02 December 2021

Mr Alan Sutherland
Chief Executive
Water Industry Commission for Scotland
First Floor Moray House
Forthside Way
Stirling
FK8 1QZ

Castle House
6 Castle Drive
Carnegie Campus
Dunfermline
KY11 8GG

W:www.scottishwater.co.uk

Dear Alan,

Charges Scheme for 2022-23

Please find enclosed our proposed Charges Scheme for 2022-23 which has been approved by the Scottish Water Board for submission to the Water Industry Commission for Scotland for its consideration.

Working closely with the Independent Customer Group (ICG), we undertook further customer research regarding charges as part of our national conversation. We appreciate the ICG's support for and input to the customer research programme. A high-level summary of the research is provided in Annex A and the full research reports are provided with this letter.

As a further input to our decision making, the ICG was asked to consider potential proposals to increase household charges by either 5% or 6% (in anticipation of CPI being in the range of 3% - 4%), and increases for wholesale charges of either 6%, 7% or 8%. The ICG's note is also provided with this letter.

Having considered a range of factors, including the views of the ICG, the Scottish Water Board has decided to increase household charges by 6.2%, primary wholesale charges by 7% and charges for secondary services by 4.2% in line with October CPI.

The Charges Scheme documents incorporate a number of clarifications and refinements which have already been discussed with your teams. Please contact [redacted] directly if there are any queries regarding the content of these documents.

It would be helpful if the Commission is able to approve this charges scheme before the 16 December to support the revised timetable of the CMA.

Yours sincerely,

[redacted]

[redacted]
General Manager - Revenue and Risk

Enclosures
1. Qualitative Customer Research – Draft Research Report
2. Quantitative Customer Research – Draft Research Report
3. Independent Customer Group note on considerations on pricing scenarios
4. Wholesale Tariff basket model
5. Retail tariff basket model
6. Charges Scheme - Part 1
7. Charges Scheme - Part 2
8. Charges Scheme - Part 3
9. Charges Scheme - Part 1 (tracked changes)
10. Charges Scheme - Part 2 (tracked changes)
11. Charges Scheme - Part 3 (tracked changes)

Annex A - Summary of customer research.

As part of the national conversation, we undertook qualitative research with around 100 household and business customers and quantitative research with a further 600 customers. Scottish Water worked closely with the Independent Customer Group (ICG) on the development of the research.

In the qualitative research, there were two 60-75 minute sessions with the first exploring the role of Scottish Water and the challenges we face. Participants could therefore be considered as partially informed customers when they responded to the pricing scenarios. In the quantitative research participants were given limited information as part of the survey and therefore are considered uninformed when they responded.

In the qualitative research we tested proposals that sought to respond to an apparent desire for price certainty identified in Oct 2020 research. We also sought to understand customers tolerance for above inflation increases in both the qualitative and quantitative research.

The full research reports are provided with this letter.

22 December 2022

Mr Alan Sutherland
Chief Executive
Water Industry Commission for Scotland

The Bridge
Buchanan Gate Business Park
Cumbernauld Road, Stepps
Glasgow
G33 6FB

W: www.scottishwater.co.uk

Emailed to: [redacted]

Dear Alan,

CHARGES SCHEME 2023/24

We are submitting our Charges Scheme for 2023/24 for your consideration and approval, following our Board's approval earlier today. As outlined below, the proposals have been developed following extensive discussions with the Scottish Government.

We have been exploring with the Scottish Government the approach to charging for 2023/24 and subsequent years in light of the difficulty of reconciling the obligations and expectations placed on Scottish Water in the current economic situation. As a first step, Dame Susan Rice wrote to the Cabinet Secretary for Net Zero, Energy and Transport, Michael Matheson MSP, on 8 September about charge setting for 2023/24, seeking his support to developing an appropriate way forward, Annex A.

In his response of 5 October, Annex B, the Cabinet Secretary:

- recognised that "Scottish Water … is dependent on charge income for the bulk of its finance to support delivery."
- set out that "given the extremely high level of inflation we face … it is important, in setting charges for 2023/24, that an unacceptable burden is not laid upon charge payers that would undermine the social contract we have between public services and customers"
- recognised "the need to protect future customers from excessive investment burdens and that Scottish Water has significant statutory obligations; not least protection of public health, drainage and protection of the environment."
- recognised "that whilst Ministerial Objectives remain in their current form for the period 2021-2027, … Scottish Ministers' expectation of the extent of delivery will be reduced in line with the overall finance reasonably available to Scottish Water."

On 3 November, Dame Susan Rice and I met with the Cabinet Secretary to discuss charging options following his 5 October letter. At the conclusion of the meeting, we agreed to reconvene a few weeks later. Ahead of the next meeting, we prepared revised charging options taking account of the latest Bank of England inflation forecasts.

We met again on 15 December when the Cabinet Secretary updated us on Scottish Ministers' considerations, following which we received a letter on 21 December, Annex C. In that letter, the Cabinet Secretary:

- invites the Board "to consider a price increase of 5% in 2023/24 and that, in making this invitation, Ministers recognise that such a decision would require average increases of 9.15% in each remaining year of the regulatory period, as set out in the annex [to that letter]. That charge path reflects current expectations of the path of inflation over time and will of course need to be looked at as the actual trajectory emerges (ensuring proposals are compatible with the maximum permitted increase allowed under the price cap set by the WICS).
- set out that "should we consider and agree that such a level of charge increase in subsequent years is inappropriate, we acknowledge that additional capital borrowing would need to be made available to ensure that your essential statutory services are delivered."

In light of this clear invitation from the Cabinet Secretary, and the confidence about future years' financing, our Board has approved proposals which would see all charges increase for 2023/24 by 5%, other than three exceptions explained in Annex D and the Chair has written to the Cabinet Secretary as set out in Annex E.

The Independent Customer Group was asked to give its considered view of these proposals and these are included at Annex F. After considering the outputs of customer research on charges Annex G, the ICG is willing to support charge increases in primary charges of up to 5% for domestic customers and 5-7% for non-domestic, albeit with reservations about those least able to pay and potential consequences for small businesses.

The draft Charges Scheme and associated documents have been submitted separately to your Competition Team for their review.

It would be helpful to receive your response to these proposals early in the new year to allow us to meet the billing requirements of the local authorities and the Central Market Agency, as well as inform Licensed Providers in good time to allow them to develop their own retail charges and customer communications.

Yours sincerely,

[redacted]

Douglas Millican
Chief Executive

Annex A – Letter from Scottish Water Chair to Cabinet Secretary – 8 September 2022

08 September 2022

Michael Matheson MSP
Cabinet Secretary for Net Zero, Energy and Transport

Emailed to: [redacted]

Scottish Water
Buchanan Gate Business Park
Cumbernauld Road, Stepps,
Glasgow
G33 6FB

W: www.scottishwater.co.uk

Dear Michael,

Water charge setting for 2023/24

Over recent months, Douglas Millican and his executive team have held extensive discussions with your officials and the Chief Executive of the Water Industry Commission for Scotland, Alan Sutherland, on the issues and options we face as we consider charge setting for 2023/24 and beyond. Our Board met last week and spent considerable time examining the issues and exploring the great difficulty of reconciling the obligations and expectations placed on us in the current economic situation. With some months until the 2023/24 charge setting deadline, we wish to explore and agree with you a path through these challenging circumstances.

By way of background, on 1 February, you requested Scottish Water to limit 2022/23 customer price increases to 4.2% because of the rapidly emerging cost-of-living context while stating that we must set charges in line with the regulatory settlement over the 2021-27 period, the Ministerial Objectives and Principles of Charging.

While the Principles of Charging require us to set charges that are affordable, they also require that charges are fair and equitable to present and future generations and enable Scottish Water to achieve the Ministerial Objectives for the 2021-27 period.

The investment associated with achieving the Ministerial Objectives was assessed by WICS through the Strategic Review of Charges for 2021-27 as £4.9 billion[1] (2017/18 prices).

The charge increases set for 2021/22, and particularly 2022/23, have effectively reduced Scottish Water's available income by £140 million (2017/18 prices).

If we had to limit price increases for the rest of the 2021-27 period to the level set for 2022/23, there would likely be a financing shortfall of over £1 billion[2], from the revenues determined by WICS as being required to deliver Ministerial Objectives for the 2021-27 period, even after incorporating potential out-performance of WICS efficiency targets.

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[1] Updated from £4.5 billion set out in the final determination as set out in appendix A to the accompanying paper.
[2] There are many uncertainties in determining the extent of potential shortfall in finance available for planned investment. Our best-case scenario predicts a £0.6 billion shortfall, rising to £1.7 billion in our worst-case scenario.

Given the scale of this potential shortfall, we have considered the potential other avenues of finance that could be generated to close the gap and enable delivery of Ministerial Objectives such as further borrowing, asset sales, limited capital investment rephasing, or higher charges.

We wish to be fully sensitive to customers economic circumstances, but our legal and regulatory obligations leave us little room for manoeuvre. Quite simply, the logical conclusion from the obligations we face, and the nature of the regulatory charging settlement, would suggest that we should increase charges next year very significantly.

Recognising this, and the statutory duties and regulatory requirements placed on Scottish Water, we sought independent legal advice about how we should consider the charge setting process for 2023/24. The legal advice is clear; Scottish Water board members would be at risk of failing to comply with their legal duties and responsibilities if we forego charge increases that are needed to deliver Ministerial Objectives for the 2021-27 period. A copy of that advice is set out in annex 2.

We, therefore, wish to explore and agree with you a path through these challenging circumstances. We believe strongly that any such path should be sensitive to the challenges faced by customers and yet enable us to invest in meeting our statutory and regulatory obligations; securing the sustainable financing that is needed to deliver the services that our customers will rightly expect over the coming years.

We have undertaken extensive analysis to explore the scenarios and options that may be available, which are set out in the accompanying paper. We have also prepared a summary in the first annex to this letter setting out the key issues to be considered.

We must set 2023/24 charges by December/January and therefore seek an early meeting with you to explore the issues, evaluate the options, and determine an appropriate way forward ahead of the 2023/24 charge setting deadlines.

Yours sincerely,

[redacted]

Dame Susan Rice DBE
Chair

SW Public
General

Annex B – Letter from Cabinet Secretary to Scottish Water Chair – 5 October 2022

Cabinet Secretary for Net Zero, Energy and Transport
Michael Matheson MSP

Scottish Government
Riaghaltas na h-Alba
gov.scot

T: 0300 244 4000
E: scottish.ministers@gov.scot

Dame Susan Rice DBE
Chair
Scottish Water
By Email: [redacted]

-

5th October 2022

Dear Susan,

Thank you for your letter of 8 September 2022 regarding setting water charges for 2023-24.

I am very much aware that businesses across Scotland are facing challenging conditions with the ongoing cost crisis, persistently high levels of inflation and supply chain constraints that are further exacerbated by the impacts of EU exit and the war in Ukraine. I recognise that Scottish Water is subject to these pressures and also has to operate within a regulated charge setting environment. Scottish Ministers set out their Principles of Charging and their Objectives for the period and the independent economic regulator has delivered a Final Determination setting out the maximum level of charges required to meet those Objectives. Scottish Water has maintained a strong delivery performance through the first year of the current regulatory period and I have noted the regular reports on progress. I'm grateful for the efforts to deliver efficiency savings and to consider other revenue options. This is an important focus. I would ask that you continue to take appropriate opportunities as they arise.

Looking ahead, I do understand that, whilst Scottish Water retains some cash reserves and has access to further Government borrowing, it is dependent on charge income for the bulk of its finance to support delivery.

Last year charges were restricted to an increase of 4.2%, (October 2021 CPI), effectively a real-terms freeze. Given the extremely high level of inflation we face today and which is likely to be at least as high come October, the regulatory reference month for charges, it is important, in setting charges for 2023/24, that an unacceptable burden is not laid upon charge payers that would undermine the social contract we have between public services and customers. I fully recognise the need to protect future customers from excessive investment burdens and that Scottish Water has significant statutory obligations; not least protection of public health, drainage and protection of the environment.

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot

I would therefore like to recognise that whilst Ministerial Objectives remain in their current form for the period 2021-2027, I am clear that Scottish Ministers' expectation of the extent of delivery will be reduced in line with the overall finance reasonably available to Scottish Water.

With that in mind, I would like to ask you to consider how you can best set charges at a fair and affordable level for next financial year, in particular protecting those least able to afford charges, whilst meeting your statutory obligations taking the whole period into account. You may wish to indicate what staying on track to meet your legal obligations would imply for future charging years relative to CPI and where there may be scope for other sources of finance that would require our support.

