



**Provision of Regulatory Reporting Services to the Water Industry  
Commission for Scotland**

**March 2007**

**REPORTER PROTOCOL**

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## 1. Introduction

The Reporter for the water industry in Scotland is an independent professional who is appointed by Scottish Water. The Commission approves the appointment of the Reporter. The Reporter acts as a professional commentator and certifier of the regulated activities of Scottish Water, ensuring that Scottish Water's regulatory information is consistent, reliable and accurate.

## 2. Structure of the Water Industry in Scotland

Following the Water Industry (Scotland) Act of April 2002, responsibility for the provision of water and sewerage services passed to the single entity organisation Scottish Water. Unlike England and Wales, the industry in Scotland is under public ownership and is accountable to Scottish Ministers. The Scottish Executive has two critical roles:

- The setting of public policy and, therefore, the operating environment in which Scottish Water functions.
- Acting as owner and sponsor of Scottish Water.

The Water Industry Act 1999 established a system of economic and customer service regulation for the water industry in Scotland. These duties were passed to the newly-established Water Industry Commissioner for Scotland. The office of the Commissioner united economic and customer service regulation in one organisation and, more importantly, allowed a longer term view to be taken when assessing both the level of revenue needed to sustain the industry and the overall customer interest.

The Water Services etc (Scotland) Act 2005 established a Water Industry Commission to replace the office of the Commissioner. The Act provides for the Water Industry Commission (the Commission) to determine Scottish Water's charge limits based on objectives set by Ministers. Under the Act, responsibility for dealing with customer complaints passed to Waterwatch Scotland. The Act also established a licensing regime for retail competition for non-household premises.

## 3. Requirement for a Reporter

The requirement for a named Reporter for the water industry in Scotland was identified in 2003 and arose from a recognition of the need for:

### Active and robust monitoring of Scottish Water

There is a clear need to monitor the performance of Scottish Water both in terms of progress towards the achievement of operational efficiencies and in terms of its delivery of the objectives set out by Ministers.

### Transparency

It is critical that all industry stakeholders, including customers, the Commission, Scottish Water management, government and other regulators have a clear understanding of the processes by which regulation is exercised. The named Reporter, working with a similar remit to those in

England and Wales plays a crucial role in improving the transparency of the regulatory regime in Scotland.

### Regulatory benefits

It has been the water industry standard in England and Wales for regulators to have assistance in their role from consultant engineers employed as named Reporters. Reporters have been shown to play a key role in the regulatory regime, bringing significant benefits to both regulators and companies. In Scotland, the role of industry Reporter was created in 2003 and has brought significant benefits to the transparency and accuracy of Scottish Water's information submissions.

### The need for improvements in the quality of information submissions

In recent years there has been an increasing recognition that further improvements are required to the quality of regulatory information submissions, in particular the reasoning behind year-on-year changes. It is essential that the Commission is able to verify and review the processes and supporting systems used to populate these submissions in order for such changes to be understood and accepted. In many cases, this requires detailed engineering and reporting knowledge.

### Costing of the investment programme

The investment priorities for each regulatory period are set by Ministers and are informed by the multi-stakeholder Quality and Standards process. As part of the process of setting charges, Scottish Water will prepare a costed investment programme which is consistent with minister's objectives. It is imperative that a party external to Scottish Water properly assesses the scope of work proposed and audits the associated costs.

### The introduction of competition in the Scottish water industry

The Water Services etc. (Scotland) Act 2005 established a licensing regime for retail competition for non-household premises. Scottish Water's non-household retail activities will become a non-core activity and subject to competition from other providers. The Scottish Water wholesale business will be required to offer services on an equitable basis to all non-household retail providers. This requires careful scrutiny of the allocation of costs between the wholesale business of Scottish Water and its retail subsidiary.

## **4. Information Submissions made by Scottish Water to the Commission**

This section briefly summarises the information submissions made by Scottish Water to the Commission. It is foreseen that the majority of the Reporter's work will centre on the analysis and validation of these returns.

