

CentralMarketAgency



**BUSINESS REVIEW
2020–2021**



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The CMA Board 2020/21

David Sigsworth OBE Chair
Jeremy Atkinson Chief Executive
Fred Hallsworth Chair, Audit Committee
Janet Brown Chair, Appointments Committee
Alan P. Scott
Belinda Oldfield (alternate for Alan P. Scott)
Tony March
Johanna Dow



About the CMA

Retail competition was introduced for business customers in the Scottish water industry in 2008. Under the competitive arrangements, Scottish Water carries out the physical business of delivering water and removing wastewater, while competing suppliers, known as Licensed Providers, offer meter reading, billing, and customer services. The CMA sits at the hub of arrangements, providing administration for the whole Market and facilitating coordination between all participants.

At the heart of CMA's operations lies a bespoke IT system and a set of business processes referred to collectively as the Central Systems. The Central Systems include a data base which stores details of every non-household water and sewerage connection in Scotland, along with the volumes of water consumed and wastewater discharged at each of them. This information is used to calculate the wholesale charges owed by each Licensed Provider to Scottish Water every month and every year, in a process referred to as 'settlement'. Participants interact with the Central Systems, recording when they take over service provision at a supply point, and updating supply point data where necessary, so that records are maintained as accurately as possible.

The rules of the Market are set out in the Market Code, Code Subsidiary Documents and Operational Code. Market rules can be discussed and assessed at the Market Participant Forum (MPF) and changed, through a well-defined industry process, at the Technical Panel (TP). The CMA chairs the MPF and TP and provides both with secretariat services.

The CMA has a strong data analytics team which has developed an industry-leading capability in data cleansing, audit, and tailor-made data-driven analysis. For several years, the CMA has been responsible for delivering the participant element of the annual Market Audit and it uses this exercise to support the improvement of Market operations and Market data.

Chairman's Statement



Looking back over the last financial year, I am pleased to report a remarkable resilience in the business water market in Scotland with no reported business failures of retail suppliers whilst arrangements to help customers manage

challenging financial situations have been broadly successful.

However, the interim charging arrangements, imposed during lockdown, have still to fully unwind and clearing the backlog of built-up debt is sure to stress customers as well as their suppliers.

CMA have had to operate very differently during the Covid crisis. The team driving the IT systems and infrastructure, used to manage the Market Code, have been outstanding in rapidly delivering the many modifications needed to institute the interim market arrangements. Indeed, full service has remained throughout. All of this was achieved whilst staff were working from home.

Much more is said elsewhere in this report about CMA's journey through the Covid crisis and the significant contributions which have been delivered. However, I would like to thank all the team for a job well done and for their dedicated efforts.

Business improvement has also been a continuing emphasis during the year and there is considerable progress to report.

Firstly, the need to update and refresh IT systems has been recognised for some time as the current framework was introduced when the retail water

market opened over eleven years ago. That is not to say that the functionality was outmoded. Needs had been satisfied by upgrades, but advantages of Cloud technology and new architectures were not easily integrated. A major project is now underway to address this.

There have been parallel advances in our efforts to improve support to Licenced Providers (LP's) and to provide better information and analysis for wider stakeholder use. Given that the annual auditing of LP's market performance is now undertaken in house, by CMA, this has enabled the auditing process itself, and the nature of the outputs, to be streamlined and refined.

During the year, market transparency also improved as CMA's board approved the regular release of comparative data for individual market operators



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David Sigsworth OBE, Chairman

across a range of functions. CMA also placed on its website the results of a study to identify consumption trends in business water use from the time the Scottish market was opened.

The latter analysis showed encouraging trends in water conservation which have important strategic implications in the fight to reach net-zero.

The membership of the Board in 2020-21 provided a blend of continuity, which has been invaluable during these uncertain times, and new faces, who have tested our established thinking and approach. Enthusiasm for the Market remains as high as ever and directors have been keen to be involved in all areas of the business. We have held our meetings on-line since March 2020 and found the new technology to be a very effective substitute for meeting in person, nevertheless I hope to return to conventional meetings soon.

The Board has spent a considerable amount of time reviewing the risks faced by the business and confirming that everything within reason is being done to mitigate against them. Not surprising, much of the discussion has found its way back to the impact of covid, and it has been reassuring to hear that the business has taken all the steps that I would expect of it.

Likewise, the Technical Panel was well-attended during the year, and the on-line meetings have provided participants with the opportunity to share their experiences while carrying on with the work of progressing changes to the Market Code. I was very pleased to see the whole industry come together for a workshop with the regulator before Christmas and I will be encouraging much more of the same, under the banner of Ethical Business Regulation, in the coming year.

