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Convener

Environment, Climate Change and Land Reform

Committee

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Dear Graeme,

Thank you for your letter of 29 September 2017 regarding your meeting with the Water Industry Commission for Scotland on 12 September 2017. I am pleased to hear that you had a very productive and detailed discussion.

Turning to the specific questions in your letter:

Upper Catchment Area Plans

Scottish Water is one of a number of responsible authorities for flood risk management and as such works closely with SEPA, local authorities and others to coordinate plans to manage flood risk. As the provider of sewerage services, Scottish Water is required to provide information to SEPA on flood risk from sewers in Potential Vulnerable Areas (PVAs). In addition to these assessments, SW is working with SEPA and Local Authorities to gain a better understanding of the interactions between surface water flows and the sewerage system in urban catchments. Five detailed studies were undertaken in 2010-15 and a further 15 are underway in 2015-21. The results of these studies will enable Local Authorities and SW to plan and prioritise investment to reduce flood risk.

Scottish Water is working with landowners in drinking water catchments. The focus of this work is to protect drinking water supplies from the risks that can arise from farming practices, forestry operations, construction activity etc. By minimising the risks to the water at source, the energy and chemical costs associated with water treatment can be reduced.

Designation of Potential Vulnerable Areas

Neither SW nor WICS has responsibility for designating PVAs. PVAs are designated by SEPA and are approved by Scottish Ministers. The six-year period for assessing flood risk and designating PVAs is set out in statute and originates from the underpinning European Directive. You may wish to note that SW's investment period aligns with this six-year planning period together with that for River Basin Management Plans.

The identification of PVAs is used to help target studies, actions and investment to reduce flood risk. The Flood Risk Management (Scotland) Act 2009 requires SEPA to carry out a National Flood Risk Assessment every 6 years, and from this identify PVAs where a significant flood risk exists. Work on the second cycle of National Flood Risk Assessment (NFRA 2), which provides the basis for the identification of PVAs is underway.

Project Delivery

I should like to clarify that the figures to which the Committee refer relate to those projects remaining from the 2010-15 investment period. In total there were 37 such projects. As the WICS' 2015-16 performance report notes, the delivery timescales were adjusted in SW's 2016 Delivery Plan to provide that 26 to 29 projects would be delivered by 31 March 2017. I can now confirm that 28 were in fact delivered. The Government continues to monitor closely the delivery of the remaining 9 which are expected to be complete by 2019-20.

SW's 2015-21 programme is expressed as numbers of outputs across the various areas of delivery such as drinking water quality, environment, flooding etc. SW's delivery of the capital programme is monitored by the Output Monitoring Group against the targets approved by Ministers in its Delivery Plan. A report from that group¹ is published quarterly on the Government's website. Since the start of the regulatory period, the Overall Measure of Delivery confirms that SW has consistently delivered ahead of the delivery targets. This is to be expected at the start of every regulatory period when SW has greatest flexibility to juggle projects in response to some the delivery constraints that Alan Sutherland mentioned.

In response to your questions about borrowing, I can confirm that the Government will make available the necessary lending as and when required by SW. Lending will be shown in all Budget Documents. As Alan Sutherland mentioned, SW had considerable cash balances on 1 April 2015 which have meant that it has not needed to borrow any funds thus far in this regulatory period. As determined by the WICS, the £720million of debt will be sufficient to ensure that SW delivers all of the required outcomes² as directed by Ministers at the lowest overall reasonable cost.

Water leakage targets

I agree with the Committee that leakage should be a priority. It is an important issue for customers too. Reducing leakage is not only an economic imperative – through reducing operating costs and capital expenditure – but also contributes to Scottish Water delivering its obligations with regard to sustainable development and reducing its carbon emissions. Recent improvements demonstrate the importance the Government and SW attach to this issue: in 2006-07 leakage was 1004 MI/day, in 2016-17 it was down to 495 MI/day.

It is important to recognise that SW has responsibility for some 30,124 miles of pipes across Scotland – enough pipe to go round the equator 1.2 times. It is important therefore to balance carefully the costs of repairing leaks against the costs of the water saved. This is known by the industry as the 'economic level of leakage'. Currently, the level of leakage is at the 'economic level'. If we choose to spend more than the economic level, then we have to recognise that this ties up resources that we might want to spend on other priorities such as on improving drinking water quality or flooding. The additional materials and energy in addressing higher leakage targets would on this analysis be inconsistent with sustainability objectives.

