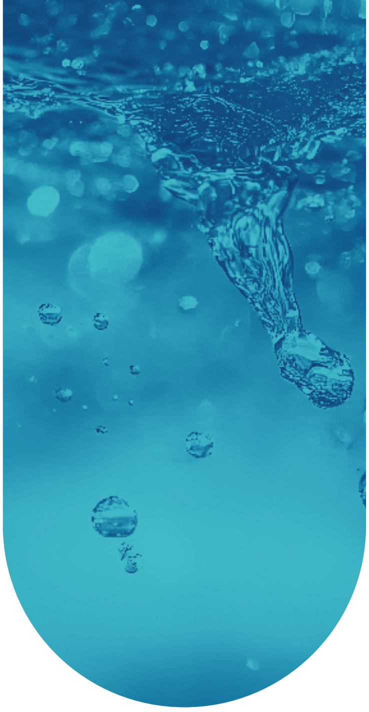
Central Market Agency

At the heart of Scotland's Water Market

Business Review 2025-2026



About the CMA

The CMA is at the hub of Market arrangements, providing administration for the whole Market and facilitating coordination between all Participants.

Retail competition was introduced for business customers in the Scottish water industry in 2008. Under the competitive arrangements, non-household customers can choose their supplier of water and wastewater service. These suppliers, known as Licensed Providers, are responsible for meter reading, billing and customer care. Scottish Water carries out the physical delivery of water and removal of wastewater (they also retain responsibility for all retail activities associated with household customers). The CMA is at the hub of Market 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 called '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.

CMA's values underpin all aspects of its work and define how it operates within the Market. We are committed to delivering quality, cost efficiency, continuous progress, and an even-handed service. All our services are provided with the end customer and the environment in mind.

Chairman's Statement

I have now completed my first year as Chair of the CMA. My predecessor David Sigsworth with his Board and the executive team had established the CMA as an efficient, highly competent operator of the Market Code. The CMA plays an important role in the operation of the non-retail water Market in Scotland. Water is a precious resource, and the challenges of its sustainable conservation are growing year by year as weather extremes increase even in Scotland. Demand is also growing due to "hungry" technology and consumer trends. This places a premium on innovation in both the use and management of our water resources. The CMA is part of the supply ecosystem and can play a key role in promoting and supporting innovation. The core competence and responsibility of the CMA is the fair and equitable operation of the Market Code. However, in doing this the CMA has also created a significant core capability in data analytics. That capability is potentially a vital resource to help promote innovation in how the CMA supports of water sector in Scotland. It is a prime objective of the CMA board to develop this service through the active promotion of the Performance Charge Fund. The objective is to build our data insights capabilities such that opportunities can be exploited in the Market which ultimately benefit the consumer and the environment. This will include ensuring the design of the Smart Hub has sufficient flexibility to allow innovative data analysis for useful applications by the industry and the regulator. The first early innovation project completed this year was carried out with the Golf Industry in Scotland to understand how water is used and could be improved in a time of volatile conditions.

The CMA will further promote the use of the Performance Charge Fund in the year ahead. We will add to our AI knowledge and capability and have now appointed an A.I. specialist non-executive board member-Adam Sroka. The Smart Hub preparation is a key priority for the CMA and will remain so for some years ahead.

I meet with the LPs, Scottish Water and WICs on a regular basis throughout the year all of which is to ensure the CMA is in tune with the main issues in the water industry in Scotland. The Board has also had presentations during the year from Alex Plant CEO, Scottish Water and Karma Ockenden who led on the strategic direction of the UK water industry.
We have welcomed Matthew Glover to the Board as an LP nominated non-executive director. I would like to thank Jim McDowall for his contribution since April 2024

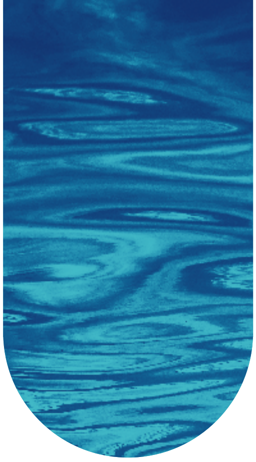
I would like to offer particular thanks to Fred Hallsworth who also left the CMA Board this past year. Fred played a very substantial role in setting up the CMA and I know his wisdom and guidance was highly valued throughout this term.

I also want to thank Jeremy and his team. They are at the heart of why the CMA is able to operate efficiently and with such effective use of the resource available to them.

