

**The Water Industry Commission for Scotland
Public Services Reform (Scotland) Act 2010
Statements and expenditure disclosure 2019-20**

INTRODUCTION

Requirements of the Act

Part 3 of the Public Services Reform (Scotland) Act 2010 imposes duties on the Scottish Government and listed public bodies to publish information as soon as is reasonably practicable after the end of each financial year. These duties came into force on 1 October 2010. The duties in Part 3 of the 2010 Act are intended to promote greater openness and transparency.

The Act provides that as soon as is reasonably practicable after the end of each financial year, each listed public body must publish a statement:

1. of the steps it has taken during that financial year to promote and increase sustainable growth through the exercise of its functions [Section 32 (1)(a)];
2. of the steps it has taken during that financial year to improve efficiency, economy and effectiveness in the exercise of its functions [Section 32 (1)(b)];
3. specifying the amount, date, payee and subject matter of any payments¹ made during the financial year that have a value in excess of £25,000 (inclusive of VAT) [Section 31 (3)].

In addition, the Act [Section 31(1)] requires the public body to provide, as soon as is reasonably practicable after the end of the financial year, the total expenditure incurred in the financial year in relation to:

- public relations,
- overseas travel,
- hospitality and entertainment, and
- external consultancy.

The extent to which we can report on these areas has been impacted by the Covid-19 pandemic. Information on our full activities for the year can be found in our annual report and financial statements for the year to 31 March 2020.

¹ "Payments" include all payment transactions, including payments for goods and services and transactions with government departments or other public bodies. However, it does not include information relating to remuneration or other payments made to an individual in relation to their service as a member or employee of a public body such as salary, allowances, fees or pension.

STATEMENTS

A statement on the steps we have taken during 2019-20 to promote and increase sustainable growth through the exercise of our functions.

Our role

As the economic regulator of the Scottish water and sewerage industry, we have a statutory duty to promote the interests of current and future customers. We do this by:

- ensuring value for money for customers;
- challenging Scottish Water to become more efficient and sustainable;
- achieving greater value and choice through retail competition; and
- supporting the Scottish Government's vision of ensuring that Scotland is a Hydro Nation.

Ensuring value of money for customers

Our obligation to advocate the interests of customers in Scotland is accomplished mainly through our implementation of the Strategic Review of Charges (SRC). This process ensures that Scottish Water's charges are effectively regulated resulting in the best possible outcomes for customers and communities whilst allowing for Scottish Water to deliver the objectives set by Scottish Ministers for the water industry at the lowest reasonable overall cost.

During the period covered by this report we entered into the closing stages of SRC21, covering 2021-27. Full details of our work on the final determination during the year is included in our annual report and financial statements.

The final determination sets out our assessment of the lowest reasonable overall cost of Scottish Water delivering Scottish Ministers' objectives in a manner that is consistent with their statement on Principles of Charging.

Challenging Scottish Water to become more efficient and sustainable

The objectives set by Ministers include the requirement for Scottish Water to support sustainable development and sustainable economic growth. The regulatory contract that was agreed under the current 2015-21 regulatory period provided for an extensive programme of investment of over £3.5 billion, allowing for Scottish Water to continue to build on the improvements it has achieved in previous regulatory control periods. We

continue to monitor and report on Scottish Water's performance throughout the regulatory period in the delivery of service and improvements for customers.

Looking forwards, in developing the regulatory framework for the SRC21 we placed a strong emphasis on ensuring the long-term sustainability of the industry. We identified two key long-term challenges facing the industry: the requirement set by the Scottish Ministers for the industry to meet net zero emissions by 2040, and the need to transition to a sustainable level of asset replacement.

We identified that addressing these challenges and ensuring the long-term sustainability of the industry will require a new approach to regulation. We have worked closely with stakeholders to develop a revised regulatory framework. The framework is in line with the principles of 'Ethical Based Regulation' (EBR) and 'Ethical Business Practice' (EBP). This approach seeks to ensure that regulated companies 'do the right thing' for the customers and communities that they serve.

This includes ensuring that Scottish Water:

- takes full ownership of enduring relationships with the customers and communities it serves;
- promotes an open discussion of its purpose, aspirations and values;
- sets out clearly – and in a way that is accessible to all – its current performance and plans for improvement; and
- adopts a collaborative, timely and pro-active approach to meeting the needs and aspirations of its regulators.