### Business Plan

A key element of the Commission's "Strategic Review of Charges" process for determining prices is the submission by Scottish Water of a series of business plans. These business plans set out Scottish Water's view of the financing required to deliver the objectives set out by Ministers. Guidance on the format of the business plans is provided by the Commission. The business plan covers a wide range of financial, operational and performance information. Assessment of Scottish Water's business plans is an important aspect of the Commission's

work. This assessment is informed by detailed analysis carried out by the Reporter of the information that supports the Business Plan submission.

### Annual Return

Each June, Scottish Water must submit a detailed return covering all aspects of its business. This Annual Return is based on the annual June Return submitted to Ofwat in England and Wales but there are a number of important differences. The Annual Return enables the Commission to robustly benchmark a variety of cost and performance information with the privatised companies in England and Wales. Each line of information requested has a precise and documented definition.

The Annual Return is divided into sections:

Section A – This records base information on population and properties connected to the water and waste water system. It also records the amount of water delivered by Scottish Water and the volume of sewage treated.

Section B – This section reports the outputs to customers. In particular, it covers the availability of water to customers, details of supply interruptions, sewage flooding incidents, customer complaints and enquiries, and the performance of Scottish Water in relation to its Guaranteed Minimum Standards schemes. This section also looks at the performance of Scottish Water's assets.

Section D – This section records information on commissioned assets in the year for water, waste water and support services and capital maintenance activities. The tables provide a summary of commissioned assets each year and provide the link between outputs and the related investment for both asset replacement and new or enhanced assets.

Section E – This section covers operating costs and efficiencies. It records details of activity-based costing for the water and waste water service; information on individual PPP schemes; water and waste water explanatory factors; sludge treatment and means of disposal; and employee numbers and costs. This data is used to analyse operating cost trends and to benchmark operating cost performance.

Section G – This section contains detailed information on Scottish Waters investment plans for water, wastewater and support services. This section enables Scottish Water to present its capital expenditure programme (at project level) showing the actual expenditure for the year and updated forecasts for future years. This allows comparisons with the planned expenditure defined in the Investment Plan for the period of the Review.

Section H – This section reports on the asset inventory and system performance. It covers details of asset age, condition and performance.

Section P – This section reports the year-by-year projected movements of customer numbers and tariffs and allow the impact on projected revenues to be identified.

### Quarterly Capital Investment Return (CIR)

Each Quarter, Scottish Water submits a capital investment return. This gives details of expenditure on, and progress with, delivery of the capital investment programme. The CIR

enables the Commission to monitor and assess Scottish Water's progress towards the completion of the outputs required to meet Ministers' objectives.

### Commission regulatory letters

From time to time, the Commission issues regulatory letters similar to the Managing Director (MD) and Regulatory Director (RD) letters in England and Wales. These letters are often requests for information relating to various aspects of Scottish Water's activities that would otherwise not be collected as part of the regulatory regime. Each letter is given a unique title and code for ease of reference.

On occasion, the Reporter will be asked to scrutinise the information provided by Scottish Water in response to these letters.

### Output reporting

Scottish Water provides quarterly information on the delivery of Investment outputs to the multi-stakeholder output monitoring group (OMG). This allows the OMG to assess Scottish Water's progress with delivery of the ministerial objectives. On occasion the Reporter may be asked to verify and comment on the validity of this information.

### Other Regulatory Submissions

The Commission also receives a number of other regulatory submissions from Scottish Water. These include a quarterly update on the number of connections to the network and payments made to developers, information on customer service performance, leakage strategies, quarterly financial information and schemes of charges. On occasion, the Reporter will be asked to scrutinise these submissions.

## **5. The Role of the Reporter**

### Duty of care

The Reporter's role is to assist the Commission in the fulfilment of its statutory duties. The Reporter's primary duty of care is to the Commission. The Reporter will also have a duty of care to Scottish Water.

