

Section 5

Customer Issues

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Section 5: Chapter 22

Customers: Improvements in Customer Service to date

a) Introduction

The interests of customers require me to find the lowest sustainable level of charges and to encourage an improved service. In the last section I discussed issues of costs and their impact on charges. The chapters in this section address customer issues.

The customer is central to all of the analysis that is done within my office, and this chapter reviews the progress that has been made to date in customer service. First, I outline some of the basic requirements of a water service to customers and the progress that has been made to date. I will then review the principal issues that domestic and non-domestic customers regard as important. The chapter continues with a summary of the progress that has been made over the past five years towards meeting the expectations of customers. Levels of service in Scotland are compared with the performance of the privatised companies in England and Wales. I will conclude by assessing the gap, which still remains to be closed. Chapter 23 looks towards the future and makes some suggestions about the action that could be taken to improve the service received by customers.

Customers do not often have cause to complain about their water and sewerage service. However, when they have had cause for complaint, the consequences have often been unpleasant and sometimes very serious. For most of us, most of the time, we have no desire to be aware of the water and sewerage industry and the massive infrastructure and complex process involved. It is a service that we assume will be provided, and we are content for it to be silent in this way.

Just under 58,000 complaints were recorded by the three Scottish water authorities for the period April to June 2001. This statistic would suggest that even if no one complained twice, fewer than 10% of customers are likely to have a reason to complain in any given year.

The board and management of the water authorities cannot, however, count on a passive approach from customers. Increasing water charges, the potential threat of competition and greater environmental awareness have all raised the profile of the industry. Customers are likely to become increasingly sensitive to the level of service provided. There is already some

evidence that customers are beginning to compare the service they receive from their water authority with that of their electricity, gas or telephone supplier.

b) The basic requirements of customers

The basic requirements of customers are that:

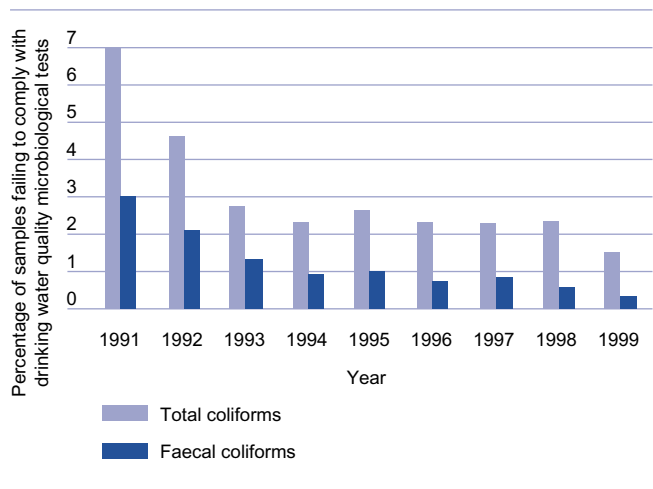
- public health is protected,
- sewage is properly disposed of,
- the water and sewerage service is available on demand.

i) Water quality

Customers will rarely mention water quality as a concern or an area where they perceive investment is required - unless they have first hand experience of a problem. Legislation and public health regulations exist in order that customers should not have to worry about these issues. Many of the outputs of the Quality and Standards programme exist to ensure improvements in public health. These are important to customers.

The 1990 Water Supply (Water Quality) (Scotland) Regulations set demanding standards for compliance. Compliance across Scotland has been improving but can still vary quite dramatically across the country. In general, rural areas have the most variable quality of water. This Quality and Standards programme will go a long way to addressing this issue¹.

Figure 22.1: Quality of drinking water 1991-1999²



¹ 41% of Quality and Standards investment programme is in rural areas.

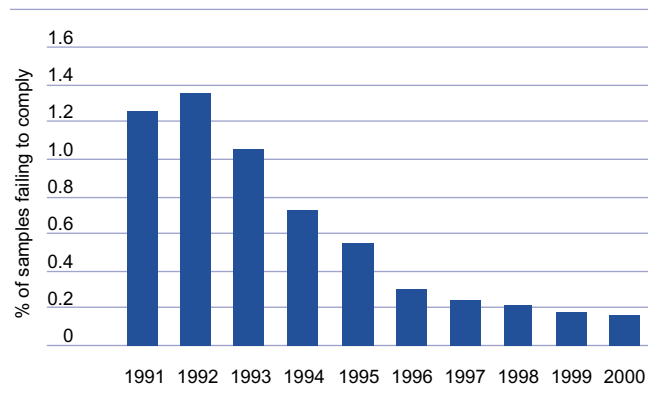
² Scottish Executive website: *Key Scottish Environment Statistics*.

The presence of coliforms (bacteria) in tap water causes a failure to comply with the desired water quality standards.

Despite the obvious improvements, work remains to be done on improving the quality of drinking water. The percentage of failures is very low, but it is important to compare performance with the standards achieved in England and Wales. It comes as a surprise to many in Scotland that the quality of water is better in England and Wales.

Figure 22.2 shows that the trend in water quality in England and Wales is improving from an already higher level.

Figure 22.2: Quality of drinking water (England & Wales): 1991-2000³



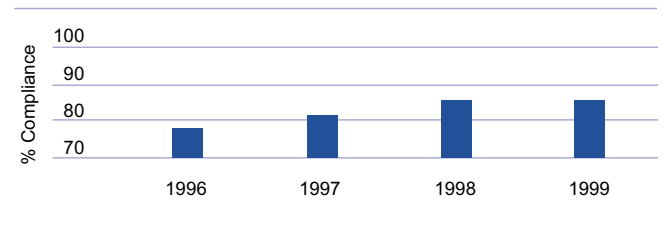
Of water quality tests carried out in 2000, 99.8% were compliant with the relevant water quality standards in England and Wales.

ii) Sewage disposal

The second basic requirement of customers is that there is adequate and effective disposal of sewage.

Figure 22.3 shows the compliance of sewage treatment works across Scotland.

Figure 22.3: Public sewage discharge consent % compliance⁴



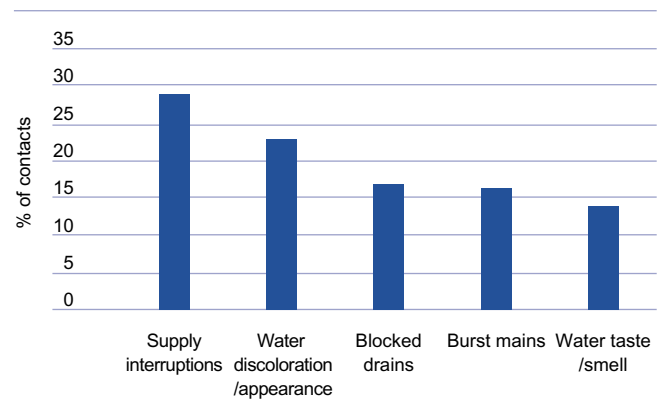
Performance has improved over the past four years. The investment to meet the Urban Waste Water Treatment Directive (UWWTD) will increase the compliance with discharge consents.

iii) Service available on demand

The third basic requirement of customers is to receive the water and sewerage service, and not have to worry about its availability.

Just over 15% of customers surveyed⁵ had had a reason to contact their water authority over the past year. Their top five reasons were as shown in Figure 22.4.

Figure 22.4: Reasons for contacting water authority⁶



Supply interruptions and water quality are two of the most frequent issues raised at my public meetings. Customers have understandable concerns when anything out of the ordinary happens to their water supply. The Quality and Standards

³ Drinking Water Inspectorate website *Drinking Water 2000 Report*.

Compliance with the standards specified in the Water Quality (Water Supply) Regulations 1989 over the last ten years.

⁴ SEPA website *Discharge Consent Compliance Statistics*.

⁵ The Water Panel (December 2000).

⁶ The Water Panel (December 2000) - Responses to question from those who had had cause to contact their water authority.

programme includes a major increase in asset maintenance and underground mains renewal. This should address many of these issues.

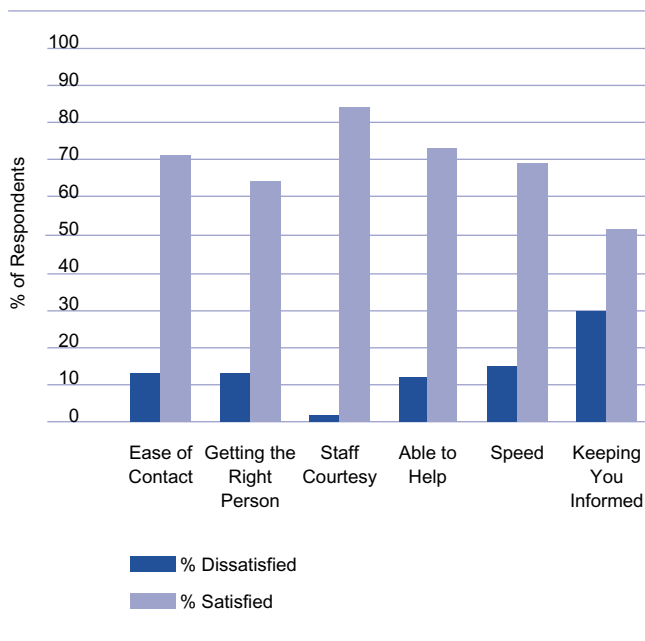
c) Additional requirements of domestic customers

Customers would appear to have three main service priorities that are mentioned frequently in public meetings. These are customer service, environmental performance and charging. I will address each of these in turn.

i) Customer service

The 15% of customers who contacted their water authority, were asked to express their satisfaction with the customer service provided. Fortunately, for most customers their issue is addressed but the results highlight that a number do not feel that their issues were effectively handled.

Figure 22.5: "How would you rate the quality of customer service you received in terms of the following?"⁷



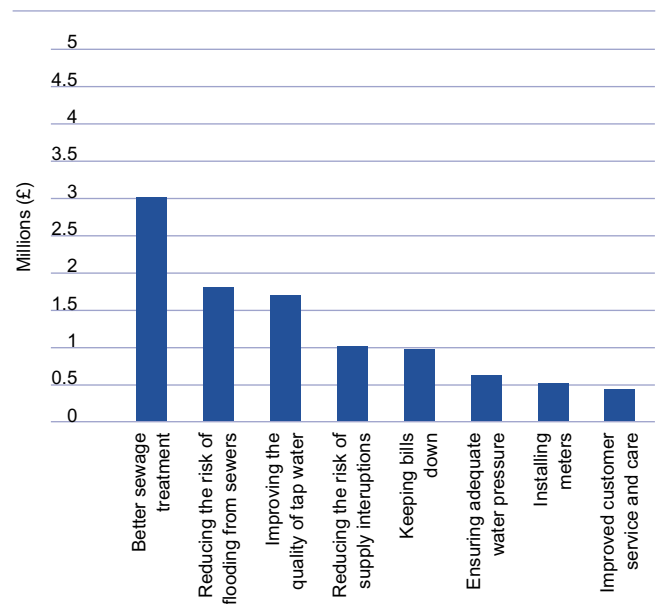
In particular, there was a significant minority of customers who felt that they were not kept informed during the handling of their complaint or problem.

ii) Environmental performance

In both public meetings and in research, customers consistently show great concern that the water authorities should continue to play an important role in protecting the environment.

Figure 22.6 below indicates the main priorities for investment. It is striking that issues such as sewage flooding which few of the recipients had experienced directly (30%), was a higher priority than customer service or indeed levels of charges. This would seem to confirm that customers want a reliable, silent service.

Figure 22.6: "If you had £10 million to invest in water and sewerage, what would you invest it on?"⁸



iii) Charges

Customers obviously want a water and sewerage service to be provided at as low a cost as possible. Many customers regard water as a free good, for which they should not have to pay. Some customers do demonstrate a willingness to pay more for environmental benefits, but others do not see the link between charges and investment.

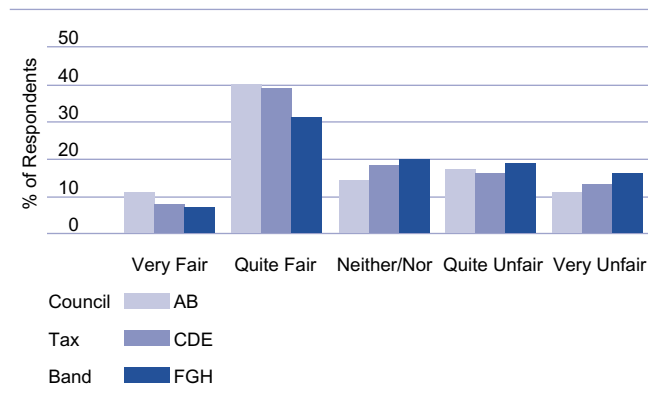
In the second domestic Water Panel survey, some 78% of domestic customers stated that they would be willing to see price increases of more than inflation to allow investment to take place.

