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12 SEP 2007

Our ref **PM/WIC Consult 07**

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Date **6 September 2007**

Ms Katherine Russell
Director of Customer Services/Corporate Affairs
Water Industry Commission for Scotland
Ochil House
Springkerse Business Park
Stirling FK7 7XE

Dear Ms Russell

Strategic Review of Charges 2010-2014 Methodology Volume 4 - Approach to Capital Expenditure

I refer to the above consultation document, and now enclose for your attention my responses to the specific questions raised within the document. I would confirm that there is no objection to these observations being made public. Should you have any queries arising from this response, please contact my colleague Phil Murray on 0141-287-8608.

Yours faithfully,

Steve Inch
Executive Director of Development and Regeneration Services
Glasgow City Council

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Appendix 1 - Volume 4 – Approach to Capital Expenditure

Response by Glasgow City Council

1. What are respondents' views on how we propose to assess the size of investment programme that Scottish Water should be expected to deliver efficiently?

Response: The WIC commitment to securing a realistic investment programme, based on Scottish Water's capability to deliver efficiently, is welcomed. As value for money is a key concern for the customer, promotion of an over - ambitious or unrealistic investment programme could have negative impacts on both Scottish Water's performance and the charges to the customer. On the basis of past Scottish Water performance when there has been an 'overhang' of investment from one programme period to the next, WIC's stated concern regarding the 'slow start' made by Scottish Water in relation to the current 2006-10 programme is shared by the Council. This prevailing situation underlines the need for 'new realism' on the part of Scottish Water regarding their delivery capability.

The use of the 4 analysis factors listed on Page 7 appears appropriate in assessing the size of the investment programme. In relation to the advocated need for a 'more strategic approach to major improvement initiatives', the reference to the Glasgow Strategic Drainage Plan is pertinent, in that improvements arising from that initiative will be of key significance to the regeneration of the Clyde Gateway area-a Ministerial priority- and to the delivery of the 2014 Commonwealth Games facilities, should Glasgow's bid be successful.

2. Do respondents have views on how we propose to determine an appropriate allowance for capital expenditure?

Response: Regarding definition of the scope of Scottish Water's investment programme, the use of the 8 criteria set out on Pages 10/11 provides a valid framework for such an assessment. Alongside this, the proposed use of a Reporter's input, together with additional independent analysis if required, should contribute authority to the outcome of the analysis. Regarding criterion 3 – a well defined programme, sufficient to allow customers to monitor delivery – the Council would recommend incorporation of some form of project prioritisation. Such prioritisation should reflect not only Ministerial objectives regarding Scottish Water's performance, but also their stated national priorities for major regeneration in Scotland, namely the Clyde Gateway and Clyde Waterfront areas, as highlighted in the National Planning Framework and Regeneration Statement.

3. What are respondents' views on how we propose to determine an appropriate allowance for capital expenditure?

Response: In the absence of comprehensive Scottish Water data regarding capital maintenance planning, the reliance on the established OFWAT econometric model, amended to reflect available Scottish Water data, and prevailing conditions regarding the comparative capital efficiency gap between Scottish Water and companies in England and Wales, would appear to be a valid alternative approach to such an assessment.

4. Should we consider an application by Scottish Water for an 'early start' to delivering the required investment outputs for 2010-14?

Response: Given the WIC's expressed concern about the 'slow start' by Scottish Water in relation to the 2006-10 programme, ensuring that any request for an 'early start' in relation to the 2010-14 programme does not impact adversely on the implementation schedule of outputs scheduled for delivery within the current programme is of key importance, particularly for developments dependent on delivery of such outputs on schedule. WIC must be satisfied that such concerns have been adequately addressed before giving clearance for any 'early start' requests.

5. Are the methods that we propose for monitoring Scottish Water's performance in delivering the outputs required by the regulatory contract appropriate?

Response: Use of the OMG grouping in a monitoring role is appropriate and the intention to publish their findings regarding Scottish Water's progress on delivery over the course of the programme is welcomed. Will consideration of the 'output delivery profile' to be included in Scottish Water Business Plan, effectively constitute a priority list of major investment projects? If so this should be clearly stated, to aid stakeholders interpretation of OMG's findings.