

Richard Leonard MSP

13 December 2024

Convener
Public Audit Committee
Room T3.60
The Scottish Parliament
Edinburgh
EH99 1SP

Your Ref:
131224-DSRL

Dear Convener

Further information relating to the 2022/23 audit of the Water Industry Commission for Scotland

On 15 November 2024, you wrote to me requesting further information in relation the international work carried out by WICS to support the Scottish Government's Hydro Nation Strategy, which we are happy to provide.

Before addressing the committee's specific questions, it may be helpful to provide some broader context explaining the journey of WICS' contribution to the Hydro Nation strategy over the years.

WICS' regulatory approach

Scotland has benefitted significantly from a model where Scottish Water is publicly owned, commercially run, and subject to rigorous economic regulation. This approach has delivered exceptional outcomes for customers - keeping water charges among the lowest in the UK while enabling significant investment and improvements in service levels.

The regulatory approach within this model is widely regarded as a success, consistently drawing interest from others globally who are eager to learn from and replicate the success. As a result, what initially began as information sharing among peer regulators evolved into revenue-generating opportunities. This interest coincided with the introduction of Hydro Nation initiative.

Hydro Nation

The Hydro Nation Strategy outlines the Scottish Government's intent to deploy the potential of Scotland's knowledge and innovation in a global context. The strategy was created following the Water Resources (Scotland) Act 2013 and comprised the establishment of a Hydro Nation Forum, the Hydro Nation Scholars programme, and the Hydro Nation International programme.

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Interim Chair: Ronnie Hinds

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The Hydro Nation International programme is aimed at maximising the value of our water resources by sharing knowledge and collaborating with other countries to grow the international water economy. Included in this remit is exporting Scotland's expertise in water management and delivering projects with partners in key international territories.

WICS, along with other designated bodies¹, have contributed to developing and delivering Scotland's Hydro Nation strategy. The Scottish Government's annual Hydro Nation [report](#) provides an overview of the work completed by designated bodies in support of the initiative.

WICS' contribution to Hydro Nation

The main contribution of WICS to the delivery of the Hydro Nation strategy has been in the Hydro Nation international programme delivering consultancy projects in countries such as Greece, Romania and more recently in New Zealand.

Greece

In 2014 WICS delivered its first international project which involved training the Greek Special Secretariat for Water as part of three missions. This training was funded by the EU.

Romania

Between 2016 and 2022, WICS has worked with Romania to improve the water industry within the country. This initially begun with capacity building with the Romanian Public Services Regulatory Authority (ANRSC) and led a project funded by the EU Commission to support a programme of water reform in Romania in 2018. We received a grant of £877,191 from the European Commission to reimburse the expenditure related to this project.

Between August 2020 and September 2021, WICS was part of a consortium led by BDO Romania that provided services to improve the regulation of community public water supply and sewerage services in Romania. The total value of this project was £88,560. Alongside this work we supported Romanian water operator Apa Vital to develop its business plans and supporting regulatory information.

New Zealand

WICS supported New Zealand's Department of Internal Affairs (DIA) by undertaking a strategic analysis of the entities delivering water service in the country following several high-profile infrastructure failures. The purpose of this work was to understand and estimate the economic

¹ Alongside Scottish Water, SEPA, Scottish National Heritage, Scottish Enterprise, Highlands and Islands Enterprise and South of Scotland Enterprise.

benefits of aggregating those entities in a similar way to which Scotland aggregated three regional providers and created Scottish Water in 2002.

Between March and July 2020 WICS completed an initial project valued at £321,549. This work led to a longer project which concluded in 2023 generating a further £2,028,602. A report prepared for the DIA in May 2021 is available on WICS' website: [WICS final report - economic analysis of water services aggregation](#). The data collection exercise underpinning this report was said to be the largest ever undertaken in the water industry in New Zealand.

During this time, WICS also completed projects for other clients in New Zealand including a water company and the Ministry of Transport.

Including the countries noted above, WICS has agreed to Memorandums of Understanding (MoU) for cooperation with regulatory authorities in ten countries and has delivered training and workshops in Europe, Asia, and the Middle East. WICS has also participated in peer review project of other regulatory bodies by invitation of the OECD. It is an active member of the OECD's Network of Economic Regulators and WAREG, the European water regulators network.

While not all these activities generate income, they enhance the reputation of the Scottish water industry internationally and improve the way in which we regulate Scottish Water.

Benefits

WICS' involvement in international projects delivered benefits both to the organisation and to Scotland's customers. Collaborating with international partners strengthened our horizon scanning activities, allowing us to refine our regulatory approach by learning from the achievements and challenges of our international counterparts.

It has also played a key role in attracting, training and developing our staff particularly during periods outside of the core years of the Strategic Review of Charges process. During the 2015-21 regulatory period WICS generated total income of £2.0m through consultancy projects. This helped enable WICS to return £1.8m to Scottish Water and Licensed Providers during the period.

