and they could get into a crossover process. How does that sit with the targets that the water industry is supposed to meet by 2006?

The minister will correct me if I am wrong, but I understand that NOSWA has been set the target of a reduction in its operating costs of approximately 32 per cent. The west and east authorities have been set a target of a 40 per cent reduction in their operating costs by 2006—which fits into your consultation period, minister. Are those figures broadly correct? If so, how do they sit with the industry's other problems?

Mr Galbraith: I do not think that we have set any targets yet. The issues raised will go out for consultation and we will decide on the targets with regard to the quality standards. As I said, the targets are not set; they are options for us to consider, taking into account all the factors.

Bruce Crawford: But they are broad areas of potential reduction.

Mr Galbraith: It is correct that we will want the authorities to reduce their charges; that is what efficiency is all about. The authorities have been doing fairly well in the time that they have been functioning. My understanding is that they have reduced their charges by about 25 per cent, and

there is no reason why they should not continue to become more efficient. Everyone agrees that they should become more efficient. The more efficient they are, the less pressure falls on charges.

Bruce Crawford: No one would have any difficulty with authorities becoming more efficient, but I cannot understand why the water industry has to reduce its operating costs while having to incur debt to service its borrowings for investment. Is there not a danger under such circumstances of the industry being pushed over the edge?

Mr Galbraith: No. More efficiency and reduced costs mean more money for investment and less need to borrow.

Bruce Crawford: I am not sure that I agree with that, but never mind.

Cathy Jamieson (Carrick, Cumnock and Doon Valley) (Lab): I was pleased to hear that you are committed to the water industry's remaining in the public sector, minister, and your restatement of the commitment that privatisation is not an option. I have several questions on competition and how we ensure that the aspiration on public ownership is met. One suggestion is that the simplest solution would be to exempt the water authorities from the Competition Act 1998. Will you explain the position on that? If that cannot be done, will you explain why?

Mr Galbraith: As a general principle, I would not like to exempt the authorities, because competition will be of advantage. That is the water authorities' view, too. We do not want to adopt a fortress Scotland view. If we ignore competition, my great fear is that the big non-domestic users will think that we are not taking competition seriously and will go offline. Every time that a non-domestic user is lost, the cost falls on the domestic customer, because a fixed-cost system must be financed. If there were great pressure to get non-domestics off, we would become the water authority of last resort, with horrendous charges. If we go down that road, we will end up with the worst of all possible worlds. We will have a small public sector authority with huge costs and charges. Competition will help to secure the public sector.

The specifics on the exemptions in sections 3, 4, 6 and 19 or paragraph 7 of schedule 3 to the 1998 act show that the tests make it very difficult, if not impossible, to opt out as you suggest. Technically, it would be impossible for us to do that, and we do not want to do it, because I think that it would significantly damage the public sector water supply. I do not want to do that.

Cathy Jamieson: The water authorities are involved in replacing infrastructure, some of which is ancient. What can you do to ensure that rival companies do not come in and cherry-pick the areas with the newest and most efficient

equipment?

Mr Galbraith: That is what the bill will be all about. I use the classic Bearsden example—why does not Centrica go in there and do a deal with us to take water from our supply? To deal with cherry-picking, legislation must specify that a charge must reflect the council tax band, as it does at the moment. Those involved could probably receive the service more cheaply, but the charge must reflect the council tax band. We would follow the same practice. If a charge for using pipes reflects the real cost, there is no great advantage. We must avoid cherry-picking. We intend to do that with the legislation.

Cathy Jamieson: Given that no national grid for water or sewerage exists, how will the new entrants to the market service customers? Is it the Executive's view that the new entrants might be involved only in aspects such as more cost-effective billing and that the existing water authorities might remain the main suppliers?

Mr Galbraith: Companies can use our system only by adhering to the various provisions that will be set out in the legislation. We must avoid cowboys coming in and cherry-picking. A company such as Centrica might come in and give add-on values. Our job is to take such companies on and compete in a similar vein. We must ensure that the charge that we make for their using our service reflects the cost to us. We will be able to do that.

The terrible problem was that, if we did not let such companies on to the common carriage, they would go offline, obtain water elsewhere—non-domestic users can sink boreholes—and we would lose their money for ever. As long as they continue to use our service, we can charge them the going rate.

Cathy Jamieson: A key principle behind competition in the other utilities has been equal access for customers to a range of suppliers. Clearly, water is not like the other utilities, so that might be difficult to achieve. How do you intend to ensure that people in Scotland are not denied the choice that they have for other utilities?

Mr Galbraith: I want people to have choice, but I want them to choose us. It is my job to ensure that they do so, and that is what the water authorities want. We give people a service. That means charges, but it also means that the authorities have been more customer friendly in the service that they deliver. The customer should choose—we should not lay down what the customer should get. Our job is to ensure that they choose us. I think that they can do that, because we have the values that they seek. We have to marry that with some efficiencies. I want people to choose us.

14:45

Bruce Crawford: The minister made an interesting comment. At the moment, some big non-domestic, industrial customers are opting out of online services and are getting services direct.

Mr Galbraith: That is true, although we are winning some of those customers.

Bruce Crawford: Last week, the water authorities told us that that might cause a problem in the longer term, because if fixed costs stayed the same there would be an impact on the charges to domestic customers. Is there anything that the Executive could do to help the water industry in that area?

As you say, energy companies in Scotland are already using boreholes, which are not licensed in Scotland, although I understand that south of the border they are. Is the Executive considering the licensing of boreholes?

Mr Galbraith: Under the water framework directive, water extraction will have to come under some sort of regulation and control. We have never regulated and controlled the extraction of water anywhere in Scotland, by the water authorities or anyone, because we have always had a plentiful supply. Under the water framework directive, that will have to be taken into account.

You have highlighted the problem. You are right that boreholes can be sunk and water sold off to large companies, which are then no longer our customers, although we still incur the same fixed costs. The answer is not to say that others should not be able to compete, as that is not in anyone's interests. Our job is to ensure that anyone who wants to compete does so on a level playing field and does not have any advantages—they must not cherry-pick and, like us, they must meet certain standards, so that our system can compete with them.

Bruce Crawford: Obviously, the industry has a structural problem in the short term. Water authorities are losing some non-domestic customers, who are moving to other supplies or are reducing their water usage, which affects water authorities' revenue. Is there anything that the Executive can do in the short term to help the industry?

Mr Galbraith: Nothing immediately comes to mind. I cannot bring in legislation immediately to stop people sinking boreholes. That will come when we incorporate the water framework directive. If any water authority suggested ways in which we could help in the short term, we would consider them, but so far that has not happened. I am always open to suggestions.

