



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE

Wednesday 16 December 2015

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INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE
27th Meeting 2015, Session 4

CONVENER

*Jim Eadie (Edinburgh Southern) (SNP)

DEPUTY CONVENER

*Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP)

COMMITTEE MEMBERS

*Clare Adamson (Central Scotland) (SNP)

*Alex Johnstone (North East Scotland) (Con)

*Mike MacKenzie (Highlands and Islands) (SNP)

*Siobhan McMahon (Central Scotland) (Lab)

*David Stewart (Highlands and Islands) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Johanna Dow (Scottish Water)

Peter Farrer (Scottish Water)

Douglas Millican (Scottish Water)

Lady Susan Rice (Scottish Water)

CLERK TO THE COMMITTEE

Steve Farrell

LOCATION

The Adam Smith Room (CR5)

Scottish Parliament

Infrastructure and Capital Investment Committee

Wednesday 16 December 2015

[The Convener opened the meeting at 10:00]

Decision on Taking Business in Private

The Convener (Jim Eadie): Good morning. Welcome to the 27th meeting in 2015 of the Infrastructure and Capital Investment Committee. I remind everyone to switch off mobile phones as they affect the broadcasting system, but I point out that, because meeting papers are provided in digital format, you might see members using tablets during the meeting. No apologies have been received.

Agenda item 1 is a decision on whether to take in private item 3, which is consideration of options for an inquiry into the circumstances surrounding the recent closure of the Forth road bridge, and item 4, which is consideration of our work programme. Given the significant public interest in the closure of the Forth road bridge, I propose that we take item 3 in public. Are members agreed?

Members indicated agreement.

The Convener: Are members content to take in private item 4, which is consideration of our work programme?

Members indicated agreement.

Scottish Water “Annual Report and Accounts 2014-15”

10:01

The Convener: Agenda item 2 is an evidence-taking session on Scottish Water’s annual report and accounts for 2014-15. I welcome from Scottish Water Lady Susan Rice, chair; Douglas Millican, chief executive; Peter Farrer, chief operating officer; and Johanna Dow, chief executive of Business Stream.

I invite Lady Rice to make a short opening statement.

Lady Susan Rice (Scottish Water): Thank you, convener, for inviting us to give evidence today. I am delighted to be here for the first time as chair of Scottish Water. As you have already introduced my colleagues, I do not need to do so.

As you know, I became chair of Scottish Water in June, taking over from Ronnie Mercer. I suspect that he attended the committee a number of times and that you came to know him well, and I hope that the same holds true for me.

As I say to everyone I speak to, one thing that I have been quite struck by in my first six months with Scottish Water is how customer focused the company is. Many companies use the words “customer focused”, but Scottish Water delivers it.

I am very pleased to report that Scottish Water has continued its strong performance, achieving its highest ever levels of customer service and customer satisfaction. The business is now one of the United Kingdom’s top-performing water companies, and we recently won the Scottish Business Insider award for Scotland’s best large employer. Two independent reports have also highlighted our progress over the last five years in delivering high-quality services for the people of Scotland, with levels of customer service now matching those of the leading companies in England and Wales.

Let me give you a quick synopsis of some of the headlines. Our performance includes a 31 per cent improvement in standards of service; a 12 per cent increase in customer satisfaction, achieving 92 per cent; a 25 per cent reduction in the amount of water leaking from pipes; a 60 per cent reduction in pollution incidents; and 950,000 customers benefiting from improvements to their water supply, including the upgrade of nearly 3,000 kilometres of water mains and improvements at 58 water treatment works. As I am so new in this post, I can boast about all this very happily, because I cannot be given any credit for the very good performance; my colleagues must get that.

When we last appeared before the committee, we talked about plans moving forward. As of April 2015, our new journey began. As you know, we have now entered the next six-year regulatory period with a plan that has had strong customer input, challenging us to turn their expectations into reality. Charge levels are crucial for our customers and one of our key drivers has always been to increase service levels while reducing costs. Our customers have told us that they want stability in their charges, and we are responding to that with prices that will fall in real terms across the period.

In addition, our customers have challenged us to move the bar for service even higher. We have introduced a new customer experience measure, which, together with new tracking and monitoring systems, will enable us to react quickly and make changes far faster than we could before.

We are continuing to deliver significant levels of investment—£500 million a year—to further strengthen Scottish Water services. That investment is aimed at continuing to improve drinking water quality and environmental performance, boosting the resilience of our water network, reducing the number of customers potentially affected by sewer flooding and taking action to reduce our carbon footprint and create an increasingly sustainable business. To achieve those aims, we have introduced a new delivery model and are working in partnership with three new alliance partners. We have also appointed a framework of smaller, rural contractors to support our alliance partners and in-house teams at a local level.

The investment programme will continue to support construction jobs and create apprenticeships across the country. As part of the investment, we have started work in Glasgow to deliver one of our most unique investment projects: a £100 million tunnel, which will be the longest in Scotland and wide enough—and, I assume, high enough—for a double decker bus. We would be delighted for the committee to visit the site next year and see the results of our genuinely unique investment scheme.

I will now switch hats; having talked about Scottish Water, I would now like to talk about Business Stream. I am pleased to say that it, too, has steadily increased customer satisfaction levels over the past seven years, with our highest ever satisfaction levels being achieved this year. By introducing innovative services supported by continued investment in customer service improvements, we have helped our customers save more than £133 million to date.

However, that is not to say that we have not faced some significant challenges over the past year. In addition to downward pressure on retail margins, competition in the market has also

greatly increased, due in part to the impending market opening in England. That has encouraged other retailers to test the market in Scotland, which I note is happening at a time when we cannot do the same south of the border.

We were very disappointed at the outcome of the recent public sector tender. We lost by the narrowest of margins on cost and scored highest on service. Although we accept the decision, you can probably understand our disappointment, especially given our strong track record of delivering savings of more than £36 million to the sector over the term of the current contract.

Despite those challenges, we are looking forward. Over the past year, we have focused on preparing ourselves for a more competitive future in both Scotland and England; we have reorganised our business to make us more responsive to our customers' needs and have identified new ways of increasing both revenue and profitability; and we are building a pipeline of exciting leads and opportunities in Scotland and England and are looking forward to the English retail market finally opening fully in 2017, as it will become a key component of our future commercial growth plans. Our experience of operating in a competitive market is already paying off, as this summer we successfully secured three House of Fraser stores, including their flagship store in Oxford Street in London.

We remain the leading supplier in Scotland, and we will be looking to build on that position while acquiring more customers in England, ahead of and beyond market opening. By continuing to offer innovative services and maintaining high standards of customer service and competitive pricing, while certainly facing challenging market conditions, we are ideally placed to take advantage of the opportunities that lie ahead.

We are happy to take questions.

The Convener: Thank you for that opening statement and for your invitation to the committee to view Scottish Water's facilities at first hand.

I will kick off. When you outlined Scottish Water's high level of performance, you referred to a 31 per cent improvement in standards of service. What are you measuring when you quote that figure?

Susan Rice: We are talking about a complex suite of measures. Peter Farrer can give you some detail.

Peter Farrer (Scottish Water): We measure customer service with a measure called the overall performance assessment or OPA, which is made up of 17 different performance indicators that are all weighted and then turned into a score. It was first used by the English and Welsh companies a

number of years ago, so we know that it is a great benchmarking tool for comparing service across the water sector. We have continued to improve our OPA score over the period, and the 31 per cent increase that was referred to was from a score of 306 at the start of the regulatory period to one of 400 last year.

To give an indication of where we have moved over the period, I should say that when Scottish Water first started using the OPA measure, we were the lowest performing water company in the United Kingdom. The score of 400 that we have just achieved puts us in a leading position, with only one other water company in England and Wales having achieved consistent scores above 400.

The Convener: Which one is that?

Peter Farrer: Wessex Water. As I have said, we have moved from the lowest to a leading position.

The Convener: I will resist the temptation to ask what Wessex Water is doing right that Scottish Water is not.

Instead, I will ask about domestic water charges, which are due to increase by 1.6 per cent in each of the next two years and by the consumer price index rate minus 0.3 per cent for the following three years. Given the historic low inflation rates, are you confident that over the coming five-year period that income will be sufficient to support service provision and investment?