⁷ The Water Panel (December 2000)

⁸ The Water Panel (May 2001)

This conclusion, however, seems to be slightly at variance with the views of these same customers when they were asked about the fairness of charge levels. The majority of those polled did not believe that current charge levels were fair.

Figure 22.7: “How fair do you think the amount you pay for water and sewerage charges is?”⁹



d) The requirements of non-domestic customers

The vast majority of non-domestic customers in Scotland use water principally for domestic purposes (cooking, hygiene and sanitary). It is therefore not surprising that their priorities should be broadly similar to those of domestic customers.

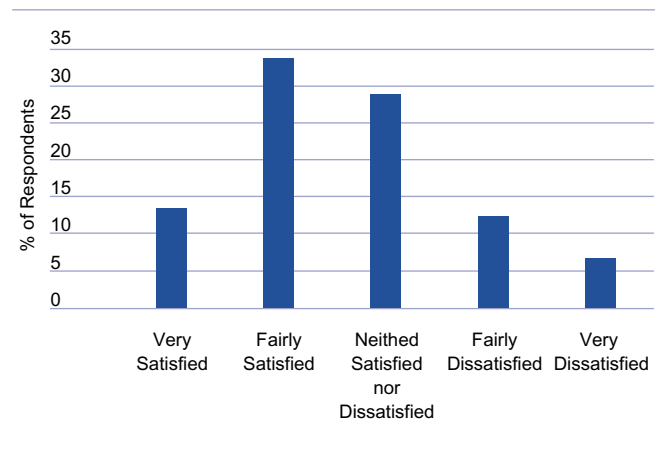
Even the relatively small number of customers who rely on water for their production seem to share the same three priorities of customer service, environmental performance and the level of charges.

i) Customer service

Most non-domestic customers seem to be fairly satisfied with the service that they are offered. However, a slightly larger percentage of non-domestic customers than domestic customers would seem to be dissatisfied.

In all of my meetings with the non-domestic sector, it has been clear that customers were unhappy with the current billing and metering arrangements. A number of examples were given:

Figure 22.8: Consultees were asked to rate how satisfied they were with the customer service provided by their water authority¹⁰



- accuracy of bills,
- timing of bills,
- billing transparency,
- meter reading,
- consumption monitoring,
- meter faults.

This would seem to explain, at least in part, the higher levels of dissatisfaction of the non-domestic sector. There has been a number of areas where improvement could have been made relatively easily. One clear example is that changes in charging policy are quite often not explained very clearly and the authorities can be slow to respond to the obvious enquiries that result. Many complaints received by my office concerned the issue of surface drainage charges in the North of Scotland Water Authority. Many of these complaints could have been avoided if a clearer explanation had been provided with the bill.

ii) Environment

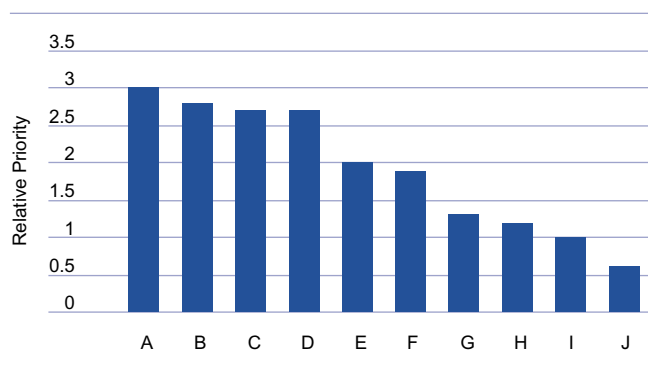
The investment priorities of non-domestic customers do not seem to differ markedly from those of domestic customers. This is perhaps one of the best indications that water and sewerage services are not something about which any customer (domestic or non-domestic) wants to have to worry. The

⁹ The Water Panel (May 2001)

¹⁰ Non-domestic consultation (refer to Appendix E for details)

likelihood is that responses to the non-domestic consultation reflect as much the priorities of the individual completing the questionnaire as the organisation that they represent. In many public meetings there has been no clear dividing line between domestic and non-domestic issues. The focus of non-domestic customers is again on the waste/sewage side.

Figure 22.9: Non-domestic consultation – investment priorities¹¹



A	Better sewage treatment to improve sea bathing water cleanliness
B	Introducing water efficiency techniques
C	Improving water supply (reducing interruptions etc)
D	Better sewage treatment to improve river cleanliness
E	Improving water quality
F	Increasing sewer capacity to reduce flooding
G	Improving sewage treatment works to reduce odours
H	Improving customer services and care
I	Subsidising those on lower incomes/voluntary organisations/charities
J	Extending installation of water meters

iii) Charges

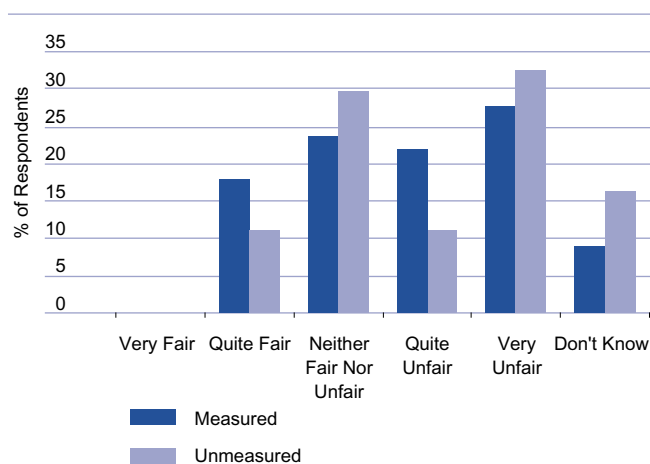
The non-domestic sector is much more aware of the level of charges for water and sewerage services because it is billed directly. I have already mentioned some of the billing issues, which are clearly a major concern for customers but charge levels are also clearly an issue.

The non-domestic sector in Scotland contributes a higher proportion of total revenues than is typically the case in England and Wales (see chapter 13). This will no doubt also be a factor in concerns raised by non-domestic customers.

Over three in four non-domestic customers claimed that they would be willing to see increases at a rate higher than inflation to allow investment to take place.

This again does not seem to be fully consistent with views on the fairness of charges. No-one believed that charges were very fair and less than one in seven (on average) believed them to be fair. Just over 49% of metered and just over 43% of unmeasured customers believed that current charge levels were quite unfair or very unfair (see Figure 22.10).

Figure 22.10: Non-domestic consultation – members were asked “How fair do you think the amount you pay for water and sewerage charges is?”¹²



e) The present level of service

Significant improvements in customer service have been introduced over the last two years. This is discussed in more detail later in this chapter.

Regulatory pressure both in trying to ensure a satisfactory resolution of a complaint and in objective monitoring of performance can support this improvement in customer service. However, real improvements in service do require customers to complain about or comment on their areas of concern. These improvements that have come about to date result from customer pressure for improvement.

One of the most striking comments in one of my first public meetings highlighted the difference in guaranteed service

¹¹ Non-domestic consultation (refer to Appendix E for details)

¹² Non-domestic consultation (refer to Appendix E for details).

standards in England and Wales and in Scotland. I am pleased to note that these same standards are now in place.

I am able to report that over the past year, compliance with the Guaranteed Minimum Standards has improved and so too has the quality of contact handling. I hope that compliance with the standards in Scotland will continue to improve. There is also now a clear Major Incident Policy (which was introduced in October 2000), which should ensure that customers know what to expect in the event of a major incident.

There is, however, much still to be done. Levels of service in Scotland do need to be improved and the price limits that are being set reflect the need for this improvement, and the expectation that it will be delivered.

f) Progress to date

i) 1996-99

There were several improvements in the customer service provided by the water authorities in the period from 1996-99. These improvements are summarised below.

Code of Practice

The water authorities introduced their first individual Codes of Practice in April 1996. A Code of Practice is a statement of the levels of service, which the authority expects to deliver to the customer. The first Codes of Practice the authorities produced were not particularly customer-friendly or ambitious in terms of the service promised.

However, competition quickly developed between the water authorities, and they each tried to tighten standards and have the best Code of Practice. By 1999 quite significant improvements had been made, although levels of service were still well behind that offered by other utilities.

Guaranteed Standards

The service promised in each Code of Practice was an aspiration – not a guarantee.

In the first Code, there were only four Guaranteed Standards:

- Responding to written complaints within 15 days and providing a full reply within 30 days.

- Keeping appointments made in writing.
- Installing a meter within 15 days.
- Responding to sewer flooding.

The Guaranteed Standards were backed with a £10 compensation payment that had to be claimed by customers. The Guaranteed Standards were well below the levels of service offered by water companies in England and Wales and by other utilities.

By 1999 the water authorities recognised that their initial Guaranteed Standards had to be tightened. This resulted in the Guaranteed Standards set out in Table 22.1 being introduced between 1996 and 1999.

The improvement in standards by each authority was marked. However, there were still some quite considerable differences between the three authorities in the level of service, which was offered to customers. This was very confusing for those customers who dealt with more than one Water Authority.

Environmental improvement

Since their creation in 1996, the water authorities have made significant investment in improving both environmental and public health performance. The main areas of focus have been:

- Disposal of sludge;
- Clean beaches;
- Quality of life issues (odour, amenity, wildlife preservation, etc.);
- Drinking water disinfection.

Each of the water authorities stopped dumping sludge at sea by the end of 1998 in accordance with the Urban Waste Water Treatment Directive.

By 1999, SEPA had identified 60 bathing water sites in Scotland. In the summer of 1999, 53 sites passed the mandatory (minimum acceptable) standards. Water quality issues were discussed earlier in this Chapter.

ii) 1999-2001

Codes of Practice and Guaranteed Minimum Standards

The single biggest improvement in customer service during the

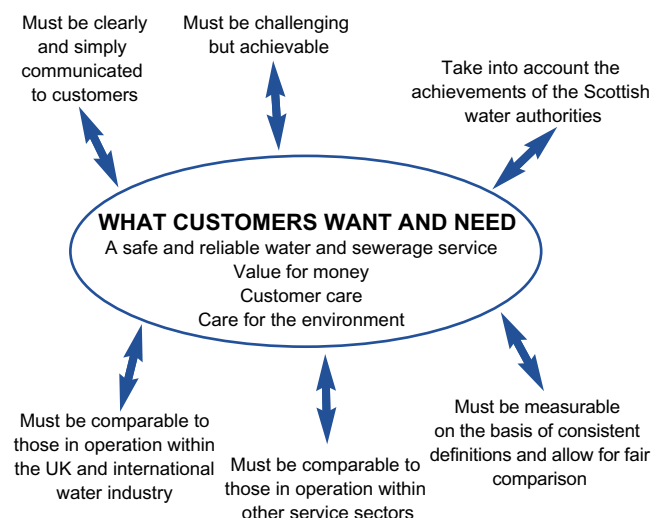
Table 22.1: Scottish water authority standards, April 1999

	East	North	West
Keeping appointments	Guarantee to keep all appointments made in writing	Guarantee to keep all appointments made in writing	Guarantee to keep appointment or notify customer of any change to appointment
Restoring supplies after a planned interruption	Supply restored no later than 1 hour after the time stated	Supply to be restored by the advertised time	Supply restored no later than 1 hour after the time stated
Restoring supplies after an unplanned interruption	Trunk main – supply restored within 60 hours Other mains – supply restored within 30 hours	Trunk main – supply restored within 48 hours Other mains – supply restored within 24 hours	Trunk main – supply restored within 60 hours Other mains – supply restored within 30 hours
Installing a meter	Meter fitted within 15 working days of receiving payment and signed agreement form		
Responding to written complaints	Response within 10 working days, full response within 25 working days	Response within 10 working days, full response within 25 working days	Acknowledge within 5 working days Response within 10 working days, full response within 25 working days
Responding to telephone complaints			Call back not later than end of next working day Response within 10 working days, full response within 25 working days
Responding to non-domestic billing enquiries	Full response within 25 working days	Response within 10 working days, full response within 25 working days	Response within 15 working days
Sewer flooding	Domestic customers – the gross annual sewerage charge Non-domestic customers – the annual sewerage charge (not including any trade effluent charges), up to £1,000 in any one financial year	Domestic customers – the full annual sewerage charge Non-domestic customers – the annual sewerage charge (not including any trade effluent charges), up to £1,000 in any one financial year	For households - £100 Non-household – the annual sewerage charge (not including any trade effluent charges), up to £1,000 in any one financial year

last two years has been the introduction of the Guaranteed Minimum Standards.

The criteria for the standards were based on an analysis of feedback from our consultation process. This analysis identified what had been achieved, what could be achieved at reasonable cost and what customers had told us. The proposed standards were outlined in a consultation document, *First Steps in Improving Customer Service* (18 May 2000), which received significant support from those who responded.