Robin Harper: I think that the minister has answered the question that I intended to ask, but I

will ask a supplementary. Parts of Scotland have been described to me as looking like a pin-cushion. Is there no way in this interim period that we could start to regulate or control further extraction and the drilling of boreholes?

Mr Galbraith: Obviously, we are considering that, but there is no way of doing it immediately. Some sort of statutory regulation will be required, and we are considering that. The end solution will come when we incorporate the water framework directive into statute. Because we never had the problem in the past, it is a new issue to deal with; we are considering it, but there is nothing that we can produce immediately to help the water authorities. Water extraction is now a real issue for us. It will involve everyone, including the water companies.

Donald Gorrie (Central Scotland) (LD): On the question of investment, you mention a very big sum of money—I think that you gave a figure of £1.8 billion. Is it possible to gain some of that investment by negotiation with London on two points? First, when the English water authorities were privatised, they received a dowry, which reduced the debt by a huge amount. Many people have mentioned that. When the change was made in Scotland, the new water authorities took over the debt without receiving such a dowry. Secondly, you referred to the Treasury rules. As the English water authorities are privatised and ours are not, there is not a level playing field. The money that we borrow counts towards the Treasury figures, whereas in England, such money does not. On those grounds, would it be possible to negotiate a deal with Westminster?

Mr Galbraith: You are not quite correct on the first point. Although the debts of English authorities were reduced by £1.3 billion, we cut the debt for the Scottish authorities by £0.7 billion. On the ratio of 10:1, that is a pretty good deal. In England, most of the debt was converted to equity and the authorities received money when that was sold on. The issue is not straightforward.

The second point simply shows the difference between Government and private company borrowing. Government borrowing must be costed—there is no way round that—and it counts against total borrowings. That cannot be moved around or accounted for in a different way. Government borrowing must be limited. Those are the rules of public sector finance.

Janis Hughes (Glasgow Rutherglen) (Lab): I have a question on billing and access to water supplies. The West of Scotland Water Authority has problems with the collection of money for water and sewerage services. Do you believe that linking water bills and council tax bands is the only way in which to bill customers? Given that disconnection is not an option for Scottish

authorities, is enforcement more difficult? How should we deal with that?

Mr Galbraith: Disconnection is illegal in both Scotland and England. That is a difficult question and I would welcome the committee's thoughts on the matter. One option is to separate council tax and water charges. There are no easy answers. We are not going to stop people's water or meter domestic water.

Janis Hughes: Do you think that the fact that the charges are linked to council tax is a problem? Would it be better to separate the two?

Mr Galbraith: What do you think?

Janis Hughes: There are pros and cons on both sides.

Mr Galbraith: Absolutely—you could be a civil servant, Janis.

Janis Hughes: We are asking the questions so that we can come up with suggestions.

Mr Galbraith: I know, but sometimes I do not have an answer.

Janis Hughes: You do not have hard and fast views on that matter. Are you open to persuasion by the committee?

Mr Galbraith: Yes.

Janis Hughes: We will remember that.

The consultative committees for the water authorities feed into the water industry commissioner. How do the views of the people involved in those committees feed into the Executive?

Mr Galbraith: As you know, their job is to represent the customer—as does the commissioner. That is all fed into the Executive as we consult on quality and standards. When we finally decide on caps and targets, we will take that information on board.

Janis Hughes: Last week we took evidence from the Scottish Consumer Council, which expressed some concern that, because the consultative committees advise the commissioner, who chairs the committees, the system lacks independent consumer representation. Do you agree with that point?

Mr Galbraith: No. The situation is different from that in England, where shareholders are also involved. We have a public sector system. Part of the commissioner's role is to protect the public interest—he is the consumer champion in that respect. The commissioner does that job well.

Janis Hughes: Do you not consider that the commissioner may have a biased view because he chairs the committees?

Mr Galbraith: Part of his duty is to protect the customer's interest. That is one of his jobs.

Janis Hughes: It is estimated that about 19,000 domestic customers in the west of Scotland do not have access to a public water supply. Is that acceptable? Is there scope for changing the rules on access?

Mr Galbraith: That is a financial matter as much as anything. The WSWA is committed to running through to all those people. When the connection charge is about £7,000 or £8,000, the authority connects the customers; if the cost is greater, the connection is done further down the line. If the cost is £7,000, the customer is connected fairly speedily. The authority aims to connect everyone but, when the cost is greater, that takes more time. It is a financial issue.

Janis Hughes: Is there a time scale within which you want to have everyone connected?

Mr Galbraith: I assume that you mean those who want to be connected.

Janis Hughes: Yes.

Mr Galbraith: The time scale is about six or seven years, although you should not take that as gospel. I will let you know if it has changed.

Bruce Crawford: I spoke to representatives of the water industry this morning. They told me that some of their non-domestic payers are already directly billed by their water authority rather than through their local authority. Some large, non-domestic payers have been overcharged because, although metering has been introduced, they still have to pay the standing charges that they paid previously, as they are only now beginning to notice. That is a result of the water companies taking over direct billing. If the water companies issued a bill directly to their customers, would the greater transparency mean that some of the inconsistencies might be ironed out, even at a domestic level?

Mr Galbraith: That is a good point. You are right about the non-domestic customers. The authorities are winning the business by making bespoke agreements with companies. They enter into contracts with them, over 30 years in some cases. There must be transparency and cost reflectivity. The cost reflectivity comes from the transparency that is built into the contract. Bespoke agreements, long-term contracts and transparency are the way to proceed with non-domestic customers, as I have said. The arguments are in favour of transparency.

Mr Tosh: We asked about collecting the money. It is not a satisfactory answer to bounce the question back and ask us what we think and what we would do. We are not ultimately responsible; you are. We would like to hear what initiative the

Executive thinks would be appropriate to tackle what is an important issue for all the authorities, but for the WSWA in particular.

The point that you made about the impact of competition applies in this case, too. If the authorities cannot collect their money and have an unacceptable level of bad debt, the charge will fall on other consumers, which will include non-domestic consumers. If the money is not collected effectively, the problem will be compounded and there will be a spiral of decline. The committee would be interested to hear what the Executive thinks is an appropriate course of action.

Mr Galbraith: I am not trying to dodge the question. A group that includes the Convention of Scottish Local Authorities, the water authorities and the Executive is meeting in the new year to deal with the issues that you have raised. When ministers set up a group to consider an issue, they are always reluctant to say what the answer will be before that group has met.

My view is that the pressure to separate the water charges from the council tax is becoming almost irresistible. One authority is collecting for another authority, so it is collecting money that it has no interest in collecting. That will force change. We are examining the matter so that we can produce an answer.

