Business**REVIEW**
2016–2017

Central**Market**Agency

At the heart of **Scotland's Water Market**

CentralMarketAgency

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At the heart of Scotland's Water Market

About the CMA

The 2005 Water Services etc. (Scotland) Act made provision for the separation of Scottish Water's wholesale and retail activities, and for a prohibition on making arrangements to supply business premises without a water services licence.

This legislation facilitated the creation of the first water retail Market in the world and meant that business customers in Scotland could choose their supplier of water and wastewater services. While Scottish Water was to retain responsibility for the physical supply of water and removal of wastewater, different suppliers could compete to carry out retail activities such as billing and meter reading.

The CMA is the organisation with responsibility for administering the Market under the new arrangements. The core functions of the business are 'registration' and 'settlement'. 'Registration' refers to the process of recording which Licensed Provider is responsible for which supply points. 'Settlement' refers to the calculation of the wholesale charges owed by each Licensed Provider to Scottish Water. The CMA also provides a hub for data and information exchange between Market participants.

The Market is run by the industry with regulatory oversight. Through the Technical Panel, Market Participants have authority to change and develop the Market rules, subject to conforming to Market principles and to regulatory approval.

The CMA acts as the secretariat for the Technical Panel and provides a technical view on proposed Market Code changes. Industry nominees serve on the Board of the CMA and oversee the strategic and operational running of the business.

Chairman's statement

2016-17 was my last full year as chairman of the CMA. Chairing the CMA Board and the Technical Panel has been an extremely rewarding experience, and I am happy to report that last year was another successful one for the CMA and the Market. Our membership increased and the Central Systems performed well in support of the Market.

Over the last six months I have been closely involved with the process of finding a new chairman for the CMA. The Board set great importance by finding a suitably qualified candidate and ensuring that there is a seamless transition to the new term of office. I look forward to welcoming our new chairperson to the CMA and wish them every success in office.

During my chairmanship, I have seen the company evolve from a start-up business to a highly respected organisation within the industry. In parallel with the changing business, the membership of the CMA has also changed, both in terms of numbers and diversity, but their collaborative attitude has remained constant. A consistent theme throughout my chairmanship has been the support of the Board and the constructive engagement of the Technical Panel with Market issues. Despite the challenges of a highly active Market this has been no less evident in 2016-17, and I would like to give my thanks for the hard work of all those involved.

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Chairing the CMA Board and the Technical Panel has been an extremely rewarding experience." **Brian Saunders**, Chairman

Chief Executive's Review

2016-17 was another productive year for the CMA and the retail Market. The CMA concentrated its efforts on improving the service provided to Market Participants, while adapting to the demands of a larger and more diverse set of members. The CMA had 19 members on the 1st April 2016; by the 31st March 2017 that number had increased to 24, and included the retail businesses of established WaSCs along with new start-ups and specialist businesses.

During the year, the CMA delivered three substantial Releases that covered many varied themes:

• The September 2016 Release introduced reporting enhancements with respect to Provider of Last Resort (POLR) arrangements and Retrospective Amendments (RAs).

• The October 2016 hot fix Release delivered the Scottish Landlord Portal (SLP). This Performance Charge-funded project was designed to support the Government's policy of charging for periods of vacancy and the associated responsibilities and liabilities of landlords. The SLP provides a facility for landlords to notify Licensed Providers of changes to the occupancy details of the properties they own.

• Finally, the March 2017 Release made provision for the maintenance of current rateable values in the Market Dataset and for charging for periods of vacancy in the settlement calculation.

In 2016-17 Deloitte carried out the eighth Market Audit at the request of the Board. The audit concluded that CMA had, in all material respects, complied with the relevant Code requirements in the performance of its duties. The audit did however comment on a settlement issue that arose during the year and resulted in undercharges in some months for some Licensed Providers. While the issue was resolved and the auditors found no systemic failures, it provided a reminder that the smallest error in the code can have a serious impact on settlement. In response to the incident, settlement checking procedures were modified and Release Project oversight strengthened. For market participants, the audit noted improvements in many areas, a positive trend we see reflected in falling performance charges.

