

# Citizens Advice Scotland

Scottish Association of Citizens Advice Bureaux  
www.cas.org.uk



## Response to the Strategic Review of Charges 2015-21 – Draft Determination

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- Citizens Advice Scotland and its 61 member bureaux form Scotland's largest independent advice network. CAB advice services are delivered using over 250 service points throughout Scotland, from the islands to city centres.
- Citizens Advice Bureaux in Scotland helped clients with over 500,000 new issues in 2012/13 – more than 1,400 new issues for every day of the year. Nearly 200,000 clients brought new issues to a bureau over the year.
- On 1<sup>st</sup> 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). Citizens Advice Scotland now represents the interests of citizens and consumers in essential regulated markets including energy, post and, in Scotland, water.
- Our aim within the water industry is to challenge and shape policy to ensure it reflects the needs of consumers.

Scottish Association of Citizens Advice Bureaux – Citizens Advice Scotland  
(Scottish Charity SC016637)

## 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
- The need to extend the Customer Forum's role beyond January 2015 should be evidenced, and any extended remit should remain separate from that of Citizens Advice Scotland
- Further consideration is required to raise awareness of the benefits associated with competition, to small to medium sized enterprises
- Proposed approach to customer charges and improved financial management measures will provide stability for paying customers and the water industry
- 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 as part of a corporate vulnerability strategy
- Investment related to the new enhanced service activity measures will provide essential relief to customers that have suffered from long standing and previously unfunded issues e.g. external sewer flooding

## Introduction

1. As part of our new role as a statutory consultee and consumer representative organisation, Citizens Advice Scotland welcomes the opportunity to respond to the Strategic Review of Charges 2015-21 Draft Determination.
2. Our response addresses some aspects of the Strategic Review of Charges process that we responded to as part of our written evidence to the Infrastructure and Capital Investment Committee in May 2014, but in addition, outlines our views on other issues not addressed as part of that evidence gathering process.

## Regulatory development

3. Citizens Advice Scotland welcomes the process of negotiated settlement. We believe the changes it has brought have resulted in better outcomes for customers through securing a greater commitment from the industry to increase the delivery of discretionary services to customers and through challenging the industry to become more customer-centric in how it responds to customers' priorities and needs. The process that has been laid out within the Draft Determination, including a further development of Customer Engagement and research, is evidence of a willingness and commitment from Scottish Water to continually strengthen the link between feedback it receives from its customers and the service they receive. We believe that these new developments in the regulatory process have brought Scotland's water industry nearer to placing customers at its heart.
4. In comparison with previous regulatory periods, during SRC 2015-21 both regulators and Scottish Water have demonstrated a readiness for a more

mature and developed regulatory review process and working relationship. We believe that the customer focussed approach that has been taken, outlined within the Draft Determination, is a continuation of this evolving process and that it will not stop here, but will continue to develop within future regulatory periods to deliver further benefits for consumers. We believe that several factors have created readiness for a more proactive customer centric approach to regulation:

- a. Regulators have rewarded Scottish Water with greater autonomy after it demonstrated that it has the capacity to make robust and informed decisions;
- b. Industry focus has evolved to look at more qualitative issues such as customer feedback. This follows an intense period of updating aging infrastructure during previous regulatory periods including significant service improvements to customers. These included internal sewer flooding and drainage, improving water quality and leakage reduction.
- c. Scottish Water has demonstrated that it is working towards strengthening links between gathering evidence from customers, delivering against their needs and improving customer satisfaction levels.

### **Customer representation in the water industry**

5. CAS is keen to support the development of further customer engagement and prioritisation within the water industry and 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.
6. The Draft Determination strongly suggests that a Forum-type role will continue to exist after January 2015. However, we strongly recommend that any customer representative role in addition to that already provided by Citizens Advice Scotland, and requiring additional funding through customer charges, needs to be clearly justified. In order to maintain accountability to customers, any decision to extend the work of the Forum beyond the Strategic Review of Charges should be based on evidencing a need to do so, following an independent assessment of benefits realised, the existing consumer representation landscape and future requirements. In addition, any remit for the Forum beyond January 2015 should provide clearly defined roles and responsibilities that are distinct from those of Citizens Advice Scotland based on the principle that the customer should not pay twice.
7. Furthermore, if the work of the Forum is to continue beyond the scope of the 2015-21 Strategic Review of Charges into 'business as usual', its governance arrangements, role and responsibilities, and work plan must be agreed by industry partners and must be widely communicated to all interested parties. This will ensure there is a clear understanding of the customer representation landscape, which for customers will remove ambiguity and strengthen accountability. Clear, detailed and agreed objectives for future Forum work will provide a robust basis on which Citizens Advice Scotland and the Forum can work together to further strengthen the role of customers in Scotland's water industry.