¹ <https://beta.gov.scot/groups/output-monitoring-group/>

² <http://www.gov.scot/Resource/0045/00459867.pdf>

As the WICS noted, the 'economic level' changes with time in response to changes in costs, ongoing technology developments and specific localised factors such as local environmental benefits or supply security considerations. SW will continue to work with regulators to understand what scope there is to go further in future regulatory periods.

Finally, I should mention there is ongoing work to better understand the impact of leakages from customer's supply pipes and, where these do occur, how they are best addressed.

Recruitment and Retention

The Government is aware of the staff retention issues at WICS. It has recently worked with WICS to review its pay and grading structures to ensure that there is adequate scope for staff progression.

Customer Forum

The Customer Forum was formed through a tripartite agreement between SW, Citizens Advice Scotland and WICS. It is designed to ensure that the regulatory settlement (also known as the Final Determination) reached by the WICS ahead of each regulatory period commands the confidence of customers and reflects their priorities for investment and improvement. Its composition is entirely a matter for the signatories to the tripartite agreement.

However, in response to your question about ensuring that a settlement is "rural and island proofed", it is important to understand that Ministerial policy and legislation protect these customers in a number of ways:

1. Charges are the same regardless of location and cost to serve;
2. Guaranteed service standards ensure that customers connected to the public networks receive the same levels of customer service regardless of their location;
3. Quality standards in relation to public drinking water apply to all supplies regardless of size and location of the community.
4. Standards for discharges reflect the receiving environment. Those waters with a protected status – such as a shellfish water – will benefit from higher treatment.

The powers of the Water Industry Commission for Scotland

You raise the question of customer satisfaction. This is measured through a number of measures including the Overall Performance Assessment, the household Customer Experience Measures and the Wholesale Service key performance indicator. Targets for each of these measures are approved by Ministers in consultation with regulators. Outturns are reported each year by the Output Monitoring Group. The WICS is a key stakeholder in the monitoring of the performance.

In relation to payment terms, SW is already required, as a public body, to apply the prompt payment policy with its suppliers. In relation to payment terms between Licensed Providers and their customers, this is a matter for Licensed Providers. As the WICS explained, payment terms will form part of the contract negotiated between Licensed Providers and their customers. Should a customer be unsatisfied with their Licensed Provider, then the retail market provides them with an opportunity to switch providers to seek a more competitive offer or better customer service.

Complaints handling procedures

The WICS was entirely correct to note that the responsibility for investigating complaints lies with the Scottish Public Sector Ombudsman.

I appreciate that there have been some complaints in relation to the Shieldhall project. However, we need to recognise that this is a challenging strategic investment which is critical for economic growth in that area and to relieve some long-standing flooding problems. Whilst SW has made every effort to reduce the impact on local communities, some disruption has to be expected given the unprecedented scale of the project. I can confirm that SW has sought to work closely with the local community to ensure that it is informed of progress and has its full support.

Implications for the water industry of leaving the European Union

As the Committee understands, the Government has made clear our determination to maintain, protect and where possible enhance Scotland's natural environment. The Scottish Government is not prepared to see the benefits of EU membership lost as a result of the UK Government's decision to leave the EU. This is particularly important in the water industry where legislative standards on drinking water and a range of environmental policies are products of EU Directives.

As regards its procurement, we expect SW to continue to secure best value for customers and to operate within relevant procurement legislation. We are committed to continuing to collaborate and demonstrate leadership on the international stage and, of course, we continue to hope to see opportunities through Scottish Water International. It is already delivering a number of contracts across the world which build on Scottish Water's considerable expertise and success as a public sector water company.

Long term investment

As the Committee will recall, Ministers are required to direct SW as to the standards of services (also known as Objectives) that must be achieved for every regulatory period. In anticipation of the next regulatory period, the Government is working with SW and regulators to establish the investment priorities for the 2021-27 period. Draft objectives will be published in the spring of 2018 for consultation. As the WICS mentioned in its evidence, these objectives, together with Ministers' policies on charges and borrowing, will form the basis of WICS' determination of customer charges for that period. I should be happy to discuss the draft Objectives with the Committee once they are published.

Yours,



Roseanna Cunningham