

Scottish Water's draft business plan: Levels of Service

Scottish Water published its draft business plan on 30 October 2013. This note is one of a series that the Commission is publishing to provide an objective assessment of the plan and to facilitate discussions between the Customer Forum, Scottish Water and other relevant stakeholders.

The Commission is aware that Scottish Water and the Customer Forum have been in regular and detailed discussion over many months. In drafting these notes the Commission has been briefed by the Customer Forum on its emerging thinking having seen the draft business plan as it was being developed. As such the notes contain advice on areas that the Customer Forum has identified as being important to it.

The notes highlight the strengths of the business plan and areas where the Customer Forum may wish to focus its discussions with the company. Although each note focuses on specific areas of the plan that are material to customers, final decisions should be taken 'in the round', reflecting the overall package of price and service levels agreed between the Customer Forum and Scottish Water.

Introduction

This note presents the Commission's view on the monitoring and improvement of levels of service within Scottish Water's draft business plan for the period 2015-21. In our view this is an area on which the Customer Forum should focus in coming to its agreement with Scottish Water.

Household customers will expect to see Scottish Water build on the improvements in levels of service that have been seen in recent years. The move from a purely Scottish non-household retail market to an Anglo-Scottish market will further increase the expectations of retailers on Scottish Water's wholesale service levels.

Overview of business plan proposals

Scottish Water proposes that the level of service it provides to customers will be measured through the following four indicators:

1. Overall performance assessment (OPA)¹

In line with its early promises to the Customer Forum, Scottish Water has proposed to retain the OPA with 17 measures, with only some minor adjustments to reflect agreements made with the Scottish Environment Protection Agency (SEPA) and the Drinking Water Quality Regulator (DWQR). Scottish Water expects to achieve a performance of 380-400 points by 2015 and to maintain this over the 2015-21 period.

¹ The OPA measures aspects of both operational performance (relevant to households and non-households) and customer-facing performance (relevant principally to households).

2. The Customer Experience Measure (CEM)²

Scottish Water proposes to introduce this new measure of customer satisfaction from 2015, when it will replace the current customer satisfaction measure. The CEM is broadly similar, but not identical, to the Service Incentive Mechanism (SIM) that is used in England and Wales.

The overall CEM score will be calculated from the sum of a quantitative measure and a qualitative measure, each evenly weighted at 50%.

The quantitative component will measure the number of unwanted contacts to Scottish Water from all channels of communication.

The qualitative component will be calculated from two measures: a Customer Experience Survey weighted at 80% and a Perception Survey weighted at 20%. The Customer Experience Survey will record the experiences and overall satisfaction of customers who have had to contact Scottish Water to resolve an issue. The Perception Survey will measure the overall satisfaction with Scottish Water's levels of service among customers who have not been in contact with Scottish Water.

Scottish Water proposes that it will continue to work with the Customer Forum and other stakeholders to develop the way in which the CEM will be calculated and to establish targets for improvement.

3. Wholesale key performance indicators (wholesale KPIs)

Scottish Water will continue to monitor the overall performance of its wholesale service to the licensed providers. The company reports that the overall measure takes account of wholesale services and responses to requests that relate to trade effluent, connections, disconnections, bylaws, metering and billing.

4. Additional measures³

Where they are not measured by existing performance measures, Scottish Water suggests that it will produce additional measures for areas of service that have been highlighted by the Customer Forum as customer priorities. These will include, but not be limited to, continued use of the Security of Supply Index until the new Resilience of Supply Index is implemented and the creation of a register of properties/areas at risk of external sewer flooding.

Outperformance

Scottish Water has committed to agreeing the allocation of outperformance when it arises with stakeholders and the Scottish Government.

Our analysis and issues arising

It is important that Scottish Water agrees performance indicators with the Customer Forum that reflect customers' priorities. There are a number of areas where there may be scope for increasing targets, improving the potential comparability with companies south of the border, and defining new areas where performance targets may be appropriate.

² This measure is likely to focus on household customer experience.

³ These measures may measure both household and non-household experiences.

There is also an issue about facilitating customer interaction with Scottish Water. To that end the Forum may wish to consider the scope for Scottish Water's performance against all targets to be featured prominently on its website and in its annual report. The Customer Forum may also wish to consider whether the information on performance could be independently reviewed, and if so how this might be done.

1. Overall Performance Assessment

The Commission considers it important that there is a clear demonstration that service levels are being, at the very least, maintained against the principal performance indicators used in previous regulatory control periods. We would expect that this is also likely to be the Customer Forum's view.

