



CentralMarketAgency

At the heart of Scotland's Water Market

BUSINESS REVIEW 2021–2022



The CMA Board 2021/22

David Sigsworth OBE Chair

Jeremy Atkinson Chief Executive

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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

THE past year has seen several important changes in CMA's operations, and the services it provides, and I see great benefits resulting for Licenced Providers and their customers as well as for our staff and the wider retail water market stakeholder base.

Firstly, the experiences of operating under Covid crisis conditions brought a recognition that some new practices improved efficiency and quality and were worth retaining permanently. This has led to reduced office accommodation and lower costs which have contributed to keeping budget increases very low.

Secondly, a fundamental discussion with market participants has developed a wider understanding of Ethical Business Practice (EBP) which was proposed by the Water Industry Commission for Scotland (WICS) as an appropriate response to its introduction of Ethical Business Regulation (EBR). This was a cornerstone of its most recent price review.

The concepts of EBP and EBR are a comparatively new paradigm in compliance and enforcement based on behavioural science and ethics. EBR provides the basis for an effective relationship between a business and its regulators, resulting in better outcomes for both.

During the price review the WICS involved Citizens Advice Scotland (CAS) to help set expectations for future outcomes and to develop understanding of the cultural and behavioural transitions required. CAS's responsibility for water matters has now transferred to Consumer Scotland.

Scottish Water were at the centre of the price review and emerged with a deep commitment to Ethical Business Practice. Licenced Providers in the retail water sector had little contact with this discussion and there was significant confusion surrounding what successful adoption would entail.

The matter was raised in the CMA's Market Participant's Forum and resulted in WICS and CAS providing a briefing and discussion which has led to a common understanding.

However, a broader benefit has been the recognition of the need for a Senior Stakeholder Group to be established to monitor and develop good practice and to provide regular feedback to the WICS.

This stakeholder group is now operating, chaired now by Consumer Scotland, and has had immediate benefits in moving issues forward more effectively and by providing a new, and officially recognised, channel for reviewing new ideas and concerns on a market wide basis.

My third improvement also stemmed from the EBP discussion. Licenced Providers (LP's) are represented on the board of CMA by two board members elected from their number. However, every LP has the right to be represented on the Technical Panel which reviews and maintains the Market Code and its subsidiary documents. Any changes to the Market Code are driven by a governance process which is strictly adhered to. This formality extends into what can be considered as competent business for the Technical Panel. There is wide recognition that the Technical Panel works well.

Some time ago, a second panel was instituted to allow emerging ideas for improvement of the Market Code (and sometimes market practices) to be discussed without the Technical Panel constraints. This is called the Market Participant's Forum (MPF) and until recently it met immediately following the Technical Panel.

The MPF agenda was composed of "ideas" papers which could stem from any LP, Scottish Water, WICS or from the CMA itself. If these were taken forward, there would often be a working group formed to finesse the principles prior to it going forward to the TP for consideration at a later meeting.

During the wider EBP discussions, referred to earlier, it became clear that the issues LP's wanted to see addressed in the MPF were wider than Market Code matters alone. EBP had at its heart good customer outcomes and those needed





to be recognised when considering impacts of the Market Code. The inconsistency was causing frustration amongst some LP's.

The MPF has now been reconfigured with a more open approach to agenda items and Consumer Scotland now attend the meetings and actively contribute. The meeting also now precedes the Technical Panel and indeed some matters are moved immediately through the meeting for consideration at the following TP meeting.

The resulting flow of ideas and the quality of discussion in the MPF has significantly improved along with a more meaningful recognition of the increasing priority of social justice issues such as fairness in society and environmental considerations.

Fourthly, work to complete the refresh of our IT system is moving forward swiftly and transfer to the new arrangements are programmed to begin in July this year.

The project has been completed very economically and I look forward to seeing how the new systems perform.

Finally, the board of CMA has undertaken a comprehensive review of the organisation's strategy. This takes account of changes in market need, increasing cybercrime challenge and a constant push for continuous improvement. The final strategy document is to be published shortly.

All in all, I am very pleased with how the organisation performed during 2021/22. The high achievements of recent years, financially and operationally, have been matched and in some cases surpassed and I want to thank our CEO and all his team for their diligent efforts.

