

9 October 2024

Strategic Review of Charges 2027-2033: Draft Methodology

About us

Consumer Scotland is the statutory body for consumers in Scotland. Established by the Consumer Scotland Act 2020, we are accountable to the Scottish Parliament. The Act defines consumers as individuals and small businesses that purchase, use or receive in Scotland goods or services supplied by a business, profession, not for profit enterprise, or public body.

Our purpose is to improve outcomes for current and future consumers, and our strategic objectives are:

- to enhance understanding and awareness of consumer issues by strengthening the evidence base
- to serve the needs and aspirations of current and future consumers by inspiring and influencing the public, private and third sectors
- to enable the active participation of consumers in a fairer economy by improving access to information and support

Consumer Scotland uses data, research and analysis to inform our work on the key issues facing consumers in Scotland. In conjunction with that evidence base we seek a consumer perspective through the application of the consumer principles of access, choice, safety, information, fairness, representation, sustainability and redress.

Consumer principles

The Consumer Principles are a set of principles developed by consumer organisations in the UK and overseas.

Consumer Scotland uses the Consumer Principles as a framework through which to analyse the evidence on markets and related issues from a consumer perspective.

The Consumer Principles are:

- Access: Can people get the goods or services they need or want?
- Choice: Is there any?
- Safety: Are the goods or services dangerous to health or welfare?
- Information: Is it available, accurate and useful?
- Fairness: Are some or all consumers unfairly discriminated against?
- Representation: Do consumers have a say in how goods or services are provided?
- Redress: If things go wrong, is there a system for making things right?
- Sustainability: Are consumers enabled to make sustainable choices?

We have identified information, fairness, representation and sustainability as being particularly relevant to the consultation proposal that we are responding to.

Our response

General Summary:

Consumer Scotland welcomes the opportunity to respond to the Strategic Review of Charges 2027-2033 (SRC27) Draft Methodology. As set out in the MOU between Consumer Scotland, WICS and Scottish Water, for the first time consumers will be directly asked whether Scottish Water's final Business Plan commands their support. This will help enable WICS to meet the requirement that Ministers have set for the Final Determination in the Commissioning Letter for SRC27, 'that the Commission can demonstrate that Final Determination commands consumers' support'. This is an innovative and important build on previous SRC periods.

In summary, we would like to set out general points before moving to the set questions within the consultation document:

- There is scope within the methodology to strengthen a consumer focused approach within Scottish Water through emphasising the need to partner with household and business customers and communities, how this should be measured, and the degree to which such an approach supports strategic goals, such as:
 - Efficiency savings
 - Managing water demand
 - Reducing unnecessary cost on maintaining water and sewerage services caused by, for example, blockages
 - Embedding the Place principle
 - Increasing innovation
 - Supporting net zero targets
 - Supporting climate change strategies
- We believe that the above approach will build a more intuitive understanding within Scottish Water of the range of interventions that will support the sector vision and Scottish Water's strategic outcomes, through:
 - embedding the right system based solutions to support passive change
 - more proactive behaviour change from consumers in how they engage with water and wastewater services, and relate these to environmental outcomes

Chapters 1 to 4: Introduction, overview and scene setting

1. Do you have any views on chapters 1 to 4?

Consumer Scotland welcomes the ongoing commitment to EBP and the provision of clear evidence that the consumer voice is at the heart of SRC27 decision making. During SRC21, stakeholders collectively familiarised with EBR/P through working collaboratively during the design phase of the investment period. We recognised that EBR/P has further developed into Outcome Based Cooperative Regulation (OBCR). This is not a model we are familiar with both in terms of the principles it sets out and how these differ from EBR/P, and how they are applied. We believe that a joint session with key stakeholders would allow us to explore and understand its application and how we may support it within SRC27.

Consumer Scotland recognises that SRC21 has posed significant challenges, which required Scottish Water to respond to the pressures of Covid 19, and an economic downturn. This has impacted upon consumers' finances and subsequently upon Scottish Water's income, as well as its operational and capital costs. Equally, we recognise the ongoing commitment by Scottish Water to adapt to climate change challenges and meet net zero targets, as well as asset replacement and ongoing maintenance, and the pressure this presents in terms of available finances and capacity, particularly related to lower than the anticipated charge increases of CPI+2% during this investment period.