### Required experience

The Reporter requires a thorough knowledge of the technical, operational, financial and regulatory aspects of the water industry. The Reporter will develop a detailed understanding of the regulated activities of Scottish Water within six months of appointment to the role.

### Named individuals

A team of named people may assist the Reporter. The members of this team must be qualified and competent to carry out the duties passed to them. These members should also be approved by the Commission. The Reporter shall take all reasonable steps to avoid changes to the members of this team. Prior agreement should be sought by the Commission for any changes or additions to this reporting team.

### Independence of the Reporter and reporting team

During the period of the Reporter's appointment, he/she shall:

- Be wholly independent from Scottish Water.
- Not be engaged by Scottish Water in consultancy studies or other service contracts associated in any way with the preparation of submissions for Scottish Water.

If the Reporter or Scottish Water identifies a potential conflict of interest associated with the Reporter's work he/she shall raise the issue with the Commission for guidance.

### Scottish Water policies

The Reporter shall make arrangements to make himself/herself aware of and gain a thorough understanding of Scottish Water's policies and underlying approaches to the submissions made to the Commission. This should be done as a priority at the commencement of the contract period.

### Commission access to the Reporter and reporting team

The Commission shall have direct contact with the Reporter and reporting team on any matters relating to the duties outlined in Section 11 of these terms of reference.

### Access of other statutory bodies to the Reporter

The Scottish Executive (in its role as sponsor and owner), the Drinking Water Quality Regulator (DWQR) and the Scottish Environmental Protection Agency (SEPA) shall have direct access to question the Reporter on matters relevant to their statutory duties with respect to Scottish Water. The Reporter shall keep the Commission informed of any such communication.

### Confidentiality

Subject to the Freedom of Information requirements outlined below, the Commission may, from time to time, require the Reporter to maintain the confidentiality of the content of any communications to/from the Commission or about any special investigations the Reporter may be carrying out. In normal circumstances, the Commission will expect the Reporter to keep Scottish Water informed of any reports, correspondence and findings.

The Reporter will give undertakings to the Commission that information provided in the course of carrying out the duties outlined in this protocol will be properly protected.

The Reporter shall ensure that any information and data obtained from Scottish Water or any consequential results of the Reporter's work on any submission shall not be communicated to any other companies or third parties.

### Freedom of Information

As public bodies, both the Commission and Scottish Water are subject to the requirements of the Freedom of Information (Scotland) Act 2002. The requirements of the Act will apply to information exchanged between the Reporter and either or both the Commission and Scottish Water. This could include the requirement to disclose upon request a wide range of material, including handwritten notes, emails, letters and reports. The Reporter should be aware of this

requirement and ensure that all communications are professionally constructed and comply with best reporting practice and legislative requirements.



## 6. The Reporting Process

### Guidelines

The Commission shall generally issue guidelines to the Reporter on the scope of any audit or supplementary investigation. This will include any questions or issues that are to be treated with particular concentration.

### Supplementary investigations

From time to time the Commission may require the Reporter to carry out supplementary or special investigations of particular aspects of Scottish Water's business. Should this need arise, the Commission shall provide special guidelines, scope and terms of reference for this work.

### Audit plans

The Reporter shall submit to the Commission a plan of audit for any Scottish Water information submission or supplementary/special investigation. This shall be done within fifteen working days of receiving the submission reporting requirements or by later a date specified by the Commission. The Reporter will copy this plan to Scottish Water at the same time as submitting it to the Commission.

The Reporter shall hold timely discussions with Scottish Water in order to understand how Scottish Water intends to meet the Commission's requirements. These discussions should highlight any areas of concern held by either party.

It is expected that the audit plan would cover the following:

- A method statement
- The key questions being addressed by the audit
- The proposed schedule of audits
- The personnel involved
- The estimated total costs of the requirement, subsistence and travel costs, together with a proposed ceiling cost for the audit of work only

Scottish Water shall make any representations to the Commission about the audit plan within five working days of receiving it from the Reporter.

