TRANSPORT, INFRASTRUCTURE AND CLIMATE CHANGE COMMITTEE

Tuesday 20 November 2007

Session 3

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TRANSPORT, INFRASTRUCTURE AND CLIMATE CHANGE COMMITTEE
11th Meeting 2007, Session 3

CONVENER

*Patrick Harvie (Glasgow) (Green)

DEPUTY CONVENER

Cathy Peattie (Falkirk East) (Lab)

COMMITTEE MEMBERS

Rob Gibson (Highlands and Islands) (SNP)
*Charlie Gordon (Glasgow Cathcart) (Lab)
*Alex Johnstone (North East Scotland) (Con)
*Alison McInnes (North East Scotland) (LD)
*Shirley-Anne Somerville (Lothians) (SNP)
*David Stewart (Highlands and Islands) (Lab)

COMMITTEE SUBSTITUTES

*Alasdair Allan (Western Isles) (SNP)
Gavin Brown (Lothians) (Con)
John Park (Mid Scotland and Fife) (Lab)
Tavish Scott (Shetland) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

Geoff Aitkenhead (Scottish Water)
Ronnie Mercer (Scottish Water)
Douglas Millican (Scottish Water)
Mark Powles (Scottish Water Business Stream)

CLERK TO THE COMMITTEE

Steve Farrell

SENIOR ASSISTANT CLERK

Alastair Macfie

ASSISTANT CLERK

Clare O'Neill

LOCATION

Committee Room 5

Scottish Parliament

Transport, Infrastructure and Climate Change Committee

Tuesday 20 November 2007

[THE CONVENER *opened the meeting at 14:00*]

Scottish Water

The Convener (Patrick Harvie): Good afternoon. Welcome to the 11th meeting of the Transport, Infrastructure and Climate Change Committee this session. I remind everyone present that mobile phones, pagers and BlackBerrys should be switched off.

We have received apologies from Cathy Peattie and Rob Gibson. I welcome Alasdair Allan, who is attending as a committee substitute for Rob Gibson. Would you like to declare any interests that are relevant to the meeting?

Alasdair Allan (Western Isles) (SNP): I have nothing relevant to declare.

The Convener: There are two items on today's agenda. Item 1 is evidence from Scottish Water. I welcome Ronnie Mercer, Geoff Aitkenhead, Douglas Millican and Mark Powles to the committee. Thank you for joining us. I invite Ronnie Mercer to make a few opening remarks.

Ronnie Mercer (Scottish Water): Thank you, convener. Geoff Aitkenhead, who is sitting next to me, is the asset director of Scottish Water—the guy who spends capital for us. Douglas Millican is responsible for finance and regulation, so he tends to count the money and to ensure that we are doing what the Water Industry Commission for Scotland wants. Mark Powles is new—he joined this year—and is a retail guy. He is from Scottish Water Business Stream, which is separate from the rest of the organisation. I will explain that as we proceed.

Thank you for inviting us to speak to the committee. I remind members of how the model works. We start with ministerial directions, which set outcomes that ministers would like to be achieved. Regulators—the Water Industry Commission, the Scottish Environment Protection Agency and the drinking water quality regulator—set outputs that are derived from the outcomes that ministers want. Scottish Water delivers those outputs. We run the company and are subject to robust regulation. We welcome that, as it helps us to achieve what we are achieving.

Ministers' objectives were set for eight years—2006 to 2014—in two four-year periods. Today, we are discussing the first of those periods. Our focus is on performance last year. By next year, we will be halfway through the first four-year period.

We believe that 2006-07 was a good year for Scottish Water. We are proud of the value for money that we are delivering to our customers. I will run through our scorecard to illustrate: I believe that all members have copies of our annual report. Since August, the regulator—the Water Industry Commission—has published three independent assessments of performance, known as efficiency reports, in the areas of investment, customer service and costs. I am delighted that our achievements have been independently acknowledged in those reports. We are not able to praise ourselves—the WIC writes its reports independently. Members can read what it has said.

The first item on our scorecard is the objective of delivering what we call real benefits to customers, which include improving drinking water quality, reducing flooding in our customers' homes and making new connections so that houses can be built and factories can be opened. We met all our targets for the year and, in some cases, exceeded them. For example, we were asked to improve drinking water for 160,000 customers; it turned out that we managed to improve it for 440,000. We connected 25,000 new properties. We do not build houses, but we make it possible for others to do so. The idea is that we should not prevent houses from being built. Two hundred growth projects are under way to enable us to make further connections in the future. Development constraints that are due to Scottish Water are becoming a thing of the past. There will always be individual situations, but the big developers are now pretty well taken care of. People see such local developments, as well as the big environmental picture.

For the first time in Scotland, we agreed to reduce leakage from our pipes, and we set out to reduce it by 140 million litres a day. We did not reach that target in the first year, but we reduced leakage by 100 million litres a day, which is one of the biggest reductions that has ever been made in the water industry. That was not a bad start, and we are really at it now.

We are measured against an overall performance assessment—an OPA—which consists of 13 measures that are used by companies in England and Wales. That is where the comparators come from.

I turn to our financial performance. We continue to drive costs down, on top of the 40 per cent or so reduction in the first four years up to 2006. We reduced costs by a further 5 per cent last year. The regulator acknowledged that that achievement is unprecedented in the United Kingdom water industry. In addition, we reduced costs more quickly than the companies in England and Wales, which started to reduce costs long ago.

In the year that the committee is considering, we invested £413 million. That was on top of the £2 billion that we spent in the previous four years. Currently, investment is running at about £50 million a month, so this year we are heading for investment of £600 million rather than £400 million, which is what we intend.

The name of the game is costs down, customer service up. Just as costs reduced by 40 per cent in the first four years, we are set to achieve an increase in customer service of at least that much in the current four-year period. We continually assess our customers' satisfaction with our service—we use independent research to work it out. The research shows that we are now 20 per cent better than the best electricity company and only 2 per cent behind the best water company.

The final element on the scorecard is prices. The regulator asked us to keep price increases below inflation. We achieved that, and last year we had the lowest increase in water charges in the UK. We have the fourth lowest average household charges compared with all the English and Welsh companies. Our objective is to have no above-inflation increase in prices and to offer our customers value for money.

Another area on which we have been working in the past 12 months is business separation for non-domestic customers. We separated out a company called Scottish Water Business Stream, which has its own management and board. Mark Powles is its managing director. It has separate non-executive directors. All business customers were transferred to that company in November 2006. By April next year, the market will be fully open and the regulator will grant licences to suppliers to allow them to compete in the market. Scottish Water Business Stream reads meters, bills people and takes care of customer service—it is the customer contact. Scottish Water still supplies the water and takes away the waste water. In effect, it is the wholesale supplier to the business market, whoever happens to be in it. Mark Powles runs our part of that market.

From that quick review, I hope that the committee can see that Scottish Water has made significant progress in the past 12 months. We will be pleased to discuss any aspect of our performance in detail, because it is only right that our activities come under public scrutiny. We are really quite relaxed about that.

The water industry in Scotland is a serious business. We are a major contributor to the quality of life and public health of the nation, and a significant player in the Scottish economy. As I said earlier, value for money for all our customers is central to our future strategy. We would like to share our success with you as we continue to achieve our objectives, which are to enhance retail competition as it rolls up next April; to build the Scottish Water brand; and to develop relations with our customers, stakeholders and, of course, the committee.