I look forward to a challenging and rewarding year ahead for the CMA with the evolution of the Smart Hub and the development of a range of innovations from the Performance Fund.

"Water is a precious resource, and the challenges of its sustainable conservation are growing year by year."

Bob Downes | Chair
16th June 2026



Chief Executive's Review

2025-26 marked the beginning of a new phase for the CMA as it welcomed its third chair, Bob Downes. As a result of Bob's arrival, the business took a fresh look at its governance and delivery capability, with positive changes coming out of that review. Over the year we set about delivering the phase of the Strategic Plan, completing a major re-procurement exercise and extending the framework for Market Audit. We also committed to some significant initiatives which will transform the Market and CMA's role within it.

Establishing CMA's appetite for risk

During the year we strengthened our corporate governance and risk management arrangements with the formal adoption of a new risk appetite framework. To date, the CMA has successfully managed operational risk and other business vulnerabilities through a well-established Risk Register, which was developed out of UK Treasury guidance. While the Risk Register remains an essential tool for tracking and mitigating specific threats, the new risk appetite framework will provide a strategic complement that sets the wider context for the Register.

The primary purpose of this framework is to establish the level of risk the Board believes it is useful to accept, and that the business is genuinely equipped to handle; as the business develops, applying the framework, the management of risk will become more proactive and targeted at achieving specific outcomes, rather than simply reacting to identified threats. In determining its appetite for risk, the Board has balanced competing factors – protecting the delivery of our core Market Code functions (registration and settlement), controlling operational costs, and recognizing the value to the Market of innovation and frontier performance.

Structurally, the framework classifies the CMA's risk attitudes across four clear designations: *averse, cautious, open*, and *accepting*. To establish a baseline, Board members completed a scoring matrix that addressed twenty wide-ranging operational and strategic questions. The final collated results confirmed a dual risk profile for the CMA.

- The business maintains a strictly averse or cautious stance toward core services, technology systems, data integrity, and compliance.
- Conversely, the Board formally adopted an open and accepting appetite toward transformational, non-core projects – such as data analytics, artificial intelligence, and environmental stewardship – recognizing that innovation in these spaces is vital to driving Market improvement and delivering customer benefits.

Already this awareness is shaping the way the Board views opportunities, for example, with an increasing appetite for adopting the risk associated with Performance Charge projects and a change in the composition of the Board itself, while at the same time looking for further strengthening of the independent audit of core CMA functions.

CMA Resilience

The Board's focus on risk management has led to a specific review of CMA's resilience.

Since 2008, the Risk Register has recognized that the business relies on a small, highly specialized core staff. The nature of the business is that all roles are fundamentally 'key' to delivery. While this lean structure has driven operational efficiency, it leaves the organization potentially exposed to sudden staff departures or long-term illness.

To address this risk the Board made a small contingency provision in the 2026-27 budget that could be used for third party support. It also reviewed the current approach to mitigation, which has two elements; first, a well-defined set of short-term cover responsibilities within the team, and second, a framework for recruiting new team members. The Board has focused on the second element, looking for detailed succession plans for all managerial roles within the business. By further formalizing cover arrangements, the Board is ensuring that the CMA's core functions remain resilient to any sudden changes in circumstances.

Re-procurement of IT services

A major focus of our operational and strategic activity this year was the re-procurement of our core IT services. This initiative was undertaken in fulfilment of an explicit commitment made within our Strategic Plan 2025-27, which recognized that our performance relies on the integrity, availability, and continuous improvement of the Central Systems. Periodic market-testing of our IT development and operator services is essential to ensure that the CMA continues to benefit from competitive pricing, modern technological solutions, and robust service standards. While our core suppliers have delivered stable and high-quality services over many years, regular re-procurement exercises – previously undertaken in 2015 and 2019 – provide an opportunity to consider how the needs of the business and the Market have changed, and how emerging technologies can be harnessed to meet them.