Douglas Millican (Scottish Water): The plan is structured to ensure that inflation is a risk that we need to manage in the cost of operations, but the link between pricing and inflation gives customers a great degree of protection. For example, in the last regulatory period, customer prices fell by 10 per cent relative to inflation, while, in this period, they will fall by nearly 2 per cent—1.8 per cent—relative to inflation. The challenge for us is to manage within the financial envelope that a lower level of inflation delivers. However, we have a track record of doing that, and we have plans for the future. It will be tough, but we will manage our way through it.

The Convener: So that is a yes.

Douglas Millican: Yes.

The Convener: When Scottish Water last appeared before the committee, I asked about historic private finance initiative contracts that you had inherited from the predecessor water authorities, and you suggested that any benefits in buying out those contracts would be considerably outweighed by the costs. Is that still your view?

Douglas Millican: That is still the case, because of the way in which they are structured.

However, as we move through this regulatory period, we are increasingly considering what to do as we come to the natural conclusion of those contracts. For example, the first contract, serving Inverness and Fort William, expires in six years, and we are already thinking about and planning for options.

Beyond that—and we are talking about the tail end of the next regulatory period—there are two large contracts in Glasgow, one for a waste water treatment plant and the other for a sludge processing plant that handles about half of Scotland's sludge. Those will be key components of our business plan for 2021 to 2027.

The Convener: There is clearly a widespread view in society that PFI contracts generally do not deliver best value for the taxpayer. Of course, the decision to put those contracts in place is not one that can be laid at your door. I am interested in knowing whether there is anything more that can be done to manage the contracts tighter and deliver savings for the taxpayer. Is that something that you are looking at, perhaps in conjunction with the Scottish Futures Trust? I know that that type of work is being done in the health service.

Douglas Millican: We actively manage all our PFI contracts. If anything, that activity has grown over time, although we absolutely respect the fact that the contracts place all the delivery obligations on our PFI companies.

We are doing that largely to ensure that we get the maximum performance out of the contracts, but also to get the learning. For example, we are doing a series of deep-dive audits on the PFI waste water treatment plants to ensure not only that the reported compliance is good but that the underlying health of the operations and processes is sufficiently strong. A key aspect of the contracts is not just the performance that they have to deliver over their 20 or 30-year duration but the fact that the assets need to be handed back to us in a certain condition at the end. The audits are essential to ensure that we are getting the service now and that we get assets that are fit for purpose at the end of the contract period.

10:15

The Convener: So there are deep-dive audits on service delivery and the maintenance of the asset, but what about cost savings?

Douglas Millican: The scope there is more marginal. Perhaps I can give some context by explaining the structure of the contracts. We have nine PFI contracts, one of which is for sludge treatment disposal and the other eight of which are for waste water treatment across 20 sites. The waste water treatment contracts are structured so that each serves a defined catchment. One

catchment includes a plant down at Seafeld here in the city of Edinburgh and four plants up the Almond valley into West Lothian. Once a defined catchment is set, the PFI company has to take all the waste water in that catchment, and it gets paid with reference to that volume of waste water—in the case of Edinburgh, the volume that goes through the flow meter at the Seafeld waste water treatment works—on the basis of a unit tariff that was set in the contract back in 1999.

There would be scope for savings if we discovered, for example, that elements of service might no longer be required or went above and beyond the absolute required legislative standards. In such situations, we would explore whether we could lower our requirements in order to deliver savings.

The Convener: Have you been able to quantify savings across the nine contracts?

Douglas Millican: It has been progressive over time, depending on when we have taken those opportunities. However, any savings are at the margins relative to the overall cost of the contract. Let me give you one example that we keep under review. The largest of our waste water treatment plants is sampled 24 times a year by the Scottish Environment Protection Agency to ensure that we are complying with the discharge licence. However, under PFI contracts, there is 365-day sampling. On one level, that is very good, as it ensures that they are performing every single day, but clearly there is a cost associated with that. That is the sort of area where, if we are confident in the contractor's performance, we can have a conversation about lowering the frequency of sampling and thereby generating savings. That sort of thing can be done, but it is at the margins.

The Convener: That was a very full and helpful answer, but can you tell us whether you are able to quantify the savings that have been made? Is that information that you can share with the committee?

Douglas Millican: We certainly could share it, but the calculation itself might be quite complex, as it would mean looking back at each contract in the 13 or 14 years that Scottish Water has been going and trying to work out what was delivered at various points in time. If the committee would appreciate that, we can certainly go about providing that information.

The Convener: Thank you.

Before I hand over to my colleagues, I want to ask a final question about the publication this week of the report of the commission on local tax reform. Referring to water and sewerage charges, the report says:

“we do consider it confusing that vulnerable households in receipt of 100% Council Tax Benefit only receive a reduction of up to 25% in the water and sewerage charges that are billed alongside them.”

Given your wider responsibility to the community that you serve, do you have a view on that?

Douglas Millican: Perhaps I can put that into a broader context. In Scotland, we have a set of charging arrangements that generally works extremely well—certainly very well, relative to water or indeed utility charging anywhere else in the United Kingdom. We have a very progressive charging structure, in which some customers pay up to four times as much as others and which builds in a lot of affordability protection for those in the lowest council tax bands. However, the 25 per cent discount is the limit of what, historically, the Scottish Government has been able to do under the arrangements for benefits with Westminster.

Although the Scottish Government has not been allowed to offer any more than that, the Scottish Government recognises that this area needs to be kept under review, and it has now commissioned the long-term charging review that it announced when it set the principles of charging a year ago. The Government is definitely looking at the longer-term options to make sure that charges are as affordable as they can be for all our customers.

The Convener: I will leave it there for now and hand over to my colleague Adam Ingram.

Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP): Continuing on that theme, I am interested in debt recovery. I understand that you have had some discussions with Citizens Advice Scotland, which points out that Scottish Water does not, of course, directly bill and collect charges from customers. That process is carried out via local authorities. What limitations does that place on your engagement with customers?

Douglas Millican: As I have previously discussed with the committee, we have a huge level of engagement with customers; indeed, we took their views very much into account in the setting of our plans and priorities for this regulatory period. We have an active programme of engagement with customers and communities across Scotland so that we can listen to and understand their views and ensure that, as far as we can, we reflect those views and preferences in our future plans and priorities. I have never particularly subscribed to the view that billing a customer somehow puts your relationship on a different level. The issue is clearly topical; the report was published earlier this week, and it is a matter that will be under significant review in future.

I want to place on the record that the current arrangement has worked well for the generality of

water customers, as it is very efficient to send out and collect a single bill for dual services. We contribute more than £18 million a year to local authority costs to help with that billing and collection activity.

On the whole area of collection, I want to place on the public record that I give credit to local authorities across Scotland, because I have been struck by the fact that year on year, even since the recession struck in 2008, their collection of water charges has increased. That has a direct benefit for every single water customer in Scotland because, as collection levels rise, the cost of our bad debt falls and the benefit of that flows back to every single customer.

Adam Ingram: How do you support those on low incomes and benefits to pay their water and sewerage charges? How do you deal with people who get into debt?

Douglas Millican: Support in general is set up through the Government's principles of charging. There is the council tax-based system of charging, with the discount of up to 25 per cent for those who are in receipt of council tax benefit or who are single occupants. Nearly half of homes in Scotland receive some form of reduction in their water and sewerage charges, which amounts to nearly £140 million a year and is equivalent to a 15 per cent premium being built into the average charge level. Huge support is therefore built into the whole system.

As for individual customers, local authorities clearly manage that support on a customer-by-customer basis, but we have been working with the authorities to see what measures they can put in place to help with that. You are probably aware from Citizens Advice Scotland of our water direct pilot in Fife, and perhaps I can share some statistics with you. Fife Council made 4,600 applications in 2013-14; nearly 12,000 last year; and 9,700 so far this year. The tool, which helps customers pay their water charges through a direct transfer via the Department for Work and Pensions to Fife Council and then on to Scottish Water, has been very effective. Certainly Fife Council has reported to us that it has had only a handful of complaints. Things will be very difficult for some people but, in general terms, the system is working well, even for some of the most vulnerable customers.