Thank you for listening. We are happy to take questions and to try to answer them.

The Convener: Thank you. I will kick off by asking about the underspend in the four-year investment programme that ended last year. There seemed to be difficulty with getting the spending out of the door. Despite what you said about expenditure in the current year, our figures suggest that, in the first year of the current four-year programme, only a tenth of the planned sum was spent. How does the quality and standards III programme compare? What is the expected expenditure profile? Are you confident that the scheduled investment will be made and that the spending will occur?

Ronnie Mercer: I will ask Geoff Aitkenhead to comment on the detail. We did not agree the delivery plan with the regulators until the end of May—I came here in April, and spent the first couple of months doing that. We had aimed to spend £450 million last year, and then more than £600 million in each of the next three years. We spent £413 million, not £450 million—there are a number of reasons for that, which Geoff Aitkenhead can talk about. We are always subject to the rate at which jobs are progressing, planning permission, things being put back and so on, but we spent 10 per cent less than we had arranged to spend—£450 million became £413 million.

Geoff Aitkenhead (Scottish Water): There is a comparison to be made between the two regulatory periods: Q and S II, which ran from 2002 to 2006, and the current period, which runs from 2006 to 2010. In Q and S II, our capital programme was just over £2.1 billion at outturn prices, and in the current four-year period the capital programme is £2.4 billion, again at outturn prices. In the first of the four years from 2006 to 2010, the expenditure of £413 million was due to a combination of concluding projects from Q and S II—we had what is called an overhang from the Q and S II period—and commencing projects in Q and S III. The split between the two was broadly even, in that we had—from memory—£175 million or thereabouts in the overhang expenditure, and the remainder of the £413 million was Q and S III spend.

There is a natural cycle to investment within regulated utilities, and there is inevitably a slow start to four-year delivery periods, because that is when we are carrying out investigative work and feasibility studies, deciding what the right options are for delivering the ministerial objectives and getting into the detailed design of the projects. Only when we move into years two and three do we start to see the contractors mobilising on site and getting into the construction work. A higher level of investment is needed once that activity begins.

The Convener: Has the level of expenditure on new projects and on Q and S III in the first year been no lower than was anticipated?

Geoff Aitkenhead: As Mr Mercer said, we anticipated investing £450 million in our delivery plan in the first year, and we invested £413 million, so we were £37 million behind our original delivery plan in the first year.

The Convener: That was from new projects and Q and S III, rather than from completing Q and S II projects?

Geoff Aitkenhead: It was due to a combination of both, because some projects in the Q and S II overhang have proven particularly problematic, as regards securing the necessary planning permissions and the land for certain waste water treatment projects that are yet to be concluded.

Alasdair Allan: The annual report, particularly around page 11, makes much—as has been said—of annual targets. Are you able to say anything more about interim targets? For instance, reference is made to the targets for the whole Q and S III period, but there is not much reference to the interim targets for 2006-07 as an individual year. What interim targets have been set by Scottish Water, and how does the actual progress measure up against them?

Douglas Millican (Scottish Water): Our principal targets are set for the four-year period. The regulatory contract is about delivering a set of objectives over that time within the financing that is allowed for that period. It is critical to ensure that we are on track as we move through the four years, so there are targets for every year across all our key measures, whether in regard to customer service—both the overall OPA score that Ronnie Mercer mentioned and the individual elements of customer service—or output delivery across each of the categories in which we need to make improvements in order to deliver the overall outcomes that ministers expect. There are also annual targets. For example, on page 11 of our annual report we show the one-year targets on investment as a slice of the four-year period and we show our performance in relation to those targets.

14:15

Alasdair Allan: I am not clear about that. Are you saying that the interim targets are being met? Are you satisfied with progress on that front?

Douglas Millican: In overall terms, we are outperforming our interim targets. Given the multitude of targets that we have, it is inevitable that in the odd area we slip behind the interim target, but when that happens we ensure that we take corrective action so that we recover in subsequent years.

The Convener: How was the target for a 23 per cent reduction in leakage set?

Geoff Aitkenhead: The leakage targets, which were set after the final determination for the current regulatory period, were agreed with the economic regulator as interim targets. Much work is needed in Scotland if we are better to understand leakage—Scotland is an outlier in the context of UK leakage levels. If we are to understand the starting point on leakage reduction, we need to install across the distribution networks in Scotland adequate metering facilities to measure water use in relatively small zones, so that we can work on those zones to reduce leakage.

We must also understand the economics of leakage in Scotland, which have changed significantly in recent years. Many communities have moved from having rudimentary water supply systems, such as gravity supplies from upland lochs or reservoirs that received little treatment—water was usually sieved and chlorinated—to systems that involve much more sophisticated treatment, whether we are talking about treatment works of the scale of those that we built in Glasgow or the membrane plants that we are putting in where there are small-scale supplies to rural areas in the Highlands. That significantly changes the economics of leakage, because it changes the value of the water that is lost through leakage.

We have agreed with the Water Industry Commission that by 2010—the end of the four-year period—we will have moved 50 per cent towards the economic level of leakage. By the end of December 2007 we will have calculated a first-pass economic level of leakage for Scotland, and by the end of December 2008 we will have refined that calculation, based on the detail that comes from the networks and the establishment of more district meter zones.

The interim leakage targets were set by the WIC, after it took a view on the rates at which water companies in England and Wales had reduced leakage, in particular in the early days of leakage targets. The English companies have more than 15 years' experience of working to leakage targets that are set by the Water Services Regulation Authority, or Ofwat.

The reduction in leakage in 2006-07 in Scotland was 100 megalitres—100 million litres—per day. That stands comparison with the in-year reductions of the best-performing companies in England and Wales.

Ronnie Mercer: It is fair to say that when we started we did not quite have the organisation in place to be able to handle the issue, but we have put it in place during the past year. We have about 100 people in Scottish Water against whom we can put the leakage label.

When we build big projects, like the one at Loch Katrine, we assume that a certain amount of leakage reduction takes place, so that we do not spend more capital than we need to. Leakage reduction is included in our calculations, so we have to solve leakage problems if we are to make the supply-demand balance work.

The Convener: I am interested because 23 per cent is quite a specific target—you have not rounded it up to the nearest five. Was the target derived from what you think you can achieve in a given timescale, or was it influenced by other issues that you mentioned, such as comparisons with other water companies—or was it an element of both?

Geoff Aitkenhead: It was very much influenced by determining what is achievable in comparison with the English companies and with what has happened elsewhere. It was also influenced by an initial view of what the economic level of leakage might be in Scotland, which we want to get ourselves on a path towards. The targets are quite aggressive. We have been asked to achieve quite large in-year leakage reductions.

The Convener: When you talk about the economic level of leakage, I assume that you are talking about the financial cost. Environmental costs would be external to that.

Geoff Aitkenhead: Yes, but the scene is changing. You may be aware that, in England and Wales, they are considering including the social and environmental costs in the cost-benefit analysis.

The Convener: Are we taking a look at that in Scotland?

Geoff Aitkenhead: We will, in due course. At the moment, we have a lot to do to address the large reductions in leakage that are needed. We will then finesse the process. I am sure that we will consider methods that are similar to those that are employed elsewhere.

The Convener: Do you have any idea when you will be able to tell us that you are proceeding with some of that work?