The Commission will take account of any representations made by Scottish Water, agree the audit plan and set a ceiling cost for the audit work. The Reporter shall proceed with the work that is set down in the audit plan unless the Commission requires the plan to be changed for whatever reason.

### Areas of concern

In both the audit and challenge of material assumptions, the Reporter must address the areas of concern identified by the Commission. Normally, these will be identified in specific guidance and correspondence. The Reporter should also however address issues or concerns raised in the Commission's publications or at meetings between the Commission and Scottish Water.

### Material assumptions and omissions

It would be expected that the Reporter shall encourage Scottish Water to expose fully all material assumptions and omissions that have been made as part of the submissions. The Reporter should comment on these and the consequences of them being made.

Material assumptions should be subject to scrutiny and, where appropriate, be challenged. The extent of challenge is a matter for the Reporter's judgement. The Reporter's report should make clear the scope and extent of challenges made to assumptions.

### Depth of audit

The Reporter shall decide on the level of audit necessary to satisfy the Commission's guidelines or specific areas of concern or interest. The depth of audit must be sufficient for the Reporter to:

- Be satisfied as to the adequacy of Scottish Water's methods and procedures to provide information that conforms to the Commission's information requirements.
- Be satisfied that Scottish Water's work is consistent with the methods, procedures, policies and assumptions stated by Scottish Water.
- Test that there are coherent and explained links between the current and earlier relevant Scottish Water submissions.
- Identify whether the methods and procedures adopted by Scottish Water for the production of submissions:
  - Cover the scope of work as outlined in the Commission's guidance
  - Provide a credible and robust system of quality assurance
  - Are adequate for producing estimates of expenditure needs or records of costs incurred
- Test that the methods and procedures are followed rigorously and accurately by Scottish Water.

### Approval of audit plans

The Commission will take account of any representations made by Scottish Water, agree the audit plan and set a ceiling cost for the audit work. The reporter shall proceed with the work that is set down in the audit plan unless the Commission requires changes.

### Adequacy of audit

In all areas the certification effort must be demonstrably sufficient to support any opinions given in the report.

### Addressing areas of concern

In both audit and challenge of material assumptions the Reporter must address the areas of concern identified by the Commission in the lead up to submissions. Normally these will be identified in specific guidance and correspondence, but the Reporter should also address issues or concerns raised in Commission publications or at meetings between themselves and Scottish Water.

### Material assumptions

The Reporter should encourage Scottish Water to expose fully within its submissions all material assumptions that Scottish Water has made. The Reporter shall comment on any material omissions from the submissions, including the consequences of the omission.

Material assumptions should be subject to scrutiny and, where appropriate, be challenged. The extent of challenge is a matter for the Reporters judgement. The Reporter's report should make clear the scope and extent of the material challenges.

### Further explanations

The reporter shall provide any further explanations or clarification that the Commission may reasonably require following receipt of the submissions and Reporter's report. The Reporter should be available to respond quickly to such requests.

### Reports - scope and content

At the Commission's request, the Reporter shall provide the Commission with a report on the audit of any Scottish Water information submission. The Reporter will send a copy of his/her report to Scottish Water.

The Reporter's reports to the Commission shall be free standing, i.e. the reader should be able to understand the work carried out by the Reporter and their findings without direct reference to other documents.