Figure 22.11: Feedback from consultation process



The water authorities and I jointly launched the Scotland-wide Guaranteed Minimum Standards on 1 October 2000. The Guaranteed Minimum Standards are as follows:

- 48 hours notice of a planned interruption to your water supply likely to last more than four hours.
- Restoration of supply at stated time following planned interruption of water supply.
- Restoration of supply within 12 hours of an unplanned interruption (48 hours for a trunk main interruption).
- Following sewer flooding in your home or business premises - clean up the mess and refund your full annual sewerage charge for each incident (up to £1,000) (for business customers this excludes any trade effluent charges).
- Respond fully in writing to a written complaint within 10 working days.
- Respond fully to a telephone complaint where a written response is requested within 10 working days.
- Respond to request to change your payment method within 5 working days (where direct billed only).
- Respond to other billing queries within 10 working days (where direct billed only).
- Keep appointments made for a morning or afternoon and offer a two hour time band if requested.

Failure to comply with any of these standards entitles the customer to a £20 compensation payment (except in the case of sewer flooding).

These standards brought Scotland in line with the standards offered in England and Wales, and indeed in some areas exceeds them.

Major Incident Policy

Fortunately, major problems with the service provided to customers are rare. However, if it does happen, this is exactly the time that most customers will want to understand the problem and what the consequences may be. This can put a strain on even the best customer service organisation. In my consultation on the Guaranteed Minimum Standards, I also suggested the need for a Major Incident Policy. This too received significant endorsement.

I regard the introduction of this Major Incident Policy as a major advance in customer service. The Policy sets out guidelines of what a major incident is, what to expect if it occurs and what compensation may be payable. Details of this Major Incident Policy will be required in any new Code of Practice from the industry. It is, of course, vital that customers are made aware of this Policy and the service that will be available.

The guidelines that trigger a major incident are as follows:

- An incident that affects more than 2,500 properties at any one time for at least 24 hours continuously (water related); or affects 100 properties (sewer flooding incident).
- An incident that affects the supply of water to premises through either an interruption to supply or restriction to the normal use of water because of poor quality or contamination.
- An incident to which the Scottish Executive requires a special response.

An information update will be provided to customers at least every 48 hours and alternative supplies will be provided within 24 hours.

Compensation can be claimed of between £20 and £100 depending on the nature of the incident and the length of time the authorities failed to deliver the standard of service required by the Major Incident Policy.

Key account management

Non-domestic customers appear to have been taken for granted by the water authorities until relatively recently. In particular, some of the largest companies in Scotland (and some of the largest employers) did not receive the customer service from their water authority that ought to have been forthcoming.

I visited one of the largest customers in Scotland in Spring of 2000. Their visitors' book showed that they had been visited by some of the largest English water companies, yet it transpired that they had never been visited by the senior management of the water authority in whose area they were located.

It was also clear from my research that non-domestic customers require a tailored service. For many large customers, the service provided and water authorities' responsiveness to their needs is almost as important as the absolute price charged. I responded to this by organising a seminar on customer service. This seems to have supported large customer pressure for a key account service.

Key account management does now exist but it is at a very early stage of development in the water industry in Scotland. Only East of Scotland Water Authority has made a significant investment in relationship management with customers and this is quite recent. This lack of development has limited the authorities managers' understanding of and response to the concerns of customers.

The introduction of key account managers is an important first step towards addressing the needs of large customers, although of course any tailored service must be properly priced and costed.¹³

g) Areas for improvement

Despite the very considerable improvement, which the water authorities have made in customer service, there is still some way to go before they match the responsiveness of other utility service providers. There are a number of specific areas where the water authorities do not yet meet even quite basic requirements of customers.

i) Basic requirements

I discussed earlier the need for a safe, reliable water supply. Unfortunately, many customers still experience drinking water quality failures, supply interruptions or flooding from sewers. Table 22.2 sets out the findings of the most recent performance reports.

ii) Customer service

Key monitoring of complaints and customer service performance indicates that significant action is still required to improve performance. This monitoring highlights a number of areas of concern:

- lack of follow-up of complaints;

Table 22.2 Performance of Scottish water authorities – January – March 2001

Results for quarter (January to March), 2000/01	East	North	West	Northumbrian Water ¹⁴
Total planned interruptions per 1000 connected properties	0.74	0.49	0.68	0.045
Total unplanned interruptions per 1000 connected properties	0.41	1.22	0.43	0.041
Total Properties affected by planned or unplanned interruptions	19,009	32,321	39,016	11,987
Percentage of connected properties	2.6%	6.5%	3.4%	1.1%
Sewer flooding incidents reported	1,191 0.16% of connected properties	44 0.01% of connected properties	3,381 0.29% of connected properties	452 0.018% of connected properties
Internal sewer flooding incidents due to water authority Sewer per 1,000 connected properties	0.03	0.03	0.1	0.06

¹³ See earlier discussion in Chapters 11 and 14.

¹⁴ Ofwat, *Levels of service for the water industry in England and Wales 2000-2001 report*, July 2001. Tables 9, 10 and 12. Also Northumbrian Water's web site: www.nwl.co.uk.

Table 22.3: Scottish water authority compliance with complaint standards – January – March 2001

Results for Q4 2000-01	East	North	West
Compliance with written complaints standard	85.5%	99.5%	90.6%
Compliance with telephone complaints standard	88.9%	100%	94.6%

- a need for more clarity in letters;
- lack of proper notes of telephone calls and meetings;
- lack of 'friendliness' in letters;
- a need to use 'Plain English' in letters;
- failures to provide contact details.

My review of the handling of billing complaints shows this to be a particularly weak area and certainly confirms the concerns expressed by the non-domestic sector.

How well complaints are handled is particularly important, as a complaining customer is likely to be particularly sensitive to any further service failures. The performance of the North of Scotland Water Authority in this area is quite considerably better than that of the other two authorities. One of the aims of the proposed Scottish Water must be to improve urgently customer service standards in the East and West to the level achieved by the North.

Table 22.3 sets out the performance achieved in the final quarter of 2000-01.

To put these statistics in perspective, compliance in England with a similar written complaints standard ranges from 93.4% (the worst) to 100%. (There is no telephone complaints standard in England and Wales.)

My monitoring of complaints also assesses the quality of the response provided, not just the timeliness. I introduced Quality Performance Assessment Audits in 2000 to measure the quality of Guaranteed Minimum Standards and Code of Practice compliance by the water authorities. The quality of responses was measured using objectively set criteria for which there is a clear yes or no outcome. I have extended this audit format to areas of particular concern, such as billing.

Audit results to date suggest that the water authorities need to improve their performance significantly. I provided detailed

Table 22.4: Performance of Scottish water authority call centres – January – March 2001

Results for Q4 2000-01	East	North	West
Calls answered in 0-15 seconds (main helpline, office hours)	87.8% (0-16 secs)	91.0%	83.6%
Calls answered in 0-15 seconds (main helpline, out of office hours)	75.7% (0-16 secs)	87.4%	74.6%
Effective call rate (main helpline, office hours)	96.8%	97.2%	93.5%

feedback to each of the three authorities and to the Scottish Executive. From next year I propose to publish an annual assessment of customer service in Scotland.

There has been an improvement in the handling of written complaints from customers. The most marked improvement has been by the West of Scotland Water Authority, but even with this improvement, the level of service provided to customers is not satisfactory. Under one-third of responses pass the audit.

The authorities' response to billing complaints is even worse. Across Scotland only 3% of customers received responses that satisfied the audit standard. It is very clear that considerable improvement is necessary.

iii) Call centres

My assessment of call centre performance comprises a series of qualitative measures, as well as the obvious quantitative measures (such as time taken to answer a call).

Table 22.4 sets out the performance against the quantitative targets achieved in the final quarter of 2000-01:

Each of the call centres scored highly in terms of courteousness and professionalism.

My audit highlighted, however, that there were some disappointing gaps in knowledge. These included a lack of awareness of the Guaranteed Minimum Standards and their application.

The audit also showed that the call centre and operational staff did not always provide a seamless service. This was characterised by poor updating of outstanding customer service problems.

iv) Key account management

Key account managers are responsible for understanding the key needs of the largest customers and ensuring that the service delivered is appropriate. Consultation with a number of large users revealed that the authorities have begun to move in the right direction towards this important role in the retail function. However, there is still significant progress to be made. The following issues were highlighted during our consultation:

- a lack of contact;
- scope and resources of each key account manager – are they responsible for too many individual accounts?
- consistency - multi-site customers reported having different key account managers at different sites and felt that this caused problems with a lack of consistency of response and policy interpretation;
- lack of awareness – a number of customers were unaware of the existence or availability of the key account management service.

In the majority of cases key account management is at a very early stage of development. The authorities need to invest in relationship management to ensure that they understand and address the concerns of their large customers. A customer's lack of confidence in their supplier may force the customer to pursue other options.

h) Conclusions

It is clear that the water authorities have made progress since 1996, and that the pace of this progress has increased since 1999. However, there is still considerable improvement that can be made, particularly in the areas of billing and communication.

It became very clear during our consultation with non-domestic customers that they were not satisfied with the authorities' billing and collection process. This does raise the question whether or not it would be sensible for the proposed Scottish Water to manage the billing of domestic customers.

The progress made by the authorities has to continue; there is a need to improve compliance with the Codes of Practice and to explain service failures better to customers. I believe that the monitoring systems are now in place to hold the industry to account. My proposed customer service reports (detailed in chapter 23) will ensure that customers are aware of the levels of service provided.

Section 5: Chapter 23

Customers: Future Improvements in Customer Service

a) Introduction

One of my key aims in this Review is to identify areas where the water authorities can, and should, improve the service they provide to their customers. In Chapter 11, I discussed the potential development of competition in the water industry. Whilst in economic terms the impact of competition on the industry is not likely to be significant, the advent of retail competition is likely to encourage better customer service. In future there may well be a number of companies that will offer a water service to customers. These companies could also have an advantage in that they will offer other services that the customers may want. For example, Scottish Gas even now offers road-side assistance, insurance, banking and credit card services, as well as the basic utility services of gas, electricity and telephone. They may well seek to enter into the water sector at some point in the future.

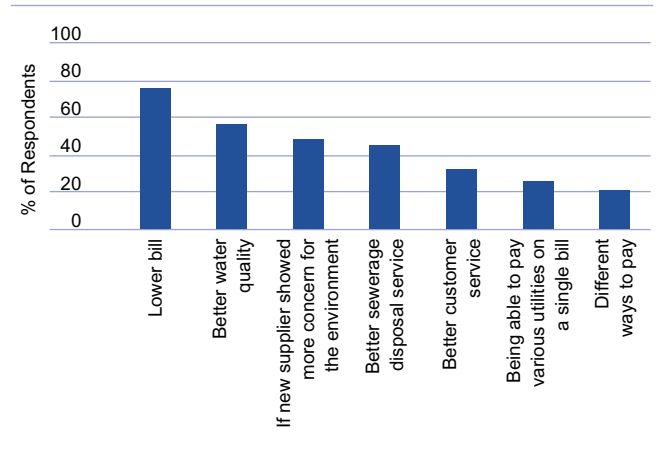
If the water authorities are to be successful in the retail of water services, it is vital that they focus on improving performance and that they listen to the opinions of the end customers.

Customer service accounts for a small proportion of the total cost of providing services to customers. It will therefore be difficult for a new entrant to the water market to make an attractive financial offer (ie. money off the bill) to water customers to make them want to switch.

When there is a choice, decisions to move supplier are more likely to reflect a customer service failure. It is unlikely that a new entrant could reduce the price of an average bill by more than about £10-£15, notwithstanding the economics of scale and scope that they are likely to enjoy. They may, however, be able to win over customers on their customer service.

Figure 23.1 illustrates this point.

Figure 23.1: Reasons to switch supplier if alternative available¹



Not surprisingly, 74% of respondents to the survey listed a lower bill as a reason to switch supplier. It is, however, interesting to note that nearly a third of the Water Panel believed that an improvement in customer service could entice them to switch supplier. Closer examination of the responses to this question shows that if a new entrant were seen to be more environmentally friendly or offer better customer service (by offering different ways to pay or by offering bundled services) then customers may switch. This confirms trends in other utility services, where customers have shown a demand for green energy, and seem to have been prepared to pay slightly more for the convenience of a bundled service.

This chapter identifies a number of areas where improvements could have an important impact on the customer's perception of value.

b) Key improvements

The water authorities have to continue to improve their compliance with water quality regulations and environmental legislation. The authorities should also pay attention to how customers perceive these improvements. For example, many customers think the water is poor quality if they can taste or smell chlorine. It is important that the water authorities continue to explain why the water is chlorinated and seek out innovative solutions.

¹ The Water Panel (December 2000).

Most customers do not have a reason to contact their water authority until something goes wrong. The ongoing investment programme should reduce the number of supply interruptions and water quality failures. This will in turn reduce the number of negative experiences and consequently should significantly lower customer dissatisfaction.

