

Strategic Review of Charges 2010-14

Stakeholder information workshops 2009: Investment and quality

Stirling, 12 March 2009

Attended by

David Rae	North British Distillery Company
Bryan Wallis	Water UK
Alan Scott	Scottish Water
Duncan Robertson	SEPA
Ewan Kerr	Black & Veatch
Tony March	Osprey Water
Iain Herbert	Scottish Tourism Forum
Willie Anderson	Waterwatch Scotland
Gerard O'Loan	NHS national procurement
Alan Watt	CICA
Ian Tait	Water Industry Commission for Scotland (WICS)
David Satti	WICS
Donna Very	WICS
Harriet Towler	WICS

Opening remarks

Stakeholders were welcomed to the fourth workshop of 2009 on the Strategic Review of Charges 2010-14. This workshop would primarily focus on Investment and quality, but attendees were welcome to raise any other issues they wished.

It was explained that the price review process focuses on delivering value for money for customers and at a high level, the process could be summarised in three steps:

1. Ministers set objectives for the industry over the regulatory control period, and define the principles of charging that must be followed.
2. Scottish Water proposes how it will deliver these objectives, and the financing it will need to do so.
3. WICS scrutinises Scottish Water's proposals and sets final caps on prices that finance Scottish Water to deliver the Ministers' objectives at the lowest overall reasonable cost.

At the end of the process, WICS determine the limits on the amount Scottish Water can charge household customers annually between 2010-14. It also sets the 'default tariffs' that license suppliers in the newly competitive market are required to offer all business and public sector customers in Scotland and determines limits on the wholesale price Scottish Water can charge retail suppliers of business and public sector customers.

The final outcome is a regulatory contract setting out what Scottish Water must achieve and the financial parameters in which it must do so.

Overview of issues discussed

It was explained that WICS are reaching the final stages of the price review with the draft determination scheduled to be published 30 June 2009, whereupon a 12 week consultation period follows. Stakeholders were informed that:

- Minister's have outlined a list of Priority 1 objectives which Scottish Water must achieve in the 2010-14 period and a list of Priority 2 objectives have been composed which will be financed if possible within a profile of broadly stable bills;
- Scottish Water will submit its second draft Business Plan outlining how it will deliver the Ministerial objectives;
- WICS will scrutinise the submission and working with DWQR and SEPA will ensure that the programme of work is deliverable, that they effectively meet the objectives set, and that outputs are clearly defined to allow effective monitoring;
- WICS will also examine the Business Plan and assess the scope for efficiency before determining an allowance for the 2010-14 period.

It was noted that there are other issues that are taken into consideration when determining the size of programme to allow Scottish Water, namely, the amount of uncompleted projects from previous periods that are required to be delivered in 2010-14 and the possibility of allowing 2014-18 projects to be started early in order to establish a continuity of investment between periods.

Size of the Investment programme

One attendee questioned the analysis that underpins the view that Scottish Water's investment programme should not exceed £500m per annum. It was also asked if that level of investment would change in future due to changing circumstances as this would have a significant impact on the construction industry.

It was noted that the programme size is limited not only by the need to deliver the investment efficiently but also by factors such as the impact of traffic disruption and the ability to manage a complex programme of this size comprising a large number of projects. There is also a desire to move towards a more sustainable level of investment in the long term that will result in fewer peaks and troughs in investment levels.

Minister's objectives

There were concerns with the categorisation of Ministerial objectives into priority 1 and priority 2 and questions as to who decides the priority. There were also specific concerns surrounding the priority given to external and internal sewer flooding.

There was clarification that it is Scottish Ministers who categorise objectives into priority 1 and priority 2 and the concerns that it would not be possible to fund priority 2 objectives were

noted. It was agreed that good progress has been made to date in tackling internal sewer flooding.

Monitoring progress

One attendee raised a question regarding the Overall measure of Delivery (OMD) score, asking how it would work. There were also concerns that having a target score for investment delivery may create a paradigm where the level of work on the ground is focused on improving the OMD score rather than focusing on the entire investment programme.

Stakeholders generally agreed that having a high level measure of progress with investment delivery was a good idea and it was noted that the monitoring regime would continue to provide more detailed information on progress for those who sought it. Concerns were raised as to how the OMD score would be benchmarked. It was explained that the OMD score will use information currently provided by Scottish Water and that it would be benchmarked with Scottish Water's delivery plan forecast that has been agreed by DWQR, SEPA, WICS and Scottish Government.

Climate change

There were questions surrounding what Scottish Water was doing to offset their carbon footprint to help tackle climate change.

It was discussed that Scottish Water continuously seeks ways, direct and indirect, that will decrease their carbon footprint and help tackle climate change. Reflected in the investment plan are ways to help reduce leakage to a level which is known as the 'economic level of leakage'. Reducing leakage will contribute to environmental benefits and to reducing carbon emissions through reducing energy levels. It was also pointed out that Scottish Water continually look to reduce gases produced in the wastewater treatment works and that they are subject to strict EU directives surrounding the environment. In addition, Scottish Water plan to undertake a number of environmental studies to help further improve ways in which they can reduce the impact they have on the environment.

Efficiency

A question arose regarding the efficiency challenge that Scottish Water are subject to with the assertion that the cheapest approach is not always the best.

It was clarified that Scottish Water are asked to achieve the minister's objectives at the lowest reasonable cost and that this not a mandate to achieve quantity over quality. It was also noted that customers can be assured by the quality of each project completed as it is assessed and signed off by either DWQR, SEPA, Scottish government or by WICS. The 'costbase' method used to derive an efficiency challenge by benchmarking unit costs against companies in England and Wales was described and was deemed to be an effective way in determining the extent of potential procurement efficiency available.

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