The Deputy Convener: Robin Harper will now ask a series of questions about regulation.

Robin Harper: Three regulators are involved in the water industry in Scotland: the Scottish Environment Protection Agency, the Scottish Executive and the water commissioner. Are the demarcation lines between their responsibilities clear enough? Is there a duplication of effort in some areas and a possibility of confusion?

Mr Galbraith: The Executive deals with drinking water standards. SEPA deals with the discharges and the commissioner deals with efficiency and effectiveness. That is fairly clear.

Robin Harper: Do you envisage the establishment of a Scottish drinking water inspectorate?

Mr Galbraith: That is a proposal for the bill. When the paper comes out in the new year, we will consider that.

15:00

Robin Harper: So the issue might be considered. Thank you.

The Executive indicated in the consultation document "Managing Change in the Water Industry" that the role of the water industry commissioner could be extended to include licensing water authorities and new entrants to the

Scottish market. Regulators in other utilities, principally the Office of Gas and Electricity Markets, have statutory responsibilities to publish social and environmental action plans. Is there a role for the water industry commissioner to provide such a service for the water industry in Scotland?

Mr Galbraith: The new directives bring with them a panoply of requirements. We look to the water commissioner to ensure that those who enter the industry adhere to all the requirements. I am not sure whether we need to give him powers to establish plans. I would need more convincing evidence on that.

Robin Harper: If the water commissioner were not to prepare social and environmental action plans, would someone else do so?

Mr Galbraith: The water framework directive is an environmental action plan; the urban waste water treatment directive is an environmental action plan. We prepare the means by which we will implement the directives. The Executive has good control of that from the centre. I would like to keep that balance, which is just right.

Robin Harper: So you would not consider involving Scottish Natural Heritage, SEPA or any other organisation in preparing such a plan?

Mr Galbraith: SEPA is already involved. It is involved in the licensing of discharges. We have an interlocking system that deals with those issues. We do not want to cause duplication by giving powers to someone else to get involved. The system works reasonably effectively at the moment. We always keep it under review.

Mr Tosh: I will ask the minister a couple of questions about structure. It is always the instinct of politicians to meddle with structures; we should probably resist it. However, does the Executive have a view on the structure of the industry? One of the difficulties that politicians have is that the prices for consumers vary across Scotland. That is sometimes difficult to justify. If we judge that, as a result of the Competition Act 1998, the water authorities do not have the critical mass to respond to the needs of non-domestic consumers, is there a case for reviewing the structure of the water industry and, in effect, creating one Scottish water industry?

Mr Galbraith: I take on board the strictures that you made at the start of your question. I do not rule out what you suggest. The water authorities are examining how they can co-operate in many areas. However, we should not lose sight of the efficiency drives that are taking place. When one goes in for restructuring, everyone has their eye on that and they forget what they are there to do in the first place. However, I do not rule out your suggestion, as long as I can be convinced that it is a good idea.

Mr Tosh: We are familiar with the idea of working with arm's-length companies in a number of areas in the public sector but off balance sheet. That is being considered in housing, for example, and Sarah Boyack is considering schemes to use the proceeds from city entry charges. Have you given any thought to changing the financial arrangements for water companies, not to give them the right to borrow more money than is good for them commercially, but to give them easier access to capital and perhaps to take the capital charges off the public sector balance sheet?

Mr Galbraith: We cannot take the capital charges off the public sector balance sheet. The capital charges are right and proper and impose a necessary discipline. However, we can consider joint ventures in areas where the water companies can co-operate with others and share expertise. There are a number of areas in which we can do that.

Robin Harper: I would like to tease a little bit more out of you about environmental action plans. I believe that one of the English water authorities—I think that it might have been the East Anglian Water Authority—had a problem with nitrates in the water. It co-operated with local farmers and even gave grants to improve the way in which they farmed. In some areas, the farmers even went as far as going organic.

As the Scottish Executive looks forward to the implementation of the water directive, are you considering any formal committee links between the rural affairs department and the development department to consider ways forward in joined-up government? WWF Scotland recently launched its wild rivers initiative, based on its ideas for improving water quality in Scotland. Is the Executive doing anything to develop formal links between departments in that area?

Mr Galbraith: We have a cross-cutting committee on rural affairs at which Ross Finnie and several other ministers come together to deal with those areas, so that already happens.

Nitrates is a sensitive issue and there are nitrogen-sensitive zones. Dealing with nitrates is a real problem, which involves studying how farmers manage their nitrates and how they can cut them down. We are already pursuing that matter, as we have to do under the nitrates directive. We have no option but to do that.

Robin Harper: I was not bringing up nitrates specifically. I was giving an example of an area in which cross-cutting links can be effective.

Mr Galbraith: That takes me back to my original point that, rather than giving commissioners powers, we should keep things as they are without duplicating our work.

Mr Tosh: Can you say a little more about the point that you touched on earlier in reference to Ayrshire? You talked about the need for further regulations to control agricultural pollution. What sort of things does the Executive have in mind? Perhaps the cross-cutting committee has set some targets. What sort of time scales are there for dealing with the issues?

Mr Galbraith: Time scales are difficult. We will implement best practice in all those areas, as many farmers have done in handling waste and nitrate discharges. The bathing water directive places us under an obligation. We are approaching the deadline for that and we therefore have no option but to work as quickly as possible. We do not have a time scale, but we are working to ensure that we can meet our targets.

The Deputy Convener: That concludes our questions to you, minister. We thank you and your officials for coming to give evidence to us. We appreciate it.

We now welcome representatives from the Scottish Council for Voluntary Organisations, Martin Sime and Jim Lugton. We have circulated your July policy statement on water and sewerage rates relief, but you may also make some introductory remarks before we ask you questions.

Martin Sime (Scottish Council for Voluntary Organisations): Thank you for the opportunity to present evidence to the committee. The SCVO would like to raise two connected points. The first is the issue of whether charities and voluntary organisations should pay water charges. We think that that question has not been adequately debated or dealt with. Voluntary organisations and charities have inherited a series of reliefs and have generally not paid water rates over many generations. Those reliefs have been unilaterally abandoned by the water boards since 1997. The first issue is therefore one of principle.

The second issue concerns the practice of the water boards in introducing charges to charities and voluntary organisations. That has been haphazard and has led to significant difficulties for individual organisations up and down the country, which have suddenly found themselves facing bills that they did not expect. There have been many disagreements over those bills. There has been an attempt to introduce bills for organisations dealing with what the water boards call non-sensitive issues and to maintain reliefs, at least for the time being, for so-called sensitive charities. That is a distinction that we did not think is sustainable.