Adam Ingram: We talked earlier about how Scottish Water ranks alongside water companies in England and Wales. Those companies have a direct relationship with customers on such issues, and my understanding is that they have a range of more targeted measures that allow them to offer greater support and protection to those in debt as a result of water and sewerage charges and can help them recover that debt. Have you looked at

their systems, and have you given any thought to introducing that kind of system in Scotland?

Douglas Millican: That brings me back to a couple of my earlier points. First, it is a matter of our implementing Government policy. Secondly, the Government is looking at the options for charging in the longer term. The Scottish Government is acutely aware that it wants to take all possible steps—which it then wants us to implement on its behalf—to support the most vulnerable customers in Scotland. We must not overlook the fact that our starting point is so much better than that in England, because our progressive charging structure fundamentally protects the most vulnerable far more than the charging arrangements in England and Wales. We have a very good starting point in Scotland.

Adam Ingram: Thank you.

The Convener: Mr MacKenzie, do you have a supplementary?

Mike MacKenzie (Highlands and Islands) (SNP): No—the territory has been well covered, convener.

The Convener: Do you want to move on to your questions, then?

Mike MacKenzie: Certainly—thank you. I have a question about Scottish Water International. Scottish Water talked to the committee almost exactly a year ago. You mentioned then that the international business was involved with three major contracts. Will you give the committee an update on the international business and say whether you have secured any additional business over and above those three contracts, in Qatar, Ireland and Calgary?

Douglas Millican: The good news is that Scottish Water International continues to progress well. We carry on with our contract in Qatar, which is working very successfully. In Ireland, we continue to support Irish Water, which is going through some very challenging times with the creation of that new water business. In Calgary, we completed our first assignment successfully and have now won a second major assignment there, which has kicked off within the last month.

On top of that, the major territory where we have made the most new progress in the past year is Australia. We have been delivering services in Adelaide, South Australia, and we have a number of other interesting prospects across Australia. As a result, we have now relocated a member of staff and their family to Adelaide, to serve our existing contract in South Australia and to do business development work across that territory. It has been a strong year for our international business, and there are some good prospects for the future.

Mike MacKenzie: That is very encouraging. Will you explain a bit more about what that means for Scottish Water customers in Scotland and for the Scottish public at large?

Douglas Millican: For Scotland as a whole, a starting point would be that we have had nearly 70 staff involved in delivering contracts, putting in bids and other competitive activity. One of the key benefits of that is that it gives our staff good commercial skills that are of benefit when they are back working at Scottish Water delivering services for our customers here in Scotland.

Secondly, I hope that over time it may give opportunities for us to partner with other Scottish businesses that are looking to export overseas. So far, that has not been a particularly rich seam, as Scottish Water International is primarily involved in consultancy work, but we are open to that.

In the past year, with support from the Government, we have also started an innovation testing service for testing new water technology and waste water technology. We are working with Scottish small and medium-sized enterprises in that area, and over time we may get the opportunity to create opportunities for some of those businesses overseas through our international business.

Mike MacKenzie: I want to move on to talk a bit about the Scottish Water Horizons business. As you will know, a strategic review was carried out in 2014 and a business recovery plan was implemented. Will you give us an update on that subject, and on the performance of the Horizons business?

10:30

Douglas Millican: Horizons has had another good year. There are three or four key areas of activity. We do a lot of work to support new development in Scotland. That is either survey work or work to support new infrastructure going into the ground where there is a requirement for a developer to put that in place. That is a key enabling activity, and there was about £6 million of business in that space.

We do a lot on waste management, and there are two main streams to that. There is a food waste recycling plant at Cumbernauld, and we take quite a lot of third-party waste into our waste water plants across Scotland. One of the most significant areas in the past year has been work that we have been doing in the Shetland Islands to support development at Sullom Voe. We have been taking more waste into our Lerwick waste water plant. To give you a sense of scale, there is about £7 million of revenue in the waste management side of the business.

We are involved in other activities. We export water out to North Sea platforms, we get rental income from telecoms masts and towers, and we have done a small amount of lead pipe replacement work on behalf of local authorities.

Mike MacKenzie: That sounds very reassuring. I am glad to hear that it is all good.

The Convener: We will move on, with Alex Johnstone.

Alex Johnstone (North East Scotland) (Con): We are moving on at speed, then.

The Convener: I apologise. It is Siobhan McMahon next.

Siobhan McMahon (Central Scotland) (Lab): I will try to make my questions good ones, as the pressure is on me.

In her opening statement, Lady Rice mentioned the contract that was awarded to Anglian Water and how she felt that it was lost by a narrow margin. However, we understand from the Scottish Government that your bid was £5 million per year higher than the bid on which Anglian Water was awarded the contract. Can you explain how Business Stream's bid for the Scottish public and third sector water contract was as high as that?

Lady Rice: I ask Johanna Dow to give the detail on that.

Johanna Dow (Scottish Water): To reiterate Susan Rice's point, we were very disappointed to lose that contract. The scoring for the contract was based on a mix of quality and price. On the quality aspect, we scored the maximum—we scored by far the highest on that. On price, the figures that have been published are the total savings that will be generated for the public sector over the life of the contract—the £5 million per annum is the annual saving that will be delivered.

As Susan Rice said in her opening statement, on price, we lost by the narrowest of margins. Over the last four-year period we will have delivered £36 million-worth of savings to the public sector. Our proposals under the new contract were to exceed that but, obviously, in the round, we did not quite get there.

Siobhan McMahon: What impact might the loss of the contract have on the future of Business Stream?

Johanna Dow: As a business, we operate in a competitive market. Although we are public-sector owned, we are operating in a commercial environment. In that environment, we accept that we will win and lose customers. The key challenge for us is how we respond to that loss, and we intend to do so positively.

Over the past 12 months, and indeed beyond that, we have been looking at preparing the business for any potential outcome, good or bad. We have been looking at our business and trying to create a structure within it that makes it fit for the future, for development not only in the Scottish market but, as we mentioned at the start, in the English market, when it opens.

To reassure the committee, I say that we did not sit back and wait for the outcome of that contract. We have been working behind the scenes to streamline the business, to look at the processes that we deliver for customers and to make those as efficient and effective as we can.

Siobhan McMahon: Citizens Advice Scotland gave the committee a submission that referred to Business Stream. To be honest, a lot of what it said is reflected in my case load and my personal experience of working with Business Stream—unfortunately, that has not been a positive experience.

CAS says that it has had difficulties in the past. I understand that it is working with Business Stream to go through the difficulties, but it says:

“Flat penalties are applied by Business Stream to cover late payments and third party debt recovery no matter what size the organisation is or the debt; for SMEs and smaller organisations, this can be disproportionate to outstanding debt and can have a significant impact on the organisation.”

Do you recognise that that has been a problem?

Johanna Dow: We have been working closely with CAS over the last six months on the issue. Unlike Scottish Water, we bill customers directly and there have been issues since the market opened seven years ago, as we have identified a number of customers who have never previously been charged for water. As we identify those customers, we bring them into the charging system, which creates a situation where customers are billed for a period that stretches backwards. As an industry, we have recognised that issue and we limit as far as possible the amount of back billing that we do.

However, there is no getting away from the fact that, when a customer is landed with such a bill, it will be unexpected. We do our very best to work with customers to find a resolution. We offer customers a range of alternative payment terms to enable them to clear that outstanding balance. The Citizens Advice Scotland report that is mentioned in its submission says that we take legal action against customers to recover outstanding debts. I want to reassure the committee that we use that route only in exceptional circumstances and when we have exhausted all other debt recovery processes. It is not in our interests or that of our customers to take legal action and we do so only as a last resort.

We apply debt recovery charges to customers' bills, which at the moment is a flat charge. I seek to reassure you that, when applying that charge, we look at the balance of the customer's outstanding debt and would never apply the charge to a customer's bill where it is greater than the value of the outstanding debt. We take that into consideration.

Siobhan McMahon: The example that I had was of a citizens advice bureau being charged, having been unaware that it had never paid before. It took 18 months for it to get a response to its first letter. Was that a one-off situation or does it happen across the board?

Johanna Dow: That is clearly not acceptable. As an organisation, we strive to provide a consistently great level of customer service, but obviously there are times when we do not achieve that. I can only apologise to that bureau, through you. Our statistics are improving year on year, but we will not always get it right for customers. However, waiting 18 months is excessive.