In his/her reports, the Reporter should address the following points where they are relevant to the submission being reviewed and are based on the audits carried out:

- Whether the submission has been prepared in accordance with the guidance issued by the Commission.
- Disclosure of the material assumptions that underpin the submission, if they have not been fully exposed in the submission.
- The extent of the Reporter's challenge of the material assumptions made by Scottish Water, and the outcome of the challenge.
- The Reporter's assessment and opinion on Scottish Water's material assumptions.
- The Reporter's assessment of Scottish Water's quantification of efficiency improvements in its projections. This applies to both operating costs and capital costs across all the output categories.
- The Reporter's assessment of the quality assurance procedures used in relation to the production of the submission,
- An assessment of the assumptions, exclusions, policies and obligations adopted by Scottish Water, and the resultant expenditure needed or incurred for;
  - capital maintenance;
  - quality enhancements and the compliance programmes;
  - efficiency improvements;
  - enhanced service levels;
  - supply/demand balance; and
  - leakage.

- An assessment of the extent to which the quality regulators have confirmed their agreement to the timing and phasing of the quality programme outputs.
- An assessment of the reasons for changes to policies and/or information submitted previously.
- An assessment of the methods and procedures adopted by Scottish Water for the production of the submission in respect of the following:
  - statistical methodology;
  - identification of shortfalls in outputs;
  - asset serviceability and condition identification;
  - changes in explanatory factors;
  - achievement of the appropriate economic balance between capital expenditure and operating costs solutions;
  - estimating methodology;
  - standard costs; and
  - special circumstances claimed by Scottish Water.
- An assessment and opinion of Scottish Water's evaluation of the ranges of uncertainty of cost estimates and output figures. In the light of these points, any further comments on Scottish Water's strategy.
- The Reporter shall include in his/her report the response to specific questions or areas of concern raised by the Commission
- Areas of concern or challenge identified by the Reporter shall normally be resolved with Scottish Water prior to submission to the Commission. Scottish Water should address these concerns in its submission or make the necessary changes to remove the cause for concern, all to the Reporter's satisfaction.
- The Reporter should annex to the reports to the Commission a summary schedule of his concerns and challenges and how they have been resolved, and in a separate section summarise any significant areas where agreement cannot be reached with Scottish Water.
- The Reporter shall summarise in a separate section of his report any material/significant areas where the Reporter's opinion is different from that of Scottish Water.
- The Reporter should annex the following to his/her report:
  - the organisation, structure and names and roles of personnel used by the Reporter;
  - the quality assurance procedures used for the certification of Scottish Water's submission, and a schedule of the specific documentation that supports the Reporter's report;
  - a summary of the meetings held, inspections carried out and audit trails followed;
  - a breakdown of time and costs.

### Report Submission

The Reporter will normally seek to confirm the factual accuracy of any reports with Scottish Water. On occasion, the Commission may require first sight of reports.

## **7. Reporter Performance Appraisal**

The Commission will carry out periodic reviews of the Reporter's and reporting team's performance. This will be with respect to the requirements specified in this protocol and any further areas of work negotiated between the Reporter and the Commission.

The performance appraisal will be structured around the following issues (this list may not be exhaustive and could be added to in the future):

- The overall quality of work carried out
- Compliance with guidance given by the Commission
- Extent and depth of challenge
- Understanding of critical issues
- Reporter's comments on individual information submissions
- Comments made on draft business plans
- Methodology adopted
- Accessibility of reports
- Timeliness of reports
- Completeness of Scottish Water submissions
- Evidence of application of technical knowledge
- Value for money

The Commission may, from time to time, wish to appraise performance on individual submissions. These appraisals will however still be structured around the criteria outlined above.

The Commission will inform the Reporter and the reporting team of the results of these appraisals.

## **8. External Review of Arrangements**

From time to time, the Commission may commission an external review of the arrangements under which the Reporter and reporting team operate. This review will scrutinise the guidelines laid out in this protocol and the relationship between regulator, Reporter and Scottish Water. The Commission will set down the terms of reference for these external reviews. It is expected that the Reporter, reporting team and Scottish Water shall co-operate fully with the external review of the arrangement.

The Commission will communicate to all parties the outcomes of the external review. The Commission may wish for the results and recommendations of this review to be published in the public domain.

## **9. Contractual Aspects**

Scottish Water shall enter into a contract with the Reporter which is approved by the Commission. This contract shall be consistent with the protocol for Reporters issued by the Commission.

