

Water and Sewerage Charges – Exemption Scheme for Small Third Sector Organisations

Consultation

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FOREWORD



The Third Sector impacts on the daily lives of every community across Scotland. The contribution it makes is extremely valuable and essential to Scotland's well-being and prosperity. I appreciate that many operate on low incomes and water and sewerage charges can seem a significant burden.

Since the creation of Scottish Water in 2002, the third sector has benefited from a scheme originally designed to exempt small organisations from water and sewerage charges. This scheme needs to be reviewed to bring it up to date and to remove some of the inconsistencies that cause many organisations to be ineligible.

I recognise too that such a scheme comes at a price to other customers. It is therefore essential that we find the right balance between those who benefit from exemption and those who must bear the cost.

Before I make a final decision on the rules for the scheme I invite you to express your views by writing to us.

I will confirm the rules for the new scheme in summer 2014.

Nicola Sturgeon
MSP

PURPOSE OF ENGAGEMENT

The availability of wholesome drinking water and the safe disposal of wastewater are crucial to public health and a clean environment. In summer 2012 we asked stakeholders to give us their views on the improvements required to services and how customers should pay for the water and wastewater services provided.

In their responses, many noted that there is an urgent need to review the present Exemption Scheme for small Voluntary Organisations. This request has been further endorsed by many letters from members of the public, voluntary organisations and MSPs.

This paper invites customers, third sector organisations and other stakeholders to consider the case for change – in particular:

- What are the key principles which should govern a new scheme;
- Who should be eligible; and
- When should the new arrangements take effect?

This paper is in 3 parts:

Part 1 provides the background. In particular it sets out the origins of the current scheme, the qualifying criteria and presents an analysis of the shortcomings.

Part 2 sets out the aims of the new scheme.

Part 3 sets out proposals for a new scheme.

CONSULTATION ARRANGEMENTS

Scottish Ministers appreciate that many small and medium sized Third Sector organisations are reliant on this scheme which exempts them from the need to pay for their water and sewerage services. We are therefore particularly keen to receive views and comments from:

- Third sector organisations currently in receipt of the exemption;
- Third sector organisations not currently in receipt of an exemption;
- Businesses which currently pay for the costs of this scheme; and
- Stakeholders involved in the operation of the scheme.

Written comments on any elements of the proposals should be provided in the relevant sections of the respondent form at Annex A. Should you wish to discuss these proposals with officials, please indicate this in your response. The closing date for responses is Friday 14 February 2014. We would welcome early responses.

Your responses will be used to inform decisions on the terms of a new Exemption Scheme. The new scheme will form part of Ministers' "Principles of Charging for Water Services 2015-21 Statement" which will be published in summer 2014.

PART 1 – GENERAL INTRODUCTION

Part 1 provides the background. In particular it sets out the origins of the current scheme, the qualifying criteria and presents an analysis of the shortcomings.

The engagement undertaken in summer 2012 on “Investing in and Paying for Your Water Services from 2015” confirmed that the Exemption Scheme for small voluntary organisations should be reviewed. The terms of the current scheme are attached at Annex B.

Origins of the current scheme

The current scheme was brought into existence in 2002 when the Government confirmed that all non-domestic premises should be brought into charge. The scheme was, initially, a transitional measure recognising that small voluntary organisations would require time to adjust to paying for water and sewerage charges.

However following representation from the third sector, and in recognition of the very small incomes that support the operation of many charitable and voluntary organisations, the scheme was extended without modification in 2005 to cover the 2006-10 period.

In 2009, the scheme was, once again, extended with only minor modification.

Main Features of the current scheme

The current scheme is available to organisations which meet a number of criteria including:

- The organisation did not pay for water and/or sewerage charges in respect of their property in 1999.
- The organisation’s income is less than £64,500 (for 2013/14).
- The organisation does not possess a permanent alcohol licence.

The current scheme costs some £3.6 million which is recovered from the overall charges applied to the business sector (it represents around 1% of those charges).

Whilst the scheme was originally operated by Scottish Water, responsibility for administering the scheme transferred to Licensed Providers in 2008 when retail competition in the non-domestic sector was introduced. Further information on Licensed Providers is available at <http://www.scotlandontap.gov.uk/>.

Shortcomings of the current scheme

It is evident from correspondence received by the Scottish Government, Scottish Water and Licensed Providers that the current scheme has many shortcomings. The main short-comings include:

1. Ineligibility of Third Sector organisations created since 1999; and
2. The income threshold of £64,500 is too low.

In addition, since the creation of the scheme, the eligibility of existing members of the scheme has not been retested and therefore some organisations, which now have considerably greater income than the threshold, continue to receive exemption.