Finally, I am pleased to report that I have also found time to meet with our counterparts in England at MOSL. It is also very positive that good relationships have been developed at a working level. Despite the differences in scale and structure, we have many challenges in common and it can only be good for both Markets if we work together to resolve them.

During a very disrupted year I conclude that CMA did it's very best to sustain the retail water market and in doing so delivered strongly against its objectives.

David Sigsworth OBE

Chairman

25th June, 2021

Chief Executive's Review



2020-21 was a year like no other in recent memory, with the covid-19 pandemic having a fundamental impact on every individual, every business, and every activity in all corners of the world. More than a year on, and with the crisis still not over,

the challenges for the water Market in Scotland remain at a level unprecedented in its 13-year history. That business customers have continued to receive their water and wastewater services is testament to the strength of the Market at the beginning of year and the resilience that it has shown over the last 12 months.

Throughout the year the Board's thinking and activities have been dominated by responding to the covid-19 crisis, answering the questions: how can the CMA best support market participants; and how can we also ensure that there is no compromise in the delivery of our own services to the water Market? It has been fundamental to the Board's strategy to act rapidly and to urge other agencies in the sector to do the same. It was the 23rd of March when the Prime Minister announced the first 'lockdown' and the 26th of March when the measures legally came into force; on the 25th of March, the CMA announced a raft of financial and operational measures to support the Market: the disapplication of all Performance Charges (with retrospective effect to the January – March 2020 period); the suspension of updates to the Peer Review Report; the removal of all requirements to submit data and information for the 2020 Market Audit; the re-configuration of the year's scheduled Releases; and the suspension of the Meter Read Compliance Project and associated request for further information on unread meters. Additional support was announced on the 7th of April, following an emergency Board meeting, when CMA Charges for all participants were cancelled for the months of May and June. The Board was and is acutely aware of the liquidity problems facing the Market and will continue to support efforts to find industry-level solutions.

In parallel with these actions the CMA adapted its own business to ensure that there was no deterioration in the services offered to participants. Mindful of everyone's health and safety, remote operations were implemented in March for all staff, quickly followed by a move to video conferencing for Technical Panel and Board meetings. Contingency plans were put in place to mitigate against



2020-21 was about much more than reacting to Covid-19; the business continued to deliver on its medium-term Strategic Plan.”

Jeremy Atkinson, Chief Executive

the risk of CMA staff illness, while discussions were also held with our core IT service providers to ensure that the business-critical services they provide were similarly protected. In recognition of the heightened risks posed by remote working, cyber security continued to be emphasized. We carried out an extensive review of back-office security leading to a raft of improvements, while testing of the Central Systems was also stepped up. An unexpected benefit of the pandemic was the opportunity to rationalize our office space towards the end of the year as the current leases expired, resulting in a cost saving for the business. CMA staff and contractors have shown great adaptability and initiative over the year, and the new working arrangements have been so successful that many aspects will be integrated into our permanent model for operations.

Throughout the year the Board has welcomed input from the industry in Scotland and England; we are keen to engage with our immediate stakeholders and to foster constructive relationships with all our colleagues south of the border. In response to covid-19 restrictions, the autumn participant lunches were reimaged as virtual events, maintaining the usual format and geographic groupings. Participation was higher than ever, and attendees provided a comprehensive perspective on the effectiveness of Market-level and Licensed Provider-based support measures; a key takeaway from the events was the desire on the part of Licensed Providers to be included in the development of Market policy, a cultural change that was strongly supported by the CMA and clearly communicated to the Commission. The Board remains keen to hear from participants and will seek to encourage and facilitate industry involvement in Market issues wherever possible.

For the CMA, 2020-21 was about much more than reacting to the challenges of covid-19; the business continued to deliver on its medium-term Strategic Plan and completed a volume of work that would have been exceptional even under normal circumstances.

A central theme of the plan is to exploit developments in technology to improve the service delivered to the Market. This involves using the latest technology to ensure that the Central Systems meet four objectives: that they deliver capacity for a growing database; are portable and allow the full use of cloud hosting and cloud services; facilitate data analytics; and provide a high level of physical and cyber security. Investing in new technology also mitigates against obsolescence and the risk of rising maintenance costs, which can so often be associated with older systems. Following on from last year's Technology Review, in May 2020 the Board approved the use of £150k of Performance Charge cash to complete a Technology Refresh proof of concept exercise. The objective of this exercise was to provide quantitative and qualitative evidence of the benefits of adopting and applying new technology. The project team reported back to the Technical Panel and the Board with performance results that exceeded all targets and expectations. Based on these results, in January 2021 the Board approved the initiation of the full Technology Refresh project funded from Performance Charge cash; the project launched at the end of the year and will be a key activity for the office in 2021-22.