The Reporter's contract with Scottish Water shall extend for no longer than four reporting years.

Scottish Water shall pay all the costs for the work carried out by the Reporter.

The remuneration of the work of the Reporter shall be based on time-based charges generally within the fixed ceiling of costs for each particular audit or supplementary investigation. Scottish Water and the Reporter shall also agree reasonable remuneration for time spent on understanding policy developments, attendance at workshops etc which are essential to the Reporter role.

Where the Commission is not satisfied with the Reporter's performance, approval of the appointment will be withdrawn and the contract will be terminated by Scottish Water. The Commission shall inform the Reporter in writing of the reasons for its dissatisfaction, providing the Reporter with an opportunity to make representations on the reasons. The Commission will consider the representations made and give both parties its decision in writing.

Scottish Water shall terminate the contract with the Reporter's employing firm if required to do so by the Commission.

Scottish Water shall not terminate the contract with the Reporter's employing firm unless the Commission and Scottish Water have agreed the termination.

Scottish Water is responsible for allowing the Reporter unhindered and timely access to its assets, systems, data, working papers, other records and relevant personnel associated with the carrying out of Scottish Water's regulated activities.

Subject to reasonable prior notice, at reasonable hours and for the purpose of carrying out a review required by the Commission, Scottish Water shall make facilities available to allow the reporter to do the following:

- To inspect and make photocopies of, and take extracts from, any books and records of Scottish Water maintained in relation to the carrying on of the regulated activities.
- To carry out inspections, measurements and tests on, or in relation to, assets used by or any premises occupied by, Scottish Water in relation to the carrying on of the regulated activities.
- To take onto such premises or onto any assets such other persons or such equipment as may be necessary for the purposes of preparing and completing a report.

Scottish Water shall not be required to do anything which is outside its control, or to do, or allow the reporter to do, anything which would materially disrupt Scottish Water's business (unless it is essential to enable the reporter to prepare his/her report).

Scottish Water is responsible for its submissions of information to the Commission.

## **10. The Appointment Procedure for Reporters**

It is the Commission's intention that the Reporter appointment process should comply with the Utilities Contracts (Scotland) Regulations 2006, and with other best procurement practice where those regulations are not applicable. Appendix A below sets out the Commission's guidance for the appointment process, including its role and the criteria it uses at the selection and award stage.

Scottish Water shall establish a shortlist of a minimum of three reporters and their respective teams who meet all the requirements laid down by the Commission in Appendix A. The shortlist should be established following competitive tendering. Scottish Water should inform the Commission of the Reporters from whom it is seeking tenders.

A candidate should be disqualified if any of the following apply:

- If the candidate could not comply with the general requirements relating to independence, consultancy studies, confidentiality and protection of information, as set out in Section 1 of this protocol. It is essential that there should be no grounds for the

Commission or Scottish Water to doubt the independence and impartiality of the Reporter.

- If the appointment of the named Reporter would result in his/her continuous period of tenure with Scottish Water being in excess of ten years. This period will provide for a period of stability in the appointment, but will introduce a fresh approach and avoid the development of any undue influence over or by the Reporter. When submitting its shortlist Scottish Water may make representations to the Commission in exceptional circumstances for this period of tenure to be extended up to a limit of twelve years.

The Commission shall assume that the appointment of any of the short-listed Reporters would be acceptable to Scottish Water.

Scottish Water shall submit the shortlist to the Commission. The submission must include the following:

- A recommendation as to the most appropriate Reporter to appoint.
- A tender evaluation report covering all tenders received by Scottish Water.
- Details of the short-listed Reporters and their teams, including relevant experience and proposals on how each Reporter intends to carry out the role.
- A critical appraisal of the shortlist explaining why Scottish Water considers its recommended Reporter is best-suited to providing the Commission with the services required.