Geoff Aitkenhead: The appropriate time would be at the end of this regulatory period.

The Convener: The target for leakage reduction is 23 per cent. How much progress is being made, in the current year, towards achieving that target?

Geoff Aitkenhead: In 2006-07, which is the subject of the annual report, we reduced leakage by 100 million litres per day. In the current year, we estimate an outturn in the region of 820 megalitres per day to 945 megalitres per day. That is still quite a wide range, because of the uncertainties surrounding the issue. The target is 855 megalitres per day. If we achieve that, it would be an in-year reduction of 149 megalitres per day—149 million litres per day. That would rank as one of the biggest in-year reductions ever achieved by a UK water company. It is possible that we will achieve that, but we still have a lot of work to do.

The Convener: When you talk about millions of litres a day, the numbers always sound big. How does that compare with the percentage target?

Geoff Aitkenhead: Within the business, we do not use percentages. It can be quite misleading to talk in percentages, whether we are talking about the number that we started off with in 2002 or the figure for 2006, at the start of this four-year period, as a percentage of where we are today. I would far rather pin it down to volumes of water. I keep returning to the reduction in megalitres per day because there is real value for our customers in driving down the amount of water that we are losing.

The Convener: Forgive me, but what is the status of the 23 per cent target that is cited in the foreword of your annual report? Are you saying that you do not use that as the standard against which you measure your progress?

Geoff Aitkenhead: Within the business, we do not. The 23 per cent that is cited in the report relates to the figure in 2005-06—the entry point to the current regulatory period.

The Convener: Okay. So, will future reports in future years talk about your progress towards the 23 per cent target or will they talk about millions of litres per day?

Geoff Aitkenhead: It is difficult to say. To some extent, it hinges on what the economic regulator and the Government ask of us. Within the business, I will continue to talk about megalitres per day.

Ronnie Mercer: We thought that, in the report, a percentage would be easier for people to understand than megalitres per day. The figure of 23 per cent equates to 140 megalitres per day. We did not hit that target: we hit 100 megalitres per day. So, you can work out what percentage we hit, if you like—I will let you calculate it. In the business, we tend to talk about plugging leaks and the number of litres that we are saving, as that is how we work out supply and demand balances. We used the percentage because it was an easy way of explaining the matter, but we use both. Twenty-three per cent is 140 megalitres a day. We achieved a saving of 100 megalitres a day, which is less than 23 per cent.

The target of 23 per cent will have been passed by now, but the baseline renews itself every year. We start the new year with a lower base because we are not losing so much water, so we tend to count the reductions in millions of litres. That is more real to us, but we can do it either way.

The Convener: This reminds me of the committee trying to compare two Scottish Executive budgets in two different years.

What investment is taking place to ensure that there are sufficient sewerage and water treatment facilities in Scotland? Are there specific challenges in that area?

Ronnie Mercer: We have a plan of supply and demand that goes right forward. We have predictive modelling and we use a lot of work by other people to ensure that we have the water resources and the waste water treatment to do what we need to do. We also have to factor in a new thing called climate change: we will do that from next year, when we will get new models.

Meanwhile, we have a plan for the four-year period that takes care of all the growth that we are aware of in a staged way; I can ask my colleagues to explain the details. We do not just wait for something to happen and see whether we can cope; we have a predictive model that allows us to try to stay ahead of the situation. In addition, our growth has meant that developers now have fewer problems in building houses and factories. Such problems have died down because we have got ahead of them, and developers' plans are closely aligned with our progress, not just in their 10-year visions but in their plans for one, two or three years from now. We like to think that we are taking care of that, but I shall ask the experts to tell you whether there are any problems on the horizon.

Geoff Aitkenhead: The only point that I would add is that investment in water treatment works and waste water treatment works is always a combination of three things: base maintenance, to ensure that the works are capable of continuing to do what they do; quality enhancement, which is usually about ensuring compliance with urban waste water treatment regulations or European drinking water quality objectives; and growth, through creating headroom for economic growth, whether for housing or industry. The four-year programme that we are implementing contains all those component parts.

On drinking water, we will invest £895 million in maintaining and enhancing the quality of product from water treatment works, and we will spend £545 million on environmental improvements. A lot of that work will involve waste water treatment works, but a good deal of it will also be in the networks, where we are addressing storm overflows. The figure for growth is currently £189 million for the four-year period, to create headroom at treatment works for economic growth.

Alasdair Allan: On waste water treatment, I notice that four targets have not been met: improving waste water treatment works' discharges to meet new consents requirements; first-time provision projects to meet environmental objectives and directions; upgrading waste water treatment works to meet existing consents requirements; and the number of management and monitoring systems at works to meet integrated pollution prevention and control regulations. Why have the targets not been met in those areas and what problems have been encountered?

Geoff Aitkenhead: The information in the annual report sets out the four-year targets in those areas and the actual levels achieved in the first year. Across the range of issues that you have just described, there are two or three reasons why there has been a slow start in delivering the benefits. First, as we came into this four-year period, there was a lack of clarity around some of the targets. In particular, conversations with SEPA to clarify the IPPC requirements went on for some months after the beginning of the regulatory period. The original target of 61 systems is being reduced to a lower level and SEPA's requirements are different to what they were at the start of the four-year period. We could not start to invest until we were quite clear about the objectives and the targets.

The second issue is around ensuring that we do the right thing to secure environmental improvements. That involves us in investigative and feasibility work and carrying out flow and load surveys at works to understand their operating envelope before we start to invest, thereby ensuring that we invest wisely.

The targets for all those areas are modified by the regulators. The output monitoring group is chaired by a representative of the Scottish Government and includes all the regulators that we mentioned earlier—the Water Industry Commission, SEPA and the drinking water quality regulator for Scotland. If there is any change to the targets that are set for Scottish Water, that group manages it, the change is well recorded and an audit trail is laid. Because of the things that I have explained, targets in those areas will be delivered in the second half of the regulatory period rather than the first half. However, in the current year we will conclude improvements at a number of waste water treatment works to comply with existing and new consents.

14:30

Alasdair Allan: You mentioned that there was an initial lack of clarity about the targets. Is that a continuing problem or was it a one-off problem that has been addressed?

Geoff Aitkenhead: It has largely been addressed. As we go through the regulatory period, circumstances will change, and we expect that the requirements on Scottish Water will change from time to time. There is a well-laid change management process for logging those changes. The bulk of the objectives are very clear now and we are truly in delivery mode.

Alex Johnstone (North East Scotland) (Con): On page 6 of the annual report, there is a table that quotes Scottish Water's average charge as £297 and compares it with water companies in England and Wales. However, Scottish Water's website quotes the charge for customers in council tax band B as £285, which is only slightly less than the average in the report. Will you explain in slightly greater detail the basis for the comparison between Scottish Water's average domestic bills and those of English and Welsh water companies?

Douglas Millican: In simple terms, it is the total revenue that we generate from the household base divided by the number of household customers that we have. We find that the average household is somewhere between band B and band C, which explains why the average bill of £297 comes out as slightly higher than the band B figure that you quoted. The comparison with England and Wales is done on an identical basis.

Alex Johnstone: In England and Wales, there are 16 water-only companies, which differ slightly from the 10 companies that provide water and sewerage services. Are you able to make a comparison with those companies or only with companies that operate similarly to Scottish Water?