The water boards are currently considering their response to a consultation exercise that they launched on removing reliefs altogether from charities. That consultation exercise did not inspire confidence among voluntary organisations as

being a fair exercise. At this stage, we do not know the extent to which charges will be levied on charities and voluntary organisations from next April.

Over a period of two or three years, voluntary organisations have faced substantial difficulties with water. We want to present evidence to you on two issues: the principle and the practice.

The Deputy Convener: Thank you for that succinct introduction. I invite Cathy Jamieson to ask the first question.

Cathy Jamieson: I shall try to keep my questions just as succinct. Does your interest in the issue relate purely to reducing charges for your members' organisations or do you have a wider agenda?

Martin Sime: Our interest is in the whole charitable sector in Scotland. There are some 27,000 organisations, all of different sizes and shapes, which face a range of charges. For some organisations, those charges may be quite small, but for others, such as village halls, water charges may represent quite a substantial proportion of the expenditure of those organisations. That is our primary interest, but we have a secondary interest in the users of those services. We have found many examples, particularly on the village hall front, of organisations facing substantial increases in their costs and having to pass those on to the people who use their services.

There are two options for voluntary organisations. One is to try to pass on the costs, which is a double-edged sword for organisations working with people who are facing exclusion or are in financial difficulty, as it has the impact of reducing participation, which is not the desired outcome. The second option is simply to seek an increase in public sector funding, but it seems rather a circular argument if the boards are retrieving money from charities and charities are retrieving money from local authorities. That is the sort of merry-go-round that we would like to be stopped.

Cathy Jamieson: You alluded to changes in the way in which the issue has been handled. Previously organisations were able in certain circumstances to apply for relief from water rates. What is the current position? What changes have taken place and where have those left the voluntary sector?

15:15

Martin Sime: The current situation is confused. The boards have embarked on a strategy of withdrawing relief progressively over a five-year period from some categories of charity and retaining it for others. Those categories have been

inadequately defined. Very early on, we advised the boards that any attempt to draw a line between deserving good causes and undeserving good causes was bound to end in failure. There have been disputes about whether organisations are using premises for a youth club or for a club for the elderly, because one is defined as sensitive and the other is not. There have also been disputes about whether premises are being used as a church hall or as a village hall, because they, too, fall into different categories. We suspect that more than half of currently recognised charities are facing 20 per cent charges this year and 40 per cent charges next year. The other half are awaiting the results of the consultation exercise that was conducted by the boards.

Cathy Jamieson: That is helpful.

Jim Lugton (Scottish Council for Voluntary Organisations): It is worth pointing out one aspect of the system that is particularly illogical. Rachel House, which is a voluntary-run hospice, is regarded as non-sensitive, but NHS trusts are regarded as sensitive.

The Deputy Convener: I welcome Euan Robson, who has joined us. He is free to contribute to the discussion.

Janis Hughes: I have read your written submission, in which you describe how voluntary organisations have almost come to be liable for water charges. How do the water authorities define a voluntary organisation? Do you agree with their definition? Is that definition of a voluntary organisation peculiar to Scotland? Is a different definition used in England?

Martin Sime: Charity is a matter that has been devolved to the Scottish Parliament. Organisations are recognised as charities by the Inland Revenue in Scotland and by a different organisation in England. That happens on the same basis, but the outcome is slightly different. Historically, the recognition of charitable status has been the basis on which relief has been granted. Because of the different arrangements that apply to the water industry elsewhere in the UK, that position is peculiar to Scotland.

Janis Hughes: So there is not the same exemption in England.

Martin Sime: Historically, there was not the same exemption in England.

Janis Hughes: We understand that recently when working out charges the water authorities have sought to distinguish between different types of voluntary organisation premises. For example, an organisation's headquarters may be treated differently from premises for an outreach project. Does that concern you? How difficult do you think it is to make such distinctions?

Martin Sime: The water authorities took that decision with very little information on the practicalities of how voluntary organisations go about their business. Many organisations have their office and activity centre on the same site. Any attempts to draw a line between one type of activity or building and another are bound to lead to enormous problems of implementation. The water authorities have had significant difficulty in identifying who their charitable customers are, let alone which premises they are occupying. That has led to a huge volume of correspondence—copies of which we have received—from individual organisations that are unclear about their position.

Janis Hughes: Clearly, there is a need for better communication. I suppose that each case is different.

Martin Sime: That is the problem. Before we get into the detail of the issue, we need to reach a solution at policy level.

Jim Lugton: I want to pick up Martin Sime's point about hybridity. A number of local and major national organisations have pointed out that individual water authorities operate different regimes. National charities in Scotland that have offices in all three water authority areas have found it extremely difficult to explain to their boards the reasons for those inconsistencies. Hybridity in the use of premises may be taken into account by one authority but not by another.

Janis Hughes: Is there an advantage to having water rates calculated for voluntary organisations using a meter, rather than having it based on council tax banding?

Jim Lugton: On an interim basis, we have advised voluntary organisations that are in a position to install a meter to do so. In the vast majority of cases, we are dealing with small office locations with a small kitchen and a couple of loos to accommodate the staff or volunteers of the organisation and their clients. In that situation, water charges are significantly lower if worked out by a volumetric assessment of costs rather than according to council tax banding. However, we had to press the water authorities very hard on the capital installation costs of a meter, which are between £220 and £270, depending on location. I am happy to say that the authorities responded to that pressure and that, on the whole, meters for voluntary organisations are now being installed free—although sometimes we have to intervene to ensure that that happens.

Janis Hughes: Overall, are you optimistic that there will be a successful outcome to your discussions with water authorities?

Martin Sime: I hazard a guess that there will not. From experience, it is clear that the boards have considerable difficulty co-ordinating their

policy in this area. Aspects of Scottish Executive policy, such as the compact between the Executive and the voluntary sector, have not filtered through to the water boards, which is a matter of concern. To return to my original point, perhaps we should discuss this issue of principle in the context of the water services bill. After that, we can consider issues relating to practice. The voluntary sector has had a difficult two or three years with the water authorities.

Bruce Crawford: I have another question about your discussions with the water companies. Obviously, the voluntary organisations have a preferred outcome to that process, which may or may not be attainable. Do you have a realistic preferred outcome to the discussions that you can tell us about? That would give us an idea of what you have on your shopping list, so that when we reflect on the results of the inquiry we will understand your needs more clearly.

Martin Sime talked about sensitive and non-sensitive organisations. That bamboozled me. Can you explain what those terms mean?