The Commission will review Scottish Water's submission and recommendation. This review will involve interviews with the short-listed candidates where this is appropriate. Guidance on the interviews is set out in Appendix A. The Commission will take account of individual reporter performance on previous appointments where this is applicable and relevant to the decision being taken.

If the Commission is not satisfied with the short-listed candidates it shall inform Scottish Water. In the first instance the Commission will review, (and interview, where appropriate) other candidate(s) from whom tenders were sought. If one of these candidates meets its requirements then Scottish Water will be informed and asked to extend the shortlist submission to include this candidate(s). Scottish Water will be given the opportunity to make representations.

If none of the candidates meets the Commission's requirements then Scottish Water shall submit a revised shortlist following a further competitive tendering exercise.

The Commission may advise Scottish Water to seek tenders from a specific Reporter or Reporters. The Commission shall:

- **Approve or not approve** the appointment of the Reporter recommended by Scottish Water, and/or
- **Approve** the appointment of one of the other short-listed candidates, or
- **Not approve** any of the candidates submitted by Scottish Water (and so trigger the need for a revised shortlist).

The Commission shall inform Scottish Water of its decision and the reasons for it.

In exceptional circumstances, and where the Commission has not approved any of the candidates submitted by Scottish Water, the Commission reserves the right to require Scottish

Water to make the short term appointment (not exceeding six months) of a named Reporter. This expedient would only apply where a delay in the appointment of a Reporter would create serious difficulties for the Commission in carrying out its statutory duties. Scottish Water will be given the opportunity to make representations.

Scottish Water shall appoint the Reporter approved by the Commission. Copies of the appointment letter and contract for services shall be forwarded to the Commission within three months of the Commission's approval of the appointment.



## Appendix A

**GUIDANCE FOR REPORTER APPOINTMENT PROCESS – SELECTION, AWARD AND INTERVIEW**

Reporter appointments should be made in accordance with the Utilities Contracts (Scotland) Regulations 2006 where applicable, and with other best procurement practice where those Regulations are not applicable. The criteria used by the Commission relating to the selection of Reporter candidates and the award of the Reporter contract are set out below. The Commission will also take account of the size, complexity, regulatory history and culture of the Scottish water industry. Scottish Water may add its own requirements to the Commission's criteria to ensure the recommendation of a candidate who will discharge the role most effectively and efficiently.

**GUIDANCE FOR THE SELECTION STAGE**

The Commission expects Scottish Water to apply the normal standards regarding the status of a Reporter firm, e.g. solvency and financial and commercial capacity that would allow it to apply for pre-selection to any other consultancy with a projected budget similar to that assumed for the Reporter contract.

The Commission expects the Reporter to have experience of carrying out work similar work to that set out in the protocol. This could be gained, for example, by undertaking certification work for other regulators, such as the DWQR, DWI, EA, SEPA, ORR, OFCOM, local and central government departments and agencies, by gaining experience of the reporting task as a team member, or by having previously been a Reporter for a water company.

The Commission expects the Reporter to be professionally qualified and experienced in order to carry out the role of Reporter. Non-engineering applicants will be considered on their personal merits and based on the qualifications and experience of their teams.

The Commission expects the Reporter's team to have both technical and commercial skills and experience. They should be qualified and experienced in the application of water and sewerage, financial and general business management disciplines. Senior members of the team should have strong track records of technical consultancy in the water and, where applicable, the sewerage industry, covering consultancy in design, specification, costing, construction, installation, commissioning, operation and maintenance phases of projects.

The Commission expects delivery of outputs to specified time, quality and cost constraints, working closely and effectively with professionals in other disciplines, such as financial auditors

Tenderers should be selected on the basis of a number of factors. Depending on the appointment process followed by Scottish Water some of these factors may be assessed at the award stage:

- Demonstration of proven ability to scrutinise and constructively challenge as evidenced by past experience and the outcomes of his/her work – jobs where there has been conflict and the candidate has had to stand their ground and make trade offs to reach decisions.