I would also like to inform you at this point that I intend to issue a commissioning letter in April 2023 regarding the Strategic Review for the period beginning 2027 to allow early consideration of the progress made in this period and to allow any re-calibration of delivery trajectory towards the Industry Vision.

I would be pleased to meet you to discuss these issues in more detail.

Yours sincerely,

[redacted]

MICHAEL MATHESON MSP

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot

Annex C – Letter from Cabinet Secretary to Scottish Water Chair and CEO - 21 December 2022

Cabinet Secretary for Net Zero, Energy and Transport
Michael Matheson MSP

Scottish Government
Riaghaltas na h-Alba
gov.scot

T: 0300 244 4000
E: scottish.ministers@gov.scot

Dame Susan Rice DBE
Chair, Scottish Water

Douglas Millican
CEO, Scottish Water

21 December 2022

Dear Susan and Douglas,

Thank you for our recent discussion on the issues and options the Scottish Water Board will wish to consider in setting domestic water charges for 2023-24 and in indicating an appropriate multi-year charge path for the remainder of the regulatory period out to 2026-27.

I would also like to thank you for the helpful analysis of scenarios you provided ahead of our meeting, setting out a range of financing options and the implications that decisions on charging for next year will have on the remaining years of the period. I very much appreciated the useful exchange of views expressed in our call which were helpfully informed by the additional material provided and am keen that we build on the experience this year to ensure that early dialogue on the wider context of setting water charges is regularised in future to align with Scottish Government's own budget-setting process.

To be plain, it is fully recognised in Government that to deliver the statutory obligations that Scottish Water faces requires both sufficient charge income and capital investment (borrowing) and that we must work together to ensure a sustainable overall financing package. I have therefore asked my officials to develop with you an appropriate timetable for engagement in future years and further to continue to work closely with the economic and quality regulators to ensure their views are also fully understood.

In our discussion we agreed on the need to achieve a charging environment which responds to the cost crisis and which successfully balances affordability with the levels of investment needed to ensure the delivery of water and wastewater services to the high standards we've come to expect and for which we are grateful. In this regard the 35% discount that those on full CTR receive is an important part of the overall approach and something to be kept under review to ensure it continues to provide strong support over the coming years.

I also note that you have worked hard to identify efficiencies and some aspects of delivery that could be re-phased to reduce the overall financing requirement for the period, although I recognise that there are some uncertainties which may impact the ultimate financing required.

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot

While decisions on charges are a matter for the Board it is appropriate, given Scottish Water's Public Corporation status, for Scottish Ministers to discuss charging and investment issues with you, to seek a common understanding. Last year, the Board restricted charge increases to 4.2%, (October 2021 CPI) effectively a real-terms freeze, and I acknowledge that has consequences for the remainder of the control period.

Given the current extremely high level of inflation the Board will wish to consider what increase would be proportionate and present an acceptable burden to charge payers without risking undermining the social contract we have between those providing Scotland's excellent public services and their customers. You will also recognise the need to protect future customers from excessive investment burdens and that Scottish Water has a significant number of statutory obligations; not least protection of public health, drainage and protection of the environment.

On that basis I suggest, as we discussed, that the Board should be invited to consider a price increase of 5% in 2023/24 and that, in making this invitation, Ministers recognise that such a decision would require average increases of 9.15% in each remaining year of the regulatory period, as set out in the annex. That charge path reflects current expectations of the path of inflation over time and will of course need to be looked at as the actual trajectory emerges (ensuring proposals are compatible with the maximum permitted increase allowed under the price cap set by the WICS). Should we consider and agree that such a level of charge increase in subsequent years is inappropriate, we acknowledge that additional capital borrowing would need to be made available to ensure that your essential statutory services are delivered. The above approach, of setting the charge increase at 5%, would drive an additional annual £20 million capital borrowing requirement from 2023/24. As previously discussed it would be helpful if this could be managed through utilisation of Scottish Water cash reserves in 2023/24.

Thank you for your engagement and I look forward to hearing the outcome of the Board's deliberations.

[redacted]

Michael Matheson MSP

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot

Annex

5% nominal increase 2023/24; average maximum permitted price increase in subsequent years:

Nominal 2023/24 %	Maximum average nominal 2024-27 %	Cumulative real 2021-27 CPI+%	Investment financing 2017/18 prices £bn	Possible minimum 2021-27 financing 2017/18 prices £bn	Financing shortfall (21-27) 2017/18 prices £bn	Additional borrowing required 2023/27 £m pa
5.0	9.15	12.6	4.34	4.4	0.06	20.0

Weekly impacts on average water charges bill of 5% increase followed by 9.15%

	2022-23	2023-24	2024-25	2025-26	2026-27
Average charge	£391.20	£410.76	£448.34	£489.37	£534.15
Annual increase		£19.56	£37.58	£41.02	£44.78
Weekly increase		£0.38	£0.72	£0.79	£0.86

Annex D – Non-standard charge increases

Property Drainage Charges

Around £165m of wholesale revenue is based on the Rateable Value (RV) of non-household premises, of which circa £157m relates to property drainage charges.

The RVs of all non-household premises are currently being revalued by the Assessors, as the first of what will be a 3-yearly revaluation cycle. The change in RVs will mean higher wholesale charges for some premises and lower charges for others.

The new RVs will be used for charging from 1 April 2023, and, following engagement with WICS, LPs, the Scottish Government and Consumer Scotland, will be implemented without any transitional arrangements.

For premises with a property drainage service, the total of these new RVs is 2.5% higher than the current RVs. These RVs will be subject to appeals, which is expected to reduce the total RV by 5%. To be broadly revenue neutral to Scottish Water, the property drainage charge requires to increase by 7.8%.

The total new RV of premises with an unmeasured water service has increased by around 7% which, after allowing for a 5% appeals impact, will lead to a small reduction in the RV:Volume conversion factor used to calculate water and sewerage charges at these premises.

App Inspection – when a development involves the provision of new water mains and sewers, developers can submit photographs of the new pipes via an App which allows our Developer Operations team to remotely review the acceptability of the work. The charge for reviewing the details for housing developments submitted via the App is proposed to increase from £30.30 to £36.20 (+19%), to reflect the higher salary grade of the staff that now do this work. The higher charge is still considerably cheaper than, and environmentally preferable to, a site visit. Similar changes apply to the wholesale charges where these services are requested by LPs for non-household development, which are proposed to increase from £27.10 to £32.30 (+19%).

Infrastructure Charges, which are paid by developers for each new property to be connected to our services, and which are used to finance development related enhancements to existing network assets, increase annually by inflation, and therefore are proposed to increase by 11.1%.

Annex E – Letter from Scottish Water Chair to Cabinet Secretary – 22 December 2022

22 December 2022

Michael Matheson MSP
Cabinet Secretary for Net Zero, Energy and Transport

Emailed to: [redacted]

Scottish Water
The Bridge
Buchanan Gate Business Park
Cumbernauld Road, Stepps,
Glasgow
G33 6FB

W: www.scottishwater.co.uk

Dear Michael,

Thank you for your letter of 21 December inviting us to consider a price increase of 5% in 2023/24 while recognising that this would require average increases of 9.15% in each remaining year of the regulatory period (based on current inflation forecasts).

At its meeting earlier today, the board discussed, at length, issues in relation to charge setting for 2023/24 in the context of the implications for charges in the later years of this regulatory period. While the Board are concerned at the pressure this charging trajectory will create in future years, they were reassured by your recognition that additional capital borrowing would need to be made available should such a level of future charge increases be inappropriate. In light of these assurances, the Board have agreed to propose to the Water Industry Commission for Scotland (WICS) that household and wholesale charges should increase by 5% for 2023/24. We will now await WICS consideration of our charging proposals.

Thank you for your extensive engagement in the 2023/24 charge setting process. We have benefited from much earlier involvement with you this year and welcome your suggestion of early engagement with you in charge setting for future years.

Yours sincerely,

[redacted]

Dame Susan Rice DBE
Chair

Annex F – Considered view from the Independent Customer Group

[redacted]
Director of Corporate Affairs
Scottish Water

14 December 2022

Dear [redacted]

Scottish Water Tariffs 2023-24

Under the terms of its remit, the ICG provides a considered view on prices for the following year.

As it was last year, the ICG's view on charging for 2023-24 is informed by customer research and an assessment of the wider economic environment. Key features of the latter are the continuing decline in real wages, the sharp increase in mortgage rates; the shock of energy prices, significant rises in the cost of food; and historically high levels of inflation—collectively described as "the cost of living crisis".

The affordability issues raised by these forces are reflected in the headline results of the research carried out by Impact for SW in August/September 2022. In the quantitative analysis the spontaneous response of two thirds of domestic participants was that a rise of up to 5% would be both reasonable and affordable although it is important to note that within that, 16% thought no increase was affordable and a further 26% were in the 1-2% range. It is also worth noting that while 30% of those in CT Bands A and B said they could afford no increase, a similar proportion (28%) of those in the higher CT Bands E-H took the same view--- in line with findings from previous research that CT band is an imperfect proxy for household income.

The ICG continues to recognise fully the demands on Scottish Water arising from the need to maintain service levels in the face of the challenges from climate change and ageing assets. It is clear from the research however that double digit inflation breaks any link between CPI and what customers regard as a reasonable level of increase. The considered view of the ICG therefore is that in the current financial climate and in the light of the research findings, an increase of 5% in the domestic tariff is the maximum it could support.

The non-household results are more complex to interpret given the absence of standardised bills but they suggest that for these customers increases in the range of 5-7% would not be regarded as unreasonable. Again, however it should be noted that although larger companies could more readily absorb an increase of this order, similar to the domestic research findings, a sizeable minority especially of SMEs would struggle with a 5% increase.
Yours sincerely

[redacted]

Chair Independent Customer Group

ANNEX G – SUMMARY OF CUSTOMER RESEARCH

Scottish Water	Charges Research Insights Summary	**Author:** [redacted]
		Team: Customer Insight
		Date: October 2022

1. Background and Methodology

In summer 2022, Impact Research were commissioned to conduct independent research with Scottish Water customers to understand their views on charge increases in light of the cost of living crisis which has followed a period of turbulent social, economic and political times, impacting household finances and confidence. The research consisted of qualitative and quantitative stages and was inclusive of both household and business customers. The qualitative stage involved online groups and telephone depths, whilst the quantitative stage consisted of online and face to face surveys. By its nature, the qualitative stage is not statistically robust due to small base sizes, however the quantitative stage is nationally representative Further details regarding methodology and sampling can be found in the full report.

2. Key Qualitative Insights

Whilst most customers had heard of Scottish Water prior to the research, water and waste services were not top of mind. Very few had experience of service issues, and generally all were **happy with the current service** they received; water quality (aesthetics) was regarded as being of a particularly high standard, especially when compared to other countries. The majority knew their water and waste charges were **billed through council tax**, with a minority feeling this billing approach was unfair. During the pre-task, the majority of household customers overestimated how much they actually pay. However, many did comment that their water/waste **bill was far lower than their other utility bills**; a topic that was at the forefront of the news cycle during fieldwork.

It was evident in the qualitative research stage that **the cost of living crisis** had impacted all customers in some way; household customers starting to more carefully budget due to increasing petrol or food costs, whilst business customers seeing their profit margins decrease due to increasing staffing and energy costs.

Customers were generally understanding of why Scottish Water charges would need to increase; spontaneous reasoning for this included general overheads (e.g. energy bills, wages) needing to increase as well as investing in the future. When shown educational stimulus, customers were particularly **understanding of the need to increase charges** due to aging infrastructure and to mitigate the impact of climate change on core services. Customers highlighted that any communications regarding charge increases should focus on *why* the increase is needed and would look for assurances that the increase would be spent on the issues identified.

Although some customers did highlight they couldn't afford any sort of increase. Most thought an increase of between **5% and 7% would be reasonable**, with inflation being a key consideration. Generally, customers were **more accepting of price increases when they had seen the actual increase in £s** related to their bill, compared to a % figure which left them to work out what it would mean in context of their own bill.

Household and business customers were asked the maximum increase that they thought as being **reasonable** and **affordable**. Respondents were asked their **spontaneous** view, and could answer in either monthly or yearly values; they were also prompted to provide a percentage figure. Respondents were also asked a **prompted** view, which involved showing stimulus to highlight what an increase could look like for their individual bill.

Please note this section only outlines high level findings; please refer to the full report for more detail.

3. Key Quantitative Insights

3.1. Maximum Increase Affordable

3.1.1 Spontaneous

Figure 1 shows spontaneous responses regarding affordability of increases for both household and business customers.