## Charges and Charge Caps

8. During a time of prolonged economic hardship, Citizens Advice Scotland welcomes and supports below inflation increases per annum for water and sewerage charges. Longer term forecasting<sup>1</sup> would suggest that an increase of 1.6% in line with CPI will reflect future rates and provide financial stability for both Scottish Water and paying customers in terms of both securing sufficient revenue to meet investment requirements during 2015-21 and providing customers with certainty and value for money. We are also satisfied that proposed 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. We welcome and support additional measures that improve protection of services to customers and enable customers to benefit more quickly from over performance.
9. 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. Research<sup>2</sup> 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 compared to larger organisations. 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

10. 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 believes that the new performance measurement framework, as outlined within the Draft Determination, will support a culture within Scottish Water that seeks to put issues right first time. As a result, we believe that customers' experience of the service will more closely reflect Scottish Water's aspirations to be 'Scotland's most valued and trusted business'. As a point of principle, a regular and independent review of CEM is necessary to verify Scottish

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<sup>1</sup> Probability Distribution Table for CPI Inflation and GDP Growth Projections - May 2014  
<http://www.bankofengland.co.uk/publications/Pages/inflationreport/irprobab.aspx>

<sup>2</sup> 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)

Water's score and provide customers and stakeholders with assurance of Scottish Water's performance: we have received assurances from Scottish Water that this will be carried out.

11. In order to protect the substantial effort and investment that has been expended during this regulatory process to identify where further investment in service improvements is required, Citizens Advice Scotland is of the view that the CEM should include the customer's experience of how work is actually delivered i.e. the degree to which customers have been engaged and consulted on aspects of planned capital investment and maintenance projects that may affect them<sup>3</sup>. This would drive further commitment by Scottish Water to ensure that customer satisfaction and a positive customer experience remains paramount from planning through to delivery and consumption of services.
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 high esteem benchmarking against other water providers (in England and Wales) and other industries (e.g. 'best in class' companies such as John Lewis) 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. Citizens Advice Scotland supports the proposal of a rolling review process which 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 the stability of the industry, will provide a process to better protect consistency in services being delivered to customers.

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<sup>3</sup> Citizens Advice Scotland is currently supporting Scottish Water to develop an evaluation of its Consultation Code to ascertain its effectiveness and evidence where customers have influenced outcomes.

## **Water and Sewerage Debt**

15. Significant research<sup>4</sup> 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. Research<sup>5</sup> conducted into domestic customers' attitudes towards paying for water in Scotland suggests that customers endorse the principles of charging currently applied but that more is required to support those who have difficulty paying. We are mindful that any changes to the current charging structure require careful consideration to ensure implications of change are fully understood.
16. However, we believe that existing processes, both legislated and practiced, prioritise and incentivise the maximisation of revenue and should do more to protect those struggling to pay their bills. Although the billing and collection of water and sewerage charges is legislatively 'outsourced' to local authorities, we believe that Scottish Water retains an extended social duty to its customers to work with the service provider i.e. local authorities to advocate that as well as maximising income, practices used to recover debt also ensure that vulnerable customers are provided with adequate protection. In addition to the relief afforded through the Water and Sewerage Charges Reduction Scheme, we believe that Scottish Water could in the shorter term, have a greater role providing additional support to help indebted customers' to better manage their debt, as part of a more comprehensive corporate vulnerability strategy.
17. We welcome Scottish Water's commitment to deepening customer engagement on issues such as protecting vulnerable customers. We have had some engagement with Scottish Water on this matter and are very willing to support Scottish Water to develop this further. We also welcome commitment by the Scottish Government to look into issues of affordability and vulnerability later this year, as part of the Longer Term Charging group.
18. In the longer term, we are of the view that any proposed changes to the threshold for water and sewerage charges reduction that may increase the amount cross subsidised by paying customers, should be substantiated through evidence from consumer research e.g. willingness to pay.

## **Areas of Enhanced Service**

19. 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

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<sup>4</sup> 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

<sup>5</sup> Consumer Futures 'A matter of principles – research into household attitudes towards paying for water in Scotland' 2014

external sewer flooding, often for years, these measures will deliver necessary investment and relief.

20. We look forward to receiving more information regarding the level to which Scottish Water will deliver against these enhanced measures, once targets have been agreed between Scottish Water and the Forum, in order to gauge how quickly relief will be provided to those that suffer from these issues and what agreements will be put in place to ensure new issues arising are dealt with as quickly and effectively as possible.
21. We welcome the commitment to invest further in a more resilient infrastructure better able to cope with extreme weather events and better able to protect households and businesses from its effects.

### **Benefits for Rural Communities**

22. We welcome further commitment to develop longer term solutions to address the need to improve water and sewerage provision in rural areas. Citizens Advice Scotland has been working with industry stakeholders to develop a strategy for improving water supplies and wastewater collection. Specifically, our role has involved supporting the development of an engagement strategy<sup>6</sup> to provide insight into consumer priorities and to ensure their views are fully considered when identifying options.

### ***Water Efficiency***

23. Given the commitment by Scottish Water to further reduce leakage levels, Citizens Advice Scotland is of the view that further consideration should be given to publically acknowledging this commitment whilst also engaging customers in a proactive public campaign to promote water efficiency. Research<sup>7</sup> into customers' attitudes towards paying for water has shown that there is interest in and enthusiasm from consumers for information on what they can do to reduce water wastage under the principles of sustainability.

### **Conclusion**

24. 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 support the process of challenge, negotiation and agreement within the current Strategic Review of Charges period and hope to see this principle develop into a fully embedded process within the culture of the industry going forward.

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<sup>6</sup> Citizens Advice Scotland is supporting the development of a consumer engagement strategy as part of a strategy to better plan for a sustainable supply and management of water in rural areas (Sustainable Rural Communities Workshop convened by the Centre of Expertise for Waters (CREW))

<sup>7</sup> Consumer Futures 'A matter of principles – research into household attitudes towards paying for water in Scotland' 2014