Definition and Size of Third Sector

The Third Sector is diverse including community groups, voluntary organisations, charities, social enterprises, co-operatives and individual volunteers. These organisations provide a wide range of services to communities across Scotland. Typically, a third sector organisation:

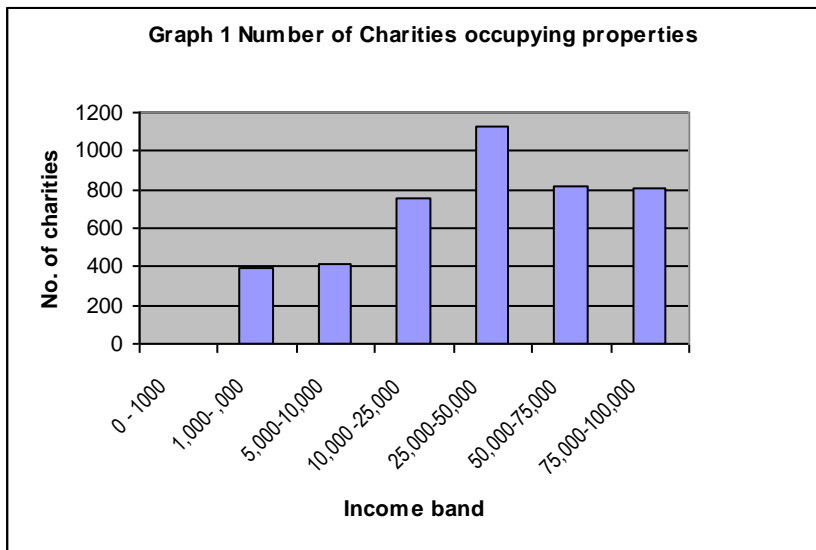
- Is set up to have a positive community purpose;
- Is volunteer-led;
- Is not principally set up to distribute profit to shareholders; and
- Is not run by or affiliated to a political party or government body.

The Scottish Council for Voluntary Organisations (SCVO) estimates that the Scottish Third Sector is made up of some 45,000 voluntary organisations. 23,000 of these are charities which are registered with the Office of the Scottish Charity Regulator (OSCR). All charities are required to submit accounts to the OSCR annually.

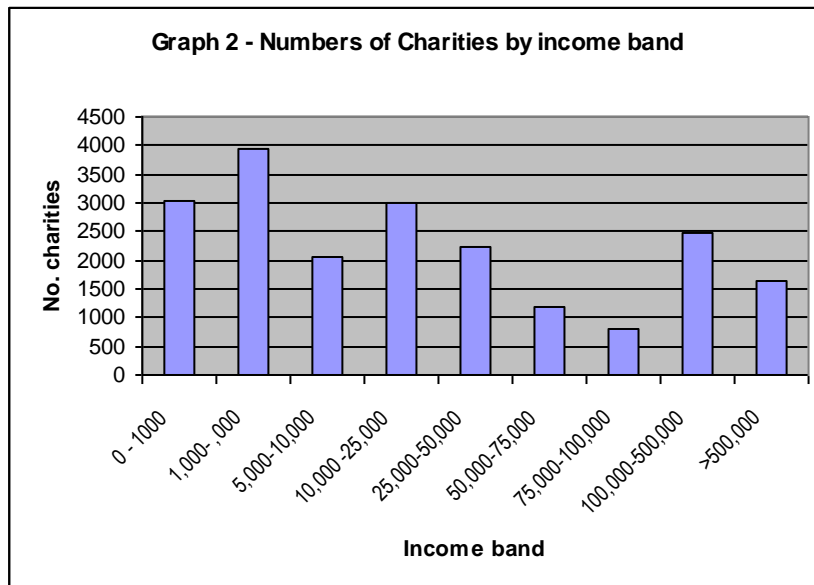
Based on data provided by OSCR and SCVO, an analysis has been undertaken to understand the number of third sector organisations which own or occupy premises together with their annual income. This suggests that:

- Most voluntary organisations are small and are likely to rent space on an occasional basis from Local Authorities, other third sector organisations or the private sector. In these cases, the owner of the property will be responsible for paying water and sewerage charges. Examples of such organisations include community groups and amateur sports clubs.

- In the charitable sector, the proportion of charities owning/occupying premises on a full-time basis for which water and sewerage charges would apply increases with income as shown in Graph 1 below.



- In 2010, over 9,000 registered charities have an annual income of less than £10,000. Graph 2 shows the numbers of charities by income bracket.