In 2020 the Scottish Government approved our corporate plan for the 2021-27 period, which for the first time had a net revenue target (income minus direct costs) of £1.3m for international consultancy projects. Included within the corporate plan was a 'business development budget of £600,000 over six years for the purposes of proactively investing in new client relationships which may lead to future consultancy projects.

Total net income received during the first three years of the 2021-27 regulatory period totalled £1.6m thus exceeding the 6-year target three years ahead of schedule. We are now reviewing our financial position to assess whether we can return funds to Scottish Water and Licensed Providers, and if so, how much.

Next steps

International revenue generation activities are currently on pause following the issues raised in the Auditor General's Section 22. This coincides with the peak period in WICS domestic regulatory activities in Scotland.

We are working with the Scottish Government to revise our Framework Document to make explicit expectations with respect to revenue generating activities. We also plan to revisit discussions on the legal and governance structures that would be required for these activities if there is a continued expectation for public bodies to engage in revenue generating. This will include the role of 'business development' expenditure and the requirements of the Scottish Public Finance Manual (SPFM).

In the meantime, we intend to continue engaging internationally to share knowledge and learn from others since this engagement and learning helps to support our core regulatory role.

I hope this information is helpful and sets our response to the committee's specific questions within the appropriate context.

Specific information requested by the committee

The committee has requested details of formal feedback WICS has gathered from its international clients in respect of:

- The level of support and expertise provided by WICS
- The impact of the support provided by WICS, including any long-term benefits that may have arisen
- Any improvements that could be made in how WICS provides support to its international partners
- Overall satisfaction and value for money
- Whether they would recommend WICS to other partners and / or would work with them again in the future.

The Committee has also requested information on how WICS has responded to and acted upon any feedback it has received from its international partners.

I have reviewed the information available and respond to each request in turn below:

1. Measuring the effectiveness of our Hydro Nation activities

The effectiveness of our Hydro Nation activity was measured by the net revenue generated relative to the target set in the 2021-2027 corporate plan. This revenue was a function of the number of MoUs signed with international partners and the repeat business from existing clients.

As highlighted above, WICS exceeded its six-year net revenue target three years ahead of schedule which was largely the result of continued request for further engagement with clients in New Zealand and Romania.

We have had many positive contacts from international partners requesting advice and assistance. We have signed ten MoUs with countries with the purpose of sharing regulatory knowledge and experience since 2014.

2. Feedback from international partners

I have attached in an appendix to this letter feedback received from international partners. This includes from New Zealand, Romania and Greece.

3. How WICS has acted upon feedback received

The feedback we have received from international partners has been positive. We are routinely contacted to provide further support or knowledge sharing activity with other regulatory bodies including this year following the Section 22 and pause in international revenue generating initiatives.

I hope this information is useful. We will continue to engage with the Committee and Audit Scotland providing any further information that may be required.

Yours sincerely

David Satti
Interim Chief Executive

Appendix 1 – Timeline of WICS consulting projects

Country	Project	Time period	Income
England	Open Water Anglo-Scottish market	2014 to 2016	£350,888 £140,702
Greece	Training for Greek Special Secretariat for Water.	2014	N/A funded by the EU Commission.
Romania	Regulatory support and training for Romanian regulator	2017-18	£4,399
Romania	Support for water reform programme focusing on developing a regulatory information framework.	2018-19	£877,191 SRSS European Commission
Romania	Consortium project led by BDO Romania to improve regulation of public water supply and sewerage services.	Aug 2020 – Sep 2021	£88,560
New Zealand	Economic analysis to NZ water companies to support government reform agenda. Including development of an information framework for investment proposals and expenditure.	Mar 2020 – Jul 2020	£321,549
New Zealand	Strategic analysis of economic benefits of aggregating water service delivery entities, including a 'bottom-up' assessment for ministerial policy papers on Three Waters Reform.	Jun 2020 – Sep 2023	£2,028,602
New Zealand	Supported a NZ water company in preparing regulatory information for	Aug 2021 – Jul 2022	£505,935

	economic regulation and built regulatory capacity.		
New Zealand	Support for examining regulatory models and their application to New Zealand's state highway network.	May 2022 – Jul 2022	£13,256

Appendix 2 – Feedback from international partners

- 2014 letter from European Commission (Greece) to Deputy First Minister
- 2021 letter from Minister Mahuta (NZ) to WICS

Feedback from Department of Internal Affairs, New Zealand

“WICS bring deep expertise and experience in the water sector and the economics of delivering water services. They pair that expertise with a pragmatic approach to understanding the challenges we were facing and developing solutions that address these.

“They were practical in how they set about addressing our information challenges and took the time to understand the New Zealand context. They engaged in a genuine way with us and with local councils, often going above and beyond what would have been reasonably expected, including meeting with us and working through all hours of the day to accommodate the time zone challenges.

“WICS were open to challenge and independent review of their work, seeking to address concerns and demonstrate that their analysis was robust.

“WICS are unique in that they have both an understanding of what a mature three waters sector looks and feels like but have many staff who have experienced the transformation required to achieve that end state – this experience and knowledge has benefited us immensely and means they are able to pair their advice and analysis with practical experience of what works.”