There are four main areas where improvement by the water authorities would significantly improve customer perception of the value for money they receive. These are improving the Guaranteed Minimum Standards, introducing a priority register, addressing billing issues and meeting the needs of the non-domestic sector.

i) Guaranteed Minimum Standards

I would like to see improvements in the Guaranteed Minimum Standards. These should be constantly developed and reviewed to reflect the changing needs and expectations of customers. However, my review of current compliance with the standards would suggest that the primary focus at this time needs to be on compliance, not on tightening the standards. I would not want to set standards at a level that cannot be achieved. This could lead customers to expect a level of standard that cannot be delivered cost-effectively.

Current performance against the standards is highlighted in Table 23.1 and 23.2.

Table 23.1 demonstrates that current compliance is not sufficiently high to justify a tightening of any of these standards.

New standards

There are two areas where new standards would seem to be appropriate. The first is the introduction of a standard for dealing with ingress of water into gas mains. This has been developed jointly by my office, the authorities, Transco and Energywatch. Water ingress into gas mains is a relatively rare occurrence but it can cause significant difficulties for an owner of gas appliances. There is therefore a clear need to have a policy on how this situation should be handled. This is particularly important because an effective resolution for the customer depends upon successful coordination between several organisations.

In responses to my consultation on the Guaranteed Minimum Standards, there was also a clear desire for a water pressure standard. Such a standard is in place in England and Wales, but the standard is quite complex and can be difficult to monitor. I was therefore reluctant simply to introduce this same standard. It is important that any water pressure standard is meaningful to customers and provides a clear baseline of the service that the customer can expect. I will work with my Consultative Committees and the industry to frame an appropriate standard with a view to introducing this standard no later than the inception of the proposed Scottish Water or April 2002.

The standards offered should not be limited to those listed above. There may be a clear customer desire for other standards and it is appropriate that the cost and benefit of providing this service should be objectively assessed.

Table 23.1: Water authority guaranteed standards

	East	North	West
Number of Guaranteed Standard payments	369	32	452
Number of Guaranteed Standard payments per 1,000 connected properties	0.51	0.06	0.39
Amount paid under Guaranteed Standards	£19,147	£3,425	£13,292
Amount paid under Guaranteed Standard per 1,000 connected properties	£26.41	£6.88	£11.54
Overall compliance rate	84.7%	99.1%	97.7%

Table 23.2: Water authority standards

	Compliance		
	East	North	West
Keeping appointments	96.1%	100%	95.9%
Telephone complaints	88.9%	100%	94.6%
Written complaints	85.5%	99.5%	90.6%
Billing enquiries (direct billed)	79.1%	99.9%	98.3%
Change in payment method	100%	100%	94.4%
Notice of planned interruptions of 4hrs+	97.8%	82.8%	100%
Restoration after planned interruption	99.6%	87.7%	97.9%
Restoration after unplanned interruption	97.3%	97.6%	98.3%
Sewer flooding	98.2%	100%	100%
Septic tank desludging requests (E)	99.8%	-	-
Meter option requests (E)	-	-	-
Meter survey (N)	-	95.7%	-
Meter installation (N)	-	100%	-
Pay GSS/GMS within 20 days (N)	-	100%	-
Meter application (W)	-	-	93.0 %
Meter installations (W)	-	-	93.7%

Differences in standards

The only other area that I consider needs to be addressed as a priority is the difference in service standards that exists at present between the three authorities. I believe that it is important, irrespective of whether the proposed Scottish Water is endorsed, to remove the differences in standards that apply in each of the authorities. I do not want to see standards averaged down, and will be looking for each authority to address anomalies between its Code and best practice. Similarly, if the creation of Scottish Water is approved this should include best practice from each of the existing Codes of Practice.

Monitoring performance

My office's commitment to improving customer service depends upon the continuing review of standards offered elsewhere. My analysis of customer service standards is not limited to the utilities, although these companies (and in particular the English and Welsh water sector) are likely to offer the most comparable and applicable standards of service.

There are a number of examples of best practice available from the service standards of the privatised companies. These standards exceed the minimum levels set down by Ofwat. Table 23.3 highlights some sample standards:

Table 23.3: Examples of best practice offered in English and Welsh companies

Service	Offered by
Set compensation when boil water notice necessary	Severn Trent Water, South East Water, Wessex Water
Reduction in charges if inconvenienced by high water pressure	Yorkshire Water
Reduction in charges if more than 3 unplanned interruptions totalling over 15 hours in one year	South Staffs Water, Yorkshire Water
Repairing manholes within 24 hours if they are dangerous, 5 working days otherwise	Anglian Water
Offer to collect payments from customers home	Hartlepool Water, Wessex Water
Charges set aside for 1 to 12 months if only resident is hospitalised or similar serious long-term disability	Thames Water
Set compensation if appointment time missed	Bristol Water, Northumbrian Water, Thames Water

My office will test these standards with my domestic Water Panel. I will want to be sure that there is sufficient customer demand for these new standards.

It may be appropriate for Scottish Ministers to consider the introduction of a standard similar to that offered by Thames Water in setting aside charges if the only householder is in hospital for an extended period.

ii) Priority Register

I am currently working with the industry on the introduction of a 'Priority Register'. This is an initiative to address the needs of customers who are vulnerable and may have particular difficulties if there is a water supply problem. I plan to establish a register, preferably in conjunction with other utilities, of these customers with particular needs. This should help ensure that they receive the service they require. This may range from something as apparently insignificant as a password scheme for staff visiting their home, to special assistance to customers with a medical condition.

iii) Domestic billing

There has been much debate about whether the water authorities should bill domestic, unmeasured customers. Currently, these customers are billed for water and sewerage services by the local authorities.

The water authorities pay local authorities £11.5 million each year to administer billing of these customers. This means that around 3% of domestic revenues is currently spent on billing and collection.

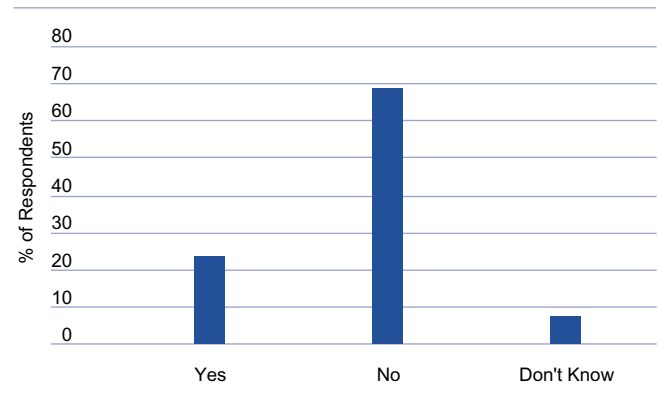
I asked the domestic Water Panel for their views about how domestic unmeasured customers should be billed for their water service.

There would therefore not seem to be any real desire from customers to receive a separate bill.

I also asked two further questions concerning methods and frequency of payment. The results are set out in Figures 23.3 and 23.4.

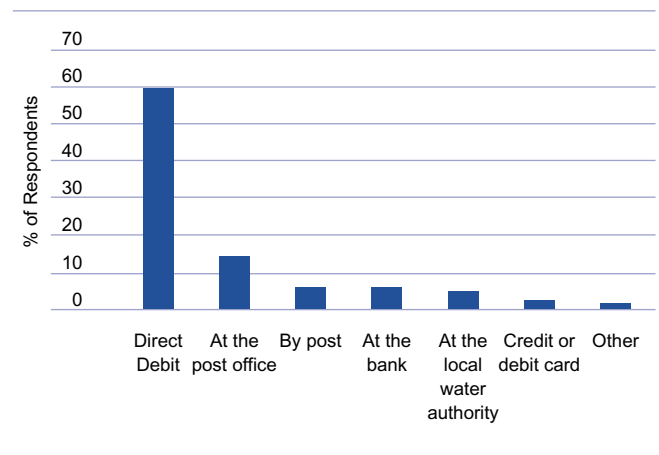
Not surprisingly, most customers would prefer to pay by monthly direct debit. It is important, however, to ensure that support is given to those who may have difficulty in paying. The

Figure 23.2: Responses to the question “Domestic water and sewerage charges are currently billed with the Council Tax. Would you prefer it to be a separate bill?”



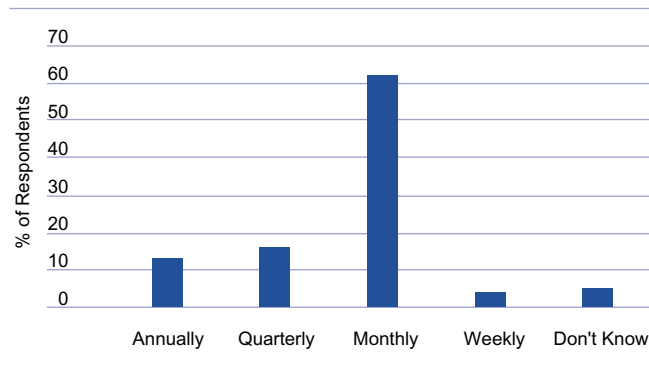
quite high percentage of people who would like to pay in person or at a post office may indicate that there is a need for some extra support. I address issues relating to the affordability of water charges in Chapter 24.

Figure 23.3: Responses to the question “How would you prefer to pay your bill?”



The costs associated with managing retail customers in-house are potentially significant. The costs of billing and customer information systems are very high and there is a problem of non-payment by a significant proportion of households. These costs are likely to place the proposed Scottish Water at a competitive disadvantage to a new retail entrant to the industry. It would not seem to be appropriate, therefore, for Scottish Water to bill domestic customers directly. This is likely to be cost ineffective

Figure 23.4: Responses to the question “How often would you prefer to be billed?”



and moreover does not seem to be a priority of the customer base. This does not mean that the billing of domestic customers has to remain with the local authorities. There may be other opportunities in the form of partnerships or outsourcing contracts, which offer a better and a cheaper level of customer service. Either the local authority or the outsourced option may well offer better value for money for customers.

The performance of the three authorities to date in managing direct customer billing has not been encouraging. The results were outlined briefly in Chapter 22. This would seem to confirm further that direct billing of the domestic sector would not be in customers' interests.

iv) Standards for the non-domestic sector

The current Guaranteed Minimum Standards apply equally to domestic and business customers. However businesses, particularly larger businesses, may find these standards do not address their main concerns.

I have discussed this issue with my Large User Group. The initial view was that there should be a set of minimum standards that would apply for the largest customers. However, upon further study we found that larger businesses are likely to have very specific and varied needs. Although all large users valued issues such as reliability of supply and transparency in tariffs, their particular requirements were often quite different. For example, a large effluent discharger may seek to have more frequent samples of effluent tested. It would therefore be

difficult to develop a set of standards that adequately meet the requirements of all. This view was endorsed by my Large User Group. Our suggested solution is that there should be more service level agreements.

c) Monitoring

My office will continue to monitor the level of service available to all customers. I will continue to use consultations with customers, the Water Panel and performance audits to help me understand customer priorities. This will ensure that new standards are both achievable and relevant.

I believe that monitoring service delivery is crucial to improving customer service. It is essential that the service providers understand that customer service failures are recorded and that pressure will be applied to ensure a proper resolution of any complaint.

d) Publicity and keeping customers informed

There is a clear desire from customers to know how well their water supplier is performing. There is a lot of information available on water quality, environmental compliance and customer service levels, but it is sometimes difficult for customers to gain access to the information. When customers were asked which additional services they would like the water authorities to provide, a desire for performance information was expressed.

My office therefore proposes to publish an annual report on the customer service performance of the Scottish water industry. This report will set out the levels of service provided by the industry in a number of key areas of customer service.

Where company performance is consistently below an acceptable level, the water authority will be asked to set out the reasons for its poor performance, and the actions that they propose to take to improve the service.

This report will be similar to the Level of Service report published each year by Ofwat.

e) Conclusion

Customer expectations of service providers are becoming ever more demanding. These expectations are driven by the competition to win or retain customers in other sectors of the economy such as food retailing, financial services and in other utilities.

During the next four years while charges still have to increase, it is crucially important that customers begin to see the benefits of proper investment in the industry. This will require the industry to continue pro-actively to explain the need for investment and the costs of delivering water on demand to the tap. Improved customer service, especially in terms of managing contacts (whether written or oral), is likely to be one important way of showing customers that the service really is being improved.

I will give credit when the industry does achieve the level of service that the customer has a right to expect. I will also ensure that any shortfalls in levels of service are immediately highlighted to all stakeholders.

It is clear that there remains much work to be done to improve customer service and meet customer expectations. My office will continue to use consultation and analysis to understand what customers want and need.

Section 5: Chapter 24

Customers: Improving Revenue Collection and the Affordability of Charges

a) Introduction

Chapter 13 examined the current and potential future composition of the Scottish water industry's revenue. In that chapter I briefly mentioned the issue of non-payment of water and sewerage charges by domestic and non-domestic customers. The scale of this bad debt problem within Scotland is significant and, as highlighted by the Transport and Environment Committee, needs to be addressed¹. This chapter discusses the bad debt problem in Scotland and the situation in England and Wales.

