

Corporate Plan 2015-21

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1. EXECUTIVE SUMMARY

This corporate plan explains how the Water Industry Commission for Scotland (the Commission) intends to fulfil its remit and ensure that water and sewerage customers in Scotland receive value for money during the regulatory control period 2015-21. The plan also outlines the resources required to achieve the Commission's objectives.

We note that the Commission's work is being seen as a model for regulation of a public sector entity – not only by the Scottish Government but also by organisations, academics and other commentators in the rest of the UK and abroad. We are taking the opportunity to share our experience and expertise with this wider audience (where appropriate) in line with the Scottish Government's Hydro Nation commitments.

Scottish Water's performance demonstrates clearly what a public sector organisation can achieve when it operates within a robust framework of incentives and monitoring. We will seek to ensure that this continues to be the case in the next six-year regulatory control period.

We published our draft determination of water and sewerage charges for 2015-21 on 20 March 2014. The document represented the latest stage in the Strategic Review of Charges process. At the review we put in place a number of regulatory innovations, including the establishment of the Customer Forum and the use of 'financial tramlines'. We consulted on the draft determination and received eight responses, all of which were published on our website. We will publish our final determination in November 2014.

We are therefore preparing this corporate plan during a transitional phase where we finalise the determination, review and assess the approach we took, and start to consider how this might be developed further for the next Review (where we will set charges from 2021).

The corporate plan may need to be revised if the current institutional structure for delivering economic regulation in Scotland were to change. However, the plan sets out the likely priorities for the work of the Commission over the forthcoming period. In all that we do we shall continue to focus on making sure that customers get the best deal possible and are as involved as possible in decisions that affect them. We will also ensure that Scottish Water's performance is monitored and reported on in such a way that customers and other stakeholders can see that the benefits for which they are paying are being delivered.

In the past two years the Commission has recruited a strong team of analysts. We are committed to ensuring that all staff are appropriately developed and rewarded. We have recently agreed a new progression arrangement with the Scottish Government. This will allow the Commission to reward high-quality work and extra commitment and to address retention and succession issues.

For the regulatory control period 2010-15, the Commission's agreed budget was a flat rate of £3.96m each year. At the time this represented an approximate 10% reduction in the Commission's annual budget.

In December 2011, the Commission agreed a further reduction to its budget of more than £1.4m over the period. We have subsequently made additional voluntary reductions and repayments to Scottish Water and to the licensed providers. Overall, our total income was £3.7m lower than was allowed for in our previous corporate plan for 2010-15.

These reductions amount to a total 19% reduction compared with the agreed corporate plan; current indications are that savings will continue to be made in the final year of this regulatory period (ie in 2014-15).

For 2014-15 the Commission has frozen the levy received from Scottish Water at £2.08m and is limiting the levy placed on licensed providers to an inflationary increase, bringing the Commission's total income to £3.47m.

The savings we have made have been the result of a shift in the way in which the Commission carries out its work and reflects a move towards a 'trust but verify' approach, with less reliance on collecting and analysing large volumes of business planning information. There have also been significant savings as a result of overall reductions in staff and Commission costs. The organisation also continues to benefit from moving to smaller, more central offices. This has resulted in lower costs, fewer carbon emissions and higher employee satisfaction.

We continue to monitor and control all of our expenditure to make sure that our procurement provides value for money. Our framework contracts¹ are closely monitored to ensure that all projects are delivered in a satisfactory manner and within budget.

At the start of the next regulatory control period in 2015, we propose initially to decrease Scottish Water's levy to £2.00m and to increase it at just 1.6% each year thereafter. This annual change is exactly in line with the increase in household bills that is proposed in the draft determination. The licensed providers' levy will see an annual increase of 2.5%; this recognises the increasing activity that will be required of this office as we lead up to the opening of the Anglo-Scottish markets, proposed under the UK Government's Water Act, and planned to take place in April 2017.

¹ Framework contracts are contractual agreements with a company or companies that have won a competitive tender to supply the Commission with defined products or services over a set term.

2. ABOUT THE COMMISSION

The Commission was created by the Water Services etc. (Scotland) Act 2005. The Commission has the power to determine the maximum level of charges required to ensure that the objectives of the Scottish Ministers can be met at the lowest reasonable overall cost.

The 2005 Act also introduced a framework for competition in the water industry that is consistent with the social, environmental and public health objectives of the Scottish Ministers.

