

Minute of the seventy-fifth meeting of the Water Industry Commission for Scotland**Held on 06 March 2013 in Stirling**

Present: Professor Gordon Hughes (Chairman)

Mr Alan Sutherland (Chief Executive)

Mr Ross Finnie

Mrs Libby Gawith

Mr John Reynolds

In attendance: Mr Ian Tait (Director of Investment)

Mr Richard Khaldi (Head of Competition)

Mrs Claire Nichols (Head of Communication)

Ms Shona Coan (Financial Controller) for items 3.2 and 4.1

Mrs Donna Very (PA)

Chairman's opening remarks

The Chairman welcomed everyone to the 75th meeting of the Commission.

1. Apologies for absence

None

2. Minute of previous meeting and update on current issues**2.1 Declaration of conflicts of interest in relation to the agenda**

No conflicts of interest were reported.

2.2 Minute of last meeting (04/12)

The Commission agreed the minute was an accurate record of the last meeting.

The Commission agreed with the Chairman's proposal that he should write to John Simpson to thank him on behalf of the Commission for his contribution to the Commission's work over the last 13 years.

The Commission noted that the Director of Strategy and Competition was on extended sick leave and hoped that she makes a speedy recovery.

2.3 Summary of action points (AP01/13)

The Commission noted due to further developments, the redraft of the RIU letter had not been pursued.

Following a discussion, the Commission requested that future CMA papers include all Licensed Providers' market activity with the associated water volumes.

The Commission asked that a new action point be added to reflect the issue of staff composition.

2.4 Oral update on current issues

The Chief Executive provided an oral update on current workstreams.

Following the recent retirement of the Director of Analysis, the office has been actively seeking to recruit a replacement. This process so far has proved unsuccessful and the office has been informed by the recruitment professional engaged that having spoken with over 230 potential candidates, it is unlikely to be successful given the salary on offer for the position when compared with market rates generally. The Commission noted the position and that the office would be meeting shortly with the Scottish Government to discuss the office's proposal for an overhaul of the current pay and progression structures. The Commission instructed the Chief Executive to relay at that meeting that it was disturbed as to whether it would be able to efficiently discharge its functions given the current staffing and pay constraints.

The Commission asked for an update once more information was available.

The Chief Executive attended a lecture by Jonson Cox, Chairman, OFWAT and provided Commission members with a copy of the paper circulated at the lecture. (http://www.ofwat.gov.uk/mediacentre/speeches/prs_spe20130305jcrae.pdf).

3. Information papers 1 – Standing items

3.1 CMA update

The Commission noted the written update paper from the CMA.

The Head of Competition agreed that he would ask the CMA to amend the report for the next meeting to include the number of SPIDs for all Licensed Providers and not just new entrants, and ask for the associated water volumes to be included also.

The Head of Competition gave an oral summary of the Scottish Assessors Project and the pilot study which had recently been completed in the Clackmannanshire area. The CMA has stated the pilot has indentified 314 sites and an initial assessment by the CMA suggests that more than 2/3 of those sites are not currently in the market. However, these findings are still be fully analysed by Scottish Water which is due to meet with the CMA later in March to discuss this project and its analysis further.

The Commission agreed that locating Gap Sites and bringing them into charge through this project was a good thing. However, the potential number of Gap Sites indentified was not. The Commission was also concerned that the CMA ensure that this project was aligned fully with the Commission's existing incentives for licensed providers to locate Gap Sites and bring them into charge.

The Head of Competition confirmed that he would report back to the Commission on the Scottish Assessors Project once more information was available.

3.2 Finance and contracts paper (CP01/13)

Shona Coan, Financial Controller, joined the meeting for this paper.

The Commission noted this update paper and approved the budget for next year. The Commission asked that the office take some advice regarding the upgrade of software to Windows 8.

3.3 Investment update (CP02/13)

The Commission noted the update on Scottish Water's position on delivering its investment programme.