Collection rates from the non-domestic sector are wholly within the control of the water authorities. Domestic water and sewerage charges are collected by local authorities, along with Council Tax, on behalf of the water authorities. Improving collection is likely, therefore, to require a partnership approach between all stakeholders.

There are a number of initiatives that could improve collection from non-domestic customers. These include better communication, better billing and collection, a generally more business-like approach and more cost reflective tariffs.

The resolution of non-payment by the domestic sector is likely to prove more problematic. The impact of non-payment of charges from the domestic sector does materially affect bills and needs to be resolved. It will require helping those who cannot pay and ensuring that those who refuse to pay are held to account.

There are a number of initiatives that would assist those domestic customers who have difficulty in paying. The current transitional affordability scheme, launched earlier this year by the Scottish Executive², will also undoubtedly help. In addition, ensuring that charges are affordable will be key if customers who can, but refuse to, pay are to be held to account. Their refusal to pay is increasing, perhaps materially, bills to other domestic customers, including vulnerable customers who genuinely struggle to pay, yet do. The issue of affordability came to the fore after my interim Review and the large, but necessary, increases in customer charges that followed. Poor collection rates are, however, not new and have been an issue

for the last several years. These collection rates do not appear to have worsened as a result of the increased charges.

I have noted the criticisms that have been made of the affordability initiative introduced by the Scottish Executive. I believe that the scheme was as targeted as possible, given the information that was available at the time and recommend that further analysis of the affordability of charges is undertaken. This analysis can help to ensure that we are in a position to address affordability issues effectively which I believe, will be essential to the reduction of the non-payment problem in Scotland.

b) Overall situation with bad debt

i) Bad debt in Scotland

Non-payment of water charges is a serious issue in Scotland. It materially affects the level of charges and needs to be addressed if bills are to be affordable for other customers. The water industry has much higher bad debt levels than in other utilities in Scotland.

The bad debt levels of the three authorities for the year 2000-01 are set out in Table 24.1:³

Table 24.1: Bad debts

	East	North	West	Scotland
Bad debts				
: Domestic	£7.7m	£2.0m	£16.5m	£26.2m
: Non-domestic	£9.1m	£0.9m	£5.7m	£15.7m
: Total	£16.8m	£2.9m	£22.2m	£41.9m
% of revenue				
: Domestic	6.0%	1.8%	9.4%	6.3%
: Non-domestic	10.2%	1.0%	4.4%	5.2%
: Total	7.7%	1.4%	7.3%	5.8%

There is apparently less of a problem with non-payment of water charges in the North of Scotland Water Authority. This is to some extent counter-intuitive because the issue of charges has had a much greater profile in the North and the level of the charge is much higher. There is also a greater number of smaller business customers, who are likely to have found it particularly difficult to adapt to a large increase.

¹ Transport and Environment Committee, 9th Report 2001

² Scottish Executive, *Affordability of Water and Sewerage Charges, Consultation Report*, February 2001

³ WIC Annual Return, 2000-01

Ultimately, non-payment of bills by some customers causes the bills of other customers to be higher. Table 24.2 outlines the impact of the bad debt problem on the average domestic paying customer.

Table 24.2: Impact of bad debt on average domestic customer

	North	East	West	Scotland
Average household bill 2000-01	£227	£192	£180	£194
Increase in average household bill that results from non-payment	£4	£11	£17	£12

The experience of other utility service providers in Scotland is also interesting. Scottish Power and Scottish Hydro Electric do not include bad debt in their Annual Report and Accounts. It has, however, been estimated that their bad debt is no more than 0.5% of turnover. This figure provides an interesting benchmark, as these companies are supplying the same customers as the Scottish water authorities.

ii) Comparison with England and Wales

My initial expectation was that there would be a strong correlation between non-payment and the level of the charge. In order to be able to compare collection rates in Scotland with those in England and Wales, it is useful to compare average domestic bills. I also show comparisons of non-domestic charges. Figures 24.1 – 24.4 show average bills, for domestic customers along with non-domestic customers and also small, medium and large businesses.

Figure 24.1: Comparison of average domestic water and sewerage bills for 2001-02⁴

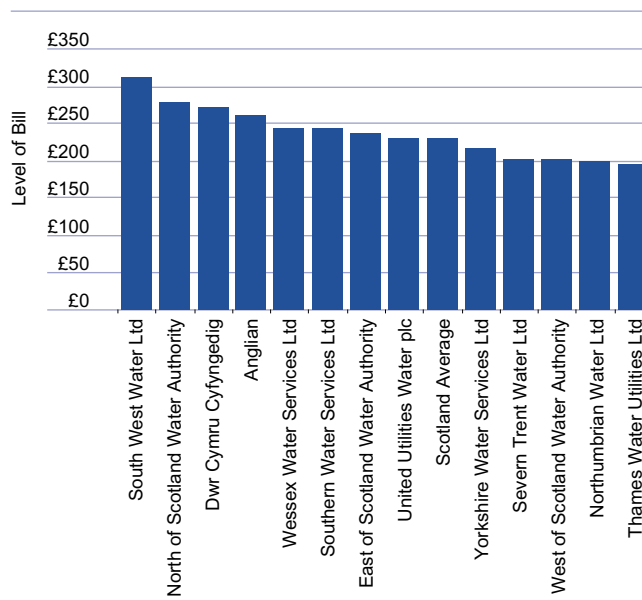
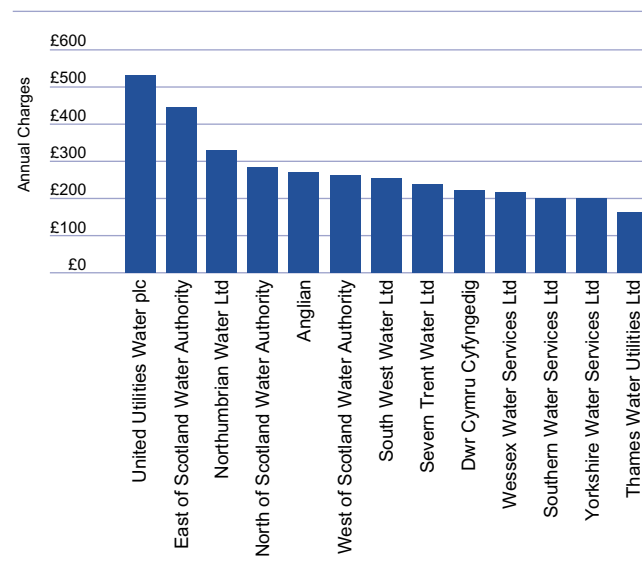


Figure 24.2: Comparison of combined water and sewerage bills – 2001-02 – for small business⁵



⁴ Parliamentary Question – (S1W-17140)

⁵ Small business - £1,000 rateable value, 15mm (1/2") supply pipe, 100m³ water used per year – all sewage is domestic strength – *Ofwat Tariff Structure and Charges 2000-01 report*. The position of East of Scotland Water Authority is misleading, because of their use of 'virtual' meters, see Chapter 13.

Figure 24.3: Comparison of combined water and sewerage bills – 2001-02 – for medium business⁶

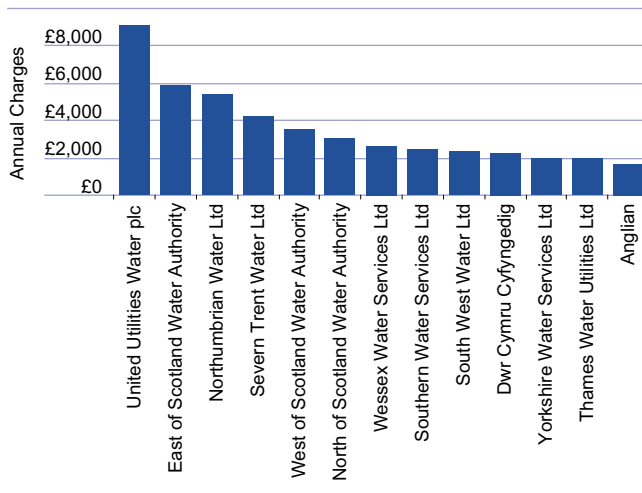


Figure 24.4: Comparison of combined water and sewerage bills – 2001-02 – for large business⁷

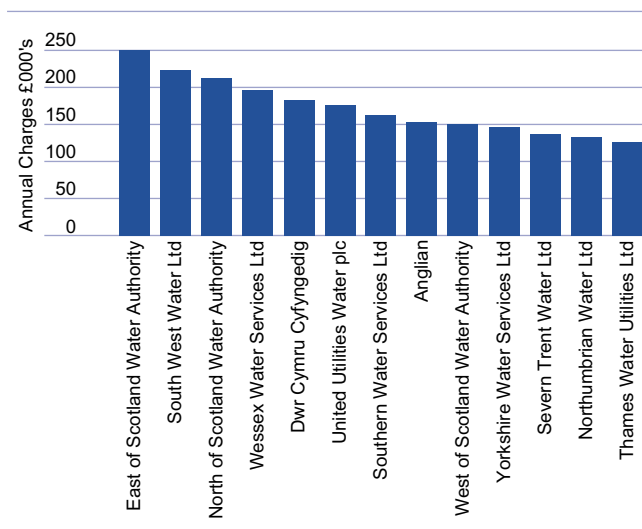


Table 24.3: English & Welsh water companies, bad debt levels – 1999–2000

	Total bad Debt	Turnover	Total bad debt as % of turnover	WIC estimate-domestic bad debt as % of turnover
Anglian Water	£8.7m	£752.4m	1.15%	0.77%
Welsh Water (Dwr Cymru)	£10.0m	£486.7m	2.05%	1.36%
North West Water	£26.1m	£1035.3m	2.52%	1.68%
Northumbrian Water	£3.8m	£490.9m	0.78%	0.52%
Severn Trent Water	£18.4m	£1011.0m	1.82%	1.21%
South West Water	£3.7m	£282.8m	1.30%	0.87%
Southern Water	£6.3m	£478.8m	1.32%	0.88%
Thames Water	£19.0m	£1135.2m	1.67%	1.11%
Wessex Water	£2.8m	£285.0m	0.98%	0.65%
Yorkshire Water	£6.1m	£642.9m	0.95%	0.63%

Until recently, charges have been lower in Scotland than in England and Wales. However charges in Scotland are now broadly similar to those south of the border.

The Scottish collection rate, however, does not compare favourably with the English and Welsh water companies. The English and Welsh companies' bad debt levels for the year 1999-2000 are outlined in Table 24.3. I have assumed a 2-1 rate between domestic and non-domestic bad debt⁸. This split is broadly the same as in Scotland.

There does not seem to be any strong correlation between the level of charges in England and Wales and the level of non-payment. The level of domestic charges for customers in South West Water, for example, is the highest, but the company's non-collection rate is quite low. The picture in Scotland is not dissimilar in that collection rates in the North are much better than in the West area, which has much the lower charge.

⁶ Medium business – commercial building, eg hotel £20,000 rateable value, 50mm (2") supply pipe, 1,000m³ water used per year – all sewage is domestic strength.

⁷ Large business – major manufacturer, £30,000 rateable value, 150mm (6") supply pipe, 200,000m³ water used per year 60,000m³ domestic strength sewage – 140,000m³ trade effluent discharged to sewer – *O'wat tariff Structure and Charges – 2000-01*. Most East of Scotland Water Authority large users have concluded a special non-tariff scheme agreement, which reduces their charges.

⁸ I have not included East of Scotland Water Authority as it has had significant billing problems. Its non-domestic collection performance will have been influenced by this poor quality of billing.

Table 24.4: The Scottish water authorities' current domestic bad debt levels

	Current domestic bad debt	Current % of turnover	Comparator – current % of turnover	Saving available	Impact on Band D customer bill
East of Scotland Water Authority	£7.7m	6.0%	0.52%	£7.0m	£11.93
North of Scotland Water Authority	£2.0m	1.8%	0.87%	£1.0m	£2.30
West of Scotland Water Authority	£16.5m	9.4%	0.52%	£15.6m	£19.89

However, even North of Scotland Water Authority does demonstrably worse in the proportion of domestic and non-domestic charges that it collects. If the Scottish authorities were to collect charges as well as their comparator companies, this would have a material impact on customer bills⁹.

However, there may be a number of other potential reasons for the high percentage of bad debt in Scotland compared with England and Wales:

- domestic water bills are collected by local authorities;
- domestic water bills are collected along with Council Tax;
- the quality of non-domestic billing is poor;
- fewer payment options are available;
- less assistance is available to those who have difficulty budgeting;
- historically, there has been no possibility of domestic disconnection, unlike in England and Wales.