However, greater clarity would be welcomed as to whether or how planned investment during this current regulatory period will recover and be funded, and the subsequent impact this would have upon customer prices. This remains of concern to Consumer Scotland. In essence, there is a choice catching up (in whole or in part) on lower investment by raising customer prices over the next two years, or if we are accepting we will not deliver all that was committed to in SRC21.

In addition, we would welcome consideration of principles on how Scottish Water responds to future exceptional circumstances, such as a pandemic, and the potential impact this has on the economy, planned investment and the delivery of service improvements to customers.

We welcome a strong and clear focus on creating greater transparency of the benefits customers receive in return for what they pay. We support consideration of additional measures that provide assurance to consumers that Scottish Water is meeting service needs and delivering value for money. Equally, we believe that consideration should be given to providing assurance to those consumers dealing with service related issues, often recurrently, such as external sewer flooding, where funding is not prioritised to put this right.

Consumer Scotland supports a move towards a more sustainable water sector, to achieve net zero targets, and recognise that this will require changes in culture and approach, and in financial and investment decision making. However, Consumer Scotland is aware of the financial burden placed on households to meet net zero targets across a number of essential service sectors, such as energy and telecommunications, in addition to water. It is therefore

essential that transition to net zero is just and considers the needs and interests of those in society who are least able to pay more.

Chapter 4 sets out the mitigation challenge for the water sector to reach net zero by 2040. Consumer Scotland is of the view that Scottish Water is ideally placed and sufficiently developed in thinking to demonstrate leadership across partner sectors, such as local government, land and estates and forestry, to develop meaningful partnerships to achieve shared outcomes. We would support, as part of this process, the development of partnership working with customers and communities to fulfil the duties of the Place principle as set out within the Commissioning letter.

Consumer Scotland considers greater sensitisation amongst customers and communities of how they relate to their catchment area, can have a positive impact on their community and the environment through how they engage with it. This could include, for example, influencing the choice of surfaces they put down within their property that would allow rainwater to drain naturally, rather than placing further burden on drainage infrastructure and potentially impacting neighbouring properties at risk of flooding.

Consumer Scotland welcomes WICS' request for further clarity from Scottish Water where decisions are made not to invest now, where there are evidenced needs, and the impact that this may have on future levels of service and on future bill payers.

Consumer Scotland has a key role in ensuring in positive outcomes for small businesses from the non-household water market in Scotland. Our support includes chairing the Senior Stakeholder Group which is comprised of the CMA, Scottish Water and five licensed providers, and whose purpose is to promote market improvements to WICS that will benefit business customers. In addition, Consumer Scotland undertakes research into small businesses and the water market to inform discussion and decision making. We would welcome inclusion within the group of stakeholders listed on p23 of the methodology.

Furthermore, the non-household market has an interest in SRC27 outcomes, therefore consideration should be given to how licensed providers and their customers can influence the process. However, we recognise the challenge that this poses as it can be difficult to engage with businesses due to pressures associated with time and prioritisation.

Chapter 5: Principles for the Strategic Review of Charges 2027-33

2. To what extent do you agree with the key principles outlined for SRC27?

We welcome the key principles set out within Chapter 5 in the Methodology and believe that these will support Scottish Water to clearly demonstrate where consumer input has influenced decision making as well as value for money. We would welcome further consideration of what is needed to effectively monitor and provide insight into the effective application of the principles, where this is applied well, lessons learned, etc.

3. Are there other relevant principles that should be considered? Why?

Consumer Scotland welcomes WICS' recommendations that Scottish Water 'takes ownership of its business plan and charges, and that both command the support of its customers and communities'. We believe that customers will benefit from greater transparency into the basis for charge increases year on year, which at present is opaque until they are announced. Scottish Water conducts customer research to inform its price review. However the process of how research evidence is used to inform price setting in the intervening period prior to announcing the following year's prices is not clear. A more robust and transparent process is needed to provide customers with assurance and evidence that charges command the support of customers and communities.