Martin Sime: The water authorities devised a scheme that sought to continue relief for church halls, youth activities and some other forms of voluntary activity, but not for village halls and activities for the elderly. The authorities decided to continue relief for areas on which they had been lobbied. We did not think that there was any justification for the distinctions that were being made. The water authorities came up with the expression "sensitive organisations". We added the term "non-sensitive organisations", meaning the organisations that were being charged.

I will leave the committee a copy of the consultation paper that was sent round. My members have no confidence in the exercise, because the paper seems to make the case for extending the charges to all charities. For example, it asks people whether they are aware that the water authorities do not receive any form of financial support for the cost of relief, and whether they believe that it is appropriate that relief that is awarded to their organisation by the authorities should be passed on as higher charges to other customers. We suspect that the water authorities have determined on a particular course of action and are undertaking a consultation exercise because they feel obliged to do that. This was not a proper consultation, and it caused some anger among our members.

Bruce Crawford asked about our desired outcome. A resolution in principle of whether charities should pay water charges is the starting point. If it is determined by the political process that charities should pay water charges, the charges should be introduced equitably, with adequate notice to allow organisations to make

provision in their budgets for the coming years, and according to a schedule that introduces the charges gradually. However, as I said, that is not the starting point for our propositions. If there had been an adequate consultation period and adequate discussion about the introduction of charges, the burden on organisations would have been much reduced.

Euan Robson (Roxburgh and Berwickshire) (LD): Convener, please stop me if someone has already asked my question.

The water industry keeps saying that no undue preference should be shown. I am familiar with the phrase "undue preference" from my work in the energy industry. The industry uses that as the fundamental basis on which to minimise the reliefs that it gives.

There are two words in the phrase—"preference" and "undue". My view is that the public would not worry if preference were shown to a charity. If preference were shown to a normal commercial operation, that could be considered undue. Do you know whether that concept has been tested in court? I do not know of any cases concerning the energy industry.

Jim Lugton: The pattern is complex in the energy industry. From the beginning of the bidding structure and the issuing of the first licences for the North sea, there was considerable debate about who should be a partner who was allowed to bid. The situation is different in the water industry and in Scotland. The reliefs about which we are talking are long established and can be traced back to acts of the former Scottish Parliament in the 17th century, which gave reliefs to Church and charitable institutions because of the quality of the work that they did.

We assert that the undue preference is actually a due preference. The reliefs have been given by established practice and tradition. We are not suggesting that a new provision be started and that undue preference be created in a new context. We are merely asserting that the previous due preference—which all political parties endorsed for many generations—should continue.

We find the water authorities' activities and the construct that they are considering for undue preference baffling, because several water users already receive preference in their structures, tariffs and payments. I will give just one example. In a letter to the general secretary of the Abbeyfield Society for Scotland, the East of Scotland Water Authority simply said:

"It may be of interest to you that relief awards of up to 100% are currently made to some trading companies (not charities or voluntary organisations.)"

My reply to that is: why? The water authorities tell us time and again that we voluntary organisations

cannot qualify for undue preference, although we feel that we have it as of historic right.

Euan Robson: It is interesting that the phrase "undue preference" is repeatedly used in correspondence about charitable organisations and voluntary groups. I have at least three or four letters that contain the phrase. Has a deliberate decision been taken to use that phraseology? Do you characterise it—as some have—as a smokescreen?

Jim Lugton: I would not use that term. The situation shows how the local government reforms of 1994 went seriously wrong, because they tried to impose a regime of uniformity, which did not recognise the existing structure and the reasoning for it. The charitable reliefs existed and were not a matter of controversy, but the legislation affected them. Suddenly, charitable organisations became the victims of the need to have undue preference.

Westminster took an unconscious decision at that time. The consequences did not start to filter through to organisations until the water authorities started to realise what the phrase "undue preference" meant. Few water bills increased between 1996—when the water authorities took over—and 1999-2000. Then, suddenly, an enormous number of charities approached us and said that they faced significant increases in their water costs. We had to pursue the case on their behalf. Last year, the relevant minister, Sarah Boyack, introduced a moratorium for one year. She recognised the mess that things had got into. One year on, the debate has not advanced on the definitions with which we must work and the operating regime that is in place.

15:30

Donald Gorrie: If I understand it correctly, under the system of the old regional water authorities, the shortfall in income resulting from charities not paying or not paying so much was not clearly identified. I assume that all the other payers picked up the bill. Now the three water boards are commercial companies that must consider issues differently. If you achieved your objective of the voluntary sector paying nothing or paying less than what might be considered the going rate, a shortfall would be left. Do you suggest that the shortfall should be picked up by the consumers of the North of Scotland Water Authority, for example, or the Executive? You are long enough in the tooth to know that many people will agree in principle to your proposition until they must pay.

Martin Sime: Absolutely. I am happy to deal with that point. Shortly before I gave evidence today, I heard the Minister for Environment, Sport and Culture say that we have a public sector system. That seems to be the answer. Money is

entering and leaving the public sector at different points on a spectrum. Should it be determined that charities should continue to enjoy exemption from water charges, I have no doubt that the public sector should pay in some shape or form.

There are precedents elsewhere for that. Last week, the Executive announced that voluntary organisations would not have to pay charges for criminal records checks, on a similar principle. Putting money in at one end of the voluntary sector to promote active communities then taking it out at the other end in charges for a service that enhances children's safety is not common sense. We are discussing a similar issue. The voluntary sector provides services of public benefit in return for a raft of reliefs—we have relief from business rates, various taxes and criminal records checks, and partial relief from value added tax. One of my organisation's concerns is that the contract between the Government and the voluntary sector might be gradually eroded. We need a stable regime, and we feel that the water authorities' proposal would make the regime more unstable and put at risk the other reliefs that charities enjoy.

Jim Lugton: I will supplement that answer, purely on the financial scale. The scale of the reliefs that we are discussing amounts to a small percentage of the authorities' total expenditure. If it were projected on to the capital programme for next year, it would be less than 0.3 per cent. If it were projected on to the debt that the Scottish water authorities did not have written off, it would be less than 0.09 per cent.

The Deputy Convener: What is that in round numbers? Percentages are all very well, but what is the amount in cash?

Jim Lugton: We reckon that the cost to the sector is in the range of £17 million to £24 million. I say "in the range" because we have been unable to obtain a definition of what the water authorities consider to be the charitable and voluntary sector.

Bruce Crawford: You can score the amount against capital or debt, as you did, but you should really score it as a percentage of revenue income. Do you have any idea what that figure is?

Jim Lugton: Do you mean the revenue of the water authorities or of the voluntary sector?

Bruce Crawford: Is not the revenue of the water authorities the proper figure against which to compare the amount?

