

Monitoring the delivery of ministerial objectives for Q&S III (2006 to 2010)

Working together; summary of key points

- Scottish Water is legally required to deliver the Ministerial objectives.

Objectives and solutions

- The agreed Table C of Scottish Water's second draft business plan represents the then technical expression of the method of delivery (the then proposed solutions) to meet these objectives. For the quality regulators, this is the baseline programme and provides the links between drivers, solutions and outcomes.
- This "technical expression" will change over time and be a "living" document. For many reasons the optimal solutions for achieving Ministerial objectives may change over the four year period.
- There must be a well defined mechanism for making changes to Table C/proposed solutions. Scottish Water would seek the agreement of the relevant quality regulator that any such changes would continue to have the capability to meet the Ministerial objectives set for the four year period. Such changes may involve adjustment, through an interim determination of price limits (IDOK), following any changes to the Commission's estimate of the lowest reasonable cost of achieving Ministerial objectives. They may involve changes in timing that are agreed by Ministers. This mechanism would provide a transparent and auditable trail for all such changes.
- This living document would be rolled forward throughout the regulatory period and then be used as a basis for the Ministerial objectives in the next regulatory period. At the next Q&S review it would be adjusted to take account of Minister's objectives for 2010 to 2014.
- Meeting Ministerial objectives will require a holistic approach using resources that have been allowed for in areas such as operating expenditure, capital maintenance, customer service etc. Both operating expenditure and capital expenditure solutions may be the optimal way of meeting Ministerial objectives over the 4 years. The lowest net present value solution (calculated over the lives of the relevant assets) to deliver the Ministerial objectives for this regulatory control period should be adopted.
- While "substitution" played an important role in Q&S II, updating the Table C/proposed solutions baseline in the way set out above would obviate the need to use the current substitution mechanism in Q&S III. Any changes in Ministerial objectives would require changes in Ministers' Directions.
- Scottish Water, in consultation with the Commission, should adopt a pragmatic approach to growth, using reasonable forecasts of likely growth after 2010, when sizing treatment works or network enhancements. Any implications that this may have for Ministerial objectives after 2010 should be considered by the high level group.

Costing issues

- The determination funds an appropriate average cost based on the units of work as they are currently understood. If, following studies such as the drainage area studies

or water treatment and strategic resource studies, it transpires that the quantity of work in these areas is greater or lesser, or the scope is more complex than that allowed for in the unit costs in the determination, this may have cost or deadline implications. Cost issues would be addressed through an interim determination or logging up. Deadline implications would be referred to Ministers, after consultation with the quality regulators. This may also apply to other UID schemes.

- An underspend relative to an average unit cost does not necessarily represent outperformance nor does an overspend necessarily represent underperformance. Performance will be judged in the round.
- An interim determination would consider the results of drainage area studies and strategic resource studies by taking account of factors outside management control that impact the resources required by Scottish Water, by comparison with those allowed for in the Commission's determination and any subsequent IDOKs.
- On the basis of the Scottish Executive's response to the draft determination of charges, incentives for efficiency would be maintained by allowing Scottish Water to retain as a fund of gilts such overall efficiency gains as may have been made through outperformance of what was allowed for in the determination and subsequent IDOKs.

Monitoring Machinery

- A high level objective monitoring group should be established consisting of senior officials (Director level) from Scottish Water, Scottish Executive, DWQR, SEPA, WICS and WCCP (acknowledging, for example, the WCCP's obligations to customers regarding odour nuisance). Chief Executives should attend the group's meetings at least once a year. The group would be chaired by the Scottish Executive. This group will need to be supported by a working group, to be serviced by WICS that would prepare analyses and draft reports.
- This high level group would confirm that agreed milestones are being met and that there is appropriate coordination of the different areas of the investment programme where there are likely to be synergies. It would, of course recognise the primacy of the statutory processes. And it would be additional to the bilateral dialogue that currently takes place between Scottish Water and the quality regulators.
- The high level monitoring group will require a single quarterly update on progress, based on consistent information, against the agreed milestones. In order to facilitate this, WICS would consult with SEPA and DWQR on amendments to the existing capital investment return.
- Arrangements for monitoring must take account of the time scales relevant to deliver the solutions expected to meet Ministerial objectives. Ideally it is the achievement of Ministerial objectives that should be monitored, not the levels of expenditure involved. In the case of some schemes, particularly larger ones involving long time scales, this may require monitoring of the progress made in implementing solutions.
- Should, as a result of imperfect understanding of all the factors involved, an agreed solution not achieve the expected environmental or drinking water quality benefit, Ministers would consider how they might adjust their objectives, with consequential adjustment to the proposed solutions and to the costs allowed for in setting price limits.

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Drinking Water Quality Regulator
Scottish Environment Protection Agency
Scottish Executive
Scottish Water
Water Customer Consultation Panels
Water Industry Commission