Social factors can also have an influence although there is no evidence that social problems in Scotland are markedly worse than in other areas of the UK. This does not mean that assistance to vulnerable groups may not be required – it simply means that this is not the only answer.

c) Managing collection from the non-domestic sector

As outlined earlier in this chapter, there are a number of initiatives, which could improve collection from non-domestic customers. These would include better communication, better billing and collection, a generally more business-like approach and more cost reflective tariffs.

I have asked for information from the water authorities about how they manage revenue from the non-domestic sector. This was the principal subject of my WIC 1 and WIC 9 letters¹⁰. The WIC 1 letter asked the authorities to reconcile customer lists with audited revenue and to aggregate multi-site customers in order that the exposure to a single organisation could be analysed. WIC 9 asked about the levels of debt outstanding from the non-domestic sector. I have also been helped in understanding this issue through consultations with representative organisations and with my Large User Group.

I discussed the poor quality of billing in Chapter 22. Unquestionably this is not only frustrating for the customer in terms of the service provided, but it also has an adverse impact on the collection of revenue.

The fairness of charges and the need for cost reflective charges must also be addressed if the impact of competition on revenue for the incumbent authority is to be minimised. Improvements in these areas could also positively impact on the level of collection of charges.

The way the industry interacts with its non-domestic customers needs to improve. Several large customers have commented on the lack of responsiveness from their water authority. Requests go unanswered or are rejected without a clear explanation. This undoubtedly influences the level of non-payment. Yet it would be relatively easy to address. It is to be hoped that the initiatives taken by East of Scotland Water Authority in key account management will be effective and will serve as a model for the future of water services in Scotland.

It will be equally important, however, that the financial management of customers' accounts improves dramatically.

⁹ Comparators: Northumbrian and South West Water 1999-2000 data.

¹⁰ These can be found in Appendix F.

The average debt for East of Scotland Water Authority is over 120 days old and there are a number of major public and private sector customers who exceed even this. There is no reason why the performance of the East of Scotland Water Authority could not be improved dramatically. North of Scotland Water Authority, which is by no means a leader in UK terms, has limited the average time of an outstanding debt to one-third of the level in East of Scotland Water Authority.

I believe that my regulatory reporting will ensure that pressure is applied to the industry to improve its collection from the non-domestic sector. My suggestions of tariffs and on the conclusion of service level agreements should also help.

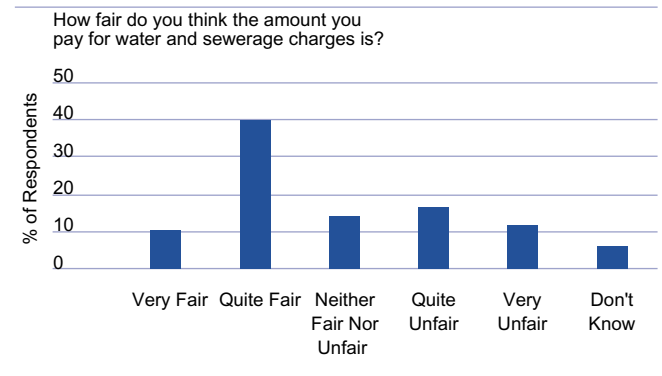
d) Managing collection from the domestic sector

Domestic customers are charged according to the Council Tax band of the property in which they live. This means that those living in more valuable properties will pay a higher charge for their water and sewerage services. In any water authority area, a customer occupying a Band A property will pay two-thirds of the charge paid by a customer living in a Band D property, with customers in Band H properties paying double the Band D charge. This means that a Band H property pays three times as much as a Band A.

Some households receive a discount in their charges. These discounts are for single person households, disabled customers or students. These discounts are not in any way related to ability to pay. For example, a millionaire living on his or her own receives the same 25% discount as a pensioner on income support. Nor does this discount reflect any difference in the economics of supply to that customer.

The property band reflects the assessed value of the house or flat. There is likely therefore to be a correlation between the income of the household and the band of the property in which they live. The linking of water charges to Council Tax bands should mean that those on lower incomes will pay less in water charges than those on higher incomes. This should improve the collection of charges.

Figure 24.5: Responses to question put to customers in Council Tax Bands A & B¹¹



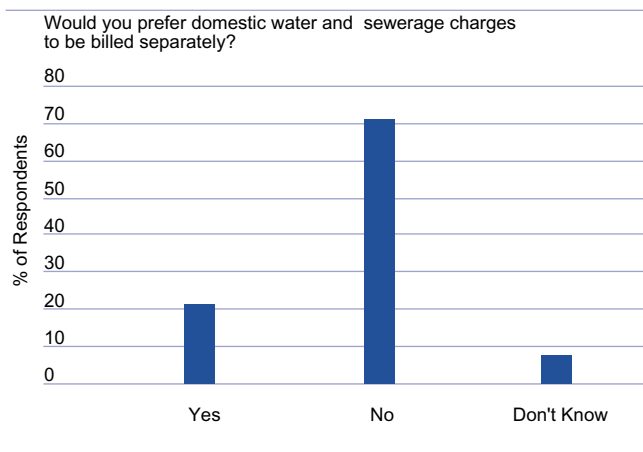
However, the recent significant increases in charges are likely to have had a disproportionate impact on lower income households, where water charges constitute a higher proportion of disposable income. This would be particularly the case for customers on low incomes who live in high-banded properties or for vulnerable customers in the North of Scotland Water Authority area, where charges are higher than elsewhere in Scotland.

For example, if a married couple receive only the average level of income support and live in a Band A home in the North of Scotland Water Authority, their water charge would represent just under 6% of their income.

There are a number of actions that may help to mitigate the problem of bad debt amongst domestic customers. There are radical solutions and there are several incremental actions, each of which may help a little. The views expressed to me in both public meetings and through my domestic Water Panel have been most useful in this area. There does not seem to be a strong consensus in favour of radical change. The majority of customers do not seem to believe that there should be a switch in either the mechanism or the method of billing. Given recent increases in the levels of charges, most customers (even those in lower banded properties) seem to think that charges are not unfair.

¹¹ The Water Panel (May 2001).

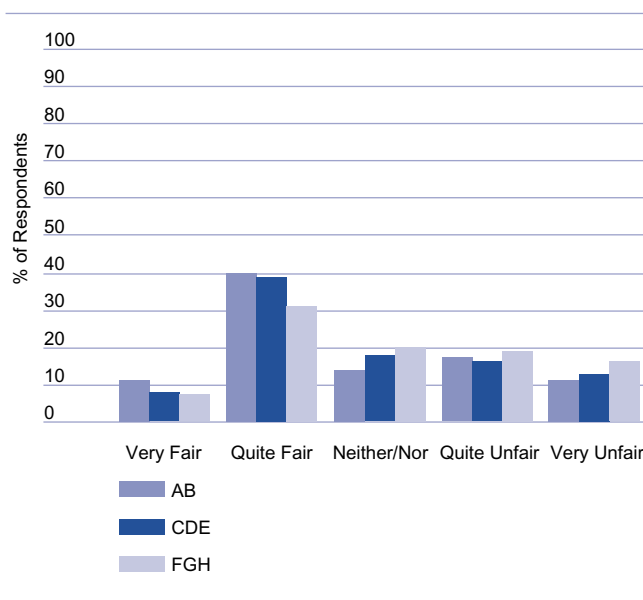
Figure 24.6: Responses to question put to customers in Council Tax Bands A & B¹³



There also does not appear to be any desire to see the water authorities bill domestic customers directly¹², as shown in Figure 24.6.

Figure 24.7 suggests that solutions to the bad debt problem are unlikely to result from changing the Council Tax link.¹⁴ Indeed a clear majority of customers prefer this method of billing.

Figure 24.7: Perceived fairness in relationship to Council Tax Band



Alternative approaches to billing domestic customers would all seem to enjoy less support than the link to Council Tax.

There are however some steps which could be taken to help improve collection rates from domestic customers. These are not all radical and would be relatively easy to implement. Such measures have been used to good effect in England and Wales. They include:

- increasing the number of payment options available,
- providing advice to those who are in debt,
- improving communication with customers.

I discussed the need for more flexibility in payment options and for more places to pay in Chapter 23. There was a significant minority of customers who believed that such options could well improve collection rates.

Some respondents felt that disconnection for non-payment should be introduced. However, while this may encourage some of those unwilling to pay to do so, this approach is unlikely to be effective in the long run. The sanction of disconnection was available to the water companies in England and Wales until 1999, but was rarely used. The costs in terms of customer relations were considered too high. This cost will only get higher as retail competition begins to have an impact on the market. Moreover, the removal of the sanction does not appear to have had an impact on collection rates in England and Wales.

There is evidence from the experience of the local authorities that working with Council Tax debtors on a variety of payment options, has been effective in improving rates of Council Tax collection rates. Initiatives in South Lanarkshire and in West Lothian appear to have had a marked effect on collection. There may be some benefit to the water authorities in supporting or assisting in similar initiatives.

There could certainly be some scope for the water authorities to work in partnership with the local authorities in providing a counselling service to those who are in debt.

¹² I addressed this issue in Chapters 13, 22 and 23. There would not seem to be any case based either on cost, revenue retention or level of customer service that would justify direct billing by the water authorities. There may be a case for the industry to enter into a contract with another organisation other than the local authorities, but this is an issue for management.

¹³ The Water Panel (May 2001).

¹⁴ The Water Panel (May 2001).

Figure 24.8: Responses to question put to customers in Council Tax Bands A & B¹⁵

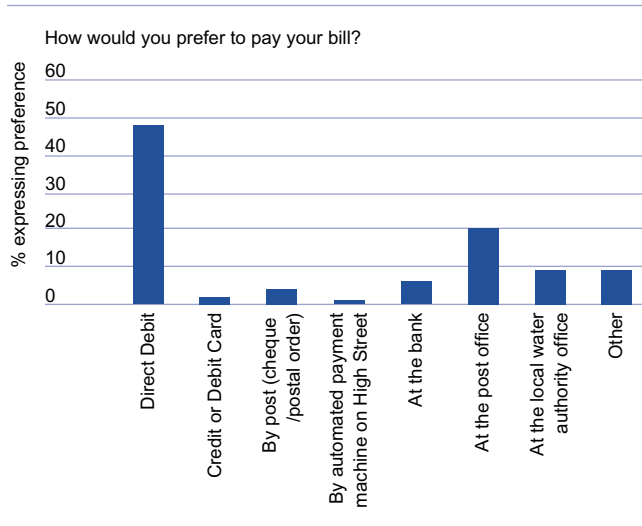
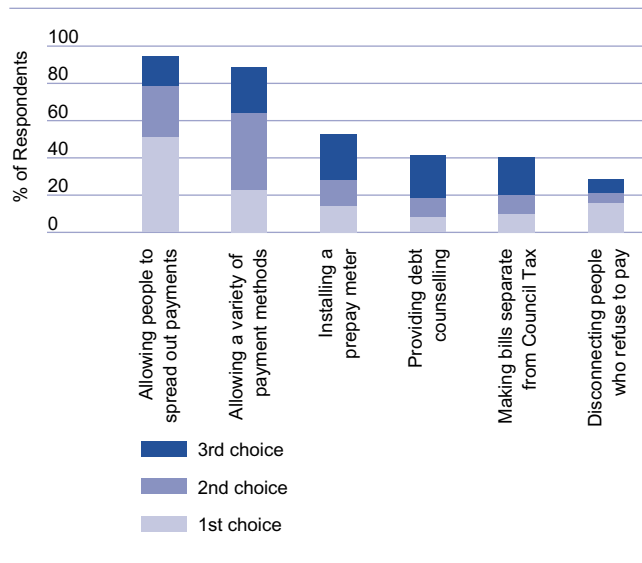


Figure 24.9: Most effective measures to encourage bill payment¹⁶



Many of the issues that customers raise with my office concern what they see as a lack of explanation or consideration from the water industry. These concerns range from letters that can be brusque or incomprehensible to more general complaints about a lack of courtesy and poor levels of service. There have been numerous cases, for example, when vital mains replacement work has begun and local residents were either not aware that the work was planned or were not aware of the

impact that it would have on the water quality they receive. Such failures in customer care do not cast the industry in a good light.

The industry has also been slow to explain to customers the need for water charges. Improving communication with customers could help to improve collection rates. Few customers understand either the amount of water that they use during a typical day or the costs incurred in delivering that clean water to the home and then removing the waste. If these costs were explained more clearly, customers would be more ready to pay their bill. This could also ease customers' fears about metering because once it is explained that the bulk of the cost relates to access, irrespective of use, so any economic case for metering for tariff purposes is reduced. My requirement on the industry to meet challenging efficiency targets should help.

One of the best adverts for any organisation is to be able to present itself as both caring and efficient.

e) Experience in England and Wales

As previously highlighted, collection of water charges is much more effective in England and Wales than it is in Scotland. There appear to be no particular reasons relating to income, geography or levels of charge that would explain this relative success. In many cases it may well be the result of better management of the customer base.