Spontaneous - what would be the maximum increase you think would be AFFORDABLE?							
		Monetary			*Percentage*		
		Mean	Median	% who couldn't afford any increase	Mean	Median	% who couldn't afford any increase
Household	Monthly	£9.70	£8	13%	8.5%	5%	16%
	Annual	£77.30	£50	18%			
Business	Monthly	£180.90	£78	7%	12.80%	7%	10%
	Annual	£1,721	£1,000	10%			

Figure 1 Spontaneous Affordability for Household and Business Customers

For **household customers**, 13% who gave monthly monetary amounts and 18% who have annual responses could not afford any increase. Generally, those who face difficulty paying bills, or receive a council tax discount could afford only lower levels of increase. For those who provided monthly responses, customers in council tax Band A had the highest proportion of customers say no increase was affordable. For those who provided annual responses, Band A and E were most likely to say they cannot afford any increase; however, it was those in Band D which gave the lowest median and mean score. However please note the base size for some categories is small due to the total base being split into monthly and annual responses depending on customer preference, and then into council tax bands (e.g. only 18 annual responses for Band A

For **business customers**, their mean and median percentage responses tended to be higher than household customers. Businesses with lower water usage and overall bill size tended to find the lower increases more affordable; although smaller bases mean caution must be taken when viewing this data at a more granular level.

3.1.2 Prompted

Household customers were shown what a 0-15% increase would look like on their council tax bill. Similar to spontaneous responses, 5% was the median affordable increase, and the mean was 6.2%. **Business** customers could only be shown example bill amounts, but both mean and median responses decreased when given examples of increased based on bill levels. For both customer groups, the proportion of customers who couldn't afford any increase fell when they were shown the example amounts.

Prompted - what would be the maximum increase you think would be AFFORDABLE?			
	Mean	Median	% who couldn't afford any increase
Household	6.20%	5%	13%
Business	6.90%	5%	9%

Figure 2 Prompted Affordability for Household and Business Customers

3.2 Maximum Increase Reasonable

3.2.1 Spontaneous

Across both household and business customers, the spontaneous monetary amounts they would find reasonable was *less* than what they felt was affordable. Mean and median percentages generally fell too, with the exception of the median household percentage which remains at 5% for both affordability and reasonability. Generally demographic differences remained consistent for this question compared to affordability.

Spontaneous - what would be the maximum increase you think would be REASONABLE?							
		Monetary			*Percentage*		
		Mean	Median	% who couldn't afford any increase	Mean	Median	% who couldn't afford any increase
Household	Monthly	£8.90	£5	12%	7.4%	5%	15%
	Annual	£68.10	£50	14%			
Business	Monthly	£152.00	£50	10%	10.30%	5%	10%
	Annual	£1,192	£800	9%			

Figure 3 Spontaneous Reasonable for Household and Business Customers

3.2.2 Prompted

For both household and business customers, the median increase reasonable was 5% - consistent with the median affordability results. However, both mean scores decreased when customers were asked to consider affordability.

Prompted - what would be the maximum increase you think would be REASONABLE?			
	Mean	Median	% who couldn't afford any increase
Household	5.7%	5%	14%
Business	6.1%	5%	9%

Figure 4 Prompted Reasonable for Household and Business Customers

4. Key takeouts

- Customers are generally happy with service and once informed of and given the opportunity to discuss the challenges have an appreciation of the need to invest and to mitigate climate change.
- At present, customers overestimate their water charge
- Expressing an increase in charges as a % improves comparability and comprehension, while expressing an increase as a monetary value for HH customers seems more immediately accessible Therefore, any communications on this should perhaps feature a % supported by actuals in £ to aid understanding.

25 January 2024

[redacted]
Director of Price Review
Water Industry Commission for Scotland

Emailed to [redacted]

The Bridge
Buchanan Gate Business Park
Cumbernauld Road
Stepps
Glasgow
G33 6FB

W: www.scottishwater.co.uk

Dear [redacted],

CHARGES SCHEME 2024/25

We are submitting our Charges Scheme for 2024/25 for consideration and approval by WICS following our Board's approval.

The Scottish Water Chair wrote to the Cabinet Secretary in October 2023 outlining the Board's preliminary thinking on prices and setting out the case for increases over the rest of this regulatory period to provide funding for a £4.4bn investment programme (17/18 prices), £500m lower than envisaged in the Final Determination. A copy of the letter is in Annex A.

In order to fund investment of £4.4bn, charge increases of CPI+5.6% would be required over the remaining years of the regulatory period but, recognising that customers prefer stability of charges, the letter proposed equal nominal increases of 8.8% in each of the three years (equivalent to CPI+4.2% in 24/25, CPI+5.8% in 25/26 and CPI+6.8% in 26/27). This would also achieve the overall price increases of CPI+12.6% over the SR21 period envisaged in the Final Determination.

The CPI rate to October 2023 was 4.6% and the updated Bank of England forecasts for CPI in 2025/26 and 2026/27 of 3.0% and 2.0% respectively, are the basis on which the proposed nominal charge increases of 8.8% are constructed. An alternative profile, based on CPI+5.6%, would require nominal charges of 10.2% for 2024/25, 8.6% for 2025/26 and 7.6% for 2026/27.

The reply from the Cabinet Secretary is in Annex B.

The Independent Customer Group was asked to give its considered view of these proposals and these are included at Annex C. They recognise that there is a demonstrable requirement for sustained investment in water and sewerage infrastructure to replace ageing assets and respond to the growing challenges associated with climate change. After considering the outputs of customer research on charges the ICG is willing to support charge increases in primary charges up to 6-7% for domestic customers and 7-8% for non-domestic, while recognising the hardship facing sections of both domestic and business customers.

The Board has approved a charge increase of 8.8% for 2024/25 in order to mitigate the risk of further cuts to the investment programme, given the consequential impacts on levels of service, compliance, regulatory enforcement, delivery of Ministerial Objectives and the interests of future generations.

The draft Charges Scheme and Tariff Basket Models have been submitted separately for your review.

Secondary Charges are for on-demand services, the majority of which are set to reflect the actual costs of providing services. The proposals for these charges mean that they will mostly increase between 3-3.5% with some exceptions where there is a greater movement in the costs of the activity. This outcome is due, in part, to the 2023/24 Secondary Charges increasing by a flat 5% in line with Primary Charges instead of being aligned to the actual costs of delivering each service. Detailed information about the Secondary Charges for 2024/25 were previously submitted to WICS for comment and review. In addition, the Charges Scheme includes some minor text updates, also previously provided to WICS for review and comment.

Given the very tight timeline that we now face, it would be very helpful if we could receive the response of the WICS Board to these proposals and their approval before 31 January 2024. This is required to allow us to meet the billing requirements of the local authorities, the Central Market Agency and inform Licensed Providers in good time to allow them to develop their own retail charges and customer communications.

Yours sincerely,

[redacted]

[redacted]
Director of Finance

Annex A – Letter from Scottish Water Chair to the Cabinet Secretary for transport, Net Zero and Just Transition – 23 October 2023

Scottish Water
Trusted to serve Scotland

23 October 2023

Scottish Water
Buchanan Gate Business Park
Cumbernauld Road, Stepps,
Glasgow, G33 6FB

W: www.scottishwater.co.uk

Mairi McAllan MSP
Cabinet Secretary for Transport, Net Zero and
Just Transition
Emailed to: [redacted]

Dear Cabinet Secretary,

The Board of Scottish Water is considering setting tariffs for customers for 2024/25, and the expected trajectory for the remaining years of the strategic review period. In that context, I thought it may be helpful to set out the Board's preliminary views. We will consider customer research, and input from the Independent Customer Group, before reaching a final view.

Context for current charging decision

For the 2021 to 2027 period, the Water Industry Commission for Scotland (WICS) determined that Scottish Water required price increases of CPI+2% each year (CPI+12.6% over the period as a whole) in order to invest sustainably in maintaining and replacing ageing assets, to support growth, and to meet the growing challenges of climate change adaptation, Net Zero and higher customer and societal expectations of water quality and the impact of the water industry on our environment.[1]

In 2021 and 2022, the then Cabinet Secretary invited Scottish Water to consider the affordability of charges for its customers in light of the cost-of-living crisis.

The Board recognised the very significant challenges for our customers and therefore decided to hold prices at or below the level of inflation for both 2022/23 and 2023/24.

At that time, we observed that, as a result of this decision, our investment over the SR21 period would be £0.5bn lower[2] than set out in the Final Determination, with consequent impacts on what we could deliver for our customers, communities and the environment and for the timing of the delivery of the Ministerial Objectives.

In the Cabinet Secretary's letter of 21st December 2022, it was recognised that these decisions would require average nominal price increases of 9.15% in each remaining year of the regulatory period to achieve the overall price increases of CPI+12.6% envisaged in the Final Determination, yielding a minimum £4.4bn of investment.[3]

1 WICS' Final Determination provided for investment by Scottish Water of £4.9bn over SR21 (17/18 prices)

2 Investment was expected to be £4.9bn at the time of the FD (17/18 prices) and reduced to around £4.4bn as a result of these real-terms price reductions.

3 This 9.15% figure was nominal and based on the expected trajectory of inflation at the time of Mr Matheson's letter (December 2022).

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Scotland's publicly owned, commercially operated, independently regulated model

As you know, Scottish Water is publicly owned, commercially operated and independently regulated by WICS, the Drinking Water Quality Regulator (DWQR) and the Scottish Environmental Protection Agency (SEPA).

This model, in which prices are set periodically by the regulator, has served Scotland well. It provides long-term predictability that allows Scottish Water to plan and invest effectively. It enables higher levels of investment per capita than other water companies in England and Wales. And it has kept charges affordable whilst enabling improvements in service levels.[4]

For a business with over £1bn annual turnover, which is inherently long term in its nature, such predictability is essential; without it we could not manage our supply chain effectively, with knock-on negative impacts on quality of service and higher cost for customers.

I am proud to hear Ministers describe Scottish Water as a "jewel in the crown". For it to continue to be so, we must safeguard the stable, long-term charging profile that the SR21 process concluded was needed to cope with the significant challenges we face.

Learning from the situation in England & Wales

As seen in recent press coverage, the water sector in England and Wales is facing real difficulties. Previous decisions deferred necessary investment, contributing to a situation where service standards are below expectations, public trust in water has been damaged, and companies now propose significant bill increases, averaging around 30% in real terms.

Forecast investment needs to 2027

We have considered the level of investment required to deliver our core functions and to continue to make progress towards the delivery of the 2021 – 2027 Ministerial Objectives.

We have provided your officials with revised forecasts of investment needs, based on current inflation expectations for the remaining years of SR21. We have also highlighted the pressures on an already reduced investment budget that arise from construction price inflation being above the level of CPI, an ageing asset base that is struggling to cope with climate change impacts, and new regulatory requirements and enforcement notices.

Our initial assessment is that we require a minimum of £4.4bn of investment, resulting in average nominal charge increases of around £3 per month for each of the remaining three years of SR21 (an increase of 8.8%, lower than the 9.15% increase mentioned above). This level of increase would broadly mirror the average level of CPI over the last 12 months to September 2023 of 8.98%.

[4] See 2021-27 draft determination.pdf (wics.scot), pg 16. Since 2002, Scottish Water has invested annually more per person (an average of £135 in 2020 prices) than any water company in England and Wales. Its service levels are as good as have ever been recorded by any company in Great Britain and its leakage has reduced significantly. While Scottish Water has invested over 30% more per person than the average company south of the border, its operating cost savings have ensured that the average household pays £372, 24% (or £90) less than it otherwise would have done. Since 2002, average household charges have fallen by 10% in real terms. As a result, average water charges – despite Scotland's much more rural and challenging geography – are among the lowest in Great Britain. In England and Wales, the average increase has been 4% in real terms over the same period.

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This profile would be broadly in line with the expectations of overall price increases across SR21, as set out in the Final Determination. It is also predicated on Scottish Water delivering the continuing efficiency improvements expected by WICS, to be achieved through applying the industry-leading financial and operational disciplines that are the hallmark of the business.

Following discussions with your officials, we have identified around £200million of investment that falls outside of "delivery of our core functions". These include:

- £124million investment in Transformation
- £33million investment in renewable energy projects to deliver Net Zero
- £25million investment in innovation and Lighthouse Projects (e.g. Craigleith)
- £21million investment in bioresources projects

It is important to note that the investment in Transformation is expected to deliver a return well above the original outlay and is an important example of public sector reform. Hence, reduction in that investment would result in higher future costs. As such, we do not believe that reductions in this programme are in the interests of customers. In its early stages, our Transformation programme has delivered benefits of around £68million for customers.[5]

Support for those struggling to cope with the cost of living crisis

For many years, the Board has recognised and sought to adapt in response to the challenge posed by the cost-of-living crisis.

