

Infrastructure and Capital Investment Committee - 30th April meeting: Scottish Water regulatory period 2015-21



30th April 2014

Summary

- Increased customer engagement and the process of negotiated settlement has resulted in greater benefits being delivered to customers during 2015-21 compared with the previous regulatory periods
- Proposed approach to customer charges and improved financial management measures will provide stability for paying customers and the water industry
- Further consideration is required to raise awareness of benefits associated with competition to small to medium sized enterprises
- New performance measures will provide robust customer based evidence to drive further improvements to services and value for money for paying customers
- Scottish Water could do more to support those customers who are in debt and struggling to pay for water and sewerage charges

Introduction

1. Citizens Advice Scotland welcomes the opportunity to submit written evidence to the Infrastructure and Capital Investment Committee in relation to the Scottish Water Regulatory period 2015-21.
2. Citizens Advice Scotland, our 61 member bureaux and our customer helpline together form Scotland's largest independent advice network. We help more than 300,000 people solve their problems each year in communities everywhere from city centres to the Highlands and Islands. We look at the problems people bring to our advice services and campaign for change where it is needed most. We work for a fairer Scotland where people are empowered and their rights respected.
3. On 1st April 2014, the roles and responsibilities of Consumer Futures were transferred to the Citizens Advice Service, encompassing Citizens Advice Scotland and our sister organisation Citizens Advice (England and Wales). The transfer means that we now represent the interests of citizens and consumers in essential regulated markets including energy, post and, in Scotland, water. Our work on benefits, debt, housing, employment and many other issues continues and our new responsibilities mean we can do even more to speak up for people in Scotland.
4. Our aim within the water industry is to challenge and shape policy to ensure it reflects the needs of consumers. This involves conducting independent research addressing consumer issues to secure better outcomes for them. In 2014/15 our work for water consumers focuses on three main areas; fair charges and debt management, working to ensure water is affordable and fair and that debt is responsibly collected and support given to people who struggle to pay; consumer representation and engagement in the water

industry, looking at new ways for consumers to have a say in the services they use and understanding where customer challenge can add value; and finally we will be working to support the interests of small businesses as consumers, examining how the market works for them and better understanding and sharing their experiences with providers.

5. Our input into the Strategic Review of Charges is a core part of our new role as a statutory consultee and we welcome the opportunity to share our views with the Committee. Our evidence to the committee focuses on five main areas. These are;
 - Regulatory development and customer representation in the water industry
 - Charges and charge caps
 - Performance measurement
 - Rolling review process
 - Water and sewerage debt
 - Areas of enhanced service
 - Strategic Review of Charges - future price determination

Regulatory Development and customer representation in the water industry

6. Citizens Advice Scotland welcomes the process of negotiated settlement between the Customer Forum and Scottish Water to reach agreement on what should be delivered to water customers within 2015-21. We are of the view that the water industry in Scotland has taken significant steps to develop customer-centric outcomes that truly understand and respond to customers' priorities and needs. The process that has been laid out within the Draft Determination evidences a willingness and commitment from Scottish Water to improve how it engages with its customers for example, through further developing its Customer Engagement and research programme. We believe that Scotland's water industry is nearer to providing a framework of regulation and service delivery that places customers at its heart.
7. In comparison with previous regulatory periods, both regulators and Scottish Water have demonstrated a readiness for a more mature and developed regulatory review process which we believe will deliver benefits for consumers. This change in approach has been brought about by several factors. Firstly, Scottish Water has demonstrated that its capacity to make robust and informed decisions has been rewarded through greater autonomy being afforded by regulators; secondly an intense period of updating aging infrastructure during previous regulatory periods has resulted in significant service improvements to customers e.g. internal sewer flooding and drainage, improving water quality, leakage reduction, etc.; and lastly a commitment by Scottish Water seek ways in which it can meet customers' needs and drive further service improvements.
8. We believe that what has been set out within the Draft Determination will support and incentivise the development of further customer prioritisation within the industry, and we are keen to support this. As part of our wider

consumer representative function, Citizens Advice Scotland has agreed to take on the responsibility of supporting the work of the Customer Forum. This will allow us to work together with the Forum to identify where further benefit can be delivered to customers whilst at the same time ensuring that future investment is balanced with clear evidence of customer prioritisation through research and customer engagement. We would however, seek to highlight that beyond 2015, plans for the work of the Customer Forum and its governance must be agreed by industry stakeholders, and must be transparent and widely communicated to all interested parties. This is especially important for customers to ensure clarity of roles and responsibilities and to strengthen the accountability of the Forum to customers themselves.