Douglas Millican: We could certainly compare the water element of the bill with the water-only companies. Clearly, we cannot do that for sewerage. For that, we can compare only with the companies that you see listed for sewerage in the table. Therefore, when we present the information in the annual report, it is easiest and most meaningful to customers if we compare the total bill in Scotland with the total bill for the vast majority of customers in England and Wales. However, we could do a more sophisticated analysis.

Alex Johnstone: If you were to do that more sophisticated analysis, would we find the results to be broadly similar or is there anything of which we are not aware hiding within the figures?

Douglas Millican: The general trend would be broadly similar. The principal skewing is on the waste water side, which is the largest element of our bill. You will see that South West Water is at the top of the table on page 6. It is at the top of the chart because the significant environmental improvements that had to be made in the south-west of England were covered by a relatively small customer base. The sewerage side skews things quite a lot but, on water, Scottish Water is generally competitive in United Kingdom terms. I would need to get back to you on the specifics of how we compare with each of the water-only companies.

Alex Johnstone: We stand on the threshold of competition in the non-domestic sector. Are you in a position to give us a similar water charging comparison with the equivalents in that sector in the south?

Douglas Millican: The comparisons get a lot more complex on the business side, because the water companies throughout the UK all have quite different bases of charging.

An issue that was identified in 2003 was that, in general, business customers were being overcharged by about £44 million to the benefit of household customers. We were required to unwind that cross-subsidy on a phased basis by 2010 so that, by 2009-10, we can all be reasonably assured that there is a broad and fair balance of charging to household and business customers. In that balanced environment, if we are towards the bottom of the table for household charges, we will probably be towards the bottom of the table for business charges, on average.

We are well on the journey to unwinding that cross-subsidy. The vast majority of it has been unwound so, in general, we are probably in the lower half of the league table for business charges, but making direct comparisons is difficult because of the different charging bases and because different businesses have different needs from their water company.

Alex Johnstone: Many of us who have been MSPs for a long time have regularly received inquiries from constituents who are at the smallest end of the non-domestic sector and who feel that they are being significantly overcharged. You say that you are progressing towards dealing with that. How quickly will you be able to ensure that we no longer have that flow of dissatisfied customers contacting us?

Douglas Millican: The cross-subsidy has largely been unwound—probably no more than about £20 million has still to be unwound. On issues for the non-domestic sector, I can speak only about how Scottish Water sets wholesale charges that retailers develop into whatever tariff offerings they want. I will talk about wholesale charges and Mark Powles might follow that up by referring to retailers.

In the past year to 18 months, we have done much work with the Water Industry Commission for Scotland on the industry's whole cost structure and on how tariff structures might need to be refined further to reflect cost more. From that has emerged the recognition that, at least in the wholesale element, the fixed-charge level, which has been a concern for some smaller customers, should be lower than it has been. The fixed element of the wholesale charges that will be implemented from 2008-09 will be relatively lower than it has been. How retailers incorporate that into retail tariffs for customers will be for them to decide.

Ronnie Mercer: We go competitive in April 2008, when customers will be able to choose between several suppliers. The member has got what he was after. Mark Powles will fight to hold on to what he can—that is his answer, which I have just given for him.

Mark Powles (Scottish Water Business Stream): Market forces will apply.

Shirley-Anne Somerville (Lothians) (SNP): Page 8 of your annual report does not list all 13 of the performance indicators that the Water Industry Commission has set. For transparency, will you explain why some indicators are missing? Is that because those targets were not met?

Ronnie Mercer: We are measured against all the indicators, so there is no problem with that. Every indicator has a measure—I ask Geoff Aitkenhead to read them out.

Geoff Aitkenhead: I do not have the full list of 13 measures.

Douglas Millican: I have found the list. The measures that relate to the water side are of drinking water quality, water pressure, the extent of unplanned interruptions to customer supply, the number of hosepipe restrictions and leakage performance against the regulatory target.

On the waste water side, three measures concern sewer flooding. One is the number of sewer flooding events from the overloading of customer pipes; the second is the number of sewer flooding events from other causes; and the third is the percentage of our customer base that is at risk of sewer flooding. The final two waste water measures are on the percentage of unsatisfactory sewage sludge disposal and the extent to which sewage works have met the discharge standard that the Scottish Environment Protection Agency has set.

There are three measures on customer service. One is the speed of response to billing contacts, the second is the speed of response to customer complaints and the third is the speed with which telephone calls are answered.

Shirley-Anne Somerville: A couple of those indicators have not been detailed in the annual report. I am not sure whether you are in a position to give us the full details today, but perhaps we could get some information about the gaps or the reasons for their absence from the report. That might help.

Douglas Millican: The two indicators that are missing are on speed of response with regard to billing contacts and customer complaints. Those are areas in which we showed good performance last year. We could provide you with specific information on our performance. The important thing to understand about the regulatory target is that it is designed to measure our performance across those baskets of indicators. It is quite possible—indeed likely—that although we hope we will improve, in some measures we might deteriorate from one year to the next. The key thing for us is to ensure that, in general terms, we are making progress in all 13 measures so that if we fall back in one or two, we are more than compensating for that across the remainder.

Shirley-Anne Somerville: Are you satisfied with the target for you to reach 250 points by 2010, and do you think that you are close to achieving it sooner than that? Perhaps you should consider doing better than that target, given that that score will be less than the current average for England and Wales.

Douglas Millican: When we started on this journey we had a score of 165 points, so reaching 250 points seemed like a very large mountain to climb. We did not set the target; it was set for us by the regulator. We had a very good performance in our first year and we continue to have a good performance. Therefore, the signs are encouraging.

However, it is important to realise that points can be lost quite easily as a result of, for example, unplanned interruptions to customer supply. There are 37.5 points available in that area. If there was a major burst on a trunk main serving a large centre of population and we did not repair it quickly enough, all of a sudden we would lose a big chunk of those 37.5 points. We are making good progress and our aim is to outperform the 250 points target and the intermediate targets for this year and next year, but we must never be complacent.

Shirley-Anne Somerville: We would be interested in the interim targets. Are there targets for individual areas of improvement within the 13?

Douglas Millican: The regulatory target for this year is 213, rising to 232 in 2008-09 and 250 in 2009-10. That is the external target that we are committed to meeting or beating. In managing the business, we set internal targets on each of the 13 measures to ensure that our people are clear about their contribution to the overall target. There is something against which we can monitor internal performance.

Shirley-Anne Somerville: So, the target is just an internal performance target. It is not available to the committee or to outside organisations.

Douglas Millican: I was talking about internal performance targets, but they are available to people externally, so that they can understand the targets that we are setting and see how we are measuring up against them.

Alison McInnes (North East Scotland) (LD): Mr Mercer, you referred briefly in your introductory comments to climate change as a new challenge. I am not sure that I agree that it is a new issue, but your organisation is obviously at an early stage of tackling it.

On page 16 of your annual report, you say that you have set up a team to look at the impact of adapting to climate change. Could you give me more information about how that team is working and when you think that Scottish Water will be able to report on its work? You could then perhaps explain how the target of meeting 5 per cent of your energy needs from renewables was decided. Finally, given the changing pattern of rainfall that we are seeing, are your waste water and water treatment plants at greater risk of inundation? If so, what budget provision has been made to protect that infrastructure?