Siobhan McMahon: Okay, so it was a one-off situation.

Lady Rice touched on the opening of competition in England in 2017 and said that it is a key component of your plans for the future. What plans does Business Stream have to move into the English non-domestic market? Do you have something in place that you hope to implement in 2017?

Johanna Dow: The market in England is scheduled to open in April 2017. The market in Scotland has already been open for seven and a half years, so we are very much looking forward to the opening of the English market. At the moment, English water companies are able to take customers in Scotland, but we are unable to do likewise down south.

To date, the market is open for a very small number of large customers—about 27,000. Over the last couple of years, we have taken a tentative approach to acquiring customers in the south. We only do that when we feel that we can genuinely offer the customers value. As Susan Rice mentioned, a good win over the summer was House of Fraser, which we are helping to reduce the amount of water that it consumes as a business. It is very focused on environmental benefits and we have been able to help it to deliver those. Until the market opens, we will continue to target customers where we think that we can deliver value for them and us.

Once the market fully opens, we have really ambitious plans to secure customers in it. At the moment, there are still a number of unknowns and the regulatory environment is still developing. A number of areas need to be fleshed out. I could

not say to the committee that we intend to target 10 per cent of that market—I would not wish to say that publicly, anyway. However, at the moment, we have plans to move into that market at scale.

Alex Johnstone: I want to talk about targets. In the opening remarks, we heard quite a lot about the overall performance assessment scores. We have heard how your target for this year was 380, but that you have achieved a score of 400 and that over the period you have come from being one of the poorest performing companies to being right up there at the top, competing with the best. It has been a useful comparison tool as you made that change but, now that you are at the top, how useful is the OPA?

Douglas Millican: That is a very pertinent question and is one of the things that we debated long and hard with the customer forum as we agreed our business plan for the new period.

We decided that, instead of just a single measure, we now need two or three measures. The OPA is about measuring the physical service that we provide to customers. We want to ensure that the service stays at a high level, so we have agreed with the customer forum a set of performance targets for the new period, which are based around OPA scores and which are reflected in the business plan agreed with our regulator and the Government.

We have changed a couple of the measures slightly to make them finer in their assessment. We have also agreed a set of scores so that, for example, in this year we have to achieve a minimum score of 380, which is not exactly the same as 380 on the old scoring system. We aspire to get as high as we can, however, and ideally to get above 400. That will be a good health check of whether, over the years, we maintain the physical service that we provide to our customers.

The new area that we have brought in is on the customer experience side. That is not about looking out, from our view of the service; it is about looking in, from the customer view of the service. Lady Rice made a reference in her opening remarks to the fact that, in the previous period, our customer satisfaction rose to 92 per cent, which was a great performance. We have now made that single measure more sophisticated; and it is one of six or seven elements that feature as part of the new customer experience measure.

I will pass over to Peter Farrer to talk more about how we are using it to drive performance.

Peter Farrer: When we think about what customers are looking for, there are three key things that we measure. There is the physical measure of our products and services that Douglas Millican mentioned. More and more, however, the industry and other sectors are

moving into customer experience—how customers feel about the service that we provide. We have started with the customer experience measure that Douglas talked about.

I am vice-president of the Institute of Customer Service, which does an annual survey to create the UK customer satisfaction index. It surveys organisations across 13 sectors on how their customers feel about the service, covering questions on professionalism, quality and efficiency, ease of doing business, timeliness, problem solving, and complaint handling. We are part of that survey, and I am pleased to say that, after completing four rounds, we are the leading water company in the UK in that customer satisfaction index.

The OPA measure that Douglas Millican talked about is what we would call a maintenance measure. We need to maintain it at the right level, which is a leading level. We will, however, endeavour to improve our service based on the new customer experience measures. That will be invaluable to improve the service.

At the moment, utilities are the poorest performing of the thirteen sectors in the UK customer satisfaction index table. We have no desire to be only the best of a bad bunch. Our aspirations are to match the service levels that are delivered by some of the organisations at the top of that table from the different sectors.

The sector that we have targeted as a potential performance to aim for, because it involves another essential product and service like water, is food retail. We will use the different experience measures that we have created in this regulatory period to help us to move higher up the table.

Alex Johnstone: The impression that I get from that answer is that, on the way up, the OPA score was a target to measure improvement against. Now that you have got to the top, it almost becomes a baseline from which you want to improve further.

The Water Industry Commission for Scotland sets your targets. Are you confident that your relationship with the commission will allow you to operate on that basis? Is there a danger that it might set targets that take you in directions in which you do not want to go?

10:45

Douglas Millican: A lot of care and thought went into our plan for the current period and it is quite different—it is a business plan that we proposed and, through a process of negotiation, agreed with the customer forum on behalf of customers. With one minor exception, which the commission then effectively reflected in its final

determinations, it is absolutely based on what matters to customers.

We give a lot of thought to whether targets are driving us in the right direction or whether there is a shadow effect. Because we are pushing one target, could we in some sense not be addressing something that is just as important to customers? That is why a huge amount of thought has gone into our plan. We will always stay open to that question. However, the really good thing about the new customer experience measures is that they take into account the number of times that customers have to contact us; the number of complaints that we get; the satisfaction or dissatisfaction of customers with their services experience; and their general perception. We get lots of data on a daily, weekly and monthly basis that we then use to drive forward the business.

If at any stage we felt that one of our targets was in some way inappropriate, we would absolutely have a discussion with the customer forum and with our regulators around whether we should revisit the target. However, we are now nine months into the start of the new period and we are seeing a lot of benefit from driving our business with our new set of measures for the period.

Alex Johnstone: On the subject of targets, how have you done in meeting the 12 ministerial targets that were set for the end of this year?

Peter Farrer: We are only nine months into this year, but we are generally on track with our targets for the new period.

Alex Johnstone: You mentioned complaints. In previous years, we have looked at complaints as another measure of performance, to an extent. How many complaints did Scottish Water receive in 2014-15 and how many were satisfactorily resolved?

Peter Farrer: That is another area that we focus hard on. It is another link back to the customer experience measure that we talked about, because one of the real benefits of putting in place a customer experience measure in which we survey customers in real time—as we have done—is that, when we get any dissatisfaction fed back from that, we can resolve the issue quickly before a customer puts pen to paper and writes a complaint.

Focusing on improving the service and the satisfaction level is really helping to drive down complaints. As regards the number of complaints, in 2014-15, we had about 1,500 complaints, which was 29 per cent down from the previous year. Over the period of the five years of our regulatory period, our complaints reduced by 64 per cent. They were running at 4,100 per year in the first year of the plan, they were down to 1,500 in 2014-

15 and, this year, we are seeing even further improvements in the figures. Our monthly complaint levels at the moment are the lowest that we have ever seen.

Alex Johnstone: What proportion of the complaints end up with the Scottish Public Services Ombudsman?

Peter Farrer: Again, that is another good news story for us. At the moment, if we do not deal with the complaints adequately, they get referred to the SPSO. This year, the ombudsman has referred four complaints back to us. That is a significant improvement from last year, when it referred 11 complaints back to us. If we look at the five years of the regulatory period, in the first year, 68 complaints were referred back to us and that reduced down to four. That tells me that my team that deals with complaints is doing it in the right way and is resolving the majority of the complaints so that they do not need to be referred to the SPSO.

Alex Johnstone: It is an impressive set of figures on dealing with and reducing complaints. Do you feel that you have further to go in reducing complaints or are there new areas that you might wish to operate in?

Peter Farrer: The figure of 1,500 complaints is still too high as far as I am concerned and we will continue to drive improvements in that area. One of the benefits of having such measures in place is that we find out quickly, as a leadership team, where the pinchpoints in the business are so that we can focus on them, whether they need further investment, better operation or different resources. It gives us the ability to continue to improve the service that we provide. We will absolutely be striving on until we reduce complaints to an absolute minimum.

Alex Johnstone: Thank you.

Clare Adamson (Central Scotland) (SNP): Good morning. I would like to ask some questions about climate change and sustainable development. I notice from your annual report that you have decreased your carbon footprint by 3.3 per cent, or more than 13,000 tonnes of carbon dioxide equivalent, since last year and that you are now generating 10 per cent of your own electricity as a result of the installation of renewable technologies. What I cannot tell from the report is whether you are meeting your targets and expectations in that area and what you are continuing to do to reduce those levels.