Jim Lugton: That figure would be difficult to obtain, because the water authorities themselves cannot tell us absolutely what their revenue is, as they cannot say what their client base is. There are large numbers of voluntary organisations that still receive water services, but which have not been billed since 1995.

Bruce Crawford: It is interesting that they do not know who their clients are. I wish that I had known that before I spoke to the minister.

Robin Harper: Can you give us a ballpark figure?

Jim Lugton: It is a very small percentage of their revenue. We are talking decimal points of one percentage point.

Robin Harper: It is quite important.

Jim Lugton: We could provide you with the figures.

Robin Harper: It would appear to be something that makes a great deal of difference to you, but might not make much difference to the water authorities. Why quibble?

Jim Lugton: Let me put this in context. The Executive has responded to concerns about affordability and the large increases in the NOSWA area. There is a Gaelic-medium playgroup on the Benbecula base on the Western Isles, which has six children and an income of about £18 per week. However, the water bill for the playgroup was £260 per quarter. The comparison that was made was that the spending on new schemes in the Western Isles by NOSWA this year is about £14 million—not to mention the maintenance of existing schemes. That shows the nature of the imbalance in terms of one party's expectation of the other.

Donald Gorrie: I had a rather different concept from that of Bruce Crawford. If the shortfall were to be picked up by the public sector, do you think that it should come from the Scottish Executive or from local authorities, which would probably get the money from the Scottish Executive anyway?

Martin Sime: You have almost answered the question. Presumably, local authorities would pass that cost on to the Executive. We are dealing with relatively small sums of money and the simplest thing would be for the Scottish Executive to intervene. It is beyond our brief to consider the funding arrangements between the Executive, local authorities and individual water boards.

The Deputy Convener: Do your members perceive difficulties as being worse in particular areas? Is there a geographical slant?

Jim Lugton: Yes. Our experience has been that North of Scotland Water Authority has been extremely concerned about the impact on small communities and voluntary organisations and has made considerable effort to do a good job. The attitude of the two larger authorities has left a great deal to be desired on occasions. There have been cases where, had we been persuaded that it would have been worth while, we could have gone to the ombudsman about the poverty of practice of

the authorities, which has amounted to oppression in some cases.

The Deputy Convener: Strong stuff.

Robin Harper: You mention simplicity, but it is not straightforward. I am thinking of the fairly high turnover of occupancy of properties in Edinburgh. A charity might occupy a shop space and then move out and the shop may become a restaurant and then a shop again. We are faced with constant changes in whether rates are going to be paid on the property. Has any thought been given to the possibility of a centrally operated rebate system in which everyone would pay the water rates, but registered charities could apply centrally for a rebate?

Martin Sime: That would be one way of doing it. Historically, the water rates relief was tied to the business rates relief. That system works very well, despite frequent changes in the occupancy of premises.

Jim Lugton: Since 1996, the water authorities have treated those voluntary organisations that have moved premises as being immediately liable for the full water rate without transitional relief. Those organisations have been hit for the full costs of the move. However, organisations that have remained in the premises that they occupied before 1 April 1996 have had the benefit of transitional relief. To my mind, that is arithmetical nonsense.

The Deputy Convener: The principle is that all charitable organisations should get relief. To be consistent, it should be all in or all out. You are saying all out. Are there any other groups or individuals that should have reduced water rate charges?

Martin Sime: SCVO and many of its members welcomed the initiative taken by the Executive on affordability for people on low incomes who faced significant charges. That is in tune with what one would expect the voluntary sector to support. We would encourage the Executive to extend the scheme beyond the three-year period that is planned.

The Deputy Convener: The term "voluntary organisation" can include a range of differently funded organisations. Is there an argument for grading voluntary organisations?

Martin Sime: I would advise against that. There are many organisations doing different, slightly overlapping things. They have different premises, histories, needs and funding. It is very difficult to discriminate between one type of organisation and another—I would not commend that approach. Given the historical problems of contacting organisations and informing them of their liabilities, I would say that we have better things to do.

The Deputy Convener: Thank you for coming to our committee.

Martin Sime: Thank you for giving us the opportunity to present our argument.

The Deputy Convener: The next witnesses are representatives from the campaign for lower water charges. I welcome Jim Gibson and Bob Petrie. Good afternoon, gentlemen. I was about to say that you had not made a written submission to the committee, but I see that you are handing one out.

Jim Gibson (Campaign for Lower Water Charges): We have some notes to help the discussion, convener. We have three principal areas of concern. First, we were concerned about the staggering price increases that took place in the NOSWA area. As a pressure group, we represent the NOSWA area in particular, and the committee should listen to our comments in that context. Secondly, we are concerned about affordability. Finally, we wish to address the structure of the industry.

In April, council tax payers received their annual water bills and were shocked to see that they faced, on average, a 43 per cent increase in charges. That was intolerable. There had been no consultation and very few people knew what was about to hit them. The campaign was formed on the back of those events. Nobody argues with the need to modernise the industry and we do not quibble with the £1.8 billion figure. We welcome the funds that the minister has made available for a transitional rebate scheme. The scheme will benefit many households in the NOSWA area.

15:45

However, we do not share the Executive's explicit assumption that the transitional rebate scheme is all that is required for households to be able to adjust their budgets and expenditure accordingly. Similarly, we do not share the implicit assumption in the consultation paper "Affordability of Water and Sewerage Charges" that the transitional scheme will help domestic water consumers in the NOSWA area to overcome their local difficulty until they get used to paying higher water rates.

The increases fundamentally affected two groups of people: the poor and the elderly. As a group that acts as advocates on their behalf, although we welcome the relief, we think that it does not go far enough. The comparisons in the consultation document with companies in England and Wales are not very instructive, as organisations are cited that are wholly privately owned and which had all their debts written off prior to privatisation.

The prime motive of such organisations is to make profits from water services, and our publicly

owned industry is bound to compare favourably when it is considered in such terms. The private water organisations in England and Wales are bound to charge more, as they must pay for such things as dividends, the high salaries of senior managers and the bad investment decisions that those senior managers have made in the past.

We noted with interest one of the proposals in Yorkshire Water's recent announcement. It wanted to establish a mutually owned organisation for the side of the business that is incurring debts. Yorkshire Water was really saying that it wanted to pass the burden of those debts on to local taxpayers. We find that sort of proposal abhorrent, and we do not favour any move towards wholesale privatisation of the water industry in Scotland. We are firmly against any form of privatisation.

We contend, legitimately, that water charges adversely affect the vulnerable in society, especially in our own area. The 43 per cent increase in prices in the NOSWA area led to additional costs for many people whom we spoke to in the street. We take issue with the Executive over the way in which water poverty is being portrayed as a kind of adjustment in somebody's household budget. That is not the issue, and we do not agree with the analysis that is presented in the consultation document.

