

**Managing Scotland's Water**  
Friday 2 October 2009



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## **A Vision for Scotland's Water**

I'm delighted to have the opportunity to reflect on the vision for Scotland's Water. I say this personally as well as professionally. It's one of the best things about my job that my members serve the whole of the UK. I've come to feel at home in every country and I have industry friends in each as well.

No matter what country I'm in, my main interest is its water – well, of course! But I should also confess I like good food – and the positive picture of Scotland's water we've seen today is matched by a growing number of great restaurants. That's another story, but I am the one who visits Gleneagles for its restaurant rather than its golf!

My perspective is based on knowledge of water services in the home countries and the rest of Europe. Water UK represents all the regulated companies at national and European level whatever their ownership.

Our business is policy, and we specialise in partnerships to get the best outcome for companies, customers, the environment and the economy. Scottish Water is one of our most valued members and I'm proud to say that Richard Ackroyd was Water UK's Chairman until 2008. We have offices in Brussels and London and good relationships in all three devolved administrations.

I'm going to propose a vision for Scotland's water based on four aspects – and I make no apology for putting Scottish Water at the heart of each

- 1 maintaining the strong service platform created by Scottish Water's success;
- 2 recognizing and building on the contribution Scotland's water (and its water industry) make to sustainable development;
- 3 playing a fuller part in the UK and European water debate; and the hardest bit

- 4 overcoming the challenges of change – whether in the economy, the climate, in politics, or consumer expectations.

So, first, Scottish Water itself and maintaining that strong service platform. I know I'm not alone in being impressed by the achievements of management and staff in raising the company's game.

When there were three regional authorities and even in the early days of the unified company, Scotland's water was not one of the country's great success stories. People commonly made unflattering comparisons with the companies in the south whether about service, or leakage or pollution.

Those bad old days are gone.

The company has been through a testing period of cost control with a focus on the bottom line. It has responded magnificently to encouragement from the WICS to get its numbers going in the right direction. (I'm still full of admiration for the £3 million pounds a week operating cost saving, compared with seven years ago.)

It's making a step change in service levels and its aim to become a top quartile UK performer is perfectly realistic.

But perhaps what is most remarkable is that the company has also been able to look up from the bottom line and think through its role in Scotland, especially in sustainable development and working with communities.

So to sum up the first strand of my vision for Scotland's water, I am confident that Scottish Water will go on from strength to strength.

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The second strand I mentioned up front is to build on the potential of water in the country's future success. No one is in any doubt about the importance of Scotland's water environment and natural heritage – to the economy and the overall quality of life. We must value it, use it well, and make sure everyone has access to it.

For me this means making the right choices for water in the urban as well as the rural environment.

That's why Scottish Water's massive investment in upgrading the sewerage system in Glasgow and many other centres is so vital. And why the company's partnerships with SEPA, Holyrood, and a host of third sector and community groups are so important. The benefits will be huge, however you measure them: whether you take them as an essential economic factor, or in terms of public health, or security, or recreation, or biodiversity.

Scottish Water is the tenth largest business in Scotland, one of the largest employers, directly and indirectly, and it's one of the very biggest investors in infrastructure. I'm encouraged about how the company is living up to these responsibilities. The emphasis is on service to customers, communities, staff and the environment and their new strapline, 'Always Serving Scotland', accurately reflects this commitment.

There will be big challenges, especially in meeting environmental standards, as I shall show in a moment.

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But now for my third strand of my vision for Scotland's water and its water company – their role in the UK and Europe-wide. Scottish Water has been able to take its place as one of the leading Water businesses in Europe. These businesses support each other, learn from each other and exchange information where it is appropriate to do so. They do this through Water UK, through Eureau, the EU-wide association of water companies, and through the partnerships made by the government and regulators.

This collaborative approach can be of huge benefit to all our customers, to stakeholders and to the environment.

Scottish Water is the fourth largest water business in the UK and as such its voice is clearly heard in the policy debate. Our friends in Eureau and in the European Commission are seriously interested in the progress of a publicly owned water company serving a whole nation. Finland has a similar population but more than 1000 water and wastewater service providers. Denmark has more than twice this number!

One reason for the interest, is that most new environment legislation starts in Brussels, and the UK plays a major role in helping the Commission to understand the impacts. SEPA and the Scottish government are among the leaders in implementing the Water Framework Directive. And Scottish Water executives provide expertise and support to our European activities with benefits to both sides.

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So on to the fourth strand of my vision the one that I said up front was the hardest bit! It's determination – determination and commitment to overcoming the challenges of change in the economy, the climate and environment and in public expectations. And I'll take a look at each.

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### Investment as a challenge

Most people understand that we need to go on investing at a high level for the foreseeable future. We have to be straight with people about this. Water falls free from the sky, but a water and sewerage service fit for the 21<sup>st</sup> Century has significant costs. It's impossible to achieve everything in four or five short years.