From a financial perspective, the CMA has performed well in 2016-17. Expenditure was £2.11m against a budget of £2.47m, and the the region of £360k of savings will be returned to the participants. Separately, Performance Charge revenue was £603k, down £155k on last year, reflecting improved compliance by participants with the Market Code. During the year, the CMA released £781k from the accumulated Performance Charge pot (which stood at £820k at the end of the year) to fund a major market data improvement project. Consequently, although the CMA has operated within budget and retains a very healthy balance sheet, the statutory accounts will show a loss for the financial year, allowing the recovery of some corporation tax.

One of the most important projects of the year for the business was the re-procurement of all core IT services. The last full procurement exercise was carried out in 2011, albeit that a benchmarking/value for money exercise was undertaken in 2014. The Board of the CMA is strongly of the view that the delivery model and the contractual framework are critical to the success of Market administration. The scale of the re-procurement exercise reflected this, running from October 2015 to contract signing in December 2016. With respect to the delivery model, there was a strengthening of testing and assurance roles in support of operations and development. The existing contracts were enhanced to provide an improved performance incentive framework. The outcome of the re-procurement exercise was that the existing developer and operator were retained, but two new companies were brought on board to provide stronger testing and assurance.

An equally significant Board-led activity of 2016-17 was a review of the CMA's governance. The objective of the governance review was to provide assurance that the current governance arrangements support the Market and its participants in meeting the objectives of the Market Code. DWF carried out a review of the company Articles and the Market Code and looked at the functioning of the Board and its committees. The review concluded that overall the governance arrangements

were fit for purpose. However, it also made several recommendations regarding tidying the Articles and providing more communication with members.
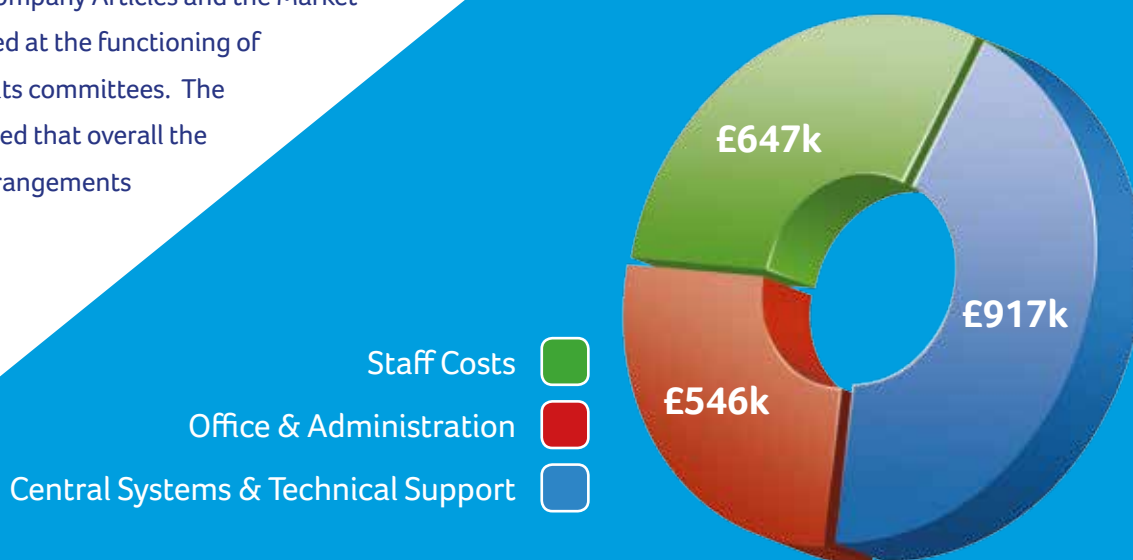
In July 2016 the CMA launched a new website with a clean modern look that retained the straightforward intuitive navigation of the old website. All the information from the old website continues to be available, but there is a new members' area which will allow the Board, the Technical Panel and working groups to share documents and arrange meetings. The website also provides a new route for enquiries and CMA membership applications. We hope that over time it will become an invaluable resource for our member businesses.

Jeremy Atkinson
Chief Executive
28 April 2016

CMA Costs 2016–17

£647k
£917k
£546k

Staff Costs
Office & Administration
Central Systems & Technical Support

Operational and financial highlights 2016–17

Enquiries handled... 282
Transactions processed 2,830,248
Changes processed through the Technical Panel 12
Settlement runs delivered...49
System availability...99.99%

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