Consumer Scotland welcomes a requirement placed on Scottish Water to evidence that the views of customers and communities can be reflected in all of its decisions. As stated within this consultation response, the meaningful achievement of key sector outcomes, such as net zero targets, can only be fully achieved through partnering with customers and communities, in conjunction with other agencies, and that Scottish Water can and should demonstrate leadership in this respect. Over the last few years, Scottish Water set up a key workstream under its Transformation programme, that set out to embed the needs and interests of customers and communities within the business. However, since this work has come to an end, the absence of a dedicated customer and community centric unit or team within Scottish Water makes it difficult to know how improvements in this area are being collated, coordinated, measured and monitored.

We welcome the opportunity to work with WICS to identify and contribute to additional performance measures that support improved outcomes for customers and communities. This could include measurement of:

- consumer detriment resulting from Scottish Water's investment planning reducing or not prioritising investment to address known or recurrent service related issues such as surface water or sewer flooding
- the degree to which consumer behaviour has altered as a direct result from Scottish Water intervention

Additionally, it would be helpful to consider which measures would support improved consumer outcomes, where none may currently exist. This may include escalating issues, such as internal sewerage flooding, that are becoming more urgent due to climate change, and its impact upon customers and communities.

Chapter 6: Scottish Water's SRC27 submission

4. What further information could Scottish Water provide in its business plan?

Consumer Scotland would welcome a clear commitment from Scottish Water to provide clear and transparent insight related to deviation from planned investment and maintenance and the impact this may have on service users. This will require Scottish Water to go beyond financial analysis of cause and effect, and will drive greater awareness of the effect of delays

in investment on those using Scottish Water's services – both households and businesses – particularly where there is a recurring issue or the risk of severe impact. Additionally, greater transparency around any contingency to address changes in planned maintenance or investment would provide assurance to key stakeholders of timescales within which needs will be met, or a better understanding of issues that cannot be resolved in the shorter term and what can be done to alleviate suffering to affected customers and communities.

Chapter 7: Establishing confidence in Scottish Water's plan

5. Which key elements of Scottish Water's business plan would benefit most from assurance? Why?

Chapter 8: Customer engagement

6. Do you support our proposed approach on customer engagement? Why?

Consumer Scotland welcomes working with Scottish Water and WICS to establish a Memorandum of Understanding to support consumers being at the heart of SRC27. We believe that the co-designed structure within the MOU builds on previous SRC periods and for the first time, brings the consumer voice directly to bearing within SRC27, to influence Scottish Water's Business Plan and provide assurance that the Final Determination commands consumer support.

Consumer Scotland also considers that the role of the Independent Customer Group (ICG) within SRC27 in undertaking the 'Challenge' pillar is important to ensure Scottish Water takes proper account of consumer research and puts the consumer voice at the heart of SRC27. The ICG has a pre-existing role within Scottish Water, however, Consumer Scotland has worked with Scottish Water to put in place a special Terms of Reference during SRC27. We have also agreed with Scottish Water that Consumer Scotland will have a role agreeing any new appointments on ICG, and that ICG will jointly report to both organisation's Boards. This will help underpin the independence of the ICG as it tests that Scottish Water's draft Business Plan takes sufficient account of consumer research, which is perhaps stronger than 'additional assurance'. As part of this function, it is important that the ICG has access to the information they need to inform discussions and recommendations.

We welcome the emphasis within the Methodology on the benefits of undertaking deliberative research. Consumer Scotland will commission the deliberative work for the Confirmation pillar. This involves undertaking a longitudinal, deliberative research with a group of consumers over three financial years. Research will seek to explore and provide deep insights into real-world problems, gathering data on participants' experiences, perceptions, and behaviours using a range of methods that allows us to answer 'how' and 'why' questions about an issue rather than 'how many' or 'how much'. Deliberative methodologies can take different forms depending on the context and specific objectives being explored. Within ethical business practice principles, we are working collaboratively with Scottish Water and the ICG to finalise the design of the research and monitor its delivery through an Advisory Group.

Chapter 8 states that ‘consumers and local communities are placed at the heart of the SRC’. The main focus within Chapter 8 is on customer engagement. However, as communities play a vital role within the water sector, Consumer Scotland would welcome greater emphasis on the need for meaningful community engagement, in alignment with the Place principle. This would help to ensure that Scottish Water can evidence and provide assurance of where community voices have influenced outcomes. This may relate to partnering with communities during the design and delivery of capital investment or where Scottish Water has used partnership working to enhance social capital.