The Commission consists of not fewer than three and not more than five ordinary members and the Chief Executive. The current members of the Commission are as follows:

Name	Role	Background
Professor Gordon Hughes (Appointed 01/07/2011; 5 year appointment)	Chairman	Formerly Senior Adviser on energy and environmental policy at the World Bank. Currently a part-time Professor of Economics at the University of Edinburgh.
Ross Finnie (Appointed 01/07/2012; 4 year appointment)	Member	Cabinet Minister from 1999-2007 during which time he held the Environment and Rural Development portfolio and was responsible for establishing Scottish Water and the Commission.
Libby Gawith (Appointed 01/01/2012; 4 year appointment)	Member	Formerly Engineering and Operations Director for Wessex Water and Customer Services Director for Southern Water.
Alan Sutherland	Chief Executive	Formerly Water Industry Commissioner for Scotland.

The Commission's board structure reflects current regulatory best practice. Board members bring their relevant professional experience to bear on the body's work within the overall framework of collective responsibility.

Accountability

The non-executive members of the Commission were appointed by, and are accountable to, Scottish Ministers through the Scottish Government's Energy and Climate Change Directorate.

As part of its accountability, the Commission must prepare a corporate plan that sets out its work plans and budget projections for a six-year period. The plan must be approved by the Scottish Ministers. The Commission must also lay its annual report and accounts before Parliament.

The Commission considers that it is accountable to water and sewerage customers in Scotland; it achieves this accountability through consultation, and by being transparent about its work.

3. THE COMMISSION'S ACTIVITIES

Introduction

The Commission's three main functions are as follows:

- To determine charge caps and, in so doing, promote the interests of customers of Scottish Water both in terms of the quality of services provided and the charges that have to be paid.
- To monitor Scottish Water's performance, encouraging Scottish Water to become more efficient and sustainable.
- To facilitate a competitive framework for retail water and sewerage services. In this regard, the Commission aims to:
 - act transparently, fairly and proportionately;
 - exercise its licensing functions in a way that safeguards the interests of all customers who are served by the public networks; and
 - ensure that the market develops in an orderly way.

As a public body, the Commission also contributes to the targeted reduction in carbon emissions set out in the Climate Change (Scotland) Act 2009.

Each of the Commission's main work areas is considered in more detail below.

Determining charge caps

The legislative framework

Under the Water Services etc. (Scotland) Act 2005, the Scottish Government is required to set out its high-level objectives for the water industry. It does so taking account of any legal obligations to improve the environment or drinking water quality, the amount of borrowing available, the likely affordability of charges, and the level of investment that can be efficiently delivered.

The Scottish Environment Protection Agency (SEPA) and the Drinking Water Quality Regulator (DWQR) provide advice to the Scottish Government on the improvements needed to achieve compliance with statutory standards and other measures to maintain public health and the environment.

The Commission is charged with identifying the lowest reasonable overall cost at which the Scottish Ministers' objectives can be met, then setting charges on this basis. Charges also need to reflect the Scottish Ministers' Statement on Charging Principles.

It is for the Scottish Ministers to determine the length of a regulatory control period that is covered at each Strategic Review. The regulatory control period from 2015 was set for six years.

Scottish Water published its revised draft business plan in April 2014. The plan set out the company's proposed investment to meet the Scottish Government's objectives for the 2015-21 period. This includes investment to deliver three categories of improvements:

- The statutory requirements that are specified in the objectives and are overseen by SEPA, DWQR or the Scottish Government.
- Other improvements that are included within the ministerial objectives but are less clearly defined than the statutory improvements, such as improvements in resilience of supply, levels of service and actions to reduce sewer flooding.
- Additional demand for water and sewerage services.

The three-year investment review

As part of the process of the 2015-21 Strategic Review², the Commission agreed with Scottish Water and the Scottish Government that it should put in place arrangements for a 'rolling' three-year investment review. This allows Scottish Water to adopt a longer-term approach to delivering investment needs, some of which may span regulatory periods.

The approach seeks to achieve an appropriate balance between the clarity Scottish Water needs to plan and deliver the improvements required, and the flexibility it needs to respond to new priorities as these arise and to changing investment requirements as they are better understood from subsequent studies. Through this mechanism Scottish Water maintains at least three to six years' forward visibility of the improvements it is required to make.

The first interim review of the investment programme, termed 'IR18', will take place in 2018. At this point it will be possible to use the outputs from a range of studies to inform investment needs further. The Commission will work closely with Scottish Water and key industry stakeholders to develop and implement the IR18 process to ensure that Ministers' objectives are being delivered in an efficient and effective way.