Our current view is that further reduction in our investment programme for SR21 could compromise our ability to deliver our core functions, and to make progress on delivery of the Ministerial Objectives and the Water Sector Vision. Moreover, impacts for future generations, on service quality and bills would be significant, and would not represent a fair balance.

However, the Board remains acutely aware of the ongoing challenges faced by families today across Scotland as they struggle to cope with inflation and high energy and food bills.

For those customers who may be struggling to meet the cost of even the modest increments indicated above, we note that the Water Charge Reduction Scheme (WCRS) and other reliefs provides support for around 50% of customers in Scotland.

We have looked closely at how the WCRS would apply in the current context, particularly for those receiving the maximum reduction. Our analysis shows that, with price increases as proposed above in each of the next 3 financial years, the annual bill in 2026/27 for customers receiving the full reduction will be 3% lower in real terms compared to their bill in 2020/21.

We believe that the application of the WCRS therefore helps to square the difficult circle between investment and charges, and helps to allocate the costs of climate change adaptation fairly, and in line with the aims of a just transition. The annex sets out how those paying full charges would be affected, across the different Council Tax bands.

[5] The Transformation programme is expected to deliver overall benefits of more than £900m by 2030/31.

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Preliminary Conclusions

The SR21 Final Determination identified the need for Scottish Water to increase investment over time to ensure financial sustainability, deliver the quality of services expected by customers and enable environmental improvements demanded by society, including Net Zero, adapting to climate change and improving the quality of Scotland's waterways.

The Board's preliminary view is that the interests of customers and communities in Scotland today and in the future are best served by returning as closely as possible to the trajectory envisaged in the SR21 Final Determination. This would deliver incremental charges increases that are modest in absolute terms (an average of around £3 per household per month in 2024/25), which fund a sustainable trajectory of investment over time, and create a viable platform from which to project future bill profiles for SR27 and beyond.

When combined with the support for those struggling to pay through the application of the WCRS, we believe this may represent the right outcome for all.

I hope these reflections are helpful and would of course be happy to discuss further.

Yours sincerely,

[redacted]

Dame Susan Rice DBE
Chair

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Annex

Charge levels (for those on full charges)

The below table shows the charge levels for households on full charge in each of the next three years with an 8.8% per annum nominal increase.

	2023-24 Household Annual Charge	8.8% Nominal Increase on Full Charge		
Council Tax Band	**Combined Services**	**2024-25**	**2025-26**	**2026-27**
Band A	£334.86	£364.33	£396.39	£431.27
Band B	£390.67	£425.05	£462.45	£503.15
Band C	£446.48	£485.77	£528.52	£575.03
Band D	£502.29	£546.49	£594.58	£646.91
Band E	£613.91	£667.93	£726.71	£790.66
Band F	£725.53	£789.38	£858.84	£934.42
Band G	£837.15	£910.82	£990.97	£1,078.18
Band H	£1,004.58	£1,092.98	£1,189.17	£1,293.81
SW Average Charge	**£408.53**	**£444.48**	**£483.59**	**£526.15**

Annex B – Letter from Cabinet Secretary Dated 25 January 2024

Cabinet Secretary for Transport, Net Zero and Just Transition
Mairi McAllan MSP

Scottish Government
Riaghaltas na h-Alba

T: 0300 244 4000
E: scottish.ministers@gov.scot

Deirdre Michie
Chair
Scottish Water
Emailed to: [redacted]

25 January 2024

Thank you once again for agreeing to take on the role as Chair of Scottish Water from January 2024. I look forward to working with you.

I am responding to the Board's letter of 23 October 2023 regarding charge increases for 2024-25. Please accept my apologies for the delay in responding. As you will appreciate, there have been on-going discussions with my officials in respect of the difficult charging decisions the Board had to take, as well as the Scottish Government's budget for next year.

I note the Board's intention to set an 8.8% increase in water and sewerage charges for 2024-25, following 2 years of freeze or below inflation increases and acknowledge that the decision is the Board's alone and not one for Scottish Ministers. I understand the context for this increase and also note the need for sustained investment in services given the need to maintain levels of service, meet Net Zero targets and adapt assets to the growing impacts of the climate emergency. The Scottish Ministers are concerned, however, that this represents an above inflation price increase, particularly unwelcome during a cost of living crisis. However on questioning the proposed increased, we are advised that Scottish Water considered that its ability to deliver statutory services in the face of ageing assets and climate change, would be at risk without an increase of this exact level.

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot

Clearly the range of discounts available for customers, including in respect of Council Tax Reduction, will be vital to ensure affordability and I reiterate the importance of this to the Scottish Government. With this in mind, I should be grateful if Scottish Water would work closely with my officials to ensure that the affordability of charge increases for future years beyond 2024-25 remains central to the board's considerations, alongside the need to deliver essential services.

A copy of this letter goes to Alex Plant.

[redacted]

MAIRI MCALLAN

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot

Scottish Water Charges for 2024-25

1.This paper sets out the considered view of the Independent Customer Group in relation to potential increases in charges for Scottish Water's water and waste water services in 2024-25.

2.The range of changes to water charges in the ICG's deliberations was a price freeze which would align with the Scottish Government's decision to freeze Council Tax for next year, and an increase of 8.8% which we understand is the level of increase currently being proposed by Scottish Water. ICG considered this range within the wider context of the findings of the research conducted in August/September 2023 into customer attitudes to pricing, the continuing difficult economic climate and the Bank of England's inflation forecasts.

3.ICG noted that the Council Tax freeze will throw into sharp relief any increase in water charges with the attendant critical attention that is likely to bring. Nevertheless, the ICG wishes to put on record that given the challenges of ageing water and wastewater infrastructure and the need to adapt to the impact of climate change, it does not consider that a freeze in water charges would be in the long-term best interests of customers. Equally, however, it is not in a position to support an 8.8% increase for the reasons set out below.

4.It is important to note that while Scottish Water's ownership model commands widespread public support, the corollary is that customers expect the tariff decisions of a public body to be sensitive to the financial stress they are facing. The affordability issues that featured in our considerations on tariffs last year continue to be reflected in the findings of the current research. While the views of household customers on the average maximum increase deemed affordable (6.7% up from 6.2%) or reasonable (6.4% up from 5.7%) have increased slightly over those of last year, in response to the direct question only 42% of household customers were prepared to pay more now to maintain service standards; and the median which is regarded statistically as the more robust reflection of the central customer position remains unchanged since last year at **5%** for both reasonableness and affordability.

5.It is evident that customers feel insecure and anxious about the financial outlook which they continue to see as uncertain. Despite the recent drop in overall inflation in October to 4.6%, food price inflation remains in double digits, both food and energy prices are respectively 30% and 40% higher than in October 2021; and the full impact of the sharp increase in mortgage interest rates has still to be felt. While the research shows that the stress is experienced most acutely in socioeconomic groups DE it is not confined to those. 23% of households in council tax (CT) bands FGH believe they are paying too much for water services and new research by Consumer Scotland confirms earlier findings that CT band is an imperfect proxy for income;

proportionately more households in bands FG experience water poverty than in CT bands AB. The research also suggests that the standard method of alleviating hardship by using Council Tax Reduction as a passport to a reduction in water charges is not well targeted either to the “squeezed middle” or those who are struggling in higher CT band properties. In light of this, it might be helpful for Scottish Water to look with stakeholders at the most effective means of supporting their customers who find water charges challenging.

6.On the basis of the research evidence, the ICG was drawn to a price increase in line with the median of 5% and noted that even at this level, 30% of household customers would struggle to find the means to pay. The ICG, however, fully recognises the requirement for investment to address the condition of ageing assets, the impact of increasingly frequent and severe weather events and the need for contributions from current customers rather than the whole burden fall on customers in the future. After careful consideration, it considers that it could support an increase in domestic tariffs in the range 6-7%. It would not be in a position to support an increase beyond that level, given the very real financial challenges that customers currently face. In arriving at that view, it also noted that on the basis of the October inflation figure of 4.6% and the Bank of England’s projected level of 4.4% in February when charges will be announced, the middle to upper end of that range would represent a significant increase above inflation.

7.It is also important to note the research finding that customers are looking for information about, and transparency in, the capital programme with assurances that increases in revenue will be applied specifically to address the infrastructure challenges identified.

8.The evidence in relation to business customers indicates that they too are feeling the impact of inflation, particularly high energy prices, and slow economic growth.

9.It is clear that small and micro businesses are struggling; their options to reduce costs are very limited. Medium companies report being less profitable than before and that the ratio of effort to reward has deteriorated. While large companies are also strained, they have more scope to adapt to financial pressures. Overall, the median for an affordable level of increase has gone up from 5% to 8% compared with last year and reasonable from 5% to 7%; and, in comparison with household customers, 58% said that they would be willing to pay more to maintain service standards. It should be noted however that 40% of business customers have indicated that, for them, a rise in the range of 7-8% would be neither reasonable nor affordable. An increase in the range 7-8% is therefore the upper limit of what the ICG could support for business customers, acknowledging that this may present hardship to some business customers.

Independent Customer Group
25 November 2023

Annex C - Summary of customer research

1. Background and Methodology

In summer 2023, Scottish Water commissioned independent agency Trinity McQueen to conduct research with customers to understand their views on their water and waste water charges. The research comprised of a robust quantitative and qualitative exploration of price increases, for both household and non-household customers. The overall objective was to understand what level of charge increase is seen as reasonable and affordable to customers next year. Similar to previous years, customers were asked for both spontaneous and prompted responses to the price increases they felt were affordable and reasonable –

Spontaneous – customers were asked for a £/% increase that was affordable and reasonable, but without stimulus to show what this might look like for them or their bill. They were given no guideline of range to select from in this question.

Prompted – Household customers were presented with a table showing what 0-15% price increases would look like for their for their council tax band. Business customers were given example bill amounts and shown what 0-15% increases would look like.

This paper provides a high-level overview of key insights from the research, but more detailed insights as well as details of methodology and sampling can be found in the full report.

2. Qualitative Insights

Household customers highlighted the impact and feeling of unpredictability related to **cost of living**; using examples such as prices of food, energy, petrol and mortgages. Non household customers highlighted a squeeze of increasing costs and decreasing sales, and are looking to resourcing, operating hours and diversification to minimise impact.

Water and waste water is seen as largely a **silent service** by both household and non household customers, due to charges being paid via their Local Authority or Licensed Provider. Most had low awareness of how much they pay, had not noticed increases in their bill - customers tend to overestimate how much they are charged. Customers report mixed awareness of whether Scottish Water is a **public company**; those who are aware were more positive about possible charge increases.

Spontaneous responses to what was **reasonable and affordable** were generally higher than prompted responses. This is because customers are not aware of what they pay to begin with – so spontaneous responses are influenced by their experiences of price rises in other areas, the value they attach to water and waste services, and their discretionary income. Prompted responses are also limited to the 0-15% scale provided, whereas spontaneous responses were not – so the formatting and context of each question is very different.

Consistent with last year's findings and other previous research, showing customers both **monetary and percentage** increases clarity and ease of understanding. When customers saw the Sterling value alongside percentages, they found the increases to be more manageable, or 'not that much.' Generally, customers reference price increases in monthly terms as this aligns to how they budget.

Businesses were able to absorb increases more readily than households, but small businesses are struggling, and their focus is on surviving a year at a time. Businesses who rely on water don't feel there is much they can do to influence their bill through consumption. Both householders and businesses **expect water and waste water charges to increase**, because 'everything else is'. Customers **understood charge increases are necessary to maintain service levels**. However some questioned how much work Scottish Water have done up till now in terms of maintaining infrastructure and replacing older assets, and expressed surprise around the climate change effect of increased rainfall on infrastructure.

Household customers found it difficult to plan their **future finances** (i.e. out to say 2027) given inflation was seen as difficult to predict. Businesses found it easier, as their business planning tends to be longer term. Customers were given three high level potential future charging trajectories - a consistent rise, less of an increase in later years, or more of an increase in later years (no numbers were provided- high level options only). **Household customers** had a general preference for a more **consistent increase**, as it made them feel more prepared and in control of their finances. **Medium and larger businesses** prefer **a steady increase or less of an increase** in later years so they can plan for the future and pass on additional costs.