Should the structure of the industry—and I emphasise the word structure—continue on the existing model of three boards, we would continue to campaign for a general, permanent scheme of assistance that would take into account higher council tax-banded properties to ensure the protection of the vulnerable. That is the only measure that it would be necessary to take, under the existing arrangement, in the interests of social justice.

We would like to hold a general debate on the principle of ability to pay. That has not been raised in the past, when this issue has been considered, and it must be addressed. The logic of the position that is outlined in the consultation document leads us to question the structure of the industry. In our view, the only alternative scheme of general assistance would be the rationalisation of the water industry into a single, publicly owned authority that could pay for the modernisation of services.

We have received personal assurances that ministers do not want to privatise the industry. However, it is clear to members of the campaign that the recent large price increases in the NOSWA area were caused by the extent of the investment that is required because of the lack of previous investment—investment has been patchy in the NOSWA area, good in Tayside and not so good in the Highland area—and the size of the tax base that bore the sole levy for the cost of

modernising services. The tax base in the NOSWA area was not large enough to absorb the costs of modernisation without significant price increases. The Executive is now having to subsidise those price increases by targeting vulnerable groups in the NOSWA area, in council tax bands A and B.

It would be logical for there to be a single water authority with a larger tax base, and for the costs to be borne by the whole country. The establishment of a single water authority might mean that there would not have to be a rebate scheme—we do not know, but we would like to join the debate on that. Through economies of scale, water might become reasonably priced and affordable for all, so there is genuine merit in the case for a single water authority. A single water authority would also be better able to fend off the threat of privatisation, either through the operation of the Competition Act 1998 or because people got fed up with it, said that it was a public liability and decided to privatise it because they could not think of anything better to do with it.

That is our initial position on those matters. I am happy to take questions from the committee.

Robin Harper: Much of our questioning is informed by the title of your organisation: the campaign for lower water charges. I may be wrong, but I understand from your submission and your suggestions for a single water authority that you accept that a huge investment is needed and that the costs of that investment will have to fall on domestic and commercial customers. Is that true?

Jim Gibson: Yes. The title of our organisation was born of frustration at what happened in the NOSWA area. We are realistic enough to accept that £1.8 billion will be needed to pay for the modernisation programme, and we would not argue with that. Modernisation is necessary, as we all want higher standards of water and sewerage.

Robin Harper: You accept that the investment that the industry needs will have to come through the water bills.

Jim Gibson: Yes.

Robin Harper: You have already given us some details. Could you say a little more about rationalising the structure of the water industry in Scotland and establishing a single water authority? Would that achieve efficiency savings that would enable water prices to be lowered?

Jim Gibson: In theory, yes.

Robin Harper: What other benefits would there be?

Jim Gibson: There would be economies of scale regarding management structures and so on. We believe in the politics of wealth distribution,

and we think that a single authority would enable those who are better able to pay to subsidise the modernisation programme throughout the country. Because of the tax base in the NOSWA area, it is difficult for that to happen there. We have a very large geographical area, and the tax base cannot cope with the level of investment that is required—hence the massive charges.

Robin Harper: That makes the issue a lot clearer.

Bruce Crawford: Thank you for your opening address. It is useful to understand where you are coming from. Your submission says:

“In terms of the model of ownership we are attracted to two models:

- a. Mutual ownership; or
- b. A directly elected board.”

How might either of those models deliver reasonably priced water services that would be affordable for all?

Jim Gibson: The issue is accountability, as those two models suggest. A structure should be in place that is responsive to people’s needs and capable of taking on board criticism—as the current structure of the water industry patently is not. The water industry rarely consults, and when consultation is conducted, people such as Bob and I are excluded. It is necessary to open up the structure to make it more accountable.

Within that accountability, it should be possible to have genuine public debate and leadership. For example, if there is an argument concerning proposed increases in water prices, the structure should be accountable through the mechanisms that we suggest in our submission. There should be a debate on the priorities that society wants to set and what people think is necessary. That might involve discussion of rebate schemes for those who are vulnerable and so on. However, the structure should respond to people’s needs.

Water is a public asset and should be regarded as such. It should not be regarded as a public liability. Fundamentally, that is where we are coming from. We want to create a structure for the water industry that reflects that fact and which is open to the influences of both domestic and non-domestic consumers.

If water prices must rise, it will be much better to have a debate about that before a decision is reached. That will ensure that consumers know what is happening, rather than leaving them to find out when they get their council tax demand on 1 April.

Bruce Crawford: So, you are not fundamentally against an increase in water charges, as long as there is an adequate enough relief system to cope

with any increase.

Jim Gibson: That is right. With our current resource base, there is enough scope to consider economies of scale throughout Scotland. Although modernising the infrastructure is an issue, such investment will presumably be made at some point and residual investment will be required for maintenance and so on. Once we are over that initial hump of investment, we might be able to consider more reasonable charges. The merging of the three boards into one accountable structure would create economies of scale that would enable us to price water without having the sort of daft situation where people who live in properties in council tax band A properties have to pay £200 a year for their water.

Bruce Crawford: I was interested in your use of the phrase “ability to pay”. Is there another charging mechanism or method that better reflects people’s ability to pay?

Jim Gibson: Our thoughts are not yet fully formed on that. However, we feel that if water charges are related to council tax bands, any rebate scheme should be extended to properties in bands C and D. That option might include more people who are not able to afford some charges.

Bruce Crawford: Some might argue that the council tax banding system does not really reflect people’s ability to pay.

Jim Gibson: We have thought about this issue to a certain extent. The problem is that people are living in poverty in properties that are not at the bottom end of the banding system. However, we must be realistic about what we can achieve initially. Presumably such factors would be taken into account in any review of industry structures and the price mechanism.

Bruce Crawford: I thought that you were about to suggest some system of local income tax.

Jim Gibson: No. That is a debate for elsewhere.

Mr Tosh: Never underestimate Bruce Crawford’s passion for income tax.

In a previous submission that you made during the summer, you said that you perceive

“the Water Commissioner as part of a discredited compliance regime that has failed to protect the domestic consumer”.

Obviously, we know what you were getting at. However, what is wrong with the commissioner and the structure of that office and how would you like those wrongs to be righted?

Jim Gibson: Well—our excuse is that we were angry when we put that submission together. We understand that the water commissioner’s role is

to regulate the pricing mechanism and so on. However, people in the streets of Dundee feel that the commissioner has patently failed to fulfil that role. On the basis of our initial discussions on the commissioner's role, we feel that the office of the commissioner—not the commissioner as a person—is too close to the Executive. An independent water commissioner should be independent. I assume that, if he or she is unhappy with what is being proposed, part of the commissioner's role is to balance the industry's requirements—as far as investment is concerned—with the feelings of the consumer. Unfortunately, that has not happened in this case.

