

Strategic Review of Charges

2002–2006

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**WATER INDUSTRY
COMMISSIONER
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Foreword

This is my first full Strategic Review of Charges. It covers four financial years from April 2002 to March 2006. Unfortunately, as with my initial interim Review and notwithstanding the significant scope for efficiencies that my office has identified, I have to recommend that Scottish Ministers sanction an increase in the levels of charges for most customers. The creation of 'Scottish Water' – if this is approved by the Parliament – will however significantly limit the increases in costs to be borne by customers across Scotland. I trust that customers of the Scottish water industry will be relieved that by the end of this Review period, real increases in tariffs will no longer be required in order that we all enjoy an environmentally and financially sustainable service. If the recommendations of this Strategic Review are accepted and the management of the proposed Scottish Water achieve the savings expected, then it would be my expectation that charge increases after 2006 should be restricted to the rate of inflation or below – unless there is a further major tightening in environmental standards, or efficiency is not maintained or improved.

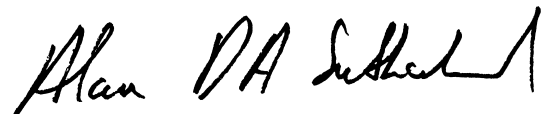
The role of regulation is to ensure that the interests of customers are safeguarded and that customers receive greater value for money. To this end, I intend that my office continues to adopt a rigorous and challenging approach to the performance of the industry. I stand ready to give credit when the industry delivers the improvements in value for money that the customer has the right to expect. I will also ensure that shortfalls in levels of service are immediately highlighted. Any new entrant to the Scottish water industry can expect to be regulated in the same robust manner. The interests of customers are, and will remain, paramount.

This Review seeks to address the customer's need for a sustainable Scottish water Industry. It recommends a revenue cap that should place the industry on a sound financial foundation, where there will be a balance between the financing demands placed on this and future generations. For the first time, this Review establishes a financing regime that is capable of meeting the ongoing costs of investment over the next and subsequent generations. This Review should also therefore ensure that future environmental standards and asset replacement needs can be met as and when they fall due. This will ensure that an improved quality of service is available to all at the lowest sustainable cost. It is for the owner and the management of the industry to decide how best to deliver value to customers within the revenue cap, provided, of course, that

the agreed environmental, public health and customer service targets are met.

This Review also contains significant recommendations on improvements to customer service. Significant progress has been made - but there is still much that needs to be done if the public sector supplier is genuinely to be the supplier of choice, not of necessity.

In closing, I would like to thank my Consultative Committees, all those who are members of the Water Panel and those who have attended one of the 33 public meetings, arranged throughout Scotland over the last 18 months. I am also grateful to the many organisations, representing the whole range of stakeholders - from the most vulnerable of domestic customers to businesses, large and small - who have found the time to explain their views to me. Many thanks also go to all those who have read this Review in part or in full, and therefore helped to improve my advice. Finally, I must highlight the contribution of the whole team in my office to what, I believe, is a thorough strategic review of the industry. I believe that this Review proposes a significant, but realistic, challenge to the management of the water industry in Scotland - but this is a challenge, which all of us, as customers, have a right to expect will be met.



Alan D A Sutherland
Water Industry Commissioner for Scotland

15 October 2001

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