14:45

Ronnie Mercer: On your first question, we use models to work out where water resources are needed. Very often, climate change has been illustrated in terms of the effects of, say, a 1°C rise in temperature—we have all seen dramatic pictures on the news of ice sheets breaking up and so on. However, for us, the issue is just as much about water resources and flooding. We do not just take a blanket approach with those models. Instead, we go to different areas of the country to find out what happens there, what the growth prospects are and what the demands on us will be over the next four years, the next eight years and so on. We then work out whether we are able to satisfy everything.

We use data from the United Kingdom climate impacts programme, which works on general climate change issues with support from the Department for Environment, Food and Rural Affairs. Last week, I met the programme's representatives. We keenly await its new models, which will come out next September. The models examine 25 years of weather patterns; even when dramatic events such as those in Gloucester and Yorkshire this year are evened out, the chances are that the patterns from 1970 to 1995 will be somewhat different from those from 1980 to 2005. We will then fit those observations into the work that we do with such data to find out whether our thinking on and assumptions about growth, water resources, flooding issues and so on are still relevant. All the water companies plug into the UKCIP for data and then apply those data to their own geography and knowledge.

Secondly, you asked about our 5 per cent energy from renewables target. I will pass that question over to our experts, but I should point out that we are aware that our carbon footprint is increasing. After all, the treatments that we have to carry out tend to add to the amount of electricity that we use. I am also acutely aware that our electricity bill is increasing. It would be nice to get that bill down and to shrink our carbon footprint, and we are considering which of our sites we could use for small-scale wind and hydro schemes to help with both issues.

As I said, I will pass the question about the 5 per cent target over to my colleagues—of course, I realise that it is not the same as the 23 per cent target that the convener asked about earlier.

Douglas Millican: Some of our water treatment facilities have small-scale hydro generation, and we are actively considering how we can expand on that. For example, we are looking at where in the new sites that we are developing through our capital programme it would make sense to establish hydro-generation schemes. We will then examine where we can retrofit schemes in our installed asset base. Finally, as Ronnie Mercer mentioned, we are considering the scope for small-scale wind generation or for schemes that use sewage sludge as a fuel for generating energy value.

We will establish some of those schemes ourselves, particularly if they involve putting assets into our installed asset base. In other areas, we will look to work in partnership across our asset base with others who are perhaps more skilled in the energy generation field.

Alison McInnes: The 5 per cent target seems rather unambitious if you have already established some schemes. Do you hope to increase it?

Ronnie Mercer: There are two ways of looking at the issue. On the one hand, we could find out how many hundreds of millions of pounds it would take to eliminate our carbon footprint. On the other hand, we could tackle the issue on a scale that would allow us to do something now instead of getting us involved in a debate about spending huge amounts of money. At the same time, we could think about others who might fund and construct such schemes. After all, as long as our name goes on the door and our footprint is reduced, I do not care whose money we use. Such an approach will save us from going to the regulator and having to disturb all the schemes on which we are spending money for Scotland's people and businesses. We are exploring all those avenues, but we would rather not have to work our way up from some grand slam of statistics. We are going to school on what we have already done and are talking to people in the generation business about how we can reduce our carbon footprint with a view to getting them to help us—and perhaps to do a bit of the work for us.

Shirley-Anne Somerville: Following on from Alison McInnes's question, if some of those schemes are in place, and if you are aiming for 5 per cent, what is the baseline figure?

Ronnie Mercer: However many megawatts come to 36 million quid a year. That is the bill.

Shirley-Anne Somerville: If we could get an answer in percentage terms—

Ronnie Mercer: We can have a go at that. We have usage figures, but—obviously—the situation varies from place to place.

The Convener: I think that the question is: if the target is for 5 per cent of your energy needs to be met from renewables, what percentage comes from renewables at present?

Douglas Millican: I am looking at the language that we used. The annual report talks about

"generating 5 per cent of our energy from our own renewable sources."

At the moment, we generate nearly 5 per cent. In terms of where we go from here, we need to work out what it is feasible and sensible to do.

Fundamentally, we are a water company. As such, our priority is to ensure that we deliver our services as economically and effectively as possible. It is absolutely the case that we need to drive down our carbon footprint as much as possible, and the first place to look is at reducing our energy use. One of the most important things for us to do is to drive down leakage. If we do that, we have less water to treat and pump. Our primary focus is to try to improve our energy efficiency. The secondary objective is to see where it is cost effective and appropriate for us meet our residual demand by generating energy from renewables. We are primarily a water company, not an energy company.

The Convener: However, at present, the target is 5 per cent and you believe that you are using pretty close to 5 per cent. Is there no target for substantial expansion in renewable energy consumption?

Douglas Millican: We do not have a specific target. We are looking at where it makes sense to increase renewables within our asset base.

The Convener: As you are aware, one area that will dominate our agenda this year and next is the climate change bill and the Government's intention to achieve the long-term target of an 80 per cent reduction in emissions throughout the economy, which is equivalent to a target of 3 per cent a year. Obviously, if that target is not achieved in one area of the economy, the rest of the economy will have to work all the harder. Could Scottish Water do 3 per cent a year?

Ronnie Mercer: I do not know. We have looked at what we could do—the art of the possible—in a small way, and at what we could do if we had to go at it big style. We have not yet landed on where we want to be. Obviously, instead of having big plans and doing nothing, one should start small and do something. It is difficult to put a specific percentage on what we could do in that regard. We can take the question away with us, however.

The Convener: At present, then, the answer is no. You are not convinced that Scottish Water could achieve a 3 per cent per annum reduction.

Ronnie Mercer: No, I would not say that. We will take away the question and look at it. If there is enough money to throw at something, one can probably do a number of things. Our view is that we are not funded to do that at the moment. We also think that that is not necessarily the right way forward. We might be able to persuade others to come in and do the work for us—they would also benefit from the generation. We are looking at how we can get others to help us to get there. I do not know what the figure will be.

The Convener: I have one further supplementary question, after which I will bring back in other members. I have received correspondence from people who suggest that some of Scottish Water's actions are not helping other parties to reduce their energy consumption. The correspondence was about metering on construction sites. If water is not metered, companies use it wastefully—the waste could be immense. Is there any prospect of changing the situation, which I gather is quite new?

Geoff Aitkenhead: The situation has changed, and we will have to keep it under review. Previously, meters were used on construction sites in some parts of the country. In managing the supply of water to building sites, the biggest issues for us are ensuring compliance with bylaws and that there is no back-syphonage into the public water supply. We are keen to ensure that the arrangements that are put in place protect the public health of people who are connected to the supply. We will keep the metering of those supplies, and the charging arrangements, under review. I think that I am right in saying that the tariff arrangements will increasingly fall not to Scottish Water wholesale, but to business sector retailers.

Douglas Millican: In the business sector, the general trend is towards a much greater level of metering. We have a programme running throughout Scotland to meter every business customer that is not currently metered, where it is physically possible to do so. We are moving in the direction of measured consumption for business customers wherever that is practicable.

Ronnie Mercer: Alison McInnes's final question was about rainfall. A Water UK group—we are one of 11 large companies in Water UK—is considering that issue. There have been two big incidents in England this year, in Gloucester and in Yorkshire. The group, of which I am a member, is considering whether our previous assumption on what constituted a reasonable emergency situation still holds now that such incidents have happened. We have joined the other companies to consider whether we need to rewrite the rules about what people expect in emergencies. We have less trouble with drinking water in Scotland, because it is often higher up, which is fortunate. However, waste water can be where the people are when flooding happens. We will review our emergency arrangements, based on what happened during those incidents and on the recommendations that emerge from the group.