Douglas Millican: To put the issue into a broader context, over many years we have made a huge investment in and huge strides on improving the quality of water treatment, particularly waste water treatment. That has been of major benefit to the aquatic environment.

However, one of its impacts has been to drive up significantly our demand for chemicals and for energy. In some places where, historically, there was not a lot of waste water treatment, there are now modern treatment facilities that are quite energy consumptive.

Against that background of a rising demand for energy, we have been looking at every opportunity to drive down the amount of energy that we need to consume and to purchase. We have a continual drive on energy efficiency, and we have looked at opportunities for renewable generation, particularly where we can generate energy at the point at which we need to consume it. For example, if we can generate hydro power at a water treatment plant or generate wind energy at a waste water treatment plant, that reduces the amount of energy that we need to buy in from the grid. Beyond that, we have been taking steps to make our land available for larger-scale wind developments. There is a huge amount that we are driving on across all those fronts.

Clare Adamson: Scottish Water has a lot of sites and a lot of estate. Have you done any surveys of it with an eye to what solar energy could be doing in those areas?

Peter Farrer: I will pick that up. We have done a significant amount of work on renewables over the years. During the 2010 to 2015 period, we more than doubled our renewable installed capacity from about 20 gigawatt hours to 45GWh. We now have in operation 27 hydro schemes, 18 small-scale wind turbines, 17 photovoltaic solar sites and two combined heat and power sites, and we are continuing to drive that work.

The reduction in subsidies that was announced recently has obviously had an impact, and we are doing an assessment of our programme to see what the impact of that is. Wind power subsidies will be reduced by about 60 to 80 per cent, solar will be cut at a similar level and hydro will be cut by a bit less—14 to 30 per cent. We think that there will still be a small number of PV schemes that can work, but we are assessing that at the moment.

Douglas Millican: The opportunities are potentially broader than that. Just last week, we launched a UK first with a scheme in Galashiels to generate heat from sewage, which could provide 95 per cent of the power for Borders College in Galashiels. We are going to see how it works; it may have some impacts on the waste water treatment plant there. Clearly, it has the potential to be rolled out more broadly.

Clare Adamson: My final question is on consumer behaviour. We know that water is a scarce resource and that it is expensive. Is there a significant difference in consumer behaviour

between Scotland and other areas of the UK, where there have been significant water shortages and hosepipe bans? How might changes in consumer behaviour reduce your costs?

Peter Farrer: We are running a water efficiency trial to look at consumer behaviours and to identify what levers we can pull to get people to change those behaviours. That is linked to our television campaign—which I hope that you have seen—that encourages customers not to waste water. More and more, we are looking at customer behaviours in an effort to get customers to change those behaviours to help us. We are also telling them that, by helping us, we can help them by keeping their charges down and improving our service to them.

Douglas Millican: The most significant aspect is probably on the waste water side. We can get blockages in the sewer system that cause costs for us to go out and fix, and which cause localised flooding for communities. We are doing quite a bit of work both nationally and in certain local areas to highlight to customers or consumers the steps that they can take—for example, by not putting certain things down the toilet or the sink—to let the pipes run free. That saves us money and reduces incidents of localised flooding.

David Stewart (Highlands and Islands) (Lab): I have some questions about incidents. You will be aware that the drinking water quality regulator for Scotland highlighted three major incidents in 2014. For the record, one of those incidents was in Dumfries and Galloway, following a disinfection failure; another was in my region, in Lairg, where there were elevated aluminium levels; and the third was in Fortrose, which, again, is in my region, where there was a microbiological failure.

What lessons have you learned from those major incidents to stop similar incidents happening again in the future? I do not know who it is best to ask.

Peter Farrer: I will take that.

One of the first things to say is that we have a significant number of assets across the country. We take 318,000 water samples every year to guarantee the quality of the water that we provide to customers. Of those 318,000 samples, 99.9 per cent pass the very stringent water quality standards.

Unfortunately, with the number of assets that we have—we have many thousands of water and waste water treatment works and 100,000km of pipes and sewers—things go wrong from time to time. The key thing for us when that happens is to make sure that we respond quickly to minimise the impact on customers. We also need to learn from those incidents to make sure that they do not happen again.

That is exactly what we have done in the incidents that you referred to. We prepare detailed investigation reports, which we submit to the drinking water quality regulator. In conjunction with that, we agree an action plan that has defined owners and timescales. We go out and deliver those actions to deliver the benefits. A number of those actions involve us taking the learning and applying it across our whole asset stock throughout the country.

David Stewart: Thank you for that. The regulator also mentions that the number of complaints about the discolouration of drinking water has increased—that was picked up in the regulator's annual report. What is your view on that? What actions are you taking to turn that around?

Peter Farrer: I think that there has been a significant increase in discolouration in samples, but we have been working really hard on that. This year, I am pleased to say that, since that report came out, we have reduced the number of discolouration complaints by 30 per cent. We have a significant water quality improvement group, which has been running for the past 18 months, and that is one of the specific areas that it has focused on.

Last year, it was too early in that programme to start seeing the benefits, but I am really pleased to report that we are starting to see those benefits coming through, with that 30 per cent reduction in discolouration complaints. That has an impact on customers, and because we want to significantly improve the service that we provide, we will be working hard to continue to reduce that.

David Stewart: Are you positive that, by the time the next report from the regulator comes out, you will be turning the situation around and seeing a reduction in the number of complaints?

Peter Farrer: Absolutely. The regulatory report for this year finishes on 31 December. We are now into December, and at this stage—with a few weeks to go—there has been a 30 per cent reduction in that number.

Douglas Millican: Right across our water quality performance, for which we have seen 11 months of data, we are showing our strongest ever performance by far.

As Peter Farrer said, we do lots of learning from incidents but, over the past few years, we have increasingly not only examined where things have gone wrong but considered the risks right across the water supply system and thought about the steps that we can take to minimise the risk that customers will have any problems with their drinking water quality. That systematic approach of considering the risks right across the supply system and taking the necessary steps—whether

investment steps, operational steps or building future plans—is at the heart of driving our improved performance in 2015.

11:00

David Stewart: You will be aware from its report that Citizens Advice Scotland is concerned about ensuring that there is consistency throughout Scotland and that we avoid the cliché of the postcode lottery in which one part of Scotland gets a better service than another part. We have seen that in other areas of delivery, such as health. What is your view on that, Mr Millican?

Douglas Millican: One of the real benefits of the creation of Scottish Water in 2002 is that, since then, the approach has been to ensure that, as far as we can, we provide the same level of service for the same price wherever the customer is in Scotland. In practical terms, when we develop a business plan for a period such as the 2015 to 2021 period, we think about where we are trying to get standards to.

It might be that, in many places, we have already achieved that aspirational level of standard. If so, we target our investment at the places where performance is a bit lower than it is in other places. That is why there is a lot of investment in rural areas, for example, in some regulatory periods. At the moment, we are investing a lot in the waste water network in Glasgow. That is all about trying to ensure over time that, as far as we can, we provide the same high level of service whether the customer is urban or rural, mainland or island.

Peter Farrer: We talked earlier about the customer service and customer satisfaction scores. We take those scores right down to a regional, team leader and individual operator level. I did some work on that recently, which shows a fairly consistent picture over our customer service regions. We have a 92 per cent satisfaction rate across the company. Orkney is currently sitting at 100 per cent, Inverness at 97 per cent, Shetland at 90 per cent, Skye and Fort William at 97 per cent, Glasgow at 91 per cent, Edinburgh at 89 per cent and Ayrshire at 92 per cent. They are all at similar levels, which shows that the service that we are providing throughout the country is fairly consistent.

David Stewart: If I remember correctly—which I think I do—you took over from three water authorities. I had some involvement with the North of Scotland Water Authority in a previous life. When you took over from the three bodies, was it apparent to you that there were still huge inconsistencies in the delivery of service throughout Scotland?

Douglas Millican: Absolutely. We have gone on a huge journey. For me, it is best summed up by a phrase that the Water Industry Commission for Scotland put in its report in October. It was looking back on the past five years, but it said that Scottish Water had delivered a “remarkable transformation” over its life. Those two words sum up the journey that we have gone on to transform performance and service throughout Scotland over the past 13 years.