Feedback from a water company in Romania

“WICS’s experience has been so valuable to us. In explaining Scotland’s journey, WICS has given us confidence, courage and the confirmation that we are on the right track – even if we still have lots of work to do.

We have been impressed by the balanced way WICS approaches their role as regulator and the direct way in which they talked about the challenges facing the water and sewerage sector. We particularly appreciated the candid way our Scottish colleagues shared the mistakes they have made along the way – so that we can learn from them.

The WICS team is made up of wonderful professional people who are ready to share their experience and good practice with others. It has been a great opportunity to work with them.”



EUROPEAN COMMISSION

TFGR - TASK FORCE FOR GREECE

Brussels,
TFGR/JD/da (2014)

Nicola Sturgeon MSP
Deputy First Minister
Scottish Government
St. Andrew's House
Regent Road
Edinburgh, EH1 3DG
Scotland

Subject: Scottish Assistance in the Water Sector in Greece

Dear Deputy First Minister,

I am writing to you on behalf of the Task Force for Greece (TFGR) to express our thanks for the assistance that the Water Industry Commission (WICS) for Scotland and your officials have been giving us in our work to help the Greek Authorities to establish a water regulator in Greece. First I should explain that TFGR was set up almost exactly three years ago to mobilise technical assistance from EU Member States and International Organisations to assist the Greeks to fulfil the obligations that they have undertaken to secure the loans in the economic adjustment programmes. Our activities have concentrated on assistance for the reform of the public administration, the tax administration, the health sector and the business environment. At last the Greek economy is showing some positive signs and progress has been made not only with restoring public finances but also with much needed structural reforms.


A thorough reform of the state owned industries was an important element in the economic adjustment programme agreed by Greece and its creditors which it was hoped would help to both raise money to pay back some of Greece's crushing debt burden and to improve the business environment. Water was included as the Government owns the vast majority of shares in the two largest water companies, Athens and Thessalonica. The Task Force was asked to provide assistance in the creation of an effective economic regulator as an essential prerequisite of improving the performance of the companies both in terms of service to customers and meeting environmental standards. We contacted the Water Industry for Scotland who immediately said that they would do what they could to provide technical assistance.

Largely thanks to Alan Sutherland and his colleagues at WICS, progress is being made with building and strengthening the newly created water regulator. There have been training sessions for senior management in both Athens and Edinburgh. The session in Edinburgh was held in the Government's offices. It was chaired by [REDACTED] and other officials made valuable contributions. There will now be a series of two day sessions in October, November and December of this year. These sessions, which will be held in Athens, will be led by WICS and will involve all the staff of the Greek Regulator, most of whom are newly recruited. Next year, it is planned that selected staff from Greece will go to Stirling to get some hands-on experience.

Scotland has committed to make itself into a Hydro Nation by fully recognising the fundamental importance of water for the economy, health, social wellbeing and environment. The support that WICS is giving Greece is certainly in line with raising Scotland's international profile as an international leader on water management and governance. Greece too recognises the importance of water and has made the Blue Economy an important plank in its economic growth strategy. While their climates are very different, Greece and Scotland are both countries that know the value of water and experience its significance on a day to day basis as well as having the sea deeply embedded in their cultures. Maybe in the longer term, the two countries can work further together and exploit their complementarities in this area. In the meantime, Scotland's assistance to Greece in the strengthening of its newly created water regulator is much appreciated.

Yours sincerely,

A large black rectangular redaction box covering the signature of the sender.


Special Adviser
Task Force for Greece

Cc: Mr Alan Sutherland (WICS), 


Office of Hon Nanaia Mahuta

MP for Hauraki-Waikato

Minister of Foreign Affairs

Minister of Local Government

Associate Minister for Māori Development



13 October 2021

Alan Sutherland
Chief Executive
Water Industry Commission for Scotland
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Tēnā koe Alan

Thank you for your letter outlining your observations of New Zealand's current position on its water reform journey and the similarities with the England and Scotland experience. I also appreciate the reflections you've shared on the report Castalia produced for Whangārei District Council.

I share the concerns you've raised about the Castalia report, and agree that any evidence and analysis considered through the reform process should stand up to robust scrutiny. I also note that the Department of Internal Affairs has issued its own statement on the report, which outlines its view that the report misrepresents the evidence base and analysis supporting the reform proposals, and reaches conclusions that are not well supported by the available empirical evidence from similar reforms undertaken in other jurisdictions. This statement, along with the Department's advice to me on the report, has been made publicly available to ensure the public is informed of the full range of perspectives on the issues canvassed by Castalia.

I would like to acknowledge the support of you and your team over the course of the reform programme, including the significant amount of work undertaken over the Request for Information process and in developing your final reports (stages 1 and 2) on the net benefits of reform. I look forward to your continued support and perspective as we make further progress on our reform journey.

Thank you again for writing.

Nāku noa

Hon Nanaia Mahuta
Minister of Local Government