3. Quantitative Insights

3.1 General Charges Perceptions

Household customers continue to demonstrated **low awareness** of how much they pay, and tend to **overestimate their charge amount** – especially in lower bandings.

Estimated charges cost from quant – Annual (£)

Household

Council tax band	Estimated costs (£)	Actual costs (£)
A	626.4	334.86
B	654.9	390.67
C	1019.4	446.48
D	838.3	502.29
E	1366.8	613.91
F	965.4	725.53
G	959.2	837.15
H*	1697.8	1004.58

When presented with how much they actually pay, the **majority of household** customers (72%), feel their current **charges are about right**, while 20% feel they are too much. Those in more expensive council tax band (FGH) were more likely to say they felt they were paying too much (23%, vs 17% in A/B council tax bands). **Among businesses, low water users and micro businesses** are more likely to feel they are **charged too much**, while a strong majority (76%) feel charges are about right. Just under half (42%) of household customers and 58% of business customers stated they would be prepared to pay more.

3.2 Affordable and Reasonable

Similar to last year's research, customers were asked what they thought was the maximum increase in charge they would find *affordable*, and the maximum increase in charge that they thought was *reasonable*. This was done in both a *spontaneous* and *prompted* way.

Mean spontaneous responses to affordable and reasonable show increases in comparison to last year for both households and business customers. Median responses stay consistent for household customers, but increase slightly for businesses.

Spontaneous Results *(i.e. no example increases shown to customers)*

Mean Affordable & Reasonable

	2022		2023		*Increase vs 2022*
Households	Affordable	£77.30	Affordable	£111.50	*£34.20*
		8.5%		10.40%	*1.9%*
	Reasonable	£68.10	Reasonable	£107.60	*£39.50*
		7.4%		9.40%	*2.0%*
Businesses	Affordable	£1,721.00	Affordable	£1,766.80	*£45.80*
		12.8%		15.30%	*2.50%*
	Reasonable	£1,192	Reasonable	£1,747.40	*£555.40*
		10.3%		15.40%	*5.1%*

Spontaneous Results *(i.e. no example increases shown to customers)*

Median Affordable & Reasonable

	2022		2023		*Increase vs 2022*
Households	Affordable	5%	Affordable	5.00%	*0.00%*
	Reasonable	5%	Reasonable	5.00%	*0.00%*
Businesses	Affordable	7.0%	Affordable	10.00%	*3.00%*
	Reasonable	5.0%	Reasonable	10.00%	*5.00%*

It is worth noting consistent trends to last year's findings (e.g. affordable is higher than reasonable, businesses higher than households) which provides reassurance of the quality and consistency of the data.

For **prompted responses**, household customers median results are consistent to last year, and just a slight increase in mean results. Business customers had slight increases in comparison to last year; particularly in terms of the median results.

	Prompted Results *(i.e. example £ and % increases shown to customers)* — Mean Affordable & Reasonable						**Prompted Results** *(i.e. example £ and % increases shown to customers)* — Median Affordable & Reasonable				
	2022		2023		*Increase vs 2022*		2022		2023		*Increase vs 2022*
Household	Affordable	6.2%	Affordable	6.7%	*0.5%*	Household	Affordable	5.0%	Affordable	5.0%	*0.0%*
Household	Reasonable	5.7%	Reasonable	6.4%	*0.7%*	Household	Reasonable	5.0%	Reasonable	5.0%	*0.0%*
Business	Affordable	6.9%	Affordable	7.8%	*0.9%*	Business	Affordable	5.0%	Affordable	8.0%	*3.0%*
Business	Reasonable	6.1%	Reasonable	7.3%	*1.2%*	Business	Reasonable	5.0%	Reasonable	7.0%	*2.0%*

Akin to the qualitative discussions, **spontaneous responses were higher than prompted responses.** As previously highlighted, spontaneous responses are based on an estimated bill amount and influenced by their other price increases they have experienced - and ultimately not restricted by a specific scale of increases. Prompted responses on the other hand are based on what an example increase of between 0% – 15% could look like for their bill (or an example business bill). This is consistent with last year's findings.

3.3 Demographic Differences

Demographic differences in responses for **household customers** are summarised below –

- The **lower the socio-economic group, the less of an increase** they would find affordable/reasonable. This is consistent with last year's research. However there have been slight decreases this year for those in lower socio-economic groups (D&E), and increases for those in higher groups – suggesting a widening gap.
- Household customers who do not have a **vulnerability** (either financial or a disability) provided significantly higher responses to what would be deemed as affordable and reasonable.
- For **council tax bands**, there are marginal differences across bands for both affordable and reasonable. While answering these questions, customers were prompted with accurate council tax band information for their own property, and so this is an informed and considered response.

Increased price - Affordable / Reasonable – Prompted (%)

	Affordable (%)	Reasonable (%)
A	5.9	5.8
B	6.3	6.0
C	7.1	6.8
D	7.3	7.1
E	6.6	5.9
F	6.9	6.3
G	7.3	6.8
H*	10.1	9.9

* Caution – very low base

Non household customers stated they could pay slightly more than last year, across low medium and high levels of water consumption. This is true for both affordable and reasonable metrics.

4. Key Takeouts

- Increasing bills and cost of living are impacting both household and non-household customers.
- Awareness of Scottish Water, who we are and what we do continues to be quite low for some customers and as a result household customers in particular tend to overestimate their water and waste charges.
- Increases expressed in annual and monthly cash terms improves understanding of the impact
- Perceptions of affordable and reasonable are relatively consistent in comparison to last year; median results are consistent for household customers, and a slight increase is noted for business customers. Mean results have seen a slight increase.
- A summary of this year's quantitative results is in the table below –

	Household			Non Household		
		Mean	*Median*		*Mean*	*Median*
Spontaneous	Affordable	10.4%	5.0%	Affordable	15.3%	10.0%
	Reasonable	9.4%	5.0%	Reasonable	15.4%	10.0%
Prompted	Affordable	6.7%	5.0%	Affordable	7.8%	8.0%
	Reasonable	6.4%	5.0%	Reasonable	7.3%	7.0%

The Bridge
Buchanan Gate Business
Park
Cumbernauld Road
Stepps
Glasgow
G33 6FB

W:www.scottishwater.co.uk

20 December 2024

David Satti
Interim Chief Executive
Water Industry Commission for Scotland

Emailed to [redacted]

Dear David,

CHARGES SCHEME 2025/26

We are submitting our Charges Scheme for 2025/26 for your consideration and WICS Board approval, following approval by Scottish Water's Board. The decision reached by the Board on the 4th of December was to increase primary charges by 9.9%, an increase of £3.68 a month for the average household bill. This decision was reached after consideration of many factors acknowledging the trade-offs of different options and while taken for the financial year in isolation, it is done so with reference to the regulatory model in Scotland which is designed to ensure that prices are set based on the long-term best interests of customers. Secondary charges are aligned to the cost of delivering the relevant on-demand service and are to mostly increase by 5.2%, reflecting the introduction of the 35 hour week and forthcoming National Insurance changes.

The Strategic Review 21 (SR21) Final Determination enabled Scottish Water to increase customer prices annually by up to consumer price inflation (CPI) + 2% on average, equivalent to CPI + 12.6% over the 2021-27 period. However, due to economic conditions, charges increased by less than this rate until 2023/24, resulting in a £500m reduction in total investment funding to £4.45bn (in 2017/18 prices) on the basis of higher nominal increases over the last 3 years of SR 21 to a final charge in line with the price cap equivalent of CPI +12.6%. This increase for 2025/26 maintains that trajectory.

Net New Borrowing is forecast at a reduced real value over the remaining years of SR 21 and with no current access to any other source of financing we are left balancing the level of charges against increasing demand for Investment and additional pressures on costs from multiple sources including an increase in National Insurance contributions that we forecast will have an impact of around £12m per annum from 2025/26 across both internal labour costs and supply chain price effects.

By the end of this financial year, we will have committed 88% of the total investment in this regulatory period, limiting the scope for flexibility in the remainder of the period. Any further reduction in investment would require difficult choices including:

- Scaling back waste water compliance projects, raising risks of enforcement action by SEPA
- Significant reduction in the number of Combined Sewer Overflows to be improved by 2027 vs. the commitments in our Improving Urban Waters Routemap
- Pausing projects to increase water supply and energy resilience to climate change
- Reduction in planned investment to address internal and external sewer flooding, leading to an increase in the number of customers on our flooding register
- Pausing our renewable energy Programme, pushing back the deadline for operational Net Zero by circa 2 years

- Pausing Transformation projects with a significant impact on delivery of Tier 1 and Tier 2 benefits and our progress to deliver efficiency in SR27

In addition, a material reduction in funding could result in disruption to our supply chain partners at a particularly sensitive time due to the procurement frameworks that are currently in process to supply SR 27, impacting both jobs in Scotland and value in this future framework and the potential of claims for commercial losses.

The Independent Customer Group has provided their considered view on charge increases for 2025/26, included in Annex A. After considering the outputs of customer research on charges, summarised in Annex B, the ICG is willing to support charge increases up to 7% in the charges for both household and business customers. The Board have concluded that this would compromise the Investment Programme and have therefore decided on the higher rate of increase noting the impact of the Water Charge Reduction Scheme and other discounts and exemptions mitigate these charges for over half of customers. While acknowledging that this is an above inflation increase for next year, charges are still below the level that would have been anticipated at the start of the SR 21 period, when an average of CPI +2% was determined to balance the different factors in the Principles of Charging.

In addition, a decision has been reached on Secondary Charges. These are for on-demand services, the majority of which are set to reflect the actual costs of providing services. Depending on the nature of the service, these are proposed to increase either in line with October 2024 CPI (2.3%), the impact of the implementation of the 35-hour week and forthcoming National Insurance changes (5.2%); or the primary charge increase of 9.9% where there is a water-use component. In some exceptional cases, process reviews into the costs of delivering services has resulted in price changes outwith these metrics.

We are cognisant of the need to ensure that infrastructure charges recover the costs associated with increasing capacity of existing network assets to support housing development and the domestic requirements of the non-household sector, as required by the Scottish Government's Principles of Charging. This ensures equity between customer groups and avoids Scottish Water putting any constraint on growth. I understand that our teams plan to work together over the next year to consider the outlook for the remainder of this regulatory period and the governance arrangements to address any deviation between projected funding and costs.

The draft Charges Schemes and Tariff Basket Models are included separately for WICS' review.

It would be very helpful if we could receive the response of the WICS Board to these proposals and their approval by 24 January 2025. This is required to allow us to meet the billing requirements of the Local Authorities and the Central Market Agency, who require the confirmed charges by the end of January as well as notifying Licensed Providers to allow them to develop their own retail charges and customer communications.

Yours sincerely,

[redacted]

[redacted]
Chief Financial Officer

ANNEX A – CONSIDERED VIEW FROM ICG

Independent Customer Group

Considered View on Scottish Water's Charges for 2025-26

This paper sets out the considered view of the Independent Customer Group in relation to potential increases in charges for Scottish Water's water and waste water services in 2025-26.

We understand that Scottish Water's current thinking is for an increase in the range 5-13%, in the context of aiming to achieve in the 2 remaining years, an average of CPI+2% across the whole of SR21. At the time of writing the CPI figure for October 2024 (the reference month) had not been announced. It is generally expected to be higher than the September position of 1.7%. The ICG's working assumption is for a figure of around 2.3%.

As in previous years, the ICG's views on charges for 2025-26 are informed by customer research and the wider economic environment. The starting point therefore is the evidence from the qualitative and quantitative research conducted by Scottish Water in August/September 2024 into the level of price increases customers thought (a) affordable and (b) reasonable for a publicly owned provider of an essential service to levy in the current difficult financial climate.

The Group noted that the timing of the research was before the scrapping of the winter fuel allowance, the increase in energy prices (with the signal of more to come) and the budget, particularly those provisions relating to employers' national insurance contributions which will have a significant impact particularly on small and medium size businesses.

Overall, the research found that:

- Customers continue to find it very difficult to balance their household budgets and were constantly having to look for ways to economise to make ends meet. The strain is being felt across socio economic groups. Few think their financial circumstances have improved and a significant proportion of those surveyed (38% of household and 20% of business customers) think they are in a worse position than last year.
- While they are resigned to prices in general going up, customers regard "reasonable" to be a rise in line with inflation or wage growth which they put in the range of 2-3%
- Customers struggle to think of "affordability" in isolation. While an increase in an individual bill might be affordable it becomes unmanageable when rises in other essential bills (food, fuel, mortgages, Council Tax) are taken into account.