Developing our approach: the 2021 Strategic Review

As we are nearing the end of the Strategic Review of Charges for the period 2015-21 we are now beginning to review the approach that we took and the ways in which the regulatory framework may continue to evolve. We are interested in the views of those who participated in, or simply observed, our current determination.

² See WICS publication 'Strategic Review of Charges 2015-21: Innovation and Choice' available on our website.

We believe that the following principles will continue to apply.

Customers in Scotland should consider their water and sewerage bills to be reasonable.

At the Strategic Review of Charges 2015-21 we were helped in our assessment of what was 'reasonable' by the Customer Forum. The Forum's role was to identify customer priorities and to secure the best outcome for customers within the ranges for the key inputs to a price review determined by the Commission.

Professor Stephen Littlechild has recently completed a review of the Customer Forum and its effectiveness. His assessment was that the process, with the active cooperation of Scottish Water, had "led to a more thorough investigation and understanding of customer preferences, certainly more than would otherwise have taken place as part of a conventional price control review"³.

It is our intention to work closely with Citizens Advice Scotland, Scottish Water and the Scottish Government to decide on the way in which customer representation will be organised in future. It is clear, however, that customers' views will continue to be at the heart of the decision making in future Strategic Reviews.

Public legitimacy, which derives in large part from the central involvement of customers in the process, is of paramount importance. Scottish Water has to be fully responsible for its investment decisions and operational performance. At the same time, ultimately it must be accountable to both its customers and other stakeholders affected by its operations. We will seek to ensure that there are no regulatory barriers that would prevent the company from continuing in its vision to become 'Scotland's most valued and trusted business'.

The Commission will work to ensure that the best value for money solution is chosen.

As pressure on the amount of public expenditure is likely to continue beyond the next regulatory control period, identifying value for money alternatives to standard capital expenditure solutions will only grow in importance.

A key element of our developing approach in this regard is our early work on 'Innovation, risk and reward', the objective being to encourage more cost-effective, innovative solutions while protecting customers from risk.

The main focus to date has been on catchment management. We are working with the Centre of Expertise for Water and with other stakeholders to help develop a method that will ensure that the regulatory framework properly incentivises catchment management to be part of the solution to reduce costs and protect drinking water quality. This method must also ensure that customers are protected from the risk of failure.

³ 'RPI-X, competition as a rivalrous discovery process, and customer engagement', Paper presented at the Conference, The British Utility Regulation Model: Beyond Competition and Incentive Regulation? LSE 31 March 2014. Revised version 11 July 2014.

We are also involved in a forum of scientists, policy makers and practitioners to examine the key questions and challenges for catchment management in the Defra and Scottish Government funded project, 'Catchment Management for Water Quality'.

Monitoring Scottish Water's performance

Customers are entitled to expect a water and sewerage service that is delivered in an efficient way. The Commission is responsible for monitoring Scottish Water's progress in reducing both its operating costs and its capital investment costs and assessing carefully what the company should be capable of achieving. This allows us to adopt our 'trust but verify' approach.

We also monitor what Scottish Water has delivered against its annual projections for delivering the Scottish Government's objectives over the regulatory control period, within the financial limits that we set at the Final Determination. These projections are set out in the company's Delivery Plan. They comprise an agreed set of outcomes in terms of customer service, drinking water quality improvements and environmental performance. During the regulatory control period industry stakeholders (the Scottish Government, Scottish Water, the Commission, SEPA, DWQR and Citizens Advice Scotland) also meet every quarter to review and report on Scottish Water's progress in delivering the agreed outcomes.

We publish an annual overview of the company's performance. This comprises an overall rating, alongside a summary comment on performance, for each of the main areas that affect key outcomes for customers and the environment, as well as the company's financial strength.

The Commission also participates in the Scottish Government's process for establishing investment objectives and the principles of charging. Through this process stakeholders provide advice to Ministers on investment priorities, including those that contribute to Scottish Water's duties to act in a sustainable manner. Our role is to ensure that Scottish Water is adequately funded to deliver these objectives.

Developing our approach to monitoring

We are conscious of the need to review and develop the mechanisms by which we measure performance. We have worked with Scottish Water to develop a new measure of 'asset health', which provides a long-term indication of whether or not assets are being replaced in a timely and effective manner. Similarly, a new 'water available for supply index' will provide a more meaningful representation of supply resilience, expressed in terms of outcomes for customers over time.