- Demonstration of a thorough understanding of the purpose and contents of Scottish Water's Annual Return.
- Demonstration of a thorough understanding of the Reporter protocol
- A quality assured approach to the management and execution of the audit and report writing process
- Demonstration of audit/expert witness skills
- Inputs expected
  - hours
  - costs
- Proposals to manage and resource the Reporter's team at all times that would assure the Commission that its requirements will be met in full. He/she should be able to demonstrate appropriate manpower inputs in terms of time and skills for the topics covered by the Annual Return and other regular submissions, and access to suitable additional resources for the Periodic Review.
- Demonstrable awareness of regulatory issues in other utilities in general and their potential interaction with water and sewerage disciplines. There should be evidence in the tender of an understanding of issues relating to the introduction of a competitive framework in Scotland.

## GUIDANCE FOR AWARD STAGE

The Commission expects that the overall technical merit and quality of all bids should be assessed at the award stage in relation to the fulfilment of the Commission's requirements for the role of Reporter as set out in the Reporter protocol. The projected cost of typical reporting work will also be a material factor in this assessment.

We see it as essential that the proposed Reporter demonstrates an independent, robust, challenging and persistent approach to the Reporter task. A thorough knowledge of the issues facing Scottish Water is vital. In part this would have been gained from public documents, and, in part, this would come from a rapid induction into the role once appointed.

A number of factors, taken together, will aid the Commission's judgement of the bids at the award stage. Each of the tenders will be assessed against these factors, which are listed in order of importance except where indicated.

**Factor 1:** Strategy for, and approach to, the Reporting activity for Scottish Water, particularly with regard to the Annual Return and other regular submissions. This has the highest weight.

The Commission will assess the candidates' strategy for dealing with Scottish Water, including but not limited to:

- Obtaining commitment from Scottish Water to the audit process
- Contingency plans if Scottish Water data/staff not available
- Primary contact within Scottish Water and within the Commission
- Maintaining independence from Scottish Water
- Resolution of disputes with Scottish Water on information quality/availability

**Factor 2: Inputs expected**

- Hours
- Costs

The Commission will review the planned hours for the auditing and reporting tasks, together with the number of team members and their skills and disciplines, and compare them with past practice. These inputs influence costs which are normalised for tender comparative purposes. If there is a mismatch due to a shortfall in proposed inputs the Commission needs comfort that the candidate's approach will provide a good quality report following effective scrutiny.

**Factor 3:** Demonstrable understanding of the statutory and regulatory framework for the water and wastewater industry in Scotland and how the Commission operates. The Commission will assess evidence in the tender of the research carried out into the water industry in Scotland and how the candidates would plan to acquire the necessary levels of knowledge, if appointed.

**INTERVIEWS**

As part of the selection process an interview may be arranged to assess the competencies of the Reporter and their team. Interviews might also be necessary to complete the assessment of awards for Reporter contracts

The effective and efficient discharge of the reporter role is dependent upon the Reporter's approach to establishing good communications and working relationships with both Scottish Water and senior staff at the Commission plus an understanding Scottish Water's response to regulation. At the same time the Reporter should maintain an independent and fair approach to both Scottish Water and the Commission.

The Commission must be content that the appointee has a robust and impartial attitude, and has sufficient stature to win the respect of Scottish Water senior management and the Commission.

We expect the interviews to confirm or otherwise whether the candidates personally have:

- A clear understanding of the regulatory requirements and the Reporter's role, and a commitment to it
- An effective strategy for bringing the team up to speed with relevant issues
- An approach to the reporting task that is consistent with the size and complexity of the water industry in Scotland
- Access to sufficient qualified staff with a balance of seniority for both services that reflects the audit approach
- The ability to communicate with and effectively influence the Commission and Scottish Water senior staff

**APPOINTMENT**

Arrangements for the recommendation and approval of the Reporter appointment are set out in Section 10 of the protocol.