PART 2 – PURPOSE OF NEW SCHEME

To ensure that the new scheme is responsive to the needs of all stakeholders, it is important to reach agreement on the purpose of the new scheme and its underpinning principles.

Purpose of new scheme

The purpose of the Exemption Scheme is to support small-medium sized third sector organisations by exempting them from meeting the cost of water and sewerage services.

Principles underpinning new scheme

Principle 1: The cost of the new scheme (including administration) should be contained within the current financial envelope of some £4 million.

Why: The costs of the scheme are met through charges on other customers.

Principle 2: The scheme should be open to all small to medium sized third sector organisations.

Why: There is no justification for confining the scheme only to pre-existing organisations.

Principle 3: The scheme must be simple for applicants and administrators.

Why: To ensure that administration costs for all parties are kept to the minimum necessary.

Principle 4: The scheme should exempt small-medium sized third sector organisations from the payment of water and sewerage charges below a defined income threshold.

Why: Larger organisations should be able to meet the costs.

Principle 5: The scheme must not distort competition.

Why: The scheme must not give undue advantage to voluntary and charitable organisations which are providing similar services to, and therefore in competition with, the private sector. Examples include cafes, premises with a permanent alcohol licence and retail outlets.

Question 1 – Do you agree that the purpose of the new scheme is correct?

Question 2 – Do you agree that the principles form a sound basis upon which to design a new scheme?

PART 3 – PROPOSALS FOR A NEW SCHEME

When designing a new Exemption Scheme it is necessary to consider the type of scheme, eligibility criteria, the terms of the new scheme and the timetable for introduction including any transitional measures.

How many organisations can benefit?

Ministers wish to develop the new scheme within the financial envelope of the existing scheme which is £4m. To do otherwise would impose an additional burden on other charge paying customers.

Scottish Water has calculated that the average bill for those currently benefitting from the exemption scheme is £800. This implies that up to 5,000 third sector organisations are likely to receive exemption.

Our analysis of the data supplied by the Office of the Scottish Charity Regulator shows that some 4,000 charities who own or occupy premises have incomes of less than £75,000. The Scottish Council for Voluntary Organisations advises that this figure should be increased by a further 500-1000 to cater for voluntary organisations which also occupy properties for which water and sewerage charges would apply and which have incomes of less than £75,000. On this basis a threshold of around £75,000 could be applied to the new scheme.

Type of Scheme – discount or exemption?

Consideration was given to a reduction or graded scheme. In such a scheme, the reduction or discount would be tapered according to the income of the organisation. Our analysis showed that:

- If the reduction is to be calculated based on audited accounts, it could bear little relation to an organisation's current income.
- The bills could vary from one year to the next making the budgeting for such costs difficult for the organisation.
- The scheme would be more expensive to administer therefore reducing the amount available to assist organisations.
- Admitting greater numbers of organisations to a reduction scheme would mean that fewer small-medium sized organisations would gain full exemption.

On balance, it was concluded that an exemption scheme would provide better and simpler support for small-medium sized third sector organisations.

Question 3 - Do you agree that the new scheme should be an exemption rather than a discount scheme?

Eligibility Criteria

Who may apply? It is proposed that all third sector organisations will be able to apply. In order to secure exemption, the organisations will need to demonstrate that they meet the criteria in full.

How to apply? All third sector organisations, including those already members of the current scheme will be required to apply to the new scheme. This will be by way of an application form to whichever Licensed Provider is selected by the organisation. As part of the application, each organisation will be required to provide evidence that it meets the eligibility criteria.

How will eligibility be determined?

- For charities, it is proposed that necessary information will be sourced from OSCR using the charity number. Where possible, verification will be electronic therefore minimising administrative costs and delays in confirming exemption.
- For third sector organisations which are not charities, evidence will be necessary to demonstrate that the organisation meets the definition on page 7 and to quantify its annual income. The assessment of eligibility will be manual and these costs must be factored into the overall £4 million cost of the scheme.

How will the income be determined? For charities, the income will be determined from the most recent annual returns made to the Office of the Scottish Charity Regulator. For organisations which are not charities, income information will be required from independently verified annual accounts. The figure used will be total income including any restricted funds. To lessen the impact of one-off increases which may occur due to the receipt of a one-off grant, it is proposed that an average income for the previous three years for which data is available will be used to determine eligibility.

Question 4 – Are there other ways in which third sector organisations which are not charities can demonstrate eligibility?

Question 5 – Given the additional costs of administration associated with organisations which are not charities, should the scheme be restricted to charities only?

Question 6 - Do you agree that, for charities, income information should be sought from Office of the Scottish Charity Regulator?