One area of customer and media comment relates to the continuing drive to reduce leakage to a sustainable level. 'Leakage' is inevitable in any distribution activity. It occurs in electricity and gas distribution but also in other bulk products like sand or cement. Scottish Water has recently assessed that its economic level of leakage is lower than previous assessments, so will be pursuing even greater reductions in its levels of leakage. We will continue to work with Scottish Water to monitor its improvements in this area.

To make sure that our work benefits from experience and learning elsewhere, the Commission maintains regular contact with Ofwat.

The Commission is also working increasingly closely with other independent water regulators in Europe. For example, we have recently established new contacts with water industry regulators in Greece, Italy, Portugal, Spain, Ireland and Malta. We have hosted visits from water industry representatives from Oman and Abu Dhabi. This work forms part of our contribution to the Government's Hydro Nation commitments, as discussed below.

Monitoring customer service

We are committed to ensuring that customers see improvements in the levels of service they receive. After consultation with the Customer Forum and Scottish Water, we are moving towards a 'three pillar' approach to assessing Scottish Water's service performance:

- The OPA⁴ will be retained in its entirety. This will ensure that essential components of service performance will continue to be monitored and that recent improvements in performance will not be lost in the pursuit of new measures of performance. It would also allow accurate year on year comparisons to be made.
- Customer satisfaction will be measured and performance will be benchmarked against Scottish Water's peers and comparator sectors. Work on this has already begun with the establishment of the Customer Experience Measure (CEM), which will be developed by March 2015 for both household and non-household customers.
- Progress in areas that the Customer Forum had identified as being customer priorities will be monitored through new enhanced service activity measures in a number of areas (including external flooding, visible leakage, and carbon footprint reductions).

Facilitating a competitive framework

Competition in Scotland

The competitive market for water and sewerage services in Scotland opened in April 2008. The market is for all non-domestic customers in Scotland, regardless of their level of consumption. It includes all types of businesses, all public sector bodies, and all members of the third sector. This equates to around 150,000 non-domestic customers, with an annual gross market value of c. £330 million.

The recent trend of increasing competition within the Scottish market has been influenced by the prospect of a non-household retail market developing in England. The Commission has consistently stated that a competitive retail market south of the border would benefit

⁴ This is the 'overall performance assessment' which encompasses aspects of service that are most important to customers, such as the speed with which their enquiries are dealt with and the risk of sewer flooding.

customers in Scotland through increased numbers of retailers and greater competitive pressures. We are now seeing this in practice as evidenced by a number of English water companies actively competing in Scotland, and Scottish customers are reaping the rewards.

The Anglo-Scottish markets

The UK Government's Water Act, which received Royal Assent on 15 May 2014, includes plans to allow all non-household customers in England to choose their supplier for customer-facing water and wastewater services from April 2017. The Commission supports the UK Government's aim of establishing Anglo-Scottish retail markets for water and sewerage services.

We will contribute to the practical implementation of the Act and will work to ensure that, as far as possible, non-household customers in Scotland benefit from the competitive opportunities that will follow from the development of the retail markets. We have been working closely with Ofwat to maximise the interoperability between the two jurisdictions, for example by having a common set of market code documents. This will continue to require very close working and collaboration between the Commission and the Board of Ofwat.

Other work projects

Hydro Nation

In line with the Scottish Government's Hydro Nation vision for Scotland to share expertise in water issues, we are engaging with other European water regulators. An informal network of European regulators (WAREG) has been established to promote best-practice, exchange know-how and conduct an open dialogue with other relevant regional and international organisations. Participants include mainly eastern and southern European regulatory agencies that have developed a public sector/regulated water industry model. We will be working to identify areas of common interest, such as international benchmarking.

Separately, we have been approached by the European Commission to provide training support to the new water economic regulatory body being established in Greece, a country that faces many similar challenges to those that were faced in the early days of economic regulation in Scotland.

The Commission's involvement in the Hydro Nation initiative helps ensure that we remain in touch with regulatory best practice while providing useful experience and opportunities for staff and an exposure to alternative regulatory approaches and techniques.

At the present time the Commission is also supporting the Scottish Government in its policy development in the area of economic regulation. We are keeping in close contact with the Scottish Government in this area and aim to maintain a capability such that we are able to respond flexibly to any impact on the economic regulatory approach in Scotland.

Wholesale cost allocation

The introduction of more competition in the retail market in England may well mean that wholesalers come under greater pressure to justify their charges in respect of certain customer segments and/or services. This is particularly likely to be the case where the gross retail margin is deemed to be low. Wholesalers that are unable to provide adequate justification for the structure and level of their charges could be subject to investigation under the provisions of competition law.