Achieving greater value and choice through retail competition

The competitive retail market for water and sewerage services in Scotland opened in April 2008. The market is for all non-domestic customers in Scotland, including businesses, public sector bodies and members of the third sector. During the year we undertook a comprehensive review of the retail market. This review encompassed extensive engagement and consultation. Any changes to the market framework arrangements arising from this review will ensure that the market continues to be fit for purpose, to deliver benefits to customers, and to work well for market participants.

Supporting the Scottish Government's vision of ensuring that Scotland is a Hydro Nation

We are taking the opportunity to share our experience and expertise with a wider audience in line with the Scottish Government's Hydro Nation commitments and our

duties under the Water Resource Act 2013. This involves direct participation in helping to develop water regulatory frameworks in other countries, including in Romania and most recently in New Zealand. This involvement in the Hydro Nation initiative helps ensure that we remain in touch with developments in regulatory best practice while helping support international efforts to improve the effectiveness and efficiency of water services worldwide. The work also provides invaluable experience and opportunities for staff and an exposure to alternative regulatory approaches and techniques.

A statement of the steps we have taken during that financial year to improve efficiency, effectiveness and economy in the exercise of our functions.

Along with all other public bodies we remain conscious of the need to maintain tight control of our own running costs. Expenditure for the financial year 2019-20 was £4,375,748 (2018-19: £4,165,687). This was below our internal budget by £146k as a result of lower remuneration costs than expected.

We are highly committed to reducing the environmental impacts of our activities. Some of the ways in which we achieve this are by:

- actively encouraging the use of sustainable transport options;
- taking a proactive approach to limiting waste by ensuring that recycling facilities are in place;
- resourcing recycled material where possible; and
- implementing effective controls to help us improve on our energy conservation within the office.

More widely we are also taking a long-term focus in our regulatory approach, in order to support Scottish Water as it transitions to net zero emissions (on both an operational and an embodied basis) by 2040.

Achieving net zero emissions will require Scottish Water to manage effectively its substantial asset base, replacing assets at the right time, and taking account of the need to maintain levels of service while also recognising environmental impacts and the need to keep costs low.

Full disclosure of our environmental impact can be found in our annual report. During last year we saw a decrease in our travel costs and emissions, resulting in an overall decrease in our carbon emissions. In an effort to compensate any necessary travel required by the office, we have contributed £1,780 to a scheme that invests in Scottish woodland, which is the equivalent of our total carbon output during 2018-19.

We are also delighted that we were able to switch our gas supply to the Stirling District Heating Scheme at the end of 2019. This project was the first in the UK to use a mix of cutting-edge renewable technologies to harness energy from wastewater, bringing cheap, low-carbon heat to Stirling through a district heating network, delivering a range of significant environmental and economic benefits.

FINANCIAL DISCLOSURES

Disclosure of expenditure for the year to 31 March 2020

Full information, including our full accounting policies, is provided in our annual report and financial statements.

During the financial year, we incurred £1,075,295 (2018-19: £1,206,385) on external consultants. Our total travel and subsistence costs for the year were £263,971 (2018-19: £381,273). Of this, £183,517k (2018-19: £277,039) related to international travel. We did not incur any expenditure on public relations, hospitality or entertainment.

Cash payments in excess of £25,000

Payee	Date	Amount (£) incl. VAT	Description
Oxera Consulting	12/06/19	31,869.43	Economic advice
Scottish Environment Protection Agency	02/08/19	70,753.68	Environmental regulation support for international project*
Oxera Consulting	25/09/19	29,568.70	Economic advice
Grant Thornton	04/10/19	43,482.00	Internal audit services
Oxera Consulting	04/10/19	46,384.25	Economic advice
Scottish Water Horizons	08/11/19	26,784.77	Regulatory support for international project*
Ipsos Mori	08/11/19	127,800.00	Customer research for SRC21
Oxera Consulting	17/12/19	90,349.25	Economic advice
Oxera Consulting	13/01/20	32,517.58	Economic advice
OECD	14/02/20	254,155.98	Peer review for SRC21
Grant Thornton	27/03/20	29,571.00	Internal audit services
Oxera Consulting	27/03/20	68,150.48	Economic advice

*Recovered from European Union via grant funding.

Remuneration in excess of £150,000

During the financial year 2019-20, one employee of the Commission received remuneration greater than £150,000. This was the Chief Executive and more details can be found in the Remuneration and Staff Report of our Financial Statements for the year to 31 March 2020.