We need long-term investment programmes that balance affordability with ensuring that no one has to put up with sub-standard service or waste or a polluted environment. This is true for all water companies in all jurisdictions.

Scottish Water is in the public sector but this makes no difference at all. Management needs certainty that adequate finance will be available for the long haul if we want to lock in the achievements to date and go on getting better. The company can't fund all investment from customer charges, nor should it. So it's dependent on public borrowing. We know this isn't going to be easy with the economy so massively over-borrowed. But that's why my vision includes determination and resilience!

It would be a tragedy to starve the business of funds in the next few years – because it would also mean starving the economy of investment in infrastructure and jobs – and starving the environment of improvements that would feed back into the economy in so many ways.

I'm sure the value of Scottish Water investment will be recognised. But if public funds were to prove insufficient, then we must leave no stone unturned in finding other means to cover the capital projects we know are necessary and urgent. In the end this is about priorities – and critical infrastructure must surely be at or near the top of the list, even in hard times (or especially in hard times).

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My next challenge is climate change.

Our new Climate Change Act goes further than the UK Act. The targets are more ambitious and it gives particular responsibilities to public bodies, including Scottish Water. The company is inevitably one of the largest energy users in the country. So as you've heard from Richard Ackroyd our vision is of a low-carbon industry with an increase in public awareness to help in this process.

There is now a realisation that we need more sustainable ways of doing things. We've made measurable progress in cleaning up the environment with sophisticated treatment, but what about the carbon emissions? We're going to need more source control and low-energy solutions. The principle of the polluter paying rather than customers is one we need to embrace more and more please!

Water efficiency has a part to play – and this is where information comes in. We're in a country that gets its fair share of rain so it's easy to think that wasting water doesn't matter much. The link with energy changes everything – wasting water that's been abstracted, treated, stored, and delivered fresh to your tap is something else.

One answer could be water meters but this is controversial. Meter penetration is up at 60 per cent of households in some areas of England – admittedly the most water-stressed ones. Could meters help in Scotland? It's controversial but Water UK is pleased to support the WICS's proposals for a trial project.

In terms of adaptation to climate change we're learning all the time. Water is obviously in the front line with critical assets at risk of more intense rainfall with all the damage and disruption that can result. Managing surface water better is the key and the rest of the UK is learning from the work done here on sustainable drainage systems.

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Another Challenge – water quality and the Water Framework Directive

We have to go on tackling the quality of water in the environment to realise any vision for Scotland's water.

The Water Framework Directive is central. It's true there are doubts about the standards set for different polluting substances but overall the directive and the idea of river basin planning makes good sense. The risk is that we jump to immediate solutions to problems without giving them a real sustainability test.

We need to get to grips with diffuse pollution if we don't want to depend on energy-hungry projects. This again means controlling pollution at source, whether it comes in run-off from farms or roads or industry.

The river basin plan should be the answer. All participants are supposed to agree to carry out the work they can do more easily and more cost-efficiently than anyone else in the team. It sounds too good to be true and I'm afraid it often is, because all sides worry that they will be disadvantaged if they have to pay for extra pollution control or even, in some cases, change their business model completely.

It may be difficult but it's the right way to go. The alternative is to rely on Scottish Water which would have no alternative but to go on and on increasing the level of treatment by building bigger and more energy-intensive works and costing customers more and more every year.

That's not on.

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My last challenge is about growing consumer awareness – about their rights, about standards, and about total service. We have to accept that we are now a truly 'consumerist' society and this is indeed a challenge.

But it's the kind of challenge we in the water industry are ready to take. We are, up for it. Because delivering our vision requires engagement with consumers at a deeper level than before.

Hard questions come up everywhere – about tariffs, payment methods, affordability, debt, and the rest. Water UK responded recently to an independent review commissioned by the UK government. We set out some principles to support a service that is efficient and fair for all:

- first, the water company is best-placed, subject to regulation naturally, to set tariffs that reflect its costs and are acceptable to its customers
- second, geographically averaged prices, even where the cost of supply can be shown to differ in different areas – this has worked well here since the teething problems of the single company have had been sorted out
- third, there should be a real effort on behalf of the majority of customers (including legal change if necessary) to help customers who find it hard to pay, and bear down hard on those who could pay but do not.

These basic things will always matter, but so will Scottish Water's aims covering the whole business and their commitment to the Scottish people.

I'm struck by the company's focus on customers (and all water users) in setting out their new strategy. They will deliver on time and at the right standard; maintain tight control of finances and use money wisely; act responsibly and aim at sustainability; embrace innovation in meeting the challenges which came high in your voting; take a lead in society where they have the expertise and be a credible voice for customers and all stakeholders; and play their full part in local communities by making opportunities for people to contribute to improving the environment or the amenity it provides to everyone.

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I can do no better in closing my speech than give Water UK's fullest support to a company that describes its aims in this positive way. And not just to the company. It can't succeed without the positive engagement of its stakeholders who all will play important roles in delivering the vision for Scotland's water. We look forward very much to working with you on this project which is so vital to the country's future.

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