On water charges, the median **spontaneous** response in the quantitative survey in relation to the level of increase that would be affordable or reasonable is regarded as the most statistically reliable reflection of the general household customer view. The findings this year stand **at 5%,** a figure which has remained consistent over the past three years.

For business customers, even before the effects of the budget changes, it is clear that many, particularly SMEs are struggling and have fewer options to address rising costs. The ICG noted in particular that the **prompted** response from business (i.e. after they had been shown the potential actual increase in their bill) was, contrary to the experience in previous years, **a drop of 1%** in what they regarded as either reasonable (down to 6%) or affordable (down to 7%).

On the basis of the household customer research and taking into account the upward trend in inflation and the cost pressures that have arisen since the research was carried out, the ICG considers that a strong case could be made for an increase of 5% (2.7% above the assumed level of inflation).

The ICG, however, fully recognises the requirement for investment to address the condition of ageing assets, the impact of increasingly frequent and severe weather events and the need for contributions from current customers rather than pushing the whole burden into the future. The Group has also noted the slight upward shift in the dial for the household customer median prompted (as opposed to spontaneous) response.

The ICG have therefore concluded that while there is nothing in either the business or the household findings that could justify an increase in the upper reaches of the range being proposed by Scottish Water, **the ICG's considered view is that it could support an increase of 7% in the charges for both household and business customers.**

[redacted]
Chair
Independent Customer Group
19 November 2024

ANNEX B - SUMMARY OF CUSTOMER RESEARCH

Customer Excellence Hub
Promoting the voice of the customer, enabling service excellence.

Charges Research 2024
Insight Summary

1. Background and Methodology

In summer 2024, Scottish Water commissioned independent agency Trinity McQueen to conduct research with household and business customers to understand their views on their water and waste water charges. More specifically, and consistent with research in previous years, we wanted to understand what charge increase in the next financial year would be reasonable and affordable. The research comprised of both qualitative and quantitative stages. The qualitative stage allowed for a deeper exploration of the topic and included 12 online focus groups with household customers and 12 depth interviews with business customers. The quantitative stage provides robust, representative insights and included 800 nationally representative responses from household customers, and 200 business customers.

Similar to previous years, customers were asked for both spontaneous and prompted responses to the price increases they felt were affordable and reasonable.

Spontaneous – customers were asked for a £/% increase that was affordable and reasonable, but without stimulus to show what this might look like for them or their bill. They were given no guideline of range to select from in this question.

Prompted – Household customers were presented with a table showing what 0-15% price increases would look like for their council tax band. Business customers were given example bill amounts and shown what 0-15% increases would look like.

This paper provides a high-level overview of key insights from the research, more detailed insights as well as a full overview of methodology and sampling can be found in the full report.

2. Qualitative Insights

2.1 Household Customers

Similar to previous years, **increased cost of living remains top of mind** for households. Increased prices are felt to have **impacted various** bills; from mortgages, utility bills and petrol to food bills and even the cost of children's activities such as entertainment or education. This has driven many customers to be more aware of their personal finances than they have been in the past; there is a feeling that price increases are now the 'norm'.

"You're just getting used to the higher prices now. It just seems like the new norm"
Council tax band F

Even customers in higher council tax bands with potentially more disposable income have felt these increases. As a result, customers are **making cutbacks and behaviour changes** such as shopping in multiple locations to get the best prices and reducing 'unnecessary' spending such as holidays and takeaway food. In terms of financial planning, many are only planning in short term – 'pay check to pay check' – however some are planning slightly further in advance, thinking of Christmas or increased winter utility bills. A small number of older customers are planning in the longer term – thinking about pensions.

When asked what the term **"affordable" price increases means to them**, customers found this to be **subjective** and very much based on their own personal finances. When asked what they thought of the term **"reasonable" increases, this was largely linked to wider costs** – so if it aligned with wage increases and general inflation. Customers also struggled at times to articulate what level of increase is reasonable and affordable for their water and waste water bill only, given so many other bills have or are likely to increase.

2.2. Business Customers

Business customers also continue to be impacted by increasing costs, as well as the recent increase in the Living Wage (whilst welcomed overall, it was recognised this has increased businesses outgoings). Businesses are taking several approaches to mitigate the impact of increasing costs by increasing their own prices, making staffing changes (e.g. hiring younger staff, changing/reducing rotas and working hours), reducing fixed costs (e.g. behavioural changes such as turning lights off to reduce electricity bills) and generally increasing frugality such as changing suppliers to get better deals.

Similar to household customers, business customers also feel higher costs are here to stay for the foreseeable. Their **approach to financial planning is largely aligned to business size**; smaller businesses focusing on the shorter term (e.g. monthly/quarterly bills) with larger businesses being more able to analyse profitability in more detail.

Some businesses found it difficult to state what increase is reasonable and affordable given how volatile their finances have been.

"Our economist used to make allowances in line with inflation, recently this is completely out of whack because of our profit margins"
Large business

3. Quantitative Insights

3.1 General Perceptions

Considering the recent coverage related to the wider water sector, customers were asked if they had seen or heard anything about Scottish Water in the media. 22% of both household and business respondents said they had. Most of what they had seen related to service issues, but also Combined Sewer Overflows. However, there was no significant correlation between those who had seen media coverage, and the increase they found to be affordable/reasonable.

To get a sense of any shifts in circumstances, customers were asked to **describe their financial position compared to a year ago** (see Appendix 1). It highlights that for the majority of both household and business customers, they feel it has stayed the same (44% and 42 % respectively). However, for 38% of household customers and 20% of businesses, they feel their financial situation has worsened. Household customers in lower socio-economic grades and smaller businesses are more likely to feel like they are in a worse position. We are looking to include this question in future waves of research so we can understand any trends.

Similar to previous years, customers find it **difficult to accurately say how much they pay for their water and waste water bill**
(see Appendix 2).

A majority of household and business customers (76% and 78% respectively) feel **the amount they pay for charges just now is 'about right'**. When asked if they would be **willing to pay more than they pay now**, 52% of households said 'yes' (an increase of 10% vs 2023) - however a third said 'no'. Similarly, a majority of businesses (58%) stated 'yes' they would be willing to pay more, with 29% saying 'no'; broadly similar to last year's results.

3.2 Affordable and Reasonable

Similar to last year's research, customers were asked what they thought was the maximum increase in charge they would find *affordable*, and the maximum increase in charge that they thought was *reasonable*. This was done in both a *spontaneous* and *prompted* ways.

For the **spontaneous results**, median responses have remained consistent for both household and business customers. However, **household mean responses have increased slightly in comparison to last year, whilst business responses have decreased.**

Spontaneous Results *(i.e. no example increases shown to customers)*

Mean Affordable & Reasonable

		2022	2023	2024	*Difference vs 2023*
Households	Affordable	£77.30	£111.50	£126.40	*£14.90*
		8.5%	10.40%	12.10%	*1.70%*
	Reasonable	£68.10	£107.60	£122.60	*£15.00*
		7.4%	9.40%	10.90%	*1.50%*
Businesses	Affordable	£1,721.00	£1,766.80	£1,401.70	*-£365.10*
		12.8%	15.30%	13.30%	*-2.00%*
	Reasonable	£1,192	£1,747.40	£1,312.70	*-£434.70*
		10.3%	15.40%	12.00%	*-3.4%*

Median Affordable & Reasonable

		2022	2023	2024	*Difference vs 2023*
Households	Affordable	5%	5.00%	5.00%	*0.00%*
	Reasonable	5%	5.00%	5.00%	*0.00%*
Businesses	Affordable	7.0%	10.00%	10.00%	*0.00%*
	Reasonable	5.0%	10.00%	10.00%	*0.00%*

Similar to the spontaneous results, the **prompted mean responses for household customers have increased slightly this year whilst businesses have decreased slightly**. Overall, 7.7% was seen as an affordable increase, whilst 7.1% was seen as a reasonable increase for household customers. For businesses, 7.3% was the mean affordable increase whilst 6.7% was the mean reasonable increase. It is worth noting that for the first time, household median responses are higher than business median responses.

Prompted Results *(i.e. example £ and % increases shown to customers)*												
Mean Affordable & Reasonable						**Median Affordable & Reasonable**						
		2022	**2023**	**2024**	*Difference vs 2023*			**2022**	**2023**	**2024**	*Difference vs 2023*
Household	Affordable	6.2%	6.7%	7.7%	*1.0%*	**Household**	Affordable	5.0%	5.0%	8.0%	*3.0%*
Household	Reasonable	5.7%	6.4%	7.1%	*0.7%*	**Household**	Reasonable	5.0%	5.0%	7.0%	*2.0%*
Business	Affordable	6.9%	7.8%	7.3%	*-0.5%*	**Business**	Affordable	5.0%	8.0%	7.0%	*-1.0%*
Business	Reasonable	6.1%	7.3%	6.7%	*-0.6%*	**Business**	Reasonable	5.0%	7.0%	6.0%	*-1.0%*

Once again, **spontaneous mean responses were higher than prompted mean responses.** As previously highlighted, spontaneous responses are based on an estimated bill amount and influenced by their other price increases they have experienced - and ultimately not restricted by a specific scale of change. Prompted responses on the other hand are based on what an example increase of between 0% – 15% could look like for their bill (or an example business bill). This trend is consistent with previous waves of research.

3.3 Demographic Differences

Key demographic differences are summarised below –

- **Financial situation** – for both household and business customers, those who stated their financial situation has worsened compared to last year provided lower affordable/reasonable mean scores, whilst those who say their financial situation has improved provided higher mean responses.
- **Vulnerability** – household customers who do not have a vulnerability (either financial or a disability) provided higher responses to what would be deemed as affordable and reasonable.
- **Business size & consumption** – micro businesses find lower amounts affordable compared to last year, but also compared to small, medium and larger businesses. The same is true for businesses with lower water consumption.
- **Council tax banding** – similar to previous years, there are marginal differences in what is seen as affordable/reasonable when viewing by council bands.

Increased price - Affordable / Reasonable – Prompted (%)

	Affordable (%)		Reasonable (%)	
	2023	2024	2023	2024
A	5.9	7.7	5.8	7.1
B	6.3	8.0	6.0	7.4
C	7.1	7.0	6.8	6.7
D	7.3	7.9	7.1	7.1
E	6.6	7.3	5.9	6.8
F	6.9	8.5	6.3	7.5
G	7.3	8.6	6.8	8.2
H*	10.1	7.1	9.9	9.2

* Caution – very low base

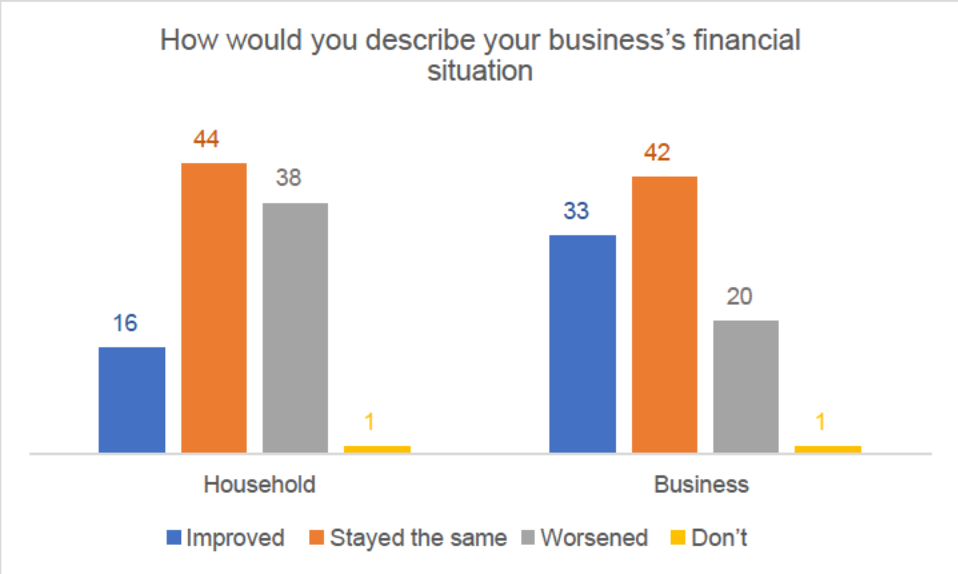
4. Key Takeouts

- Increasing bills and cost of living are continuing to impact both household and business customers. Many feel increasing costs and bills are now 'the norm'.
- Most feel they are in a similar financial situation compared to last year – although some feel their situation has worsened. Responses to this question will be tracked in future waves of research to better understand trends.
- The majority of household and business customers consider their current charges to be 'about right'. 52% of households (an increase on last year) and 58% of businesses said they would be willing to pay more this year.
- For household customers, the amount seen as affordable/reasonable has generally increased this year, whilst it has decreased for business customers.
- A summary of this year's quantitative results is in the table below –

