

Executive summary

The Water Industry Commission for Scotland (WICS) is the economic regulator of the Scottish water sector. Economic regulation has brought significant benefits to the sector, including improved efficiency and customer focus by the publicly owned Scottish Water, the single operator in the household market, and effective retail competition in the non-household market.

Through processes called “Strategic Reviews of Charges” (or SRCs), WICS sets water charges over a six-year regulatory period, within parameters set by government policies. In the Strategic Review of Charges 2021-2027 (SRC21) process, WICS saw the opportunity to fundamentally re-think the regulatory approach to tackle interrelated challenges: regulating better for customers of today and tomorrow; addressing challenges associated with long-life assets and a lack of flexibility for investment; addressing a perceived adversarial approach in regulation; and maximising opportunities for the consumer voice to feed into decision making.

The result of SRC21 has been a substantial shift in the regulatory approach for the Scottish water sector, designed to support a more strategic approach to economic regulation and a better production and use of data and analysis to inform investment decisions. The revamped regulatory framework allows greater flexibility in investment choices and includes incentives for decision making with long-term objectives in mind. Scottish Water, WICS and other actors are developing tools to model Ethical Business Regulation (EBR) and Practice (EBP) in the sector. Scottish Water has redoubled its efforts to increase consumer and community engagement in decision making, including through an independent customer group embedded within Scottish Water. Both Scottish Water and WICS have committed to organisational transformation to ensure that they are up to the task.

This shift has introduced a degree of uncertainty, notably with the move from periodically fixed capital expenditure and deliverables towards rolling investment decisions, and requires systemic culture change for successful implementation. As the framework firms up and parties adapt to new roles and ways of working, they should leave space for failure and learning. During this transitional period, parties can lay foundations to improve the stability and predictability of the regulatory framework, such as parameters, roles and milestones, while demonstrating progress towards shared objectives and organisational transformation. At the same time, maintaining opportunities for scrutiny and challenge and capturing the full breadth of views will help ensure that decision making is robust. Throughout this transitional period, parties should keep strategic goals in sight.

Reflections on the SRC21 process

SRC21 evolved to address emerging challenges and was successful in developing a shared vision and strategy for the sector. It adapted to changes in the substantive focus of the price review, such as the 2019 introduction of the net-zero challenge by the Scottish Government. It also adapted to changes in process and outputs, such as a shift to a “strategic plan” as a major output for Scottish Water and the changes in the Customer Forum role.

Parties agreed that SRC21 was “worth it”. While continued engagement required high levels of commitment, it produced considerable benefits. SRC21 also resulted in strategic outcomes: a shared commitment around objectives addressing sustainable asset management and climate change, and an emphasis on openness and transparency. Parties are eager to continue maximising the utility of these strategic outcomes during the regulatory period.

The challenges of the present: The delivery period

As SRC21 concludes, parties share clear desired outcomes but are still developing a well-defined route map to attain them. The new approach introduces additional uncertainty, especially for drinking water quality and environmental regulators used to agreeing to fixed capital expenditure and deliverables for investment. A key challenge will be maintaining the confidence of parties and the public and managing expectations.

Scottish Water and WICS have both launched institutional transformation processes. Scottish Water needs to transform a delivery institution into a company embracing principles of openness, customer-centricity, and EBP while achieving long-term objectives including a net-zero target. WICS has acknowledged that a commitment to EBR “takes two”, launching its own process of transformation planning. It will be important for this transformation to permeate throughout each organisation and even transcend these institutions to have systemic impact.

Key recommendations

- Defining milestones and checkpoints upfront will help ensure that processes are on track to achieve long-term objectives.
- Clarifying roles will be important in an evolved regulatory framework that is transforming not only the regulated company but also the role of WICS and the other regulators involved in investment planning.
- Visible transformation planning of Scottish Water will need to be accompanied by visible transformation of some of the regulators and skills updating within Scottish Water, its contractors and WICS.
- Engagement with other parties and the public should expand to systematically capture the full breadth of views, allowing diverse voices to be important sources of new data and approaches.

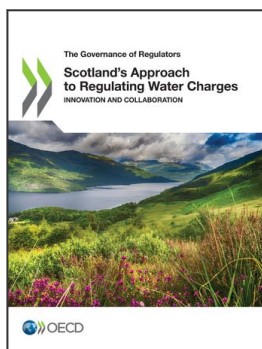
The outlook for the future: The next SRC

Parties invested in “re-inventing” SRC21, but expect the regulatory cycle to become more continuous and seamless going forward. There is now an opportunity to take stock of what is already in place and what is needed before SRC27. Participants should invest in codifying and documenting these roles and providing a roadmap for how to work together, building on the process, groups and mechanisms already in place, which can serve as an input to the SRC27 methodology. These measures will also help the framework remain resistant to changes in participants.

While parties took significant steps to distance themselves from a perceived adversarial approach to regulation, it will be important for a challenge function to remain strong in future SRCs. The delivery period should include ample opportunity for candid and open exchange, including with stakeholders outside of the core group, and to embrace necessary tensions.

Key recommendations

- Early discussion can already set a “no surprises” tone for SRC27 and help parties identify areas where process efficiencies can be realised.
- Parties can build upon the experience of SRC21 to establish firmer expectations earlier in the SRC process.
- Parties should consider how to harness stakeholder, customer, and community input and action for highest impact.



From:
Scotland's Approach to Regulating Water Charges
Innovation and Collaboration

Access the complete publication at:
<https://doi.org/10.1787/fcc8c6df-en>

Please cite this chapter as:

OECD (2022), "Executive summary", in *Scotland's Approach to Regulating Water Charges: Innovation and Collaboration*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/2c715d99-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.