We are undertaking a joint one-year project with Ofwat, the economic consultancy Oxera, and two English water and sewerage companies to examine the allocation of wholesale costs. The purpose is to use various methodologies to assess how the value of water and sewerage services for different services and classes of customer across supply regions could be different from current wholesale and retail tariffs.

Duties under the Climate Change Act

The Commission is committed to creating a more sustainable water industry. Over the past five years Scottish Water has reduced operational carbon emissions by around 10%, in spite of continued investment in further quality enhancements. The challenge over the next 25 years is to continue to progress towards being increasingly sustainable in the way water and waste water services are being delivered.

Substantial environmental benefits have also resulted from the introduction of retail competition in Scotland in 2008. In addition, the Commission itself actively reviews its responsibilities towards helping Scotland reduce emissions and build its resilience to a changing climate.

4. RESOURCES AND BUDGETS

Resources

It is absolutely essential that we have the right analytical resources in place to meet our business demands. In the past we have had difficulty recruiting high-calibre staff with the relevant skills to fill our analytical vacancies.

Over the past couple of years we have worked very hard on our recruitment. We now have a solid team of talented individuals in place. We remain committed to providing these analysts with the best possible training, in order to develop talent internally and build careers. Recent experience has shown that we have not been able to attract employees with an appropriate level of experience to senior posts, given the remuneration offered under Public Sector Pay Policy for Scotland and the competition in the open market for candidates of this calibre. We are addressing this issue by a strategy to grow talent internally, allowing us to fill the gap left by the departure of senior employees in recent years.

An important part of this approach is being able to offer satisfactory pay progression so that we can retain the analysts who are already in place. We have recently agreed a new progression arrangement for all staff with the Scottish Government. This will allow the Commission to reward high-quality work and extra commitment and to help with retention and succession issues. As well as the implementation of a revised organisational structure, we have introduced a professional career framework for the analytical employees and aligned the pay and grading for staff in the Corporate Affairs team with the Scottish Government pay and grading structure.

While much of the work will best be completed by permanent in-house staff, some of it will require highly specialised professional skills, which would not be cost-effective to maintain within the office. We therefore plan to establish several broad framework agreements with consultancies, which will allow us to access appropriate engineering, economics and financial and legal advice. This will ensure that we can respond flexibly and cost-effectively to the demands of the next Strategic Review of Charges.

It is essential that the Commission's output is of the highest quality and is capable of withstanding judicial scrutiny, and is seen to be so by industry stakeholders and the general public. Supplementing the expertise of the office with that of outside experts, under the Commission's strategic direction, provides significant reassurance of the quality and independence of our work. The individuals and consultancy firms that we engage will be recognised experts in their fields.

Budgets for 2015-16 to 2020-21

The Commission's expected expenditure for the financial year 2014-15 is £3.6m. As a result of the changes in the way the Commission carries out its work it has been possible to maintain a lower headcount, while tightly controlling all other areas of expenditure. In the last four years the Commission has been able to carry out its duties with a budget more than 19% lower than the amount that was agreed in the corporate plan for 2010-15.

We do not propose to make any significant changes to the current structure of the office and propose a budget that is largely in line with current available resources.

Therefore, moving into the next regulatory control period, we are proposing an initial decrease in Scottish Water's levy to £2.0m with a 1.6% increase each year thereafter, in line with the proposals for Scottish Water's household bills. The licensed providers' levy will see an annual increase of 2.5% to recognise the Commission's increasing activity required as we lead up to the opening of the Anglo-Scottish markets. This will result in a levy of £1.4m in 2015-16, bringing the total levy in 2015-16 to £3.4m.

The proposed budget for the Commission reflects the scale of work necessary to carry out our required duties. Any Strategic Review of Charges process must be as robust as possible since it may be subject to challenge at the Competition and Markets Authority (CMA). The Commission must be able to rely on analysis of the highest quality from the office.

We propose that the Commission should maintain its ability to transfer budgets between budget lines (with the exception of salaries, which are ring-fenced) and between financial years. This ability to transfer from one year to the next would be limited to 20% of income. These proposals are consistent with the budget transfer arrangements agreed with the Scottish Government for the 2010-15 Corporate Plan.

A review of the required budget will be carried out in 2018, at the mid-point of the regulatory period.