	Household			Businesses		
		Mean	*Median*		*Mean*	*Median*
Spontaneous	Affordable	12.1%	5.0%	Affordable	13.3%	10.0%
	Reasonable	10.9%	5.0%	Reasonable	12.0%	10.0%
Prompted	Affordable	7.7%	8.0%	Affordable	7.3%	7.0%
	Reasonable	7.1%	7.0%	Reasonable	6.7%	6.0%

Appendix

Appendix 1 – Financial Situation Comparison



N= 800 household, 200 business

Appendix 2 – Household Estimation of Water & Waste Charges

Estimated charges cost from quant – Annual (£)

Household

	2023		2024	
Council tax band	Estimated costs (£)	Actual costs (£)	Estimated costs (£)	Actual costs (£)
A	481.50	334.86	579.4	364.26
B	534.00	390.67	644.8	424.97
C	575.30	446.48	634.1	485.68
D	527.10	502.29	575.1	546.39
E	596.70	613.91	556.8	667.81
F	646.60	725.53	637.5	789.23
G	740.00	837.15	772.2	910.65
H*	747.60	1004.58	829.9	1092.78

(Caution – very low base - only 9 people)

18 December 2025

David Satti
Chief Executive
Water Industry Commission for Scotland

Emailed to [redacted]

Scottish Water
Buchanan Gate Business Park
Cumbernauld Road, Stepps,
Glasgow, G33 6FB

www.scottishwater.co.uk

Dear David

CHARGES SCHEMES 2026/27

I am writing to submit our Charges Schemes for 2026/27 for your consideration and WICS Board approval, following approval by Scottish Water's (SW) Board. On the 3rd of December the Board decided, after extended discussion, to increase charges by 8.67% (5.07% in real terms based on October 2025 CPI of 3.6%) for the Financial Year starting on the 1st of April. This represents an increase of £42.34 per year or £3.53 a month for the average household bill, noting that the Water Charge Reduction Scheme and other discounts and exemptions mitigate these increases for over half of customers.

The regulatory model is designed to ensure that prices are set based on the long-term best interests of current and future customers. The SR21 Final Determination allows (SW) to increase customer prices annually by up to CPI + 2% on average, equivalent to CPI + 12.6% over this regulatory period. Charges increased by less than this rate until 2023/24 due to economic conditions, reducing total investment funding.

The Board has approved higher increases over the second half of the regulatory period with a view to returning prices to the level planned in the Final Determination by the end of the SR21 period. That trajectory and out-turn position provide the funding for the replanned £4.45bn investment programme in SR21, £500m lower than envisaged in the Final Determination, but avoiding compounding impacts into the next regulatory period. The agreed price increase of 8.67% for 2026/27 concludes that trajectory, taking prices to the CPI+12.6% cap over the SR21 period. Since 2010, the aggregate increase in charges remains below the equivalent rate of CPI and therefore represents a reduction in real terms.

Ageing assets, more extreme weather and a shifting population continue to put pressure on SW's ability to meet increasing customer and regulatory expectations. The investment programme has grown by over 50% during SR21 while repairs have roughly doubled. Cash reserves have reduced by £400m, enabling this increased investment but reducing the margin for error and the buying power of our borrowing has reduced in real terms, increasing the pressure on customer charges for cash. In this context, the SW Board weighed all factors, especially the impact on today's customers and recent unexpected cost increases such as National Insurance contributions and non-commodity energy prices.

As we enter the final year of the SR21 regulatory period, 91.5% of total investment (including planned and responsive work) and 58.5% of Year 6 investment is now committed or already spent. We have considered multiple scenarios of different increases and assessed that there is already a risk of disrupted delivery of the remaining capital programme, with adverse impacts on service levels and disruption to our supply chain partners, affecting jobs in Scotland and increasing the risk to SW of commercial penalties. Reduced revenue would only increase these risks and push projects into SR 27.

The Independent Customer Group (ICG) has provided their considered view on charge increases for 2025/26, included in Annex A along with the summarised outputs of customer research on charges in Annex B. We are conscious of the ICG's warning that a price increase at the level agreed could undermine trust with household customers. The SW Board recognises this risk and has carefully considered whether further efficiency is possible to mitigate the scale of price increases and the impacts on customers. Ultimately, the SW Board determined the level of increase agreed was required, and our Chair and CEO intend to meet with the ICG to discuss the Board's reasoning. Our Chair has also written to the Cabinet Secretary to inform Scottish Government of the Board's decision; a copy of the letter is enclosed.

The Charges Schemes also include proposed secondary charges for on-demand services. The majority of these charges are set to reflect the actual costs of providing services and are changing by between -5.7% and +5.2% based on movements in costs. The remaining secondary charges are proposed to increase either in line with October 2025 CPI (3.6%), or the primary charge increase of 8.67% where there is a water-use component to the service. A process review of the Trade Effluent Rebates has resulted in rebate changes out-with this range to reflect changes in the underlying average sample analysis costs.

Investment reflective infrastructure charges fund the extension of existing network capacity (where not readily attributable to a particular developer), to support housing development and the domestic requirements of the non-household sector in accordance with the Scottish Government's Principles of Charging. The available balance of infrastructure funding is currently trending downwards year-on-year because income from infrastructure charges, which have risen in line with CPI since 2021, has been consistently outstripped by investment demand.

It is essential that SW maintains an adequate funding balance to meet developer demand and avoid constraining growth. A depleting infrastructure funding balance raises the risk of steeper future price increases, which would conflict with Scottish Government's principle of stable charges. To mitigate this risk, infrastructure charges are proposed to increase by CPI+2% in 2026/27. Feedback from developers indicates that they prioritise timely infrastructure provision to support development demand and would be receptive to above-inflation charge increases to maintain this where required (see Annex C). We will include proposals in our Final Business Plan to agree a charge setting mechanism with WICS for Infrastructure Charges in SR27 which transparently maintains infrastructure funding between agreed parameters whilst maintaining stable charges for developers.

Following the recent publication of revised Rateable Values effective from April 2026 by the Scottish Assessors, the formula for deriving assessed water volumes at unmetered non-household premises from Rateable Value, set out in Part 1 of the Charges Scheme, has been updated to ensure that aggregate assessed volumes remain equal. The revised model has been subject to internal assurance and shared with your team.

The draft Charges Schemes and Tariff Basket Models are included separately for WICS' review. I would be grateful if we could receive the response of the WICS Board to these proposals and their approval by 23 January 2026. This is required to allow us to meet the requirements of the Local Authorities, the Central Market Agency and Licensed Provider, who require the confirmed charges by 30 January 2026 to support 2026/27 opening billing.

Yours sincerely

[redacted]

[redacted]
Chief Financial Officer

ANNEX A: CONSIDERED VIEW FROM ICG

Independent Customer Group

Considered View on Scottish Water's Charges for 202627

This paper sets out the considered view of the Independent Customer Group in relation to potential increases in charges for Scottish Water's water and waste water services in 2026-27.

This paper sets out the ICG's considered view on proposals for water and waste water charges for 2026/27. We understand that current thinking in Scottish Water is for an increase of 9%. At the time of writing the October figure for CPI (the reference month) is not available. Our working assumption is a continuation of the rate for September of 3.8%.

As in previous years, the ICG's views are informed by customer research, carried out in August 2025, on the level of increase customers thought would be (a) affordable and (b) reasonable; and the wider economic environment for customers.

For household customers, it is clear that broader economic pressures are continuing to have an impact on household finances. Research findings highlight the difficulties many customers face in managing basic weekly expenses and coping with unforeseen costs. For example, 38% of participants reported their financial circumstances had deteriorated over the past year. A similar proportion said that they constantly find it difficult to make ends meet and 39% indicated that they would struggle to cope with an unexpected bill of £50. Only half of customers were willing to pay more to maintain current standards of service.

This lack of financial resilience feeds through to attitudes towards potential increases in water charges. There has been a sharp drop in both the spontaneous and prompted (before and after being shown the actual impact on bills) responses compared with last year's findings. Specifically, the median of the prompted view of "affordable" has fallen from 8% to 5% and "reasonable" from 7% to 5%.

For business customers the picture is more complex given the absence of standardised bills and diversity in size and water usage. We also question whether the relatively high proportion of technology companies in the sample might have resulted in a more optimistic outlook; but the research results indicate different sentiment among businesses compared with that of household customers. Nearly half of business respondents reported improved finances compared with only 15% of households. There is also a significant increase in willingness to pay more among business participants, with 75% indicating they would be prepared to do so compared with 58% last year. Conversely, the proportion of participants unwilling to pay more decreased markedly, falling from 29% in 2024 to 19% in 2025. Perceptions of VFM and satisfaction rates have risen by 11% and 9% respectively.

Overall, for most business customers (small, medium and large) the median percentage increase deemed affordable was 8-9%, and reasonable 7-8%. For micro businesses, however the figures were 5% and 3.5% respectively.

The ICG fully recognises the need for increased investment to meet the challenges of climate change, ageing assets and demographic factors. We are also aware of Scottish Water's wish, in the final year of SR21, to reach the maximum revenue allowed by the cap set by the SR21 Determination, not least to provide a baseline for SR27. An increase of 9% would, however, mean that charges would have risen by 30% over the last 3 years.

An increase of this magnitude carries significant risk in terms of maintaining the trust and confidence of household customers. The corollary of widespread support for our public ownership model is the expectation by customers that Scottish Water will be sensitive to their financial circumstances, particularly given, as the ICG has observed before, that they have no choice of supplier and no agency at all over how much they pay.

There are already straws in the wind. The research shows, for example, that for the first time, customers in lower CT bands are underestimating how much they pay and those in higher bands are becoming more aware of the size of their bills and the structure of tariffs. On being informed about the 2025 increase of 9.9%, the proportion of household participants who thought their charges were "about right" fell from 73% to 57%; while those saying charges were "too much" rose from 22% to 33%.

An additional 9% charge would represent a 5.07% above inflation increase. While research indicates it might be acceptable to business customers except for very small micro businesses, the findings also make clear that it would be a significant affordability challenge for domestic customers and would carry real reputational risk for Scottish Water.

Independent Customer Group
2 November 2025

ANNEX B: SUMMARY OF CUSTOMER RESEARCH

Customer Excellence Hub
Promoting the voice of the customer, enabling service excellence.

Charges Research 2025
Insight Summary

1. Objectives and Methodology

1.1. Approach & Tracker Objectives

Scottish Water commissioned independent agency Accent to conduct the annual charges research. This research tracks customers views on what charge increase in the next financial year would be reasonable and affordable. Recognising this research has now become a tracker study, only quantitative research was conducted. It included 1203 household customers and 200 business customers. The fieldwork was mainly conducted online, however face to face research was utilised with hard to reach and digitally disengaged household customers. Further sampling information is available on request.

Similar to previous years, customers were asked for both spontaneous and prompted responses to the price increases they felt were affordable and reasonable.

Spontaneous – customers were asked for a £/% increase that was affordable and reasonable, but without stimulus to show what this might look like for them or their bill. They were given no guideline of range to select from in this question.

Prompted – Household customers were presented with a table showing what 0-15% price increases would look like for their council tax band. Business customers were given example bill amounts and shown what 0-15% increases would look like.

1.2 New Objectives – Discounts & Exemptions.

New objectives were included this year to understand customers views regarding bill discounts and exemptions available to customers in Scotland. This topic has not been covered in customer research previously, therefore Scottish Water wanted to start to understand high level views regarding awareness and attitudes towards discounts/exemptions, perceptions of eligibility and funding levels, attitudes towards as well as drivers of customers views. These questions were added at the end of the survey to allow robust benchmarking for the affordable/reasonable questions. Future customers were also included in the research for the first time, however, again to maintain the ability to benchmark against previous waves, their views have been removed from any affordable/reasonable metrics within this paper.

This paper provides a summary of key insights from the research. More detailed insights, including sampling information and demographic differences, can be found in the full reporting.

2. General Perceptions

2.1. Financial Wellbeing

Consistent with 2024 results (see appendix 1), 38% of household respondents said their financial situation has worsened over the past 12 months, with 15% citing it had improved. Business customers by comparison are more positive, with 49% stating their financial situation has improved, which is a 16% increase vs 2024.

Around 1 in 5 (19%) household customers said they struggle to pay at least one household bill all or most of the time; higher amongst those in lower socio-economic groups, and those who receive a council tax discount. 38% and 39% of household customers respectively agreed they 'constantly find it hard to make ends meet' and would 'find it difficult to pay an unexpected bill' – again this is higher amongst lower socio-economic groups and those with children.