7. Do you have any further views on chapter 8?

Chapter 9: Core and non-core activities

8. Do you have any views on our proposals to provide further clarity on the definition of core and non-core activities for the purposes of our regulation?

We recognise that Section 29e in the Water Industry (Scotland) Act 2002 requires to be updated, but the principle of reducing the cost to serve and the opportunity that this presents to look for alternative and sustainable solutions, still remains. Consumer Scotland would welcome greater commitment by Scottish Water to work proactively, and innovatively, in partnership with businesses and licensed providers to identify where pressure on water and wastewater assets, and the cost to serve, can be alleviated. This may include where water can be reused onsite and wastewater reduced, or retrofitting SUDs or swales on larger sites or within car parks. Drawing down less water would support a reduction in water demand, which could lead to a reduction in the need for future investment. The use of nature-based solutions onsite could reduce the amount of rainwater entering into Scottish Water’s drainage system and the need for further investment in response to more frequent, heavy rain. Placing a responsibility on Scottish Water to embed such an approach as the standard way of working within a service or catchment area, during a period of investment appraisal, could reduce the need for investment and ongoing maintenance and therefore present less of a burden on current and future customers to pay for inefficiencies.

Chapter 10: Balancing costs between current and future customers

9. Do you have any views on our proposals in relation to balancing the costs between current and future customers?

Consumer Scotland would welcome confirmation that the split between domestic and non-household water usage is still approximately 70% / 30%. We are aware that during Covid 19, water consumption within households increased and that this has not returned to pre Covid levels. We are aware that during previous regulatory periods, charging was used as a means by WICS to unwind cross subsidies between domestic and non-household billing. It would be helpful to know if this is likely in future if the split has shifted and how this might impact customer charges.

Consumer Scotland would welcome engagement with WICS on the longer term ramifications of ongoing borrowing arrangements from the Scottish Government. Given the significant

sums that reside within the outstanding capital sum, which makes up 11% of Scottish Water's expenditure (compared to over 30% in England which includes repayment of the capital amount), we remain concerned over the risk to future customers if existing policy of interest payments only were to change. Such a scenario would raise customer prices well above current levels. We would welcome further discussion on how to manage such a scenario and its impact on future customers.

Chapter 11: Form of control

10. Do you have any views on our proposed form of control?

Chapter 12: Cost assessment

11. Do you have any views on our proposals in relation to cost assessment?

Chapter 13: Operating expenditure

12. To what extent do you agree with the proposed approach to assessing Scottish Water's efficiency?

As stated, Consumer Scotland supports stronger, clearer policy within Scottish Water to drive partnering with customers and communities in order to meet strategic outcomes. Customers and communities are an important enabler in tackling the challenges posed by the adaptation challenge: climate change, net zero targets, and efficiency savings. Effective and insightful engagement with customers and communities will develop more intuitive methods, solutions and tools within Scottish Water to meet strategic outcomes, that become an embedded part of how Scottish Water thinks and operates.

Recent research¹ from Consumer Scotland highlighted that despite clear concerns about climate change (76%), consumers are unclear about the actions they need to take to meet net zero targets, and that cost and convenience factors are more likely to influence consumer choices, rather than environmental benefits. Clear leadership is needed to make decisions in terms of moving towards designed-in systems and processes that make it easier for consumers to make sustainable choices. This includes regulation, incentives and information promoting the positive benefits of sustainable consumption including economic growth, cost savings and health benefits.

A 'whole society' approach, through the application of the Place principle, will more effectively identify solutions and benefits for both consumers and the environment. Effective engagement with households and businesses will support more conscious societal shift towards behaviours that protect water and wastewater services, including supporting more effective demand management and mitigating flooding.

¹ [Consumer perceptions of and engagement with the transition to net zero | Consumer Scotland](#)

13. Do you have any further views on chapter 13?

Chapter 14: Investment

14. To what extent do you agree that our proposals provide the required level of flexibility for Scottish Water's investment programme, while ensuring that Scottish Water remains accountable for delivery?

Greater community engagement in the pre-planning and design process of capital investment projects will allow Scottish Water to evidence that outcomes reflect communities' needs and interests, and deliver greater societal benefits. We welcome that this is being applied within Scottish Water's appraisal process and support its ongoing maturity.

15. Do you have any further views on chapter 14?