Charges and Charge Caps

9. During a time of prolonged economic hardship, Citizens Advice Scotland welcomes and supports below rate inflation increases per annum for water and sewerage charges. We are satisfied that proposed increases (CPI 1.6%) will provide stability for both Scottish Water and paying customers in terms of both securing sufficient revenue to meet requirements during Quality and Standards 4 and giving customers certainty and value for money. We are also satisfied that new financial management measures, such as the Financial Tramlines, will improve transparency, and better support flexibility and responsiveness of the industry to internal and external factors. As a result, services to customers will be better protected.
10. We welcome the decision to freeze default maximum retail tariffs. We believe that during a time of economic challenges, in particular for small to medium sized enterprises, that this will provide some measure of financial relief. However, we feel that further consideration should be given to making those benefits associated with the retail market, including cheaper tariffs, more accessible to SMEs. Research¹ has shown that awareness among SMEs of choice and switching as well as additional services from licensed providers is negligible, which affects their ability to access additional benefits such as lower tariffs. We believe that SMEs should be provided with the same opportunities as larger organisations to ensure that they can secure a better deal from their water services provider.

Performance Measurement

11. We welcome the introduction of a more robust performance measurement framework that evidences customers' satisfaction with water and sewerage services. Unlike the more technical inputs and outputs that have characterised previous performance measurements, the Customer Experience Measure (CEM) introduces a direct feedback mechanism from customers. This will help Scottish Water to better understand where service improvements are required by highlighting areas of underperformance that require remedial action. CAS

¹ Research conducted in November 2012 showed that SMEs' awareness of Scotland's retail market and its potential benefits was extremely low to negligible (Consumer Futures 'Navigating unfamiliar waters - SMEs' awareness and experience of the water market in Scotland' 2014)

believes that the new performance measurement framework, as outlined within the Draft Determination, will drive a culture within Scottish Water to ensure that issues are put right first time and that as a result, customers' experience of service will more closely reflect Scottish Water's aspirations to be 'Scotland's most valued and trusted business'. However, we recommend that a regular and independent review of Customer Experience Measures is carried out. This will verify Scottish Water's score and will provide customers and stakeholders with assurance of Scottish Water's performance.

12. We welcome the proposal to develop a separate customer experience measure for domestic and non-domestic customers. The impact of service failures on a business can differ greatly from those of a household. For example, whilst problems with water supply affect both domestic and non-domestic consumers alike, an organisation for which the provision of water is a critical part of the business, in particular a small business, could suffer significant financial detriment from a prolonged unplanned interruption. We support the development of separate and transparent measures that drive commitment to ensuring that water and sewerage services consistently meet the needs of both domestic and non-domestic customers.
13. Careful consideration should be given as to how to conduct benchmarking against other water providers (in England and Wales) and other industries (e.g. 'best in class' companies such as John Lewis). Consideration should be given to how this is structured and calibrated to ensure that significant differences in regulation and customer engagement are reflected to remain relevant to the water industry in Scotland and to drive behaviours that benefit Scotland's water customers.

Rolling Review Process

14. The rolling review process will provide the industry with a robust whilst flexible opportunity to undertake any corrective action required within the current review period, without having to initiate a separate process of determination. The Interim Review in 2018 will provide regulators and Scottish Water with an opportunity to address fluctuations caused by external factors which, as well as protecting stability of the industry, will protect services being delivered to customers.

Water and Sewerage Debt

15. Significant research² has been conducted over the past six years into issues related to water and sewerage debt and affordability. We welcome the commitment of the Outputs Monitoring Group to review how water and sewerage services are charged, and we acknowledge that any changes to the current charging structure require careful consideration to ensure implications of change are fully understood. However, we believe that existing processes, both legislated and practiced, prioritise and incentivise the maximisation of

² Consumer Futures 'Keeping your head above water – a study into household water debt in Scotland' 2014; Waterwatch Scotland 'Scottish Household Water and Sewerage Debt' 2010; Waterwatch Scotland 'Affordability of Scottish Household Water and Sewerage Charges – historic trends and current position' 2008

revenue and do not do enough to protect those struggling to pay their bills. Although the billing and collection of water and sewerage charges is legislatively 'outsourced' to local authorities, and in addition to the relief afforded through the Water and Sewerage Charges Reduction Scheme, we believe that Scottish Water could have a greater role in incentivising debt recovery practices for water and sewerage charges in a way that protects customers in vulnerable situations, and could consider the introduction of additional measures that help indebted customers' to better manage their debt, as part of a more comprehensive vulnerability strategy.

Areas of Enhanced Service

16. We are pleased to note the new range of enhanced service activity measures that also address long standing issues such as external flooding that has not received funding in the past. For customers that have suffered the effects of external sewer flooding, often for years, these measures will deliver necessary investment and relief.

Strategic Review of Charges – future price determination

17. Citizens Advice Scotland welcomes what has been achieved for customers within the current Strategic Review of Charges process and we are keen to see the ongoing development of robust independent customer research and performance measurement so that future planned work and investment priorities can be traced back to a strong evidence base and can withstand independent scrutiny and audit.

Conclusion

18. Since becoming the representative body for water consumers in Scotland, Citizens Advice Scotland is keen to encourage and support the ongoing development of more embedded customer-centric culture, policy and practice within Scottish Water as part of an everyday consideration and not solely reserved for the Strategic Review of Charges process. We welcome the process of challenge, negotiation and agreement that the introduction of the Customer Forum has brought and hope to see this principle develop into a fully embedded process within the culture of the industry going forward.

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