Clare Adamson: I have a question on the relationship with the regulator. I represent Central Scotland. We had a major incident in the Motherwell area, which involved people losing water supply for a number of days. At the time, Scottish Water and the local authority could not have done anything more to support the residents. My problem is what happens after such an incident. I wrote for a full explanation of what had happened and why it had occurred and was told that a full report had been done and had gone to the regulator but that, at the time, it was confidential. I do not know whether that was because there might have been a prosecution as a result of the investigation.

My frustration is that the report went to the regulator and I, as an elected representative, heard nothing back. Where does Scottish Water sit when such a report goes to the regulator? How long do you expect it to take for the regulator to resolve such a matter and report back to the public? The issue is mainly about the risk, which you talked about, but it is also about consumer confidence following what happened and whether it is likely to happen again.

Peter Farrer: I will pick up on that. Fortunately, incidents of that magnitude are extremely rare for Scottish Water. That is a significant change from the situation many years ago, and it is mostly down to the huge amount of investment that we have carried out and the significant water quality improvement programme that we have been implementing, which I talked about earlier.

The issue is still with the regulator, but I can give you some information. In the incident, some hydrocarbons entered our water supply in the form of diesel and mineral oil, which had an impact on about 6,000 properties in the Carfin, Newarthill and Chapelhall areas. We have identified the most likely external sources as two third-party byelaw infringements, one of which was historical and the other was current at the time of the incident. Both of those sources come from around the Newhouse industrial estate. The contaminated water was drawn through our pipework due to a depressurisation event that occurred while we were preparing for a routine repair of a large diameter pipe that was leaking.

Although the incident caused enormous inconvenience to our customers, it was relatively short lived, with normal service being restored to the majority of the customers within 24 hours and to all 6,000 of them within 36 hours. We achieved that through the implementation of our very robust emergency plans, which involved about 200 Scottish Water employees and contractors working 24/7 to do a number of things to restore the service and provide alternative supplies to our customers. For example, we carried out extensive flushing operations to move the contamination quickly out of the system and we delivered 600,000 litres of bottled water, which is 100 litres per affected property—that is a huge amount of water, the majority of which was delivered to the doorsteps. We also engaged in significant communication activity with customers and stakeholders, which included letter drops by Scottish Water staff through the letterboxes of the 6,000 affected customers, both to warn them and to tell them when the incident was over.

It is important to note that throughout the incident we liaised with the consultant in public health medicine, and after the event NHS Lanarkshire confirmed that the level of contaminant and exposure, given the short duration of the incident, did not present a direct risk to public health.

Earlier, we talked about learning. We have taken significant learning from the event and have made important improvements to our network in the area to ensure that such an incident does not happen again. We are applying that learning across the whole of our network in Scotland to make sure that, if there is anything similar, we will pick it up before another such incident can happen.

We have submitted a detailed report to the drinking water quality regulator and are awaiting the outcome of the DWQR’s investigation to see what more we can learn from the incident. We have also carried out significant work to rebuild trust in the community. For example, there is a full community plan, which has involved school visits, drop-in events, stakeholder briefings that included councillors and MSPs, community group meetings, and 360 doorstep interviews. In those interviews, the majority of our customers indicated that they were satisfied with Scottish Water’s response to and handling of the incident.

Clare Adamson: Do you have a timescale for how long it will take the regulator to make a ruling on the incident?

Peter Farrer: I cannot answer that.

Douglas Millican: From my most recent conversation with the regulator, it seems that she is still conducting her investigation. She needs to

be satisfied with all the elements of that before she reaches her conclusions.

Adam Ingram: I have another specific exceptional incident that I would like you to provide some feedback on and a question on incidents of a more general nature. The specific incident was a significant loss of water supplies to an extensive area around Rutherglen and the south side of Glasgow on 3 March 2015. What learning did you take from that incident?

Peter Farrer: I do not have specific information on that incident. In any incident, whether it is a loss of supply or one that relates to water quality, our first priority is to restore service to customers. After that, we carry out a detailed investigation to understand whether the incident was a result of capital maintenance issues, an operational issue or operational maintenance issues, so that we can look at changing our plans or investment to target that. I am sorry that I do not have the specifics on that particular incident.

Adam Ingram: Could you write to the committee with information on it?

Peter Farrer: I will do that. I will follow up with the specific learning that we took from that incident and how we can roll that out across the business.

Adam Ingram: Okay. My other, more general point relates to the variable weather in Scotland, which seems not to be getting any better. In particular, there have been a number of incidents of flash flooding, particularly across our road infrastructure. What engagement does Scottish Water have with that type of incident? Do you have a strategy for dealing with that?

Douglas Millican: I will give you an overview and then Peter Farrer can elaborate on some specifics. The challenge of the weather will always be with us in different forms, and the other challenge that we will always face is the fact that some of our infrastructure will fail from time to time. The direction that we are taking is about how we anticipate and understand weather or asset problems and take action before any customers are affected.

Our whole approach, notwithstanding the challenges that we might face, is about how we keep customers in service. That can involve ensuring that customers have a water supply when there is a burst pipe or the power has gone at the water treatment plant, and thinking about how we prevent customers from experiencing flooding when the rain is lashing down.

I will pass the question on to Peter Farrer, who can amplify my answer with some examples of how we are doing that. The approach that I described has been at the heart of a lot of the

progress that we have made over the past couple of years.

Peter Farrer: I will start with the specifics. We had 22 assets affected by the recent flooding. The worst incident involved the Hawick waste water treatment works, which was under about a metre of water. The main inlet sewer to the works was washed away when the banks of the River Teviot burst. The good thing is that, because of our robust emergency plans, even though all the electrical and mechanical equipment was submerged in a metre of water, we had the works dried out and operational again within three days. That is an absolute credit to our staff down in the Borders who were dealing with the situation.

On flooding in general, our customers have told us that flooding from our assets is a high-priority issue for them, and that aspect has been carefully built into our plans going forward, with significant increased investment in that area. However, the capital fixes to resolve some of those issues can take a long time, as they did—as Jim Eadie will remember—in the Edinburgh flooding situation. I am pleased to say that the high level of rainfall that we have had recently has not affected that area.

Because things such as hydraulic modelling and capital fixes can take a long time, we have implemented a hotspot process. We have identified areas that are subject to flooding issues and we give a red-flag service to those customers. I will give you some examples. First, those hotspot areas are all red-flagged on our customer contact system. If anyone from those areas with a history of issues phones us, their call is immediately escalated to one of our senior members of staff who can deal with the situation.

We have also put in place additional support for those customers. We have staff who go out immediately to help customers when flooding happens, and we have equipment such as pumps and tankers, which go out in advance of any flooding. We can determine when flooding will happen because another part of our plan is that we have put monitors in our sewers in the hotspot areas to give us advance notice. As Douglas Millican said, we are trying to get ahead of the game. We have monitors that send information to our intelligent control centre in Stepps in Glasgow, which will alert our local people to get out and help customers before the flooding happens. We do a significant amount to help those customers until we can get our flooding solutions in place.

11:15

Adam Ingram: On roads in particular, I take it that you have a close relationship with the likes of

Transport Scotland for trunk roads and local authorities for local roads.

Peter Farrer: Yes. A multi-agency set-up is in place for when there are flooding events, under which we work with local authorities, the police and other services so that the response is co-ordinated in the right way.

The Convener: I want to ask about the roll-out of the ambitious infrastructure works that you have planned for the next five years. Where people live near the work sites for major projects such as the Shieldhall strategic tunnel on the west coast, what mechanisms are in place to ensure that feedback from customers is considered appropriately and that there is dialogue with local communities to ensure that any problems, issues or concerns that arise during the works are properly considered and appropriate action is taken?

Douglas Millican: Let me set out a bit of context. A huge amount of the work that we are doing in Glasgow in the environment improvement programme is very close to customers' properties. For the Shieldhall tunnel, for example, the site compound and the place where the tunnel boring machine will be launched to drive three miles upstream is adjacent to customers' properties. To give you a sense of that, I note that the distance between the works and customers' properties is less than half the distance between us across the table. The works really are at customers' front doors, and that is not just the case there. I could take you to other projects across Glasgow where we are right in the face of the community. Both for those projects and more generally, we have radically changed our approach to capital investment by seeking to put communities at the heart of how we deliver our improvements.