We have not yet met the commissioner, but people who have done so have indicated privately to us that the commissioner's view is that investment is required and that the local taxpayer must take that on the chin. To be frank, that is not good enough; the office of the water commissioner should be independent and gritty and at least have an obligation to consult publicly to enable groups such as ours to have some access to the process. That does not happen, although I understand that the trade unions have quite good access.

16:00

Mr Tosh: We will ensure that the water commissioner receives the *Official Report* of all these hearings. He might even pick up on your plea to meet him—I am sure that he should do so.

Will you comment on the effectiveness of the new customer consultative committees? We have heard evidence that the old ways of representing consumers were perhaps more effective and that the new ways are—at best—untried.

Jim Gibson: The committees have had meetings in Dundee. However, as a relatively new organisation, we have not been invited to them, although more established organisations have. The feedback is that, although the meetings have been okay, there has been a shift of emphasis. There has been no debate at those meetings about the need for accountability and how the price mechanisms work; instead, the argument that has been presented is that everything comes from Europe anyway, so we must just put up with it. The debate must be wider than that, which is why organisations such as ours are particularly noisy in raising issues. Any genuine debate on the pricing mechanism must involve organisations that represent the interests of domestic consumers.

Mr Tosh: How would you protect low-income families and other low-income households? As you have been present for most of the meeting, you will have heard the minister say that lifting costs from some consumers and putting them on others makes it difficult to advance the competitive status of the industry. A desire not to pass costs

on to the non-domestic sector would result in a struggle to protect people adequately within the domestic sector—unless you feel that the Executive should fund things directly. You said that the transitional scheme should become permanent. Should the Executive do that using its own resources, rather than redistributing charges within the customer base of the water authorities? Is the solution a bit of both?

Jim Gibson: We do not have a hard and fast position on that. However, I favour a bit of both. Costs can be borne through Executive subsidy and by companies that make profits from the use of water, which could put something back into the communities from which they have been taking. I do not have a problem with charging those companies slightly more to help those who are less well off.

Mr Tosh: What are your views on metering for domestic customers? You mentioned low-income households in high-banded properties and there has been some talk that such people are a natural target for metering to reduce their costs.

Jim Gibson: We are against the use of water meters because it will have an adverse effect on low-income households. Those who are better off will pay less, while people lower down the council tax bands will have to pay more. There are also public health issues to consider. For example, certain sections of the community might feel that having a water meter would mean that they would not use water so often. I believe that the Executive has ruled out metering, because it costs £200 a throw to install a meter. Although meters might be appropriate in some cases, we share the Executive's view that meters are not a good idea overall. I also welcomed Sam Galbraith's opinion that he did not rule out the creation of a single water authority.

Mr Tosh: Perhaps I led Sam Galbraith into that, but he qualified it by talking about the possible disruptive impact of structural change. All reorganisations cause people to take their eye off the ball, which can lead to turmoil and the loss of impetus and priorities. You must be concerned that, if you go for a complete reworking of the structure, it might not bring improvements, but instead might bring disbenefits.

Jim Gibson: The only reason for reworking the structure is that it would bring benefits—the aim is not to make the situation worse. We think that the current position is untenable because of price rises and—because the Competition Act 1998 has no blanket exemptions—because the three boards will be vulnerable to a sort of incremental process of privatisation.

To lessen disruption, the work force would have to be consulted appropriately. The main element

of restructuring would be to do with the management of the industry. We assume that the vast bulk of the work force and the trade unions should be fully consulted and should have their say—I have no doubt that my union—the GMB—will put its case to the committee at some point. We want a positive outcome; otherwise we would not advocate restructuring.

Donald Gorrie: On the question whether to have one Scottish authority or three area authorities, I can see that there is an argument that, because of geography, the cost of delivering water in the north of Scotland will be higher than it is elsewhere, although the tax base is probably lower. If there were an all-Scotland authority, would we be back in a situation in which the interests of the central belt dominated? Many aspects of Scottish life have suffered from the fact that, because the bulk of the population are concentrated in that area, the people who manage organisations concentrate more on that area. We have had evidence to the effect that NOSWA is more sympathetic to small voluntary organisations in parts of the Highlands than are its equivalents in east and west Scotland.

Jim Gibson: I take that point. I am glad that, for once, NOSWA is getting something right. Donald Gorrie correctly identifies the danger of having an all-Scotland authority, but if the structure will be accountable, we can create a management for the organisation that will represent interests other than those of the central belt. We are not advocating restructuring only because we think that it is a cheaper option; it must be fair for everyone and that means that everyone must be represented. I hope that that was borne out in my previous remarks.

Donald Gorrie: You agree that the money must be raised somehow. To some degree, there is a tension between helping the poor people more and helping everyone by getting the charges down. Perhaps this is an unfair question, but if there is to be a choice between those two, which way should we go? Do you think that it would be possible to do a bit of each?

Jim Gibson: That is an unfair question. Our campaign has a strong element of social justice, particularly in relation to people's ability to pay. We are concerned about the fact that big increases in the price of water have an impact on vulnerable groups. It is a tad flippant of the Executive to suggest that it is simply a question of adjusting household bills. However, having said that that is our prime concern, there is nothing wrong with creating a good deal for the people of Scotland in the process. The challenge is to attain a structure that delivers a quality service at a reasonable price that is affordable to all.

The Deputy Convener: I thank our witnesses for their attendance.

Europe Familiarisation Scheme

The Deputy Convener: The next item concerns a Europe familiarisation visit—funded by the European Parliament—for a group of Scottish Parliament committee conveners and members. The visit is likely to take place next spring. The purpose of the programme is to familiarise members with European legislative processes and the operation of the European Parliament. Much of the business of the Scottish Parliament is driven or affected by European legislation and policy, especially the subject matter of this committee.

I seek nomination of a committee member to take part in the scheme. I propose, in his absence, that the convener is probably the most appropriate person to go—the delegation will be fairly high profile and will represent the Scottish Parliament in Europe, as well as learning from Europe.

Mr Tosh: That will teach him not to miss committee meetings.

The Deputy Convener: Do members agree to the nomination of the convener?

Members *indicated agreement.*

The Deputy Convener: We will continue the meeting in private to discuss the last two items on the agenda, which concern our draft report on genetically modified organisms and further practical arrangements for our inquiry into water services. Those items were deferred from last week's meeting.

16:11

Meeting continued in private until 17:05.

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