Although the CMA is not bound by public sector procurement rules, our approach nevertheless applied the public procurement framework to ensure that we adhered to independently defined standards of governance. For this exercise we signed up to the government's Find a Tender Service (FTS), the post-Brexit UK equivalent of the OJEU framework that we have applied to past reprocurement exercises. The FTS framework helped to ensure that our approach was transparent, objective, and fair – it was regarded as critical that challengers to our incumbent providers should face a level playing field. To maximize market reach, we supplemented formal notification channels with social media communications, ensuring a healthy pool of competitive bids. It was pleasing to see that the exercise

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went according to plan and yielded some immediate benefits. The incumbents, C& C for development and Bridgeall for operations, were selected in the face of highly credible alternative suppliers and secured the contracts for a baseline period of three years, plus an optional one-year extension. A significant outcome from the process was a reduction in operating costs, reducing our IT spend and helping to keep our overall 2026-27 budget increase well below inflation. We also gained some technological insights which will be carried forward to the development of the Smart Meter Data Hub and the Central Systems.

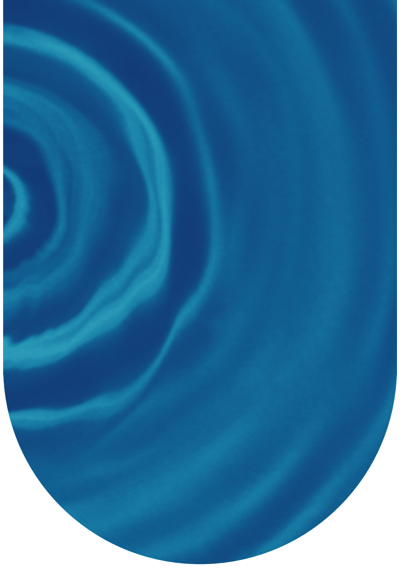
Market Audit

The Market Audit process (including the CMA Audit and the Participant Audit) has continued to develop and evolve at pace, with the aim of improving CMA and Participant performance.

- In FY2025-26, the scope of work carried out by Deloitte was expanded. In addition to evaluating the CMA against its Market Code obligations, the Audit introduced a focus on best practice recommendations to push the organisation "beyond compliance" and into "frontier performance"; this was another area identified in the Strategic Plan. This expanded scope included exploratory discussions and separate assessments regarding the CMA's planned security and cyber resilience control environment.
- In parallel, the Participant Audit framework has significantly developed by introducing quarterly data reporting to sit alongside the traditional annual report. This has driven a shift in focus: the annual audit is evolving into a strategic assessment of longer-term performance trends, while the quarterly audits focus on identifying immediate data quality issues and implementing remediation plans.

The results of the core audit of the CMA were positive, with Deloitte delivering an unmodified audit opinion with no 'emphasis of matter' to report. From its look at best practices, Deloitte's fieldwork and validations did not identify any findings or red flags to highlight to the Board, demonstrating a robust baseline for the CMA's cyber security controls and disaster recovery processes. Recommendations were made around deeper Board involvement in day-to-day operations and enhanced communications with those on the front line of provision.

The annual Participant Audit confirmed the recent trend of a gradual improvement in Licensed Provider compliance on Data Comparison and Data Quality tests. Testing of the business processes that underpinned these results was also positive, not least because there was a marked increase in the number of submissions made for audit purposes. In those cases of less good compliance, post-Audit follow-up has been strengthened. Meanwhile, Scottish Water maintained its near-100% compliance in



Data Comparison and Data Quality tests.

Performance charge projects

Performance Charge Projects are an important strategic component of the Market framework. They enable improvements in data, systems, and analytics that benefit the Market and ultimately customers. During the year the Board was keen to encourage uptake of the Performance Charge fund and so asked for the formation of an industry Working Group to consider what improvements could be made to the application process for funding, and to canvass views on areas where Performance Charge projects might be beneficial. The task of improving the framework has begun, with a recognition that greater formality, for example around application forms, would be useful for Participants. It was also noted that further efforts should be made to raise awareness of the fund.

- Smart metering emerged as a significant topic for the Market during the year; the potential for benefit to the Market, customers, and the environment marked this area out as a good fit for support from Performance Charge funds. In July 2025 the Board approved a small study to look at the feasibility of delivering a basic smart meter front end to communicated with Licensed Providers. After establishing a 'position in principle' regarding CMA's involvement, which was supported by the Market, the Board approved initiation of the first phase of a Smart Meter Data Hub (Scotland) project, which was to development a specification for a communications layer to interface with Scottish Water's architecture. The initial project and subsequent development work will come fruition during FY26–27.

- Another area where foundations were laid was in approval to fund matching Register of Scotland (RoS) title data to Central Systems data, while also potentially carrying out a cleanse of postcode data, Unique Property Reference Numbers (UPRN), and SIC data. Data quality is fundamental to settlement and registration processes, along with accurate LP billing; RoS data can assist with identify property owners to support vacant charging, while cleansing existing data will increase certainty regarding which premises a SPID serves. Again, we anticipate that this project will come to fruition during FY26–27.