I will give an example to bring that to life. On the north side of Glasgow, we have a flooding project at Elmvale Row. In that £12 million scheme, two large tanks are being sunk, each of which is probably about the diameter of the room that we are in, and the scheme also required a lot of work to be done on replacing sewers around the streets. The distance between the tanks and a primary school is about the distance between us today, so we worked with the school to see how we could minimise the disruption to it. We started our sewer replacement work on the day when the school broke for the summer holidays, and we were out of the streets by the time the kids came back in August. That is a real example of how we adapt our plans to fit in with the needs of local communities.

On Jura Street, where the Shieldhall tunnel project is based, some customers are so close to the works that we have offered to relocate them while the work is going on. We have done a huge amount of engagement work so that we are aware

of what is going on and of any specific concerns that we need to be aware of. All the time, we have a team of people who are out engaging with individual customers or communities.

The work has to happen, but it can absolutely be programmed to try to minimise inconvenience. Another example from the Shieldhall tunnel project is that we have built a separate road to ensure that heavy goods vehicles go not through the residential community but through an industrial estate.

The Convener: Thank you.

Mike MacKenzie: I have a constituency or regional question. I thank Lady Rice for her kind invitation to go out and see some of the exciting new Scottish Water developments, and I offer a reciprocal invitation for Lady Rice to come and see some of the delights of North Argyll—

The Convener: Lady Rice, you are not under any obligation to accept that invitation.

Mike MacKenzie: I will do my best to persuade her, convener. The delights are definitely worth seeing, but the visit would also be to look at one of the disappointments. I refer to the Seil island sewage works, which not even the most optimistic accountant would describe as an asset—they would describe it as a liability. It is defective design-wise, both aesthetically and operationally.

Please bear with me on this. I live only a couple of miles from the works and my neighbours in the community and I experienced the long, painful process of the execution of the work. We are still in pain from it. The execution was shambolic, and I am being generous when I describe it as such. Some of the drainage pipes had to be dug up and relaid because they fell the wrong way—the water would have run backwards rather than in the direction that it was supposed to run in. Scottish Water did not apply for any building warrants in respect of the individual household connections, yet you must have known that building warrants were required. I understand why they were not applied for—they would never have been obtained.

To be fair, the blame for that unhappy project must be shared with Argyll and Bute Council, as the planning authority, for turning a blind eye both in planning terms and to its obligations to implement and oversee building regulations. I wonder how you were able to persuade it to turn that blind eye.

The Convener: Will you come to—

Mike MacKenzie: I need to describe the situation. I will be as quick as I can, convener.

You set out to deal with a minor environmental problem but you have created what amounts to a

local environmental disaster. When it comes to thinking about lessons learned, I am reminded that the project is a smaller-scale version of the debacle of the Campbeltown sewage works only a few years beforehand. It is incredible that you are now seeking to remedy the situation based on a plan that seems to be equally ill-conceived. You cannot build a good house on bad foundations.

The Convener: Mike, we really need to—

Mike MacKenzie: Yes, I am going to wind up.

The Convener: No, Mike, we need to give the witnesses an opportunity to answer the question. If you want to come back in later, you can do that.

Mike MacKenzie: Okay.

Susan Rice: Thank you for the invitation to Argyll. I spend a lot of time in the Western Isles and I have been through Argyll. I will look at my diary.

I know about the situation, but I do not have a lot of the detailed history. I think that Douglas Millican can help you there.

Douglas Millican: During a regulatory period, we deliver more than 3,000 projects, many of which we deliver really well. When I look back across the history of Scottish Water, however, I think that the scheme that Mr MacKenzie mentioned is one of the worst that Scottish Water has ever delivered. Let me place it on the public record that I apologise for the disruption and for the way in which that work was carried out eight years ago. Let me be clear about that.

I have been chief executive for three years and the case predates that time. It first came to my attention ahead of a public meeting in Oban in June 2014. Peter Farrer and I went down there on a beautiful day. It is a stunning part of the world. I saw the legacy of the work that we had done, and I am not proud of it at all. The area is so good that I went back there with my wife last autumn. I wanted to see the beautiful area, but also to show her how we used to do things.

I have stood on many platforms and put up pictures of Clachan Seil to show what a stunning part of Scotland it is. It is the case study that I use to show how the worst that we have done in the past is exactly the opposite of what we endeavour to do in the future. The sewage plant complies with its SEPA discharge licence, but it is sub-optimal in its performance and we are looking at how we can improve it in future.

Mike MacKenzie: Thank you, Mr Millican. I am sure that my constituents will be gratified by your public apology. In fairness, I think that you will acknowledge that I wrote to you recently to give you forewarning that I was going to raise the issue today.

The Convener: You could have given the convener forewarning.

Mike MacKenzie: You have offered to meet me, and I will take you up on that invitation because I think that more work is required to remedy the situation properly.

I will explain my misgiving—this is why I have raised the matter, and it is why I feel that it is of concern to the committee. The annual report is a shiny, glossy document but, when I lift the bonnet of Scottish Water and see that the carburettor is made out of an old beer can, I conclude that, although the vehicle might polish up quite well, further work is perhaps required. In fairness, I appreciate that you inherited the difficulties that you have. You still have challenges, and that is a matter of general concern to the committee.

I have one further point to raise. Just as I have shown good faith to you, in writing, warning you that I would raise the matter, I hope that I have shown good faith to the Scottish Water staff that I have engaged with over a number of years. However, I am not persuaded that they have been fully truthful with me at all times in attempting to deal with or describe the nature of the problem. When they are less than truthful with a member of the Parliament, they are less than truthful with the whole Parliament and the institution of Parliament.

I hope that we can get on to a more transparent footing, given your apology, for which I thank you, and that this can be the beginning of rebuilding a better series of communications and relationships with the community. From there, we can see what we can do to remedy the project properly.

The Convener: I give you an opportunity to respond to that, Mr Millican.

Douglas Millican: I will try to be brief. I have three or four points to make.

First, on the difference that you describe between the paintwork and the engine, Mr MacKenzie, our performance statistics and the trajectory that we are on show that we are operating extremely well, but we can get better.

On the specifics of engagement, we have set a really high bar for ourselves. It is on the front page of our annual report that we have a vision as a business to be trusted to serve Scotland. At one level, that reflects the trust that customers have in us. I set a bar for every one of our employees that they must, day in, day out, seek to be trusted in all their interactions. If there has been any degree of failing on that, I apologise. However, knowing the people who have met you, I am sure that that would not have been their intent. We will remedy that in our communications in future.

I give you another assurance about future improvements in your community. Because of the

past sensitivities and the contentious nature of the future, no decision will be made without full consultation and agreement with SEPA, Scottish Natural Heritage and Marine Scotland. Once we have reached a recommended position, I will take it through the Scottish Water board before any decision is made. The board will approve it—not an individual project manager.

Mike MacKenzie: Thank you very much for that.

The Convener: As there are no further questions for our panel, it only remains for me to thank the witnesses for their attendance this morning. As convener of the committee, I place on the record our appreciation to Scottish Water for the level of engagement that we have with your senior leadership and senior management teams. We very much appreciate that and the dialogue that we continue to have with you, as well as the productive outcomes that we are able to achieve on behalf of constituents, notwithstanding some of the more critical feedback that we have heard this morning.

Thank you again for your attendance.

11:28

Meeting suspended.

11:32

On resuming—

Forth Road Bridge Closure

The Convener: Agenda item 3 is consideration of our approach to an inquiry into the circumstances surrounding the closure of the Forth road bridge. At last week's meeting, we decided to put discussion of an inquiry into the bridge closure on today's agenda. I asked the committee clerks to prepare a paper setting out options for a focused inquiry. Subsequent to that, I received a letter from David Stewart MSP, requesting that the committee carry out an inquiry into the closure. In addition, the Minister for Transport and Islands, Derek Mackay MSP, has indicated that the Scottish Government stands ready to co-operate fully with an inquiry.

The closure of the bridge has led to significant disruption for commuters, businesses and visitors. It has also led to a number of questions being asked and differing opinions being aired on how the situation has arisen. It is clearly a matter of significant public interest and I firmly believe that the committee has a responsibility and a duty to carry out its function in seeking to ask questions of the key stakeholders and to elicit answers on behalf of the public.

