

Customer Engagement in setting water prices and investment priorities in Scotland

In partnership with the OECD Studies on Water: Stakeholder Engagement for Inclusive Water Governance

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Organisation: Scottish Water

Country: United Kingdom

Level of government: Central government

Sector: Environmental protection

Type: Communication

Launched in: 2011

Overall development time: 2 year(s) 5 month(s)

Link to the innovation's website

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Description

In Scotland, a Customer Forum was launched in September 2011 in an effort to give water customers a voice in setting water prices and service performance levels with Scottish Water. In particular, the forum was created in the midst of negotiations regarding the 2015-21 business plan of Scottish Water, the publicly owned water and wastewater corporation that serves 5 million inhabitants. Indeed, the service provider was determined to include detailed customer inputs into the price-setting process and investment priorities.

Throughout 2012-13, the Customer Forum met on a regular basis with the support of the service supplier to discuss information from a range of sources and to share their views and priorities across a wide range of expertise. The engagement process culminated in January 2014 when the forum and Scottish Water reached an agreement on a business plan, which was followed by a statement from the Water Industry Commission for Scotland (the regulatory authority in the sector) in support of this plan and all the customer input it contained.

The agreement over Scottish Water marked the completion of the first cycle of engagement for the Customer Forum. An assessment of the overall engagement process was presented in an academic report to guide decision makers on whether it would be beneficial to include customer involvement in performance monitoring processes to ensure that customer demands are met.

The Customer Forum is a temporary body created to contribute to setting water prices and investment priorities. It is currently being assessed by the Scottish government and regulator to decide whether it can stand the test of time or whether it can only work as a time-limited tool introduced to influence particular events or strategies.

Why the innovation was developed

- Price setting and investment setting are highly regulated functions and the delivery agent is a public corporation and a monopoly. The introduction of a customer forum was designed to introduce challenge at a detailed level to ask the difficult question to press for a better deal for the customer from close to the process as a non statutory voice for customers.
- The economic regulator saw it as a chance to fine tune what is otherwise an econometric process based on responding to a service proposition from the service provider. Statutory regulators for environment, water quality and the customer are closely involved in the monitoring of performance and stand ready to act to defend their specific area of interest.
- The Customer Forum's strength was as panel of experienced public figures going up close and fine tuning Scottish Water's business plan in the heat of a negotiation process without regulatory responsibility. Academia took a close interest in what is a novel process.
- The critical driver was ensure a detailed customer input to the price setting process that could in effect question and probe the monopoly supplier and 'negotiate' for a suitable deal for customers with the direction and agreement of the customer and economic regulator.
- Science, academia and research centres
- Regulators
- Service providers
- Consumer associations
- Civil society
- Governments

Results

Efficiency

- Cost-saving: The additional engagement added to the time and expense burden for the Service Provider but this was willingly exchanged for a more customer credible and focused result in terms of price and priorities.
 - Broader economic development: So far only applied to water sector but other regulated sectors looking at the model with interest.
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Effectiveness

- Sustainability/resilience: The results inform the published Scottish water business plan and the Water Industry Commission for Scotland determination of charges. Prices are set for 6 years at a time so the impact is a below inflation (CPI) price settlement for customers (prices fall in real terms over the next 6 years) along with increase in service standards.
 - Capacity-development: Both the Customer Forum and those engaging with it had to focus on evidence and negotiate a settlement based on that understanding so a real knowledge exchange and application.
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Service quality

Responsiveness:

- Acceptability/ownership of stakeholders involved: Full ownership and acceptance an absolutely vital pre-cursor.

Development

Design

The Economic regulator for the water industry in Scotland (Water Industry Commission for Scotland), The statutory Consumer representation body, (Consumer Futures now replaced by Citizens Advice Bureaux Scotland). The water and waste water utility (Scottish Water) and its owner the Scottish Government.

Testing

- No methods were used to test the innovation.
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Implementation

Tools used:

- The Customer Forum has no legal entity and is in effect a temporary body created by a memorandum of understanding between partners created as a tool for a particular purpose. Going forward that lack of wider accountability beyond that afforded by its sponsoring regulators and through the acceptance of Scottish Water and Scottish Government lack of legal entity which is considered by many a short term strength needs to be examined closely to see if it can stand the test of time or whether it can only ever work as a time limited tool introduced to influence particular events or strategies.
- The study relies upon direct face to face discussions between a small group of 'customer representatives' and the service provider Scottish Water. Structurally it was essential to have Regulator and to a lesser degree Government support and agreement. With any customer representation there are questions of legitimacy and authority to speak for all.
- In this case the Customer Forum has a wide range of expertise benefitted from access to research and information from a range of sources and gained the respect and co-operation of the service provider. A lack of formal structure or legal entity was a benefit in the short term but is more controversial in the long run.

Resources used:

- The Customer Forum was funded from the regulators budget but essentially covered panel expenses and a modest research budget.
 - In kind administrative and policy support from Government and Regulators. As an adjunct to existing structures the costs were modest and simply managed within existing budgets.
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Challenges and solutions

- Conception/design: Developing an agreed set of memoranda of understanding to ensure all parties understood the role of the Customer Forum and supported it.
- Development/deliberation: Rapid development of concept down largely to Water Industry Commission for Scotland input.
- Implementation/operation: Recruitment of Forum members took some weeks but worthwhile to get membership of suitable skill and experience.
- Evaluation/monitoring: Some evaluation has now occurred but further review has been proposed to help shape any future role. This is a novel concept and process so right that review is thorough before agreeing any extension to the Customer Forum role.
- Any new concept will present challenges but critical here was the acceptance and indeed embrace of the regulators and regulated partners along with the support of Government. Keeping the customer forum non statutory and relatively loose in form meant it was able to move quickly into being and productive contact with Scottish Water. Provision of high quality data and research materials along with technical guidance notes meant everyone had equal access to information in the negotiating space.

Lessons Learned

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- The critical lesson here is that for real impact all parties must 'buy in' to the process intellectually and with resources.
 - The customer voice must be given access to data and information and have a seat at the negotiating table.
 - The key here is to be given access to the highest levels of discussion and to bring a direct voice to price setting and investment priority.
 - If the Regulators, Government and Utility have confidence then the change for customers benefit will be tangible and accepted.
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Conditions for success

- A credible customer group, with good access to information and research capacity and sufficient funding which need not be considerable.
 - The absolute engagement of the Utility Service Provider and any Statutory Regulators. Also benefits from Government acceptance and support whether national or local.
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Other information

The use of a short term customer panel to play a direct role in price setting can easily be replicated but it requires the absolute engagement of the Service Provider and any Statutory Regulators and benefits from Government acceptance whether national or local. This approach could apply to any significant decision process where a strong customer voice would be helpful. For more information, visit: http://www.rpieurope.org/Publications/Studies_New_Series/Studies_NS_4_2_Littlechild_July_2014.pdf.

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