Most of the companies in England and Wales have introduced a range of measures to make bills easier to pay and more affordable to customers. Such measures include:

- more options on payment,
- more locations where bills can be paid,
- debt counselling,
- establishing trust funds.

All of the companies offer several options for how to pay the bill. These include choices as to frequency and method of payment. Wessex Water, for example, has arranged that the bill can be paid in any location displaying a paypoint sign. These include local convenience stores and newsagents. Another example is Severn Trent Water which offers their customers the option of a

¹⁵ The Water Panel (May 2001).

¹⁶ The Water Panel (May 2001).

Watercard, which enables the bill to be paid at any Post Office without incurring a handling charge.

After the introduction of the Water Industry Act 1999, Ministers gave clear guidance that the companies should help low-income customers manage their payments.

Debt counselling is also available from most companies in England and Wales. For example:

- North West Water will arrange appropriate budget schemes to suit the customer's individual requirements and offer free advice on the best way to budget for water payments.
- Northumbrian Water will also arrange appropriate budget schemes to suit the customer.

Other initiatives include the introduction of trust funds, which provide targeted assistance to customers who may have difficulty in paying their bill. Anglian Water, for example, set up the Anglian Water Trust Fund as an independent body, governed by a board of trustees. The fund is a registered charity that gives grants to customers in the Anglian Water area who are in financial hardship. It has been financed by donations from Anglian Water of around £2 million per year¹⁷.

The broad aims of the Anglian Water Trust Fund are:

- to administer grants to those experiencing hardship and poverty, in order to reduce water and sewerage debt amongst customers in the area;
- to help provide independent money advice services.

The trust fund gives grants towards two principal types of payment to address hardship:

- a payment to clear or reduce arrears of water or sewerage charges;
- a payment to meet other priority debts, to help purchase essential household items, or to help the customer manage their financial problems.

To be eligible for grants from the fund, people must be customers of Anglian Water or its subsidiary company, Hartlepool Water. Applicants submit a standard application form and evidence of income.

The Scottish Executive consulted on a potential role for trust funds in addressing the issue of affordability in Scotland. This option was decisively rejected by consultees. There are a number of issues:

- assistance is not automatic,
- payments are discretionary,
- administration costs.

This would suggest that the current transitional scheme implemented by the Scottish Executive is a more effective response.

f) Other utilities

The water industry is clearly not the only utility sector where non-payment and affordability for customers needs to be effectively managed. The electricity and gas industries also provide a vital service, which many on low incomes struggle to afford. Fuel poverty describes a situation where a household spends more than 10% of its income on fuel payments. This is seen as the maximum amount that low income households might reasonably be expected to spend on fuel. Some 4.5 million households in the UK are thought to fall into this category.

Energy companies have developed some innovative approaches to the issue of fuel poverty. Most companies have tariffs that are targeted at improving vulnerable customers' ability to pay. Two examples of such approaches are:

- Yorkshire Electricity's scheme, HEATplan, which offers regular fixed payments, free energy efficiency assessments, free insulation and energy efficiency appliances, and a free benefits check;
- Powergen and Age Concern have set up Age Concern Energy Services, which offers advice, a non-disconnection policy and free heating when temperatures drop below freezing.

g) The current transitional affordability scheme

There was understandable disquiet at the announcement of the significant increases in charges resulting from my interim Review. This was particularly so in the North of Scotland Water Authority area, where the increase had to be particularly steep.

¹⁷ Anglian Water Trust Fund Annual Report 2000.

Table 24.5: East of Scotland Water Authority – savings for customers on Council Tax benefit

Council Tax Band	Water	Waste water	Total	Reduction (threshold set at £180)	
				100% Council Tax benefit	50% Council Tax benefit
A	£83.00	£97.00	£180.00	n/a	n/a
B	£96.83	£113.17	£210.00	£30.00	£15.00
C	£110.67	£129.33	£240.00	£60.00	£30.00
D	£124.50	£145.50	£270.00	£90.00	£45.00
E	£152.17	£177.83	£330.00	£150.00	£75.00
F	£179.83	£210.17	£390.00	£150.00	£75.00
G	£207.50	£242.50	£450.00	£150.00	£75.00
H	£249.00	£291.00	£540.00	£150.00	£75.00

Table 24.6: North of Scotland Water Authority – savings for customers on Council Tax benefit

Council Tax Band	Water	Waste water	Total	Reduction (threshold set at £180)	
				100% Council Tax benefit	50% Council Tax benefit
A	£128.42	£105.03	£233.45	£53.45	£26.72
B	£149.82	£122.54	£272.36	£92.36	£46.18
C	£171.23	£140.04	£311.27	£131.27	£65.63
D	£192.63	£157.55	£350.18	£170.18	£85.08
E	£235.44	£192.56	£428.00	£248.00	£124.00
F	£278.24	£227.57	£505.81	£248.00	£124.00
G	£321.05	£262.58	£583.63	£248.00	£124.00
H	£385.26	£315.10	£700.36	£248.00	£124.00

From responses to the interim Review and the public meetings that we organised around Scotland, it became apparent that the affordability of charges for customers was an issue of major concern. Unfortunately, this was an issue that could not be handled by simply reducing the increase in charges. This would only have stored up even greater price increases for the future, threatened environmental compliance and led ultimately to even higher bills for customers.

The impact on those on lower incomes was, however, a particular area of concern. Sarah Boyack, MSP, then Minister

Table 24.7: West of Scotland Water Authority – savings for customers on Council Tax benefit

Council Tax Band	Water	Waste water	Total	Reduction (threshold set at £180)	
				100% Council Tax benefit	50% Council Tax benefit
A	£92.58	£85.02	£177.60	n/a	n/a
B	£108.01	£99.19	£207.20	£27.20	£13.60
C	£123.44	£113.36	£236.80	£56.80	£28.40
D	£138.87	£127.53	£266.40	£86.40	£43.20
E	£169.73	£155.87	£325.60	£145.60	£72.80
F	£200.59	£184.21	£384.80	£145.60	£72.80
G	£231.45	£212.55	£444.00	£145.60	£72.80
H	£277.74	£255.06	£532.80	£145.60	£72.80

for Transport and Environment, announced that the Scottish Executive would look at ways to help low income households to deal with the impact of higher water and sewerage charges. The Scottish Executive subsequently issued a consultation paper, *Affordability of Water and Sewerage Charges* in November 2000. This consultation invited views on a proposed transitional scheme to protect low income households from the impact of higher charges by introducing a charges ceiling for all customers receiving Council Tax benefit. One of the principal issues was the limited information available on the actual impact of charges.

In February 2001, Sam Galbraith MSP, then Minister for Environment, Sport and Culture, confirmed that the Transitional Water and Sewerage Charges Relief Scheme would take effect from the beginning of the financial year 2001-02. The scheme introduced a threshold set at £180 for the year 2001-02 (the threshold will be reviewed for each of the three years of the scheme). Households in receipt of Council Tax benefit with charges in excess of the threshold will receive a reduction on the charge in excess of the threshold in accordance with their entitlement to Council Tax benefit. This scheme is administered by local authorities, which identify eligible households and make automatic reductions in bills. The proposal is expected to cost £24 million over three years. This cost is met by the Scottish Executive.

The savings for customers on Council Tax benefit are outlined in Tables 24.5-24.7. For customers who receive partial Council

Tax benefit the same proportion of benefit is applied to water charges. For example if a Band D householder in East of Scotland Water Authority was receiving 50% Council Tax benefit, they will pay £225 $[(50\% \times £180) + (50\% \times £270)]$.

While the benefits of this scheme to someone in a higher band property may appear quite significant, the scheme only applies to those customers who receive Council Tax benefit. Some 54% of Council Tax benefit recipients occupy Band A properties and around 31% occupy Band B properties¹⁸. It must also be remembered that the £180 cap only applies up to and including Band E households. Households in higher bands only receive the value of the difference between the Band E charge and the capped rate of £180. The actual caps in East of Scotland Water Authority, for example, would be £240 for a Band F, £300 for a Band G and £390 for a Band A. This mirrors the Council Tax benefits system, which is also capped at Band E¹⁹.

i) Effectiveness of the current system

The current affordability scheme has had, without question, a significant effect on the water and sewerage charges paid by some of the most vulnerable customers in Scotland. In particular, it has helped those in the North of Scotland, where charges are higher. However, the current scheme does not specifically target the least well off. The current scheme is intended to be seen as transitional and was developed in order to assist lower income households subject to the highest increase in charges adjust, through time, to the new level of charges. This aim has been achieved, but the scheme does not provide support for what must be some of the lowest-income households. Nonetheless, it is reasonable to expect that collection rates should improve as a result of the introduction of this assistance.

h) Approach to affordability in England and Wales

The situation in England and Wales with regard to affordability is quite different from that in Scotland. There has been no strategic affordability initiative. Reductions in customers' water bills in England and Wales, which were made possible by the

marked improvements in efficiency of the water industry in England and Wales, are without doubt the main influence on the affordability of bills.

The Water Industry Act 1999 contained a number of measures to promote the Government's social policy objectives, such as:

- removing the right of a water company to disconnect water supply for domestic and other essential users; and
- allowing domestic customers to choose a metered or unmetered supply and to switch back to unmetered if they choose.

The Government has also issued regulations under the Act that are designed to protect certain vulnerable customers. These regulations apply where customers pay for their water on a measured basis, but require large amounts of water for essential purposes such as washing, cooking and cleaning. The regulations define a number of vulnerable groups who are to be given assistance with water and sewerage charges in such cases.

The categories of person are restricted, essentially applying only to those on benefit who either have three or more children or have a medical condition that requires extra water.

In addition to the regulations, the Secretary of State also sets out guidance to the Director General of Ofwat under the 1999 Act. One of the objectives of this guidance was "fairness and affordability", aiming to ensure that there is a "fair distribution of costs between customers, recognising the affordability of the service for different groups of customers as well as the costs of provision of the service". Charges schemes should, inter alia, "address the needs of all those on low incomes, for example through specially designed tariffs and payment options, in recognition of the particular problems such customers face".

The guidance also covered social tariffs. The aim was to encourage companies to develop innovative new tariffs to assist

¹⁸ Scottish Executive, *Affordability of Water and Sewerage Charges*, a consultation paper, November 2000.

¹⁹ When Council Tax was capped at this level, certain households were exempted, under a transitional scheme. Such households will receive a charges cap of £180 despite occupying a higher banded property. However these are very small in number.

customers who might have difficulty paying their bills. While they must not show undue preference or discrimination (as prohibited in the water companies' licences), tariff structures should be developed to help low-income customers.

Ofwat consulted on these issues prior to the approval of companies' Charges Schemes for 2001-02. Most respondents (and most of the water and sewerage companies) commented that it was not the role of companies to develop social tariffs. The companies suggested that any such tariffs should be developed by the Government and applied through regulations on a consistent England-wide basis.

Ofwat has shown a willingness to allow new social tariffs for metered customers. Approval typically requires the company to show that they are properly targeted (possibly by aligning them to receipt of benefits) and that they will have minimal impact on other customers' bills²⁰. Ofwat therefore approved the introduction of Anglian Water's Aquacare Plus tariff for vulnerable metered customers claiming benefit²¹. This tariff has a much lower volumetric rate than the standard tariff. Customers who can qualify for this tariff include those on income support or family credit. Customers may also be eligible if they require more water than usual as a result of a medical condition.

i) Improving payment in Scotland

There are a number of measures, discussed above that would help customers to pay their bills. These need to be implemented. However, there is also likely to be a need to remove the excuses for not paying water charges. The ratio of non-payers is so high in Scotland that there must be a number of households who are choosing not to pay their bill. It will be necessary to identify these people and to take appropriate action. Other customers cannot be expected to subsidise those who can afford to pay, but who, for whatever reason, choose not to pay.

This is an issue that requires further study and analysis. I have consulted extensively during my research for this Review with a group of organisations that are actively involved in advising and assisting the vulnerable on a day-to-day basis. I believe that

this group could play an important part in developing a plan to help improve the collection of water charges. I recommend that Scottish Ministers support further analysis of this very important question. Although this would take some time to complete, the benefits could be considerable. In the interim the existing transitional scheme should provide some support.

j) Conclusion

Non-collection of water charges is a major problem in Scotland. There seems to be no clear correlation between the level of the charge and the level of non-payment. In England, the companies have proven to be better at collecting charges. If the same could be achieved in Scotland, there would be less upward pressure on bills.

Non-payment by the non-domestic sector should be easier to address. Better billing quality and a better level of service should ensure that the levels of collection do improve markedly.

The more significant problem appears to be collection of charges from the domestic sector. There are a series of steps that the industry could take to improve collection and lessons could be learned from some of the successful recent local authority initiatives. A more customer-friendly approach would also no doubt play an important part in improving willingness to pay.