Alison McInnes: We are all aware that there was a major issue about Scottish Water's ability to provide new water and waste water capacity to allow new homes to be built. You mentioned that earlier. Page 22 of Scottish Water's annual report states that £100 million is available under Q and S III for new connections. How many new connections will that money provide, and how closely does that dovetail with local councils' development plans?

Geoff Aitkenhead: Perhaps it would be better to talk about the headroom that we are creating rather than the number of connections, because the target that has been set for the business is expressed in the population equivalent that could be connected to our treatment works going forward. In round figures, the number is 18,000 people for drinking water and 40,000 for waste water. Our investment will create more headroom than that.

The important point is that we watch the level of activity within the development sector, match it and ensure that we provide capacity when and where it is required. In 2006-07, the year that is covered in the annual report, we connected just over 25,000 new homes to the Scottish Water networks. That figure is higher than recent records, which reflects the general level of activity in the development sector. We think that our outturn this year will perhaps be just over 20,000, which is a little bit short of what we did last year. That is driven largely by the development sector rather than by Scottish Water.

Throughout this regulatory period, from April 2006 onwards, we have worked closely with all local authorities, with individual developers and with their trade association to ensure that we are in step with their needs and priorities. In comparison with 2002-06, when the provision of headroom for growth was not a funded activity for Scottish Water, we are in a very different place in respect of our ability to service the needs of the development sector.

The Convener: The number of new properties connected in 2006-07—25,525—is cited as a record. The Government is talking about increasing the number of new homes being built each year by about 10,000. That seems to be a big ask, from your point of view. Did the Government discuss the achievability of that target with Scottish Water before setting it?

Geoff Aitkenhead: I am not aware of any discussions about the target between Scottish Water and the Government. It is clear that there are ministerial objectives on the provision of headroom for growth in our treatment works. The minister at the time made it clear when he set the objectives that the numbers that Scottish Water is being asked to provide for are estimates and that, if they were to change over time, the Government would revisit the objectives and the targets. We liaise closely with the Government on the rate of uptake for new connections and the rate at which we are investing in the provision of headroom.

We are conscious that, at some stage, we may need to go back to the outputs monitoring group that I mentioned earlier, which comprises the Government and the regulators collectively, to tell it that the run rate exceeds the rate for which Scottish Water's level of funding allows us to provide and the rate at which we anticipated connecting properties during the present regulatory period, and to ask whether we can talk about how to rectify that. The good news is that we will do that when we see the problem coming, not when we have gone past the point of being able to service the needs of developers. We are adamant that we will not get back into the position that we were in in 2002-06.

15:00

The Convener: You referred to the minister setting targets. Was that done before the Government announced its ambitions for an increase in house building?

Geoff Aitkenhead: Yes. The targets were set when the then minister set his objectives for the Q and S III period, 2006 to 2014, but the caveat was that they were to be revisited.

The Convener: Yes, but they have not been revisited yet.

Geoff Aitkenhead: Correct.

Charlie Gordon (Glasgow Cathcart) (Lab): I have a supplementary to the convener's supplementary. In the bad old days of Q and S II, Scottish Water used to send a circular to every planning authority that had a list of sites colour coded green, amber and red. I take it that you do not do that any more.

Geoff Aitkenhead: We still produce a report every year that sets out the strategic capacity that is available in our water and waste water treatment works. We publish that report and share it with local authorities and developers, but it is only a snapshot of the situation at the time. It is produced at the end of the financial year, to tell people how much headroom is available in each community in Scotland.

Charlie Gordon: There are bound to be red traffic lights against sites that have become a gleam in a developer's eye. After all, the Government's expectations might be exceeded—we might be entering a period in which people want to build even more houses or create even more jobs—by building offices, shops, factories and the like—than we anticipate. The fundamental point is that most other utilities say that more development is good because it means more customers for them. Do you consider what we might call "excessive growth" to be more of a problem than an opportunity?

Geoff Aitkenhead: No, we do not. We are a utility company, just like other utility companies. Our intention is to service the needs of economic growth, wherever in Scotland that takes place. We must work closely with local authorities, Scottish Enterprise and the development sector to understand what is coming down the track and what the priorities are. It is not always easy to get a clear declaration of priorities, but we endeavour to get that information from the development sector and from local authorities, so that we can provide the headroom that is required in our treatment facilities at the appropriate time.

We seek to avoid the creation of stranded assets. We do not want to invest our customers' money in enlarging a water treatment works or a waste water treatment works only to find that an aspirational development does not happen. We liaise closely with the development sector, so that we understand its priorities, and with local authorities, so that we understand how they anticipate proceeding. If a development is included in the local plan and the developer owns the land or has in place agreements to build, has planning permission and is investing his own money in developing the site, we will work with him to do what is necessary to provide the headroom.

Charlie Gordon: That is all very well, but let us imagine that an inward investor steps off a plane and sees a greenfield site that he quite likes. What if he says that he would like to build a factory on it that will provide 500 jobs and asks whether you can quickly throw together some infrastructure for him?

Ronnie Mercer: I met the top 20 developers in a room and asked whether we were getting things right. "By the way," I said, "You're sitting next to your account manager." We have account managers for all the big developers so that, instead of just having grand targets, we see what is going on with the people who build things—the people with the JCBs, the pallets of bricks, the mixers and the bodies. We keep quite close to them. It is good news when they phone us, for the very reason that you spotted—it means that we will have more people to send bills to, which in turn means that we will be able to keep the business going. I have said that openly in front of the team. We welcome development; we just need to ensure, as Geoff Aitkenhead said, that it is carefully managed on a timescale that does not result in our putting in something from which we do not get a return—in other words, a stranded asset.

Charlie Gordon: I am sure that your procedures work well with the indigenous development industry, but other situations can arise. To pick an example that is topical and in the news, Donald Trump stepped off a plane and out of the blue spoke about a vision for a site—I am sure that that was not on anybody's radar screen.

Geoff Aitkenhead: We try to be aware of those windfall developments through discussions with the Government or Scottish Enterprise, which shares intelligence with us if such developments are coming. Partly, the trick for Scotland plc is to bring inward investment into areas where infrastructure exists and where we can leverage that.

Charlie Gordon: That is music to my ears.

How many sustainable urban drainage systems are you creating and where are they?

Geoff Aitkenhead: There are a lot of SUDS in Scotland. Some of them are owned by local authorities and others are owned by private developers. We will publish this week the second edition of the "Sewers for Scotland" document, which contains the specification for sustainable urban drainage systems. That makes clear to developers the design specifications for SUDS that will ultimately lead to Scottish Water adopting them for operation. Off the top of my head, I cannot say how many exist, but I could get that information. We are considering closely the adoption of many of the existing systems—as long as they are up to standard—irrespective of who the current owner is. In some cases, the owner may need to upgrade the system to the standard that we wish before we adopt it. However, in future, the management of sustainable urban drainage systems will rest with Scottish Water.

Charlie Gordon: So the situation is a bit like that with roads authorities, which have guidelines for development roads—they must be of an adoptable standard.

Geoff Aitkenhead: That is right.