The Commission set a target of 380-400 OPA points at the last price review and Scottish Water is on track to achieve this. As set out in Note 11 to the Customer Forum, the Commission supports the continued use of the OPA. It also considers that continuing to use the OPA will avoid the risk that standards might deteriorate if performance against the measures within the OPA were no longer monitored⁴.

The Customer Forum may wish to explore whether the top end of the range should be increased to 410. This could be consistent with the higher levels of expenditure expected. However, the Customer Forum will also wish to be aware that no company has ever scored 410 and therefore that any score above 400 is likely to be 'best in class'.

2. The Customer Experience Measure

As set out in Notes 11 and 12 to the Customer Forum, the Commission supports the introduction of a new customer satisfaction measure and the CEM addresses this⁵. Scottish Water has assured the Commission that its CEM collects all of the information necessary for comparisons with the SIM scores south of the border to be carried out in a fully robust way.

The Customer Forum may wish to hear directly from Scottish Water that it will be possible to compare performance against the companies south of the border as measured by the SIM. It would also be reasonable to agree a performance improvement target during this regulatory control period.

3. Wholesale KPIs

The Commission believes that Scottish Water's wholesale performance is very important. As the retail market in Scotland continues to develop (and the market in England opens up), the demands on Scottish Water are likely to increase. This is an opportunity for Scottish Water to demonstrate what it has learnt from the earlier introduction of retail competition in Scotland.

We note that Scottish Water's business plan did not contain a great deal of information about these wholesale KPIs. We believe that Scottish Water should publish the measures it has been using and its performance against them.

⁴ Note 11 for the Customer Forum: "Measuring levels of service performance". Available at: [http://www.watercommission.co.uk/UserFiles/documents/CustomerForumNote11\(B\).pdf](http://www.watercommission.co.uk/UserFiles/documents/CustomerForumNote11(B).pdf)

⁵ Note 12 for the Customer Forum: "Measuring customer satisfaction". Available at: <http://www.watercommission.co.uk/UserFiles/documents/CustomerForumNote12.pdf>

In our view the Customer Forum should review these measures carefully, assess whether they are the most important criteria to retailers, and agree new measures and/or new target levels that would be consistent with the higher level of expenditure allowed for.

4. Additional measures

As set out in Note 11 to the Customer Forum, the Commission supports the introduction of new measures to monitor and incentivise improvement in areas of service recognised as customer priorities⁶. The Customer Forum should agree the additional service indicators to be measured. It will be important that they are initially defined as robustly as possible and that a process for finalising these measures and setting future levels of performance is agreed. The level of allowed for expenditure is consistent with a significant improvement in levels of service⁷.

Outperformance

The Commission welcomes Scottish Water's proposal to agree on the allocation of outperformance with stakeholders.

A final thought

Scottish Water has set itself the clear objective of becoming Scotland's most valued and trusted business. This is a worthy aspiration that should be welcomed. However, the Customer Forum may wish to consider the very long-term aspirations for customer service that are consistent with its research and its expectations for the operational performance of Scottish Water.

There are potentially some important and interesting issues that could be discussed and defined:

- How will we know when Scottish Water is close to achieving its vision?
- Can the water system be made lead free by some future date?
- Can we eliminate (internal and external) sewer flooding (absent an act of God) by some future date?
- Can we eliminate water pressure problems by some future date?
- Can we ensure that no medical, care or school buildings are supplied by private supplies by some future date?

Agreeing final dates for these ambitions may require some careful study but that could be a cost worth allowing for in the discussions between the Customer Forum and Scottish Water. In our view, agreeing a way forward on these transformational changes should ensure that there remains a strong focus on the customer well into the future.

These aspirations should take the form of advice to the Scottish Ministers who would take a final decision on whether to amend their objectives for the current regulatory control period.

⁶ Note 11 for the Customer Forum: "Measuring levels of service performance". Available at: [http://www.watercommission.co.uk/UserFiles/documents/CustomerForumNote11\(B\).pdf](http://www.watercommission.co.uk/UserFiles/documents/CustomerForumNote11(B).pdf)

⁷ An improvement in levels of service may result either from an increase in the standard to be delivered or a reduction in the risk of a service failure happening.

Conclusion

This is an area where there remains much to be discussed between Scottish Water and the Customer Forum. We would be happy to assist in advising on defining performance indicators, or on the development of aggregate performance indicators, if the Customer Forum wished to pursue such an approach. A potential agreement on a long-term vision for improvements may represent a transformational change towards a uniquely customer-focused water industry in Scotland.

Water Industry Commission for Scotland

First Floor, Moray House, Forthside Way, Stirling FK8 1QZ.

E: enquiries@watercommission.co.uk

T: +44(0) 1786 430200

www.watercommission.co.uk