What other tests will apply? All organisations will be required to certify that the property for which exemption is sought is not:

- A retail outlet (including café or shop), except under exceptional use;
- Occupied by a Local Authority, or
- Licensed, except under an occasional permission, under the Licensing (Scotland) Act 2005 or its predecessors.

How often will exemption have to be sought? It is proposed that all qualifying third sector organisations will need to renew their membership of the scheme annually. All organisations will need to confirm any change in details (Trustees, address etc).

Question 7 – Do you agree that membership should be renewed annually?

Timetable for introduction

Scottish Water's next charging period (also known as regulatory period) starts on 1 April 2015. It will last for six years. For this period, the Water Industry Commission for Scotland will determine the charges that must be paid by households and businesses. It will take account of the costs of the new Exemption Scheme as agreed by Ministers in the light of this consultation.

On the basis that the arrangements for the new scheme will take some months to implement, it is proposed that the start date for the new scheme is 1 April 2015. Therefore provided any qualifying third sector organisation submits a valid application form to the Licensed Provider during the 2015-16 financial year, it will be exempt from the payment of water and sewerage charges from 1 April 2015.

The new scheme will last for the duration of the regulatory period – that is from 1 April 2015 until 31 March 2021. The continuation of the scheme beyond 2021 will be a matter for Ministers' Principles of Charging for 2021-2027.

Question 8 – Do you agree that the start date for the new scheme should be 1 April 2015?

Transitional measures

It is likely that some third sector organisations, which are members of the current Exemption Scheme, will become ineligible for the new scheme. It is proposed that full charges will apply from 1 April 2016 therefore giving these organisations more than two years to make the necessary preparations.

Question 9 – Do you agree that transitional measures are required to assist those organisations which lose their current exemption?

Question 10 – Do you agree that a two year notice period for those organisations losing exemption is reasonable?

Future Review

It is acknowledged that the scheme, as proposed in this document, has used a number of assumptions in relation to the numbers of third sector organisations that will qualify for exemption. This means that the criteria may have to be adjusted part way through the six-year regulatory period. It is therefore proposed that it should be reviewed in 2017.

Question 11 – Do you agree that the new scheme should be reviewed after 2 years to ensure it is operating as envisaged?

PART 4 - SUMMARY AND NEXT STEPS

This paper has set out, and seeks views on, proposals for a revised Exemption Scheme which will exempt small-medium sized Third Sector Organisations from the payment of water and sewerage charges.

Summarised in the table below is a comparison of the eligibility criteria for the current scheme against those proposed in this consultation.

Current Criteria	Proposed Criteria
The scheme requires that the organisation must have already been receiving exemption at 31 March 1999	The scheme is open to all small-medium sized third sector organisations where they can demonstrate their support for the community
The organisation must not be a retail outlet or occupied by a Local Authority	The organisation must not be a retail outlet or occupied by a Local Authority
The organisation must not have had a permanent alcohol license before 1 September 2009, except under an occasional permission	The organisation must not possess a permanent alcohol license, except under an occasional permission.
The scheme is open to voluntary and charitable organisations	The scheme is open to all third sector organisations
The organisation must have a net annual income of less than £64,500 (for 2013/14)	The organisation must have a gross annual income of less than £75,000
Cost of current scheme is £3.6 million	The cost of the new scheme should be contained within the current financial envelope of £4 million

The Scottish Government is committed to delivering a fair scheme which balances the need for certain organisations to receive assistance against the costs incurred by those who fund the scheme – in this case other business customers. The participation of customers, third sector organisations and stakeholders in this consultation is essential to ensuring this outcome.

Your responses will be used to inform decisions on the terms of a new Exemption Scheme. The new scheme will form part of Ministers' "Principles of Charging for Water Services 2015-21 Statement" which will be published in summer 2014.

Respondent form

WATER AND SEWERAGE CHARGES - EXEMPTION SCHEME FOR SMALL THIRD SECTOR ORGANISATIONS: CONSULTATION



RESPONDENT INFORMATION FORM

Please Note this form **must** be returned to ensure that we handle your response appropriately

Please ensure that we receive your response by Friday 14 February 2014. We would welcome early responses.

Responses should be sent to:

- By email to: waterexemptionscheme@scotland.gsi.gov.uk
- Or by post to
Water and Sewerage Charges – Exemption Scheme
Water Industry Team
Scottish Government
Area 1-D (South)
Victoria Quay
EDINBURGH
EH6 6QQ

1. Name/Organisation

Organisation Name

Title Mr Ms Mrs Miss Dr Other Please tick as appropriate

Surname

Forename

2. Postal Address

<input type="text"/>	
<input type="text"/>	
<input type="text"/>	
<input type="text"/>	
<input type="text"/>	<input type="text"/>
<input type="text"/>	

3. Written Responses – Permissions

If you are providing a written response please complete the following section.

