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Dear Katherine

The Strategic Review of Charges 2006-10: the Draft Determination

As you know the Federation has had a keen interest in water charges for small business customers in recent years. We were particularly interested in last year's consultations on investment priorities and principles of charging and submitted detailed responses to both of these documents following discussions with members across the country. We are pleased that many of the suggestions made by the FSB were subsequently accepted by the Scottish Executive and were outlined in the Minister's statement of principles earlier this year. However, we were disappointed that some of those changes, such as the move to meter-only charging, will not be implemented during the forthcoming Strategic Review period.

The Minister's statement provides the context for much of the draft determination and consequently we have already made our views clear on many of the issues, such as a more transparent charging regime. We have also welcomed the opportunity to attend stakeholder days, where we have had the opportunity to ask questions and make initial comments on the draft determination. We therefore propose, at this stage, to make only brief additional comments on the draft determination.

The FSB was struck by the difference between the total required revenue outlined by Scottish Water in its business plan and the revenue limit proposed in the draft determination. While this is perhaps to be expected we hope that Scottish Water and the Water Industry Commission for Scotland (WICS) will be able to reach agreement on this issue as reference to the Competition Commission (albeit as an option of last resort) would do little for customer confidence in the charging regime.

Whilst the revenue total proposed by the WICS will present a challenge to Scottish Water, this has been the case in the past and Scottish Water has risen to the challenge. The FSB considers that any increase to this limit would lead to unacceptable increases in customer bills, and would urge the Commission to stick to the proposed revenue limits.

Previous increases in bills were not – we believe – implemented in the most helpful way and huge increases were seen as both unfair and inexplicable. Small businesses now look forward to a reduction, in real terms, in bills and accordingly the FSB welcomes the proposed charge levels which should see a modest reduction over the review period for most non-household customers, though it seems likely that the greatest benefit will be felt by businesses in the third year of the next review of charges (2008-09). Many of our members remain disappointed that reductions over

the coming period will not be more significant, given the increased efficiency of Scottish Water and the unwinding of the £44m subsidy between household and non-household customers (though we are disappointed to note that work on cross-subsidies in sewerage charges have provide inconclusive). Accordingly, we are keen that reductions to business customers are not 'oversold' as we move towards implementation of the draft determination.

We also welcome the introduction of individual charge caps (as opposed to a general cap on revenue) as we believe that this is where much of the misunderstanding and resentment arose during the current Strategic Review period. The introduction of tariff baskets is also welcome. As mentioned above, much of this is in line with our comments regarding the need for greater transparency in charging for water and waste water.

During the period of consultation on the next investment programme it was clear that there are a number of competing priorities. The FSB was clear that more money must be set aside to relieve development constraints – both for houses and commercial development – and we are pleased that the Minister has accepted the need for increased investment in this area. We remain concerned about how priorities for investment will be determined and are particularly keen that the investment in infrastructure for commercial development addresses the needs of small businesses and not just larger developments. Concerns remain, however, about the efficiency of investment, particularly in relation to building in additional capacity when replacing infrastructure and ensuring that new infrastructure is fit for purpose and offers value for money. This is undoubtedly an issue which the WICS will monitor closely.

Lastly we would like to make specific comments about the bonus scheme used by Scottish Water, as this is an issue that has aggrieved many business customers. We note that the WICS has no remit to enforce a specific bonus scheme on Scottish Water but we are keen to ensure that no bonuses are given unless the targets set in the determination are exceeded. We would also like to see the bonus scheme published in advance which, we understand, happens in other publicly-owned businesses.

Overall, the FSB welcomes the content of the draft determination which should work towards our aim of ensuring lower bills for small business customers in Scotland. We look forward to continuing to work with the WICS as we move towards implementation of the determination.

Yours sincerely

Andy Willox
Scottish Policy Unit Convener