Charlie Gordon: In the development industry, is the payment of a bond involved, in case someone goes bust during the development of infrastructure?

Geoff Aitkenhead: By and large, no—that is not a road that we go down.

Charlie Gordon: It might be worth thinking about.

The Convener: Progress on those systems might be music to my ears. However, Charlie Gordon and I have very different tastes in music.

Charlie Gordon: I am for growth, convener.

Ronnie Mercer: So are we.

Charlie Gordon: But the convener is not.

The Convener: The Water Services etc (Scotland) Act 2005 introduced an element of retail competition and requires the separate company, Scottish Water Business Stream, to be independently managed, governed and operated. However, Ronnie Mercer is chair of both companies. Why is that? Is the situation compatible with independent management, governance and operation?

Ronnie Mercer: I was asked to do the job and said yes—that is the simple answer. I said that I would be happy to help out at the beginning. It was probably useful in allowing us to separate the two companies—it has been quite a job separating them. The managing director of Scottish Water Business Stream is Mark Powles, who came from outside Scottish Water. The sales and marketing director is from outside, too—he is a marketing specialist. The company has an entirely different board of non-executive directors, who, obviously, are external. I am the only common factor, and I am doing the job because I was asked to do it.

People who work for Scottish Water, such as Geoff Aitkenhead and Douglas Millican, cannot get into the Scottish Water Business Stream building—I can, because my key gets me in, but they cannot follow me. It is pretty separate and if you went into that section, you would see just how separate separate is. The best example of the separation is that the two companies are now falling out—that is the ultimate. Scottish Water as a wholesaler will have to cater for all the retailers in the business, and I rather think that it will fall out with a few people come April 2008. Mark Powles has to move out of his building by September 2009—that is part of his deal with the regulator. Apart from me, the separation is pretty black and white.

The Convener: Does the requirement for separate governance and management mean that there will be separation at the level of the chair, too, in the longer term?

Ronnie Mercer: I do not know—you will have to ask the owners. They asked me to do the job and I have done it, but if they ask me not to do the job, I will not do it. That question is for the owners, rather than for me.

Douglas Millican: From the Scottish Water angle, we have two rules. As a wholesaler, we are separate from Scottish Water Business Stream—that is how the falling out can occur—but, as the holding company, we are the owner of Scottish Water Business Stream and we are investing £25 million in that business. We exercise governance over that investment by having the chairman of Scottish Water as the chairman of Scottish Water Business Stream.

The Convener: It does not sound strictly like separate governance to me.

Douglas Millican: There is absolute operational separation. Scottish Water Business Stream operates, and makes decisions about how it operates, independently of Scottish Water. However, as it is effectively the owner of Scottish Water Business Stream, Scottish Water has to put equity into the business, so we have invested £25 million. That is a financing issue and is quite distinct from operational separation.

David Stewart (Highlands and Islands) (Lab): I have two questions: one about Scottish Water Business Stream, and one about the structure of both companies.

From the perspective of a future business user, what differences in service, delivery and cost will business customers perceive between Scottish Water Business Stream and Scottish Water?

Ronnie Mercer: I see a difference in the culture of Scottish Water Business Stream ahead of a threat of competition. Even if that threat does not come to anything, the company is still acting differently because of it. I ask Mark Powles to say something about what has changed since he showed up, now that we are facing the brave new world of competition in April 2008.

Mark Powles: I reiterate what Ronnie Mercer just said. I have never seen a market open up in which service has gone down and prices have gone up. Our focus is on delivering what the customers need, because we will not keep them if we do not do that. Our culture is therefore about putting the customer at the heart of everything that we do. On how that translates into improvements, our account managers, who deal with customers, do not simply react to an incoming call when something is wrong; we make proactive calls to customers about their consumption and how they use water. We look for ways in which we can improve the service that we give them.

We are not just interested in providing a telephone service, so we have developed a website that will enable customers to sign up for direct debits, provide their own meter readings, and get help and advice on how they can use water. We are therefore far more customer-centric than before. The people whom I have brought into the business, and the training that we provide, focus on customer service.

David Stewart: If my spies are correct, there are two competitors in the business already—Satec Ltd and Aquavitae UK Ltd. Obviously, it is not for you to talk about their performance, but how do they compare in terms of size and scale of operation?

Mark Powles: From the market intelligence and research that we have gathered, they are small operators. My job is to retain as many customers as I can by looking at those companies' propositions and ensuring that I do a better job by offering value for money. We are trying to put together competitive strategies for when the market opens.

David Stewart: I have a final question on that before I move on to a question about structure. In any new business situation, there would be differentiation according to either price or quality, but it is hard to have both. What is your target plan? Your prices are regulated, but are you going to focus more on quality or on price?

Mark Powles: It will be a bit of both. We have a large consumer base that goes from independent retailers right through to big industrial customers, and we cannot have a one-size-fits-all target. At different ends of the scale, we will determine whether to focus on service or price.

We have segmented our customer base. The needs of a big industrial unit are very different from those of a big multisite retailer. We are now putting in competitive propositions for those different markets. In some areas, it will be all about price; in some, it will be a mixture of both; and in others, it will be about service, which our research tells us is the most important factor.

David Stewart: We are all aware that your predecessor bodies, including the one that I know particularly well, were deemed too small to compete in the new market, but is the current structure right?

One of your answers might well be that the 2005 act says that it is, but let us put that to one side for a second. Scottish Water Business Stream is quite a large company in the great scheme of things, so would it aspire to take over other operators—if the 2005 act allowed it to, of course—in England, Wales and, indeed, Europe? Would you like to provide a service in other parts of Europe? For example, I know that the company is currently reading meters at Heathrow airport.

Is the current structure right for the business consumer in terms of price and quality, or would another structure allow you to compete better so that the consumers, who, I hope, are listening to your evidence, get a better deal in the long term?

15:15

Ronnie Mercer: Are you thinking of business customers only?

David Stewart: I am thinking of both domestic and business customers.

Ronnie Mercer: On the business side, the market is limited to Scotland at the moment. Should the England and Wales market open up in the same way, Scottish Water Business Stream would be interested, but that has not yet happened. People in England and Wales are looking hard at the issue, because competition has not been made to work there in the way in which they would like it to. They will watch with interest what happens up here. If the domestic market opened up, I guess that Mark Powles would be interested.

At the moment, we have a massive amount of money—£2.4 billion at outturn prices—to spend on improvements for customers in Scotland. We do not intend to risk that on ventures elsewhere that may not be successful. To be honest, we have enough to be going on with. I am relatively happy to continue on our current path and to spend our money for the benefit of Scotland, to attract business into Scotland and to enable developers to develop in Scotland. I am not knocking on anyone's door to change the situation.

David Stewart: I understand that point. Clearly, there is constraint, but if the 2005 act were amended to allow you to acquire other companies, so that your mass and economies of scale changed and you were able to provide a better service for Scottish consumers, would you do that?

Ronnie Mercer: That is a hypothetical question. We are perhaps the fourth-biggest water company in Britain. None of the others can join with another company, because they are banned from doing so by the regulator. We are at no disadvantage in that respect. If the 2005 act were changed, we would consider what that meant, but right now I will not hypothesise about what we might do. Trying to deliver the programme that we have is not for the faint-hearted and we have plenty to do. We hope to keep up what we are doing in Scotland.