David Sigsworth OBE

Chairman

4th May, 2022

“ In a year of considerable progress on many fronts, it is important to recognise the large underlying contributions achieved during the Covid lockdown conditions of the previous year..**”** David Sigsworth OBE, Chairman



Chief Executive's Review

THE focus of 2021/22 for the CMA has been on supporting the continued recovery of the Market from the effects of Covid. There has been a gradual return to normality over the year, albeit with new challenges and significant differences remaining from the pre-pandemic operating environment. During the year, all our participants and their customers have had to manage social distancing and staff sickness, while also continuing to take advantage of the advances in digital communications that happened so rapidly at the start of the pandemic.

Historically the Board has looked to the Market Audit as a guide to the effectiveness and performance of the Market. However, some of the data and information in the Market Audit report is necessarily more than 18 months old. In periods of uncertainty and change, up-to-date and accurate information is vital as a basis for effective decision-making. The development of the CMA's analytical capability over recent years has paid dividends in this respect. During the pandemic and its aftermath, the audit team was able to quickly turn around audit-based analysis using targeted blocks of recent data. In July 2021, as an add-on to the formal audit report, they were able to confirm the recovery of meter-reading performance over the preceding 6 months. Then in January 2022, they presented the Board with an Interim Audit covering the period April – September 2021. The Interim Audit confirmed the recovery seen in the second half of the previous financial year. The Board is aware that challenges remain for participants, with customers struggling with debt and affordability, but they are reassured by participants' own operational performance. In the coming year the CMA will continue to develop its analytic and monitoring capability so that the Board and participants can understand changes in the Market as they happen.

During the year the Market has started to think about how to respond to the opportunity presented by Ethical Business Regulation (EBR) and how to incorporate Ethical Business Practice (EBP) into operations. The Covid Measures Working Group was a trial of a more collaborative approach to working, which prompted the formation of a new Senior Stakeholder Group (SSG); it is intended that this should provide strategic leadership to the industry and also operate as a bridge between the industry and the Commission. The CMA has played its role in the formation of the SSG and has taken ownership of specific workstreams in its programme. We look forward to being an active member of the group in the months and years ahead. Ideas are still at an early stage, but there is a general recognition of the need to develop the principles of EBR and EBP into practical application.

Separate from the SSG, we have also acted as a coordinator and synthesizer of participant views and have used our wider perspective to engage in discussions with the Commission on the future direction of the Market. In

the spirit of EBR and EBP the Commission has attended the CMA Board and provided us with insight on their views and expectations. We have found this dialogue and engagement extremely productive and helpful.

During 2021-22 the Board devoted considerable time to updating the CMA's Strategic Plan. The process began with a quantitative and qualitative review of the 2019-21 plan, which assessed the delivery of planned activities and outputs, and their contribution to achieving the business' strategic objectives. It was agreed that the 2019-21 plan had worked well in guiding the endeavours of the business and that its structure would form a good basis for the 2022-24 plan. At this preliminary stage, the Board also considered Market purpose, the CMA's purpose or mission, and the business's core values. The move towards EBP provided the context for the discussion, and a firm conclusion to emerge was the need to recognize explicitly the importance of the customer and the environment in all the activities of the business. This has been reflected in an update of our Company Values and our Mission Statement, both of which are set out on our website.

The strategic objectives established in the 2019 plan have been thoroughly updated and extended to reflect changing circumstances and business priorities, particularly the higher priority being given to customers and the environment. The 2022 strategic objectives sit under three broad headings, 'CMA effectiveness', 'Participant effectiveness', and 'Wider stakeholder interests', and focus on providing efficient, environmentally sustainable, and secure services that will allow participants to meet the needs of their customers. The plan is published in full and in summary on our website, and I am confident that it points to an exciting future for the business.

Over the years the CMA has built up valuable expertise in many aspects of data science. As part of its review of strategy, the Board has considered whether we can lever this expertise for the benefit of the Market. One element of this is to provide additional support and services to Market participants; another might be to provide remunerated services outside the Scottish Market with a view to offsetting some of the CMA's costs. The Board has taken a first tentative step to test the feasibility of this by approving the CMA to provide project assurance to a pilot address data matching project in the English Market. The work began at the end of the year and the benefits and impact on the business will be assessed in the coming year.