The Commission would operate under a tight budget constraint and would be expected to meet all foreseeable costs from this budget. Clearly, if there were substantial legal proceedings or an appeal to the CMA, there would need to be a separate provision. The main benefit of this approach is that the Commission, Scottish Water and the licensed providers have certainty about budgets and costs for the whole of the next regulatory control period. It also allows the Commission to plan its work in the most cost-effective manner and to maximise the opportunities for consultation with stakeholders.

Proposed budget

The detailed expected costs for the next regulatory control period are outlined in the table below.

Expense type	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m
Staff costs	1.500	1.572	1.647	1.727	1.809	1.896
Consultants	1.152	1.164	1.076	0.951	1.062	1.073
Operating costs	0.767	0.756	0.733	0.943	0.832	0.793
Capital items	0.005	0.000	0.105	0.010	0.000	0.015
Total	3.424	3.492	3.561	3.631	3.703	3.777

Staff costs

Staff costs include all salary related costs of employees and Commission members. The average headcount over the period is based on 19 full-time employees (ie excluding non-executive members of the Commission), and allows for a modest increase each year, in line with the recently approved pay progression proposal and the Scottish Government's Pay Policy. We have also taken into consideration that, with the introduction of Auto-Enrolment, the Commission will face continued pressures on costs relating to the pension scheme.

Consultants

The use of consultants and framework contracts is discussed further, below.

Operating costs

Operating costs include all costs that do not relate to salary or consultancy. Therefore, they will include expenditure such as IT, communications, accommodation, training and general office costs. They will also include the costs of two other smaller framework contracts that will be tendered at less than £100k. One of these will be the contract for internal audit services and the other a small contract for the provision of general legal advice for the office, specifically any HR matters that may arise. Where practical, the Commission will use the Scottish Government's collaborative procurement contracts. Currently, the Commission makes substantial savings from joint contracts for water, gas, electricity and travel and accommodation.

Capital items

The Commission proposes a small budget for capital items that will be required during the regulatory period. All of our office IT equipment has now been written off, being four years old. Although we expect the equipment to last a few more years, it is anticipated that our servers and desktop computers will need to be replaced by the end of the next regulatory control period.

Levy split

We propose that the levy the Commission receives is split as per the table below. This demonstrates a 1.6% increase in the Scottish Water levy and an inflationary increase in the levy received from the licensed providers.

Split	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m
Scottish Water	2.000	2.032	2.065	2.097	2.131	2.165
Licensed providers	1.424	1.460	1.496	1.534	1.572	1.612
Total	3.424	3.492	3.561	3.631	3.703	3.777

Use of consultants

As explained earlier, the Commission must have access to sound advice relating to the economics, legal, finance, accounting and engineering of water and sewerage provision in Scotland. It requires such advice to make appropriate assumptions about the reasonable costs that it should allow for in setting prices. Its assumptions must be robust to external challenge, particularly as Scottish Water has the right to require the Commission to make a reference to the CMA.

The Commission's role is similar to that of other regulators in the UK but it does not enjoy the same potential for economies of scope or scale. Even these much larger regulators with these additional scope and scale advantages find that external expert consultants best meet their needs for economic advice. Expert, independent advice can carry additional weight with stakeholders and is more robust to challenge than expertise drawn from a regulator's own office.

Ofwat, the Commission's equivalent in England and Wales, employs around 190 staff. In comparison, the Commission is proposing an office of fewer than 20 employees. It is therefore neither practicable nor credible for the Commission to attempt to rely solely on its own staff for all of the expertise it may require. The key is flexibility and also making sure that our frameworks are capable of allowing us to access the type of information that we require at the time when it is needed – rather than being limited by an overly prescriptive framework contract. We have successfully managed to develop such relationships in the current regulatory control period.

Proposed framework agreements

The Commission proposes to establish framework contracts to allow access to engineering, economics, financial and legal experts. These are the main areas of expertise on which the Commission will need to draw in order to carry out the next two major tasks for the office of updating the regulatory framework and carrying out the next price review.

The final value and number of consultants to be used is yet to be determined. However, all framework contracts will be subject to a tender process, following public sector procurement guidelines, including rules as defined by the Official Journal of the European Union (OJEU). We would propose to tender four-year contracts, with potential extension clauses of two years in order to cover the entire regulatory period. There would be no minimum amount payable under these contracts and they would be terminable with immediate effect.

In addition to the two frameworks, we will tender our requirement for internal audit services and HR and general office legal advice (both estimated to be less than £100k).

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