The paper that has been provided by the clerks indicates that the inquiry should be narrowly focused on the core issue of the structural defects. We all understand that the closure has brought frustration to travellers and has had a significant impact on businesses and the local economies in Fife and elsewhere. However, the clear advice from the clerks is that it would be more useful for the committee to focus its inquiry on the structural defects and whether those could have been avoided or dealt with differently. That is not to say that the other related and hugely important issues should not later be fully investigated, either by the Infrastructure and Capital Investment Committee or by another Parliament committee.

The clerks have provided a helpful paper setting out a suggested approach, which includes a proposal that we take evidence from Transport Scotland and Amey officials and engineers, from representatives of the former Forth Estuary Transport Authority, from a panel of independent engineering experts and from the transport minister, in a series of evidence sessions starting next month. I invite comments from members on the suggested inquiry approach.

David Stewart: Thank you, convener, for your fair and impartial summary of the issues. Members will have read my letter. As the convener said, it is clear that the closure of the bridge has caused a lot of frustration for commuters and businesses.

Even though we belong to different parties, I am sure that we all agree that the immediate priority is the safe reopening of the bridge as soon as is practical and possible.

On Monday, along with the convener and clerk, I went to the technical briefing. I am grateful to the officials for setting that up.

The Convener: Alex Johnstone also attended that meeting.

David Stewart: I apologise for missing out Alex Johnstone, who was also at the meeting.

I am sure that the whole committee will want to record our thanks for all the amazing work that is currently being done to get the bridge open. When we visited on Monday, people were working in freezing conditions; I think that we would all agree that working in such conditions is well beyond the call of duty.

I have laid out what I think that the key elements of our inquiry should be in my letter. I agree with the approach that the clerk has taken in the work plan. I am conscious of time, but I have four or five quick points to make.

First, I make a plea for an independent technical adviser, particularly one with an engineering background. In every committee on which I have served—I am sure that other members have similar experiences—we have always had an adviser for our parliamentary inquiries. In this inquiry, the adviser's focus should be to provide technical advice on how we interpret and absorb all the information that we receive from written submissions and oral evidence. Without a technical adviser, our report and its recommendations may suffer a credibility gap with the public.

Secondly, as I touched on in my letter, it is important to invite the former bridgemaster and chief engineers from FETA as well as former conveners and key officials from the relevant local authorities. Of course, there are more than just two, but the larger ones are obviously Fife Council and the City of Edinburgh Council.

Thirdly, it is important that we analyse the maintenance and repair works that have been delayed or cancelled. Fourthly, we should assess previous safety warnings—if any—that have been issued by FETA. Fifthly, it is important that we touch on the implications of the handover from FETA to Amey, because that is crucial.

In my letter, I also touched on the capital and revenue streams that fund the bridge. Members will know that we need to focus particularly on the post-tolls regime. As I mentioned at the last meeting, my understanding is that the tolls revenue went straight to FETA and was put straight into maintenance. However, an aspect

that I was not aware of until I spoke to former FETA staff is that FETA also borrowed on the basis of expected tolls income, and that borrowing also went into the maintenance budget. It was quite a good cash cow—if I can put it that way. However, I want to make it clear that the issue is not about whether we are for or against tolls—that is not the point that I want to raise. I simply want to point out that, in the pre-toll period, funds flowed in for maintenance.

Finally, I suggest that the selection of witnesses involve consultation of all committee members before you make the final decision—which is your right, convener.

I hope that those helpful points will help to get us going with the inquiry.

The Convener: Thank you for that constructive contribution.

Clare Adamson: I agree with everything that has been said so far, but I have a concern about the timescale. If we start to look into the detail of the contracts and the financial side of things, that might put pressure on us. That is purely to do with capacity. I think that that work needs to be done, but I am not sure that we have the capacity to do it in this inquiry before the end of the session.

My only concern about the committee paper is that I do not understand why it suggests that we limit our inquiry to the past 10 years. If we are going to hold an inquiry, we should consider what has happened since the inception of the Parliament, given that it has been such a long-term infrastructure project.

Alex Johnstone: In response to the minister's statement last week, the Conservatives asked that an independent inquiry be held. We still think that that is appropriate, but it is also entirely appropriate for me to support David Stewart's position and what he said earlier about the committee holding an inquiry.

The paper gives us a good steer about what we need to be doing. On the timescale, we have little option but to seek to complete the process and to get something into the public domain while Parliament is still sitting. Any delay would run the risk of our not completing the process, which would not be a credible position, given the level of interest and concern.

Mike MacKenzie: I pretty much agree with what has been said. If we do the inquiry, we need to bear it in mind that we do not have much time and that we have other work to do. In terms of the scope, without ruling anything out, I think that we should have a fairly short and focused inquiry that delivers a report sooner rather than later.

I also wish to place on the record the fact that the minister has indicated his wish to be

transparent and has demonstrated that in arranging the technical briefing that took place on Monday—although unfortunately I was not able to attend. The committee did not request that briefing; the minister arranged it of his own volition. That was an important step in demonstrating transparency. I look forward to the inquiry and to seeing what we can discover about this unfortunate problem.

Siobhan McMahon: I agree with everything that has been said.

Adam Ingram: I am happy with what has been said and what has been set out in the paper. We have to realise that we do not have much time and that we have to get on with it.

Alex Johnstone: The one thing that I did not address was the issue of a technical adviser to the committee. David Stewart is absolutely right that we would benefit substantially from having a technical advisor with specialist knowledge. However, I acknowledge that, in this area of expertise, Scotland is a small pond with a few big fish in it and that, as a consequence, it might be difficult to establish a truly independent adviser. In that respect, I concede that we might have difficulty achieving that objective.

The Convener: This has been a helpful discussion. I will sum up where I think we are in terms of agreement across the committee and then invite members to agree what our approach should be.

There is agreement that the scope of the committee's inquiry should be focused on the core issue of the structural defects that led to the closure of the Forth road bridge. However, that would not prohibit us from considering any of the issues that have been highlighted by members this morning, but it would preclude our having a broader inquiry into the economic impact of the closure and the travel disruption that has taken place. However, I think that that scope is necessary in order that we meet the timescales that members have rightly said the committee must necessarily adhere to in order to do the job effectively.

11:45

I invite committee members to agree that the scope of an inquiry should be limited to the core issue of the structural defects that led to the closure of the bridge in December 2015; that we should issue a general call for evidence; that the timetable for evidence taking and consideration of a draft report should be taken forward by the committee; that the clerks should explore the option of identifying and approaching an individual with suitable qualifications and expertise to act as a technical advisor to the committee, while

acknowledging the time constraints and other constraints that might apply in that regard; that we delegate responsibility to me, as convener, to agree and finalise witnesses, subject to appropriate consultation of all members of the committee, and to seek approval for payment of any witness expenses; and that we develop an inquiry media plan. Do committee members agree to that?

Clare Adamson: I would like to seek clarification about what we have decided in relation to the timescale of the previous 10 years that the committee paper suggests we consider.

The Convener: I think that there is agreement among members that, if we can broaden the timescale beyond 10 years, we should do that.

Clare Adamson: I am perfectly happy to agree to that.

David Stewart: I agree with your earlier comments, convener.

Is it the intention of the committee that, once we have a draft report, we seek time to debate it in the chamber? I am conscious that this session will come to an end in March. My experience in other committees is that it is normal practice, as the clerk will be aware, to seek approval for that from the conveners group.

The Convener: That is a useful and constructive suggestion. It would be a matter for the conveners group and the Parliamentary Bureau, ultimately. However, I think that, after we have undertaken this important piece of work on a matter of significant public interest, we would want a debate in the chamber.

David Stewart: For what it is worth, convener, my advice, based on experience, is that you should get your retaliation in now, by which I mean that you should raise the matter early doors with the parliamentary authorities.

The Convener: You have my assurance, as convener, that I will raise the matter at the earliest opportunity with the parliamentary authorities.

David Stewart: It is important to get the window in March, because other committees might have reports that they wish to debate and we might not have an opportunity to debate ours.

The Convener: On that point, does the committee agree to the approach as outlined?

Members indicated agreement.

11:47

Meeting continued in private until 11:55.

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