The current transitional affordability scheme does help by meeting its goal of providing assistance to those who were most affected by the large increases in 1999-2000. There is, however, a longer term need to address the issue of affordability. It will be essential to identify those who refuse to pay for their water and to hold them to account. In order to do this effectively, support must be provided to those who genuinely cannot afford the charge.

The problem of bad debt is costing customers in Scotland dearly and needs to be addressed. I believe that further study could reveal solutions that are both effective in providing support to those in need and help reduce the problem of bad debt. I recommend that Scottish Ministers support this further work.

²⁰ MD165, *Approval of Companies' Charges Schemes in 2000-01*.

²¹ Ofwat, *Tariff Structure and Charges 2001-02 Report*, p.14.

Section 5: Chapter 25

Customers: Relief to Charities

In the previous chapter, I highlighted the issue of significant increases in charges and the impact on certain groups of customers. While that chapter dealt with the issues relating to those on low incomes, another group of customers – charities – has voiced concern about the effect of charges increases on them. Charities have expressed the view that they are receiving “a double blow”; not only do they face the increase in charges, but also the relief of water and waste water charges, which they have enjoyed for a number of years, is to be withdrawn. The impending withdrawal of reliefs to charities has proved a particularly contentious issue, worthy of examination. Relief of charges has historically been funded through higher charges to other customers, including low-income households.

a) What is a charity?

The precise definition of a charity within the water industry is not altogether clear. A number of organisations have been categorised as charities :

- churches,
- village halls,
- sports clubs,
- nursing homes,
- charity shops,
- youth clubs, etc.

The number and category of charities differs significantly between the three water authorities. There would also appear to be differences in the application of reliefs within each of the authorities.

b) Background

The history of relief of water and waste water charges has had many twists and turns. It has also excited considerable political and media interest. On 1 April 1996, the three water authorities inherited a wide range of practices in the application of charges to customers within their area. This inherited position conflicted with the Local Government etc (Scotland) Act 1994, which abolished the statutory basis for reliefs and required the authorities to show “no undue preference” or “undue discrimination” in the charges they levied on customers.

On 1 April 1997, West of Scotland Water Authority stopped granting reliefs to new charitable concerns that would have been eligible under the previous rules. It adopted a similar policy with regard to existing recipients of relief who moved address. These organisations were disqualified from receiving relief on the new property. North and East of Scotland Water Authorities followed the lead of the West of Scotland Water Authority, but only from 1 April 1999.

On 1 April 1999 the authorities also took the first step to phase out reliefs for some organisations such as charity shops and related offices. The phased withdrawal was to take place over a five-year period¹. The assessed impact would result in higher bills for some 5,000 properties across Scotland and the average increase in charges was expected to be under £100 per year. Reliefs were also to be phased out over a period of five years commencing 1 April 2000 for other charitable bodies such as church halls, residential care homes and nursing homes.

In September 1999 the then Transport and Environment Minister, Sarah Boyack MSP, after talks with the Scottish Council for Voluntary Organisations (SCVO), announced that all charities were to be given one year’s grace to allow them to plan their budgets in preparation for the imminent increase in charges. The Minister also announced that relief to organisations such as churches, nursing homes, sports and youth clubs would not be withdrawn until further consultation had been carried out. All other organisations would have reliefs phased out over a period of five years commencing 1 April 2000.

In line with the statement to Parliament made by the Minister, the three water authorities consulted with the churches, nursing homes and various voluntary organisations² affected. This led to a decision to proceed with the phasing out of reliefs in February 2001. Subsequently in May 2001, the new Minister for Environment and Rural Development Ross Finnie MSP announced that the withdrawal of reliefs due to start in April 2001, would be deferred until April 2002. The implication of this was that charities would continue to receive full relief in the 2001-02 financial year, but in 2002-03 they would lose 40%. The remainder would be withdrawn over the following three years (20% each year) ending in 2005-06.

¹ Scottish Executive Press Release SEO635/99 16 September 1999

² Scottish Executive Press Release SEO 1285/2001 17 May 2001

The water authorities' estimate the total cost of reliefs for the period 2001-02 to be £11.2 million, of which 50% is allocated to nursing and care homes with the remainder for charity shops, churches, universities, private education establishments and others.

Throughout this period, there has been much political debate and discussion on this issue and strong lobbying from various stakeholders. There has also been extensive media coverage over the past 18 months, highlighting the concerns about relief withdrawal.

c) Situation in England and Wales

Unfortunately, I cannot draw upon any lessons learned from a review of practice in the English and Welsh water industry. This is simply because reliefs were not inherited by the privatised water companies from their authority predecessors. Indeed, historically, local authorities do not appear to have provided reliefs, and if they did it was rare, and on a purely discretionary basis, rather than as a matter of social policy.

d) Developments in Scotland

i) Consultation process

The consultation process required by the Minister before the withdrawal of reliefs from voluntary organisation began in June 2000. The water authorities consulted with 11,000 customers still in receipt of full relief. These organisations were mainly:

- Churches and church halls,
- Residential care homes (public and private),
- Sports and youth clubs (public and private).

The three authorities collaborated and issued a standard questionnaire. The response rate to the questionnaire was 39%. Responses revealed that³:

- 61.0% were registered charities;
- 89.0% considered themselves non-profit making;
- 86.3% do not receive relief from any other utility charge;
- 51.9% would consider installing a meter if it was a way of reducing charges;

- 70.1% were aware of current water service charges;
- 82.2% were aware that other customers fund reliefs through higher charges;
- 55.7% believed it appropriate to pass reliefs on to other customers as higher charges.

A number of consultees complained that some of the questions were not entirely objective. My review of the questionnaire confirmed some of these complaints. Questions that asked about their level of understanding that reliefs were funded by other customers were not objective and could have been interpreted as being 'loaded'.

ii) Scottish Charity Law Review Commission

Historically the Inland Revenue has assessed the eligibility of an organisation for charity tax benefits and it is this assessment that determines whether or not an organisation can call itself a charity. In March 2000 the Deputy First Minister, Jim Wallace MSP set up The Scottish Charity Law Review Commission to review and reform charity law in Scotland.

The Commission is composed of representatives of the legal profession, accountants, local government and the charity and voluntary sectors and is chaired by Jean McFadden. The Commission first met in April 2000. Its remit was "To review the law relating to charities in Scotland and to make recommendations on any reforms considered necessary".

On 17 July 2000, the Commission published its consultation paper, *Your Views Matter*. The consultation process comprised three strands:

- a detailed report that was sent out to 150 umbrella organisations in Scotland and the United Kingdom;
- a consultation questionnaire that was issued to 18,000 voluntary organisations in Scotland;
- the Commission held six forums throughout Scotland and convened a series of meetings with key organisations.

Both the detailed report and the questionnaire were made available on the Commission's web site. The consultation period ended on 29 September 2000; 51 responses were submitted from umbrella organisations to the main report and

³ NOSWA Charitable Reliefs – FD0712J04

935 responses to the questionnaire. Umbrella organisations also consulted extensively with their members and client groups.

In May 2001 the Commission published its review of Scottish charity law. A number of recommendations were made.

The Commission recommended that a Scottish charity should meet certain criteria:

- for the public benefit/in its overriding purpose,
- non-profit distributing,
- independent,
- non-party political.

The main recommendation regarding relief from water charges was that “Scottish charities should receive mandatory 80% relief from water and sewerage charges”. The Commission reported that respondents had argued that withdrawal of relief to charities would inevitably lead to higher costs and would impact in particular on low water users. The Commission expressed the view that if Scottish charities were to continue to receive mandatory relief from non-domestic rates, they should receive similar levels of relief from water and sewerage charges, whether the water supply was metered or unmetered.

The Scottish Executive is currently consulting on the recommendations of the Commission.

iii) Transport and Environment Committee

The Transport and Environment Committee conducted an inquiry into the water industry between December 2000 and March 2001. Its decision to undertake this inquiry was influenced by its recognition of the unprecedented challenges facing the water industry.

The Committee took evidence from a number of organisations that oppose the action to end the practice of giving relief. The Committee considered that the fact that these reliefs have been given for many years meant that they were an established practice and tradition. This was believed to make a convincing case for their retention⁴.

The Committee recommended that a new, more targeted, relief scheme for voluntary organisations and charities should be established. However, the Committee did not believe that all voluntary organisations and charities should be eligible. The Committee also recommended that a provision to introduce a new scheme should be included in the forthcoming Water Services Bill. Such a scheme should not, however, be implemented until a wide-ranging consultation had taken place.

e) Response of my office

I understand the concerns that have been raised about the future of relief from charges for charities. However, I have a statutory duty to promote the interests of all customers of the water authorities and, therefore, must always seek to achieve a balance in this role.

I do not believe that I have a mandate to comment on the appropriateness of charitable reliefs in general or on whether any particular customer should benefit. My view is informed by my consultation with customers on whether customers of the water authorities should be the ones to fund these reliefs.

In my advice on charges, I have a duty to show no undue preference or discrimination. I believe that the broad aim of charging should be to eliminate cross-subsidy between broader customer groups.

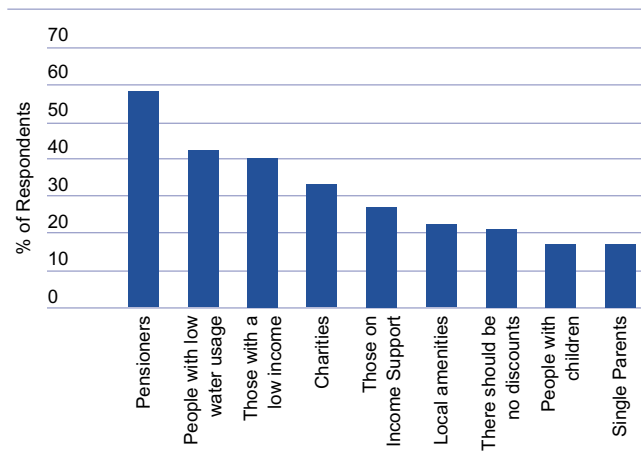
Intentional cross subsidy, such as that provided by relief of charges, is a matter of social policy and outside the remit of the water authorities and their regulator.

I have had a number of meetings with representative bodies of charities, such as the Scottish Council for Voluntary Organisations and the Churches Commission to establish their concerns.

My office has also consulted extensively with both household and business customers to establish their views on this delicate issue. Figure 25.1 shows responses to a question put to my Water Panel of domestic customers.

⁴ Transport & Environment Committee 9th Report 2001 SP Paper 362

Figure 25.1: Responses to the question: “Would you be willing to pay higher charges so that discounts can be given to any of the following groups?” The results of this are given below.⁵



There was much more support for pensioners and low income households to receive discounted water supplies than there was for charities.

Those most likely to support discounts to charities are:

- people aged 16-34 (40%);
- those in Council Tax Band C, D or E (38%);
- those on higher incomes (46% of those on salaries of between £30,000 and £40,000 – 51% of those on salaries between £40,000 and £50,000, and falling back to 35% of those on salaries of more than £50,000).

Those earning between £5,000 and £10,000 give the lowest support to paying higher charges to allow discounts to be offered to charities.

The question must be asked whether it is appropriate that all customers, especially those considered most vulnerable (see Chapter 24) should be required to make a contribution, involuntarily, to charities within their water charges.

One of my other concerns is to ensure that nothing is done that could adversely impact on customers over the medium to long

term. In the likely future competitive environment, reliefs will either need to be given a statutory basis and any new entrant required to offer the agreed relief. Alternatively there will be a smaller customer base remaining with the public sector, which, as a result, would face the costs of providing this relief.

Service providers in other utility sectors, i.e. gas, electricity and telecommunications, do not offer discounts/reliefs to charitable groups. Indeed, they are often prohibited in their licences from cross-subsidy between groups of customers. Charges for customer groups are generally made on a cost-reflective basis.

f) Options available

From a customer's perspective, it is important that the management of Scottish Water- if it is approved by Parliament - has to be focused on reducing costs and providing value to customers. The issue of reliefs has the potential to distract management from this key task.

I do not believe that the costs of providing relief should be met by water customers. There are three principal reasons for this:

- There is very limited customer support for reliefs - especially from the low paid. Only in the subset of my panel that earns £40-50,000 per year was there a majority in favour of relief.
- It is critical that the public sector water service provider is not disadvantaged in the competitive market and the provision of reliefs will increase the costs of the incumbent.
- The issue of affordability of water charges seems to be a very real one for some customers, based on the information outlined in Chapter 24. It is not appropriate that those who are struggling to pay (who, in many cases, are those to whom charities are looking to provide a service), should pay more than is absolutely necessary for their water service.

There may well be a strong case for reliefs and I recognise and respect the views of the Transport and Environment Committee and the Scottish Charity Law Commission.

It is ultimately for the Scottish Parliament and the Scottish Executive to take a decision on the issue of reliefs. It should not be a matter for the water authority or their regulator, because relief, if it is to be given, should not be funded by customers' charges.

⁵ The Water Panel (May 2001)