In his 2019-20 statement the chairman highlighted that market data is a valuable shared resource with the potential to help participants do their jobs, but also to serve a wider purpose, by highlighting and encouraging water conservation. He voiced the hope that the CMA could take the lead in extracting this value, and during 2020-21 we took the first steps on that journey. Using 11 years of data, the CMA carried out a preliminary analysis of the environmental impact of the water Market, measured by the change in water consumption since Market opening, both in aggregate and for individual customers. The analysis showed a significant reduction in consumption, which ran counter to general economic activity and the tight regulatory control of prices, and which goes beyond the effects of structural changes in the business customer landscape. As this work is developed, it could provide a basis for the advocacy of similar market arrangements internationally; more immediately, it

implied that there were further opportunities for water conservation among public sector organizations in Scotland, an initiative that we are keen to see advanced. The results were published and are available on the CMA website, in the first of what we hope will be many 'Working Papers' looking at different aspects of the Market.

It has been the Board's objective over the last two years to achieve a more extensive publication of Market information, including performance data, to bring practices in Scotland into line with those in the English water Market. Covid-19 put those plans into reverse for a short time – the Market Update was amended to contain only anonymised data and updates to the Peer Review Report were suspended – but work consistent with the company's strategic direction of travel continued in the background. Development work on a new Market Information Page for the CMA website was concluded in September 2020. Following an assessment of the risks of publishing Market information, the page went live on 1st April 2021 with data for the fourth quarter of FY 2020-21. Once established and familiar to users, we will look at ways to build on this base and provide additional value to participants and customers.

Another key theme for the business over the last couple of years has been developing an enhanced internal capacity for delivering Market Audit. This process continued apace during 2020-21, with increased automation of audit processes helping shift the balance of effort away from audit mechanics to data interpretation. In addition to delivering the annual Participant Audit every September, the CMA team also presents the January Board with an update based on the first six months of data for the new financial year. In January 2021 this took on added significance and the analysis was extended to provide the best possible indication of the impact of covid-19 on Market operations. As expected, all measures showed a significant deterioration coinciding with the first imposition of lockdown. However, most have recovered, with many compliance rates now above pre-pandemic levels. While the Board is aware of the financial and operational stresses that continue to face Market Participants, we hope that a strong recovery becomes the prevailing narrative for 2021-22.




Jeremy Atkinson

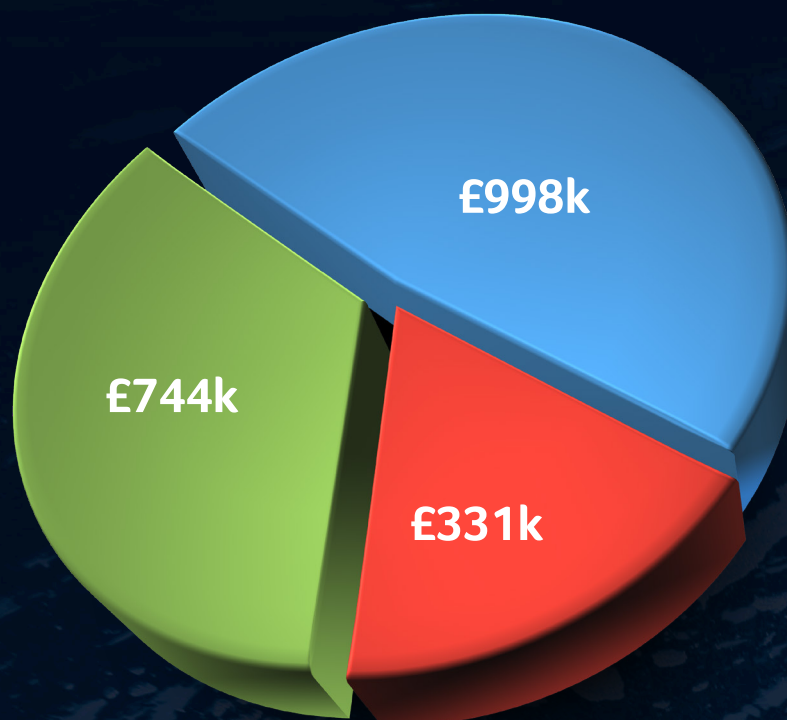
CEO

10th June, 2021

Operational and financial highlights 2020-21

Enquiries handled	160
Transactions processed	2,615,350
Changes processed through the Technical Panel	9
Settlement runs delivered	51
System availability	100%
CMA charges waiver	2 months
Performance Charges disapplication	12 months

Staff Costs	
Office & Administration	
Central Systems & Technical Support	





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