I am responding as...

Individual <input type="checkbox"/>	/	Group/Organisation <input type="checkbox"/>
Please tick as appropriate		

(a) Do you agree to your response being made available to the public (in Scottish Government library and/or on the Scottish Government web site)?

Please tick as appropriate Yes No

(b) Where confidentiality is not requested, we will make your responses available to the public on the following basis
Please tick ONE of the following boxes

Yes, make my response, name and address all available

or

Yes, make my response available, but not my name and address

or

Yes, make my response and name available, but not my address

(c) The name and address of your organisation will be made available to the public (in the Scottish Government library and/or on the Scottish Government web site).

Are you content for your response to be made available?

Please tick as appropriate Yes No

(d) We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Scottish Government to contact you again in relation to this consultation exercise?

Please tick as appropriate Yes No

4. Written Responses – Questions

Purpose of a new scheme

1) Do you agree that the purpose of the new scheme is correct?

Yes No

Comments

2) Do you agree that the principles form a sound basis upon which to design a new scheme?

Yes No

Comments

Proposals for a new scheme

3) Do you agree that the new scheme should be an exemption rather than a discount scheme?

Yes No

4) Are there other ways in which third sector organisations which are not charities can demonstrate eligibility?

Yes No

Comments

5) Given the additional costs of administration associated with organisations which are not charities, should the scheme be restricted to charities only?

Comments

6) Do you agree that, for charities, income information should be sought from the Office of the Scottish Charity Regulator?

Yes No

Comments

7) Do you agree that membership should be renewed annually?

Yes No

Comments

8) Do you agree that the start date for the new scheme should be 1 April 2015?

Yes No

Comments

9) Do you agree that transitional measures are required to assist those organisations which lose their current exemption?

Yes No

Comments

10) Do you agree that a two year notice period for those organisations losing exemption is sufficient?

Yes No

11) Do you agree that the new scheme should be reviewed after 2 years to ensure it is operating as envisaged?

Yes No

Comments

Exemption scheme for 2010-15

1. Ministers confirm that the exemption scheme is to be extended until 2015 – that is exemption to water and sewerage charges should continue to apply where:

- The premises in respect of which an amount is due by the person under a charges scheme was, on 31 March 1999, a premises in respect of which payment of part or all of the charges due to an authority (a water or sewerage authority) for any services provided to those premises in the course of carrying out their functions was not demanded.
- Is not at any time, in the year for which the exemption is to be applied, between 1 April 2010 and 31 March 2015: a retail outlet; or occupied by a council within the meaning of the section 2 of the Local Government etc. (Scotland) Act 1994,
- Is not at any time, in the year for which the exemption is to be applied, between 1 April 2010 and 31 March 2015 except under an occasional permission granted under the Licensing (Scotland) Act 2005 or its predecessor, licensed under either or those Acts; and
- The person, in the financial year immediately preceding the year for which the exemption is to be applied by Scottish Water, has a net annual income of less than £60,000 in respect to the relevant premises subject to certain permissible deductions, listed in the definition of “net annual income” in SSI 2002/167 namely any funds raised and paid over by that person as a donation to a Scottish charity as defined in section 7 of the Charities and Trustee Investment (Scotland) Act 2005 or to a body registered as a charity in England and Wales under section 3 of the Charities Act 1993 during that year; any funds raised and paid over by that person as a subscription to, or contribution towards the costs of, a parent organisation during that year; and any grant paid to that person under any enactment for purposes specified as being in connection with capital expenditure on the relevant premises during that year. The maximum level for net annual income will increase by £1,500 annually thereafter with the first such increase being applied from 1 April 2011.

2. Premises occupied by a charitable organisation (as defined in the Charities and Trustee Investment (Scotland) Act 2005) that continue to meet the other criteria as set out in paragraph 1 above will retain their exemption status if they move premises from 1 April 2010. Registered charities that moved premises from 1 April 2006 but continue to meet the other criteria as set out in paragraph 1 above should regain eligibility to exemption from 1 April 2010.

3. Likewise, registered charities (as defined in Charities and Trustee Investment (Scotland) Act 2005) who receive a premises license under the Licensing (Scotland) Act 2005 after 1 September 2009 but who had been exempt up to that date, and would have continued to be exempt except for receiving that license, should retain exemption to water and sewerage charges.



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