

Scottish Water – A Public Sector Success

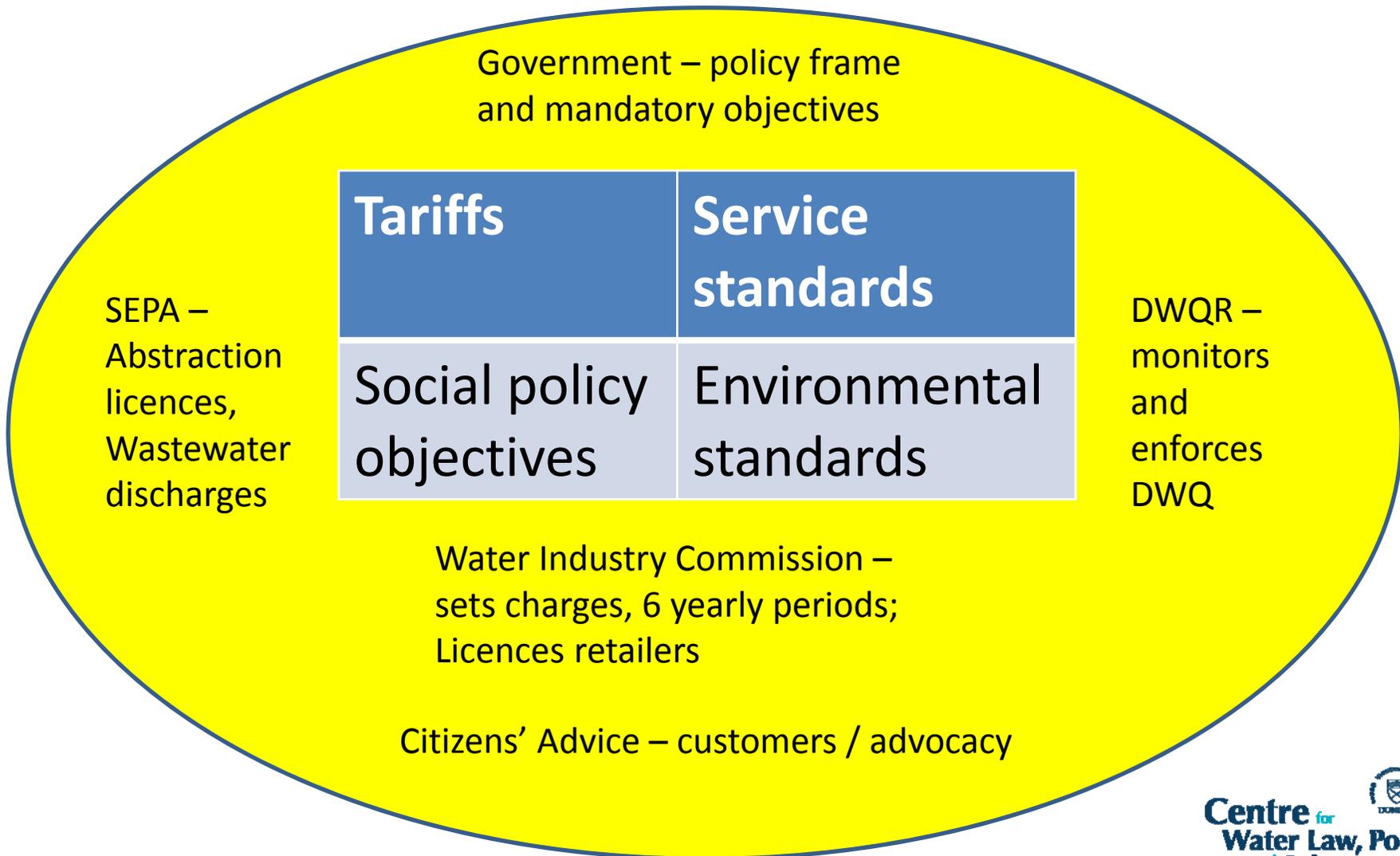
Dr Sarah Hendry

[This paper was intended to be delivered along with ‘*Competition without Privatisation: The Scottish Water Model*’, Fiona Parker and David Walters, PS16.10003]

Background

- Municipal provision (regional) until 1994
- Three regional authorities established as alternative to divestiture
- Single public corporation, Scottish Water, in 2002
- Vertically integrated – so is a major abstractor, bulk supplier; and key WFD stakeholder
- C.98% population drinking water, 95% sewerage;
- Formal independent economic regulation
- Licenced competition in the market (including arms-length subsidiary of SW) for business customers and retail services only, 2005

The Regulatory Framework



Efficiency and Effectiveness

- Price cap and competition by comparison – with English PLC's – designed for private sector regulation, including performance incentives
- Early rounds, adversarial and data heavy
- Significant improvements in transparency; efficiency and service standards; and relationships with regulators
- Now in upper quartile of English companies

Recent Developments

- The Customer Forum – established by all the regulators - involve customers directly – negotiated settlement
- Commission set parameters and within those, ‘minded to accept’ agreement on business plan – if no agreement, both SW and Forum must explain why
- Very successful – less adversarial; but also, reflective of mature regulatory relationships?
- Public service ethos?

Conclusions

- Scottish Water's 'governance model' seen as success story
- Early regulation very intensive – necessary to bring transparency on costs
- Legitimacy and trust developed over time, regulatory relationship much less adversarial
- Perception that public sector can never be as efficient – not so!
- Ownership and regulation – arguable that ownership in private hands in England has increased shareholders' power at expense of customers and public policy objectives