Alex Johnstone: I have an overarching question that relates to many of the issues that we discussed earlier. Scottish Water is managing an enormous investment programme that has taken up a surprisingly high proportion of the Scottish civil engineering industry. A number of other major projects are afoot both inside and outside Scotland that may begin to impact on the industry. Are you content that supply and demand are in equilibrium, or is there a danger that continued investment may result in inflationary pressures in the civil engineering industry?

Ronnie Mercer: We keep close to all the people in our supply chain; the week before last, we met bidders for the next round of Scottish Water Solutions contracts. At the moment we are in reasonable balance, but if I were Geoff Aitkenhead, I would never feel relaxed about that, because the situation can change. The Olympic games will be held in England and the Commonwealth games are coming here. It is a stretch, but right now we are okay to do the programme. Geoff Aitkenhead may want to add something.

Geoff Aitkenhead: As Ronnie Mercer said, I would never be relaxed about the issue. We must ensure that the supply chain is lined up, especially when we are endeavouring to deliver such a large programme in four years. We are committed to delivering the outputs for our customers within that period. We work closely with the Civil Engineering Contractors Association in Scotland, which gives us good advice about what is happening in the market. The Association of Consulting Engineers also helps us to understand what the market is like.

We are endeavouring to give our supply chain, both contractors and design consultants, a forward view of our programme. When the market is as hot as it is—I have been in the construction industry for more than 30 years and have never seen it so hot in the UK—it is important to be an attractive client. Contractors and consulting engineers value forward visibility on the order book, so what Scottish Water brings to the Scottish construction sector is very material. The closer that we can liaise with CECA and the various contracting companies with which we do business, and the better the partnership that we form with those companies, the better will be the chance of our delivering our programme efficiently and on time. In the end, the issue will be which contractors turn up on time to do what needs to be done, so that we can get the job done efficiently and move on.

To put the current programme into context, whereas the Q and S II programme involved 5,700 projects throughout Scotland, so far—18 months into the current programme—we have launched more than 3,500 individual projects throughout Scotland. A huge logistical challenge is involved, as the delivery of those projects requires a lot of resource. Without the skills and abilities of our delivery partners—and organisations such as CECA, which can give us an overview of what is happening in the marketplace—the job would be incredibly difficult, but with the co-operation of the supply chain it is doable.

The Convener: As there are no further supplementary questions, I thank all four witnesses for their evidence. No doubt we will have opportunities in future to continue the dialogue on some of those issues.

I suspend the meeting briefly to allow the witnesses to leave the table.

15:20

Meeting suspended.

15:22

On resuming—

Petition

Bridge Replacement (PE1064)

The Convener: Agenda item 2 is consideration of petition PE1064, on the replacement of the Forth road bridge. I am sure that members have had an opportunity to read the petition and the extract from the *Official Report* of the Public Petitions Committee meeting at which it was considered.

It will not come as an earth-shattering surprise to members when I say that I personally am sympathetic to the petition. The idea is that the Government should not commit itself to a particular course of action when there is only a very little time to wait until we know the situation with the existing bridge. I am sure that members could anticipate that I would take that view. Do members have other views? It is possible that we might not have complete unanimity on that point.

Alex Johnstone: The subject of the petition fits in closely with our work on the Abolition of Bridge Tolls (Scotland) Bill and on the future of the existing Forth bridge. However, the direction that many committee members, including myself, have chosen to take goes very much against the thrust of the petition. Therefore, it is only fair to the petitioner that we make it clear that we are going—and, I believe, need to go—in a different direction. I do not support the petitioner's proposal.

Alasdair Allan: I, too, have concerns about elements of the petition, in particular its assumption that the existing Forth road bridge could be patched up indefinitely without causing too many problems for road users.

I also have a significant question—which I hope someone can answer—on timing. Will the Government reach a conclusion on the issue before we have a chance to deal with the petition?

The Convener: The expectation is that a decision will be made by the end of the year. The petitioner's position is that the process should be halted until further information is known.

I am not under any illusions about the possibility of a short discussion today changing the balance of views among members. However, I will make two points about the perception that the petitioner will have been given by the hearing that the petition received at the Public Petitions Committee. First, it was suggested by a member of the Public Petitions Committee that this committee had visited the bridge specifically to consider this issue. The reality is, however, that we undertook a visit principally to find out about the tolling regime as part of our scrutiny of a separate piece of work that the Government is pursuing. Secondly, it was the expectation of the convener of the Public Petitions Committee that, once the petition had been referred to this committee, there would be some rigorous scrutiny of it. That point was not disagreed to by members of any political party at the Public Petitions Committee.

Therefore, I make the case that we should examine the petition in some detail, even if it is only on the basis of what can be done with the existing bridge, as there is no real expectation that it will be demolished if a new bridge is built.

Charlie Gordon: People know the direction that I and my colleagues in the Labour Party are coming from in relation to another Forth crossing. The petition invites us—as you have just done, convener—to have a debate that could be said to be premature because, as the clerk's paper indicates, a formal proposal for a second Forth crossing will soon be made. In my view, that will present an opportunity for the views that are expressed in the petition to be taken into account. That strikes me as better than initiating a debate in what is almost a vacuum.

The Convener: I hear what you are saying. The flipside of that argument is that it is not the committee's scrutiny but the proposal for a replacement crossing that would be premature, as such a proposal would be made in the absence of information about the prospects for work on the existing bridge, which is expected to be available in a short number of months. I am sure that members are aware that further press coverage today reinforces the public perception that the new bridge will be an additional bridge, rather than a replacement, given that the prospect of repairing the existing bridge for the longer term is being seriously considered.

I want to ensure that, by the time that any proposal comes from the Government, we have the latest information about the state of the existing bridge. That is the bare minimum that I expect the committee to want to have at that stage. However, it might be worth writing to the Forth Estuary Transport Authority to find out whether it can give us an update on the work that it is doing on the condition of the existing bridge and to ask when it expects to be able to give us fuller information.

Shirley-Anne Somerville: Obviously, you are aware of the Scottish National Party's position on the matter, given what the minister has said already. Because the decision is so close, I think it unlikely that we will be able to get into the petition in any detail and consider it as the petitioners would like us to. If the minister is close to making a decision on the matter, the appropriate time for the committee to consider the petition might be after that decision is announced, when we examine how it was arrived at and decide whether it was the correct one.

The Convener: Given the balance of views, do members agree to schedule some time to consider the petition, accepting that that is most likely to happen when the Government has come forward with a specific proposal? Do members further agree that, in the meantime, we should write to FETA seeking an update on the state of the existing bridge and on any work, related to the condition of the cables and the anchor issues that have been reported today, that is being contemplated to repair it for the longer term, and asking when fuller information might be available?

David Stewart: Can we also include the question of cost? As you will recall, I asked the cabinet secretary a few questions about cost. I think that that is where the £3 billion figure came from.

The worry that we all have about large projects relates to timescale and cost. It might be useful to ask the minister, in due course, for updated estimates of the cost of the new crossing. Obviously, the cost will depend on whether the model that is chosen is a bridge or a tunnel. Nevertheless, it would be useful for the committee to see those updated figures.

The Convener: Yes—obviously, we want to look at the costs of those options, if they are being explored.

Do we agree to the suggested course of action and to keeping the petition open for the time being?

Members *indicated agreement.*

The Convener: I thank members for their participation in today's meeting.

Meeting closed at 15:30.

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