The Technology Refresh Project was formally initiated at the end of January 2021, with a mandate to replace the existing Central Systems from the ground up, and a strategic objective to harness the latest technology to deliver greater capacity, portability, data access and security. The 18-month project plan for this work straddles three financial



years, but the bulk of the effort has occurred in 2021-22. During the year the team has managed the ongoing delivery of the project in parallel with the normal cycle of September and March Releases, both of which have delivered important changes for the Market, covering the SPID transfer process and our audit reporting capability.

An important pre-condition of the project was that it should cause minimal disruption for participants, both in terms of not requiring excessive calls on participant time and effort, and also in terms of not having any adverse impact on the normal service provided by the CMA. Although the Technical Panel and Board have been regularly briefed on financial and delivery progress, one consequence of a Market focus on recovery from on covid, and non-intrusive project approach, has been that some significant technical achievements have received less attention than they ordinarily would. During the year the new database structure was completed, and the team successfully carried out a full migration of the market data set into the new structure, an achievement which merits our recognition. They have not only developed a new tariff engine, but also completely rebuild the stand-alone Independent Settlement Calculator, which will serve to provide assurance when future changes to the system are made.

Full replacement of the Central Systems is a profound undertaking for the business, with a potential for significant

risk. Conscious of the need to maintain a reliable service, the team has gone to great lengths to mitigate that risk. While internal and independent testing and assurance are critical to ensuring the quality of the new systems, the old and new databases are also being run in parallel for a period of months, with both receiving all Market transactions and the team confirming that they produce identical return messages. I am pleased to report that throughout the year the project has proceeded to plan and budget, consistent with deployment of the new Central Systems in July. All our testing to date confirms that the new systems will deliver the improvements in performance that we are seeking and will provide a sound basis for realising many aspects of our business strategy.

2021-22 has been a year of planning, building and evolution for the CMA. Whereas in 2020-21 we had to adapt rapidly to the immediate challenges of Covid, in 2021-22 we have laid the foundations for the CMA to play a leading role in managing and shaping the Market landscape for the benefit of our participants, customers and the environment. We look forward to seeing continued progress in the year to come.

Jeremy Atkinson
CEO
4th May, 2022

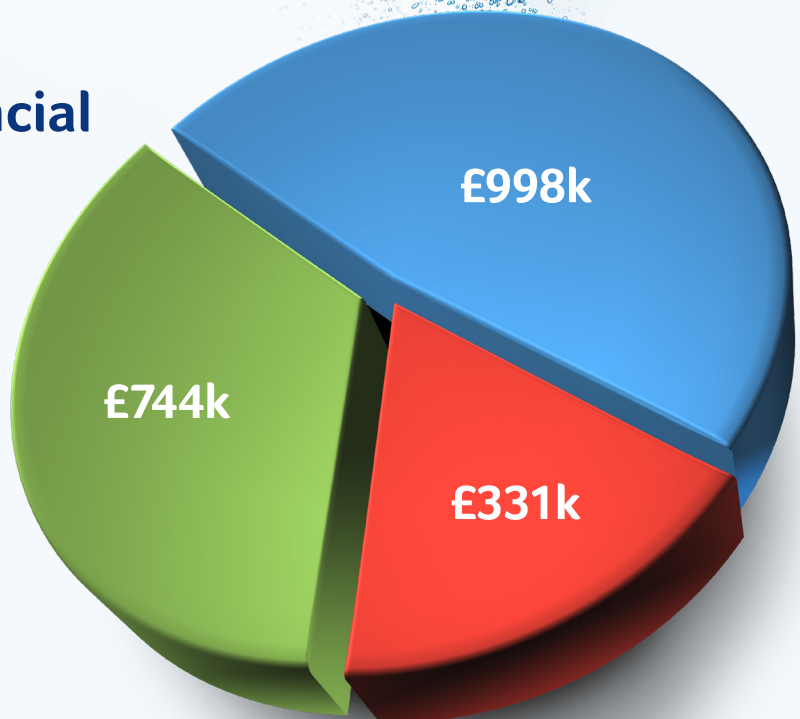
 I am confident that the 2022-24 Strategic Plan points to an exciting future for the business.” Jeremy Atkinson, Chief Executive



Operational and financial highlights 2021-22

Enquiries handled	132
Transactions processed	2,546,081
Changes processed through the Technical Panel	14
Settlement runs delivered	66
System availability	100%

Staff Costs	
Office & Administration	
Central Systems & Technical Support	





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