2.2. Perception of Scottish Water & Current Charges

Perceptions of Scottish Water overall were fairly positive, with 88% overall satisfaction with water/waste services for household customers, and 90% for business customers. Around 1 in 4 have seen something in the media about Scottish Water, with more positive media sentiment related to water/waste services, and more negative sentiment related to costs and bills. Value for money has seen a significant decrease for household customers compared to last year (82%, -4%), whilst it has significantly increased for business customers (88%, +11%)

Household customers continue to struggle to accurately state how much they pay (appendix 2). When shown their bill amount, 73% felt the cost was 'about right' and 22% felt it was 'too much'. This broadly aligns with results from previous years. Business customers were similar, with 77% citing it was 'about right' and 21% feeling it was 'too much'.

After being shown their bill amount and some general information on Scottish Water's services and future challenges, 50% (-2%) of household customers and 75% (+17%) of business customers were willing to pay more in order for Scottish Water to continue to deliver the current standards of service.

3. Affordable & Reasonable Increases

3.1. Spontaneous Responses

Without being shown what it might look like for their bill, customers were asked what monetary and percentage increase to their bill would be **affordable** and **reasonable**. Median monetary responses decreased for household customers, but significantly increased for business customers. Median percentage responses remained consistent for both household and business customers, at 5% and 10% respectively. Mean percentage responses decreased for household, but significantly increased for business customers.

SPONTANEOUS RESPONSES		Affordable					Reasonable				
		2022	2023	2024	2025	Change vs 2024	2022	2023	2024	2025	Change vs 2024
Household Customers	Mean (£)	£77	£112	£126	**£270**	**£143**	£68.10	£108	£123	**£249**	**£126**
	Median (£)	£50	£72	£108	**£84**	**-£24**	£50	£72	£84	**£60**	**-£24**
	Mean (%)	8.5%	10.4%	12.1%	**9.8%**	**-2.3%**	7.40%	9.4%	10.9%	**8.5%**	**-2.4%**
	Median(%)	5.0%	5.0%	5.0%	**5.0%**	**0.0%**	5%	5.0%	5.0%	**5.0%**	**0%**
Business Customers	Mean (£)	£1,721	£1,767	£1,402	**£3,723**	**£2,321**	£1,192	£1,747	£1,313	**£3,795**	**£2,482**
	Median (£)	£1000	£480	£300	**£840**	**£540**	£800	£360	£343	**£690**	**£347**
	Mean (%)	12.8%	15.3%	13.3%	**17.7%**	**4.4%**	10.0%	15.4%	12.0%	**13.8%**	**1.8%**
	Median(%)	7.0%	10.0%	10.0%	**10.0%**	**0.0%**	5.0%	10.0%	10.0%	**10%**	**0.0%**

3.2. Prompted Responses

Customers were shown what a 0-15% increase might look like for their bill, and asked what increase would be affordable and reasonable. Household customers percentages decreased, whilst business customers increased.

SW Private
Commercial

PROMPTED RESPONSES		Affordable					Reasonable				
		2022	2023	2024	2025	*Change vs 2024*	2022	2023	2024	2025	*Change vs 2024*
Household Customers	Mean (%)	6.2%	6.7%	7.7%	**6.4%**	***-1.3%***	5.7%	6.4%	7.1%	**6.1%**	***-1.0%***
	Median (%)	5.0%	5.0%	8.0%	**5.0%**	***-3.0%***	5.0%	5.0%	7.0%	**5.0%**	***-2.0%***
Business Customers	Mean (%)	6.9%	7.8%	7.3%	**8.2%**	***0.9%***	6.1%	7.3%	6.7%	**7.3%**	***0.6%***
	Median (%)	5.0%	8.0%	7.0%	**8.0%**	***1.0%***	5.0%	7.0%	6.0%	**7.0%**	***1.0%***

4. Discounts and Exemptions

Of the household customers taking part in the research, 42% stated they receive some form of Council Tax discount, estimating an average 23.5% reduction on their water bill. The most common reason they said they received a discount was due to being a single adult household. The majority (38%) estimated that between 30% or 40% of households in Scotland some form of discount. When informed that around half of households receive a discount, 45% felt this was 'about right' whilst 35% felt this was 'too high'.

When asked if it is fair that some customers receive discount on their water bills if they are in need, 76% agreed. This had higher agreement amongst those who receive a council tax discount (90%), as well as those who struggle to pay bills all the time (88%). A similarly positive and altruistic theme was echoed in the social responsibility metrics (see appendix 3).

Household customers were then shown a variety of customers groups, and asked whether they feel that group should get a discount, exemption or pay the full bill amount. Low income and single adult households had the highest support for discounts, whilst those with disabilities/long term health conditions and pensioners have the highest level of support for exemptions. Students, who currently receive an exemption, had relatively low level of support – with 17% of respondents supporting an exemption, whilst 54% feel they should receive a discount.

Customers were asked to provide verbatim comments to further explain their views. Support for discounts and exemption is driven by a recognition of the impact of financial vulnerability- a sense that others are struggling, so it's the right thing to do. Opposition for discounts and exemptions was generally related to larger households and those with children; with comments reflecting that they potentially use more water, and ultimately those circumstances are a choice.

5. Conclusion

Half of households and three quarters of business respondents were willing to pay more for Scottish Water to continue to deliver the current standard of service. For households, this is in line with their feelings last year, and for businesses, it is a significant increase compared to last year.

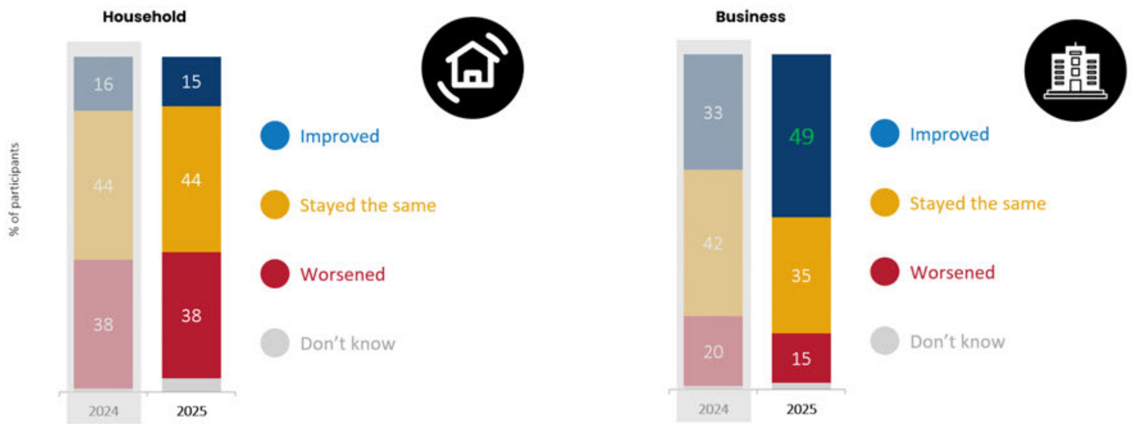
Overall, prompted responses to what increase would be affordable and reasonable decreased for household but increased for businesses this year. A summary of both key spontaneous and prompted results can be found in in the table below.

		Household			Businesses	
		Mean	*Median*		*Mean*	*Median*
Spontaneous	Affordable	9.8%	5.0%	Affordable	17.7%	10.0%
	Reasonable	8.5%	5.0%	Reasonable	13.8%	10.0%
Prompted	Affordable	6.4%	5.0%	Affordable	8.2%	8.0%
	Reasonable	6.1%	5.0%	Reasonable	7.3%	7.0%

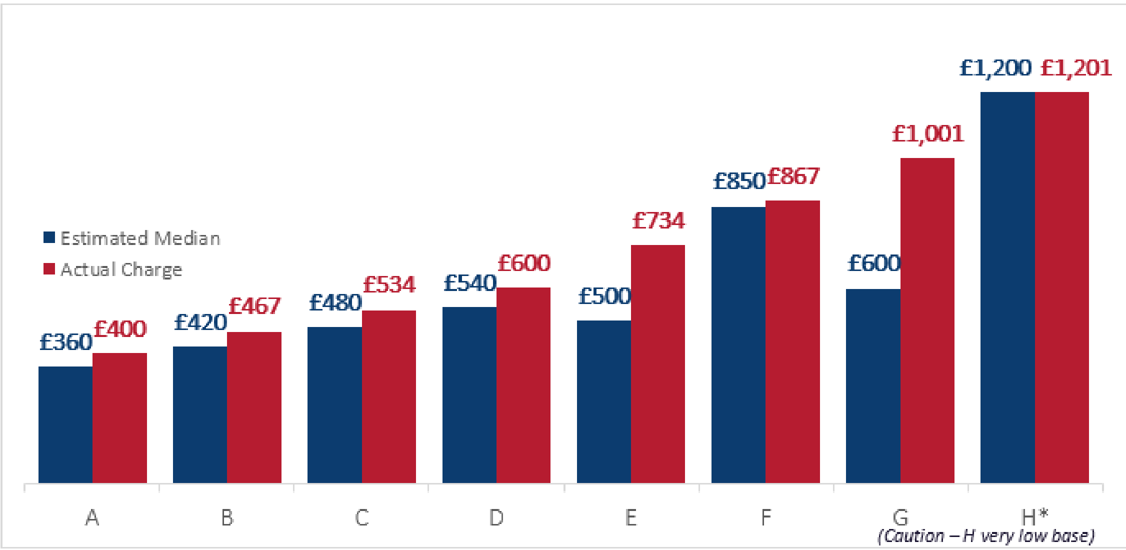
Over three quarters of respondents agreed it was fair that discounts and exemptions were received by customers in need. Low income and single adult households had the highest support for discounts. Those with disabilities or long term health conditions and pensioners have the highest level of support for exemptions. When informed that around half of households receive a discount, 45% felt this was ‘about right’ whilst 35% felt this was ‘too high’.

Appendix

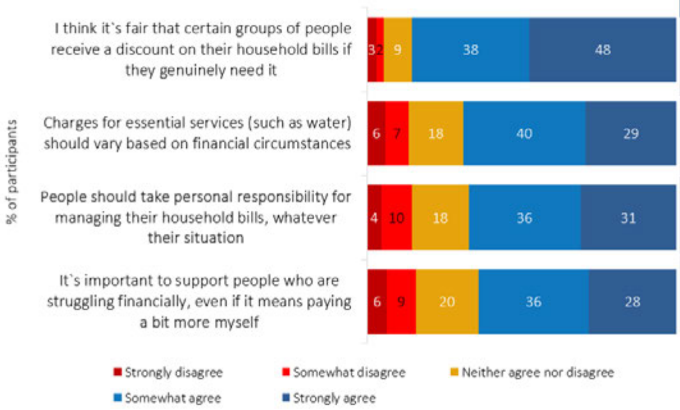
Appendix 1 – Financial Situation Comparison



Appendix 2 – Household Estimation of Water & Waste Charges



Appendix 3 – Social Responsibility Metrics



Top 2 box	
Agreement	Disagreement
86%	5%
69%	13%
67%	14%
64%	16%

Sort by Net Agree- highest to lowest

ANNEX C: SUMMARY OF CUSTOMER RESEARCH

The developer community have been engaged on the service provided since 2021 where Scottish Water delivers infrastructure upgrades to enable development, and the potential need for increases in the infrastructure charge of up to £50 per plot connection (a CPI + 6% increase):

"I would be supportive of this increase as we and the industry has benefitted greatly from this change in approach when delivering new infrastructure to serve our developments."
[redacted], Winchburgh Developments.

"Personally, I feel that in the current landscape of cost increases across the industry this is a small price to pay for the clear benefits to developers of having Scottish Water take control of off-site infrastructure upgrades that in the past we would have had to fund and deliver ourselves. Bertha Park is a clear positive example of this approach working out in practice."
[redacted], Springfield Homes

"A £50 per plot increase seems reasonable in today's climate and we would not be against this to help maintain and facilitate this infrastructure approach by Scottish Water."
[redacted], Kirkwood Homes

"We would be in favour and supportive of continuing with the infrastructure charge approach which provides funding to help deliver strategic network upgrades and improvements to allow and meet our development demands. This has worked well in the past for us where we have benefited from this Scottish Water initiative and infrastructure charge approach allowing our developments to progress and where the reinforcement/upgrade works are carried out by Scottish Water (i.e. not the developer's responsibility)."
[redacted], Springfield Developments