3.4 Update on Scottish Water's dashboard (CP03/13)

The Commission noted this paper.

3.5 Update on Competition (CP04/13)

The Head of Competition provided the Commission with an oral update on recent activity. In the last week, the office had recently met with 3 potential independent licensed providers and will keep the Commission informed of any future developments. The Commission noted this update.

4. Information papers 2 – Any other issues

4.1 Audit Committee update (CP05/13)

Shona Coan, Financial Controller, joined the meeting for this paper.

John Reynolds, Chairman of the Audit Committee, introduced this paper. The paper included the formal report from the Audit Committee to the Commission which was structured in the same way as last year. This year's report noted the appointment of both new internal and external auditors to the Commission. No problems had been highlighted by either set of auditors.

At the last meeting of the Audit Committee, a review of the risk register had taken place. The Audit Committee Chairman asked that the Commission formally note the Audit Committee's concern regarding the top two risks which had moved to red status; the loss of a key employee leads to a serious business disruption and the number of employees falls below the required level to achieve the Commission's objectives. The Commission recognised and agreed with the Audit Committee's concerns.

The Audit Committee Chairman also raised that none of the Audit Committee nor either the internal and external auditors knew which Codes of Conduct were applicable to the Commission. An action was taken away that the office would establish which were the applicable Codes.

Finally, the Commission noted that two internal audit reviews had taken place recently and that the Audit Committee were satisfied with the outcomes of these reviews.

4.2 Range Papers (CP06/13)

The Commission held a useful discussion on the range papers which captured discussions held by the Commission in its meetings over the last year. The Commission agreed that these were a helpful set of papers. The Commission noted that CP10/13 outlined further discussion papers that would be produced by the office as part of the Price Review process which the Chief Executive agreed will be circulated in draft to the Commission for comment prior to wider distribution.

4.3 Update on Corporate Affairs (CP07/13)

The Commission noted the update on work being currently undertaken by the Corporate Affairs team.

4.4 Response to Scottish Water Strategic Consultation (CP08/13)

The Commission noted the response to Scottish Water's recent consultation "*Shaping the future of your water and waste water services*".

5. Decision papers

5.1 Reassessed Charges (CP09/13)

The Commission discussed the proposal to allow the retrospective reassessment of charges. The Commission did not believe that allowing this proposal for all customers would be appropriate, however, they recognised that in certain circumstances it would. The Commission therefore agreed that the retrospective reassessment of charges should be allowed but at the discretion of Scottish Water. The Commission also asked that Scottish Water's application of this discretion be monitored by the office.

In addition the Commission agreed that Scottish Water be asked about implementing an amnesty for non-domestic customers who are not currently paying charges.

5.2 Commission meeting dates and papers (CP10/13)

The Commission discussed the revised meeting timetable and agreed that the Commission would meet every even month (with the exception of April where due to members' other commitments it would meet on 1 May 2013).

The Commission approved the programme of standing papers outlined in this paper.

6. Discussion papers

6.1 Update on Scottish Government work on Regulation (CP11/13)

The Commission discussed the recent launch of the publication, "*Economic and Competition Regulation in an Independent Scotland*" by John Swinney, Cabinet Secretary for Finance, which had outlined a proposal for a combined body to carry out economic regulation functions in Scotland for water, energy, rail and communications. The Commission noted these developments.

6.2 Scottish Water Service Improvement Reports (SIRs) (CP12/13)

The Commission noted the Service Improvement Reports (SIRs) supplied to the Customer Forum by Scottish Water. These SIRs are designed to provide the Customer Forum with the necessary background information to assess and negotiate with Scottish Water on key elements of its business plan. The Commission noted that the office will provide a formal response to the SIRs and share this information with the Customer Forum.

6.3 SRC workplan (CP13/13)

The Commission noted the position with regards to the proposed work plan for the Strategic Review of Charges.

The Commission asked the office to establish a way of allowing the Commission members secure access over the internet to relevant document used in the Strategic Review of Charges.