- Looking further ahead, the Board approved in principle the idea of utilizing Performance Charge cash to deliver wholesale tariff analysis. In support of Scottish Water and Scottish Government, in the next regulatory control period the CMA will deploy the Central Systems to model the impact of simplifications in the wholesale tariff structure.

Performance Charge Projects are an important strategic component of the Market framework.

“The CMA commitment is to actively listen to Participants and adapt for the benefit of the Market.”

Jeremy Atkinson | CEO
12th June 2026

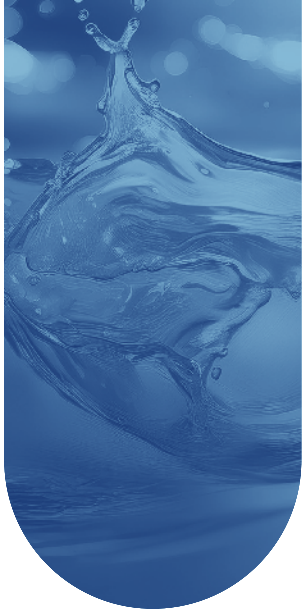
Stakeholder engagement

The CMA takes a holistic approach to stakeholder engagement, balancing written communications with in-person discussions, and the provision of information with the gathering of feedback. At the heart of our written communications are the Quarterly Member Update (which provides an overview of CMA Board activities) and the Quarterly Business Plan Update (which tracks CMA’s delivery against planned outputs for the year). Feedback on these publications has been positive, but we are nevertheless intending to modernise our presentation in response to suggestions. The Quarterly updates are supplemented by the annual Stakeholder Engagement Report, which provides an opportunity for the CMA to acknowledge the issues and ideas raised by Participants through the year.

The CMA commitment is to actively listen to Participants and adapt for the benefit of the Market. CMA has always placed a high value on face-to-face meetings with Participants, and this year the autumn Licensed Provider events were held in London, Manchester and Glasgow. Once again they provided an invaluable opportunity to gauge the mood of the Market and consider important strategic issues; this year discussions focused on operational pressures, such as pre-payment, the absence of alternative credit arrangements, and the level of Market debt, issues which were encapsulated in the question of the appropriate balance of risk between Scottish Water and Licensed Providers. Equivalent meetings were held with Scottish Water to ensure that the senior team had a rounded view of Market opinion. Feedback was also received through the new Participant Experience Tracker; a notable outcome from this has been the extension of Central System opening hours and the launch of an initiative to improve the presentation of data on Settlement reports. This year there has also been a significant increase in engagement with Scottish Government and WICS, with a view to identifying priority areas for legislative change, a theme that will continue through FY26-27.

The Board has also looked beyond CMA members for a perspective on broader and longer-term changes in the water industry. From tracking and providing data for the Cunliffe Review, to following financial and environmental debates in the English industry, the Board looks to locate CMA strategy within a UK-wide context. To do this, it has devoted more time to hearing guest speakers from outside the Scottish water Market, while also advocating for greater coordination between Markets.

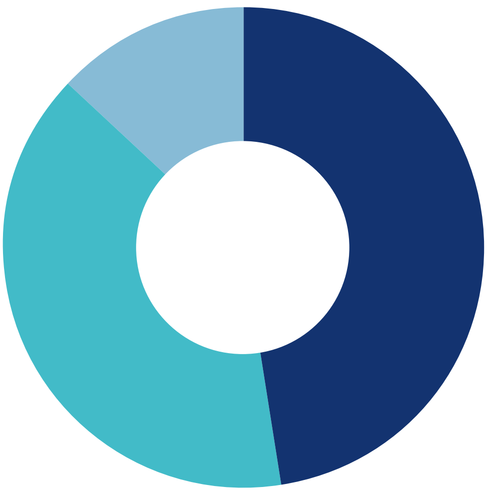
Jeremy Atkinson



CMA Costs 2025-2026

Operational and financial highlights 2025-26

Enquiries handled	149
Transactions processed	3,347,358
Changes processed through the Technical Panel	11
Settlement runs delivered	61
System availability	99.76%



Cost categories	%	£
Central Systems & technical support	47.6%	1206
Office & administation	39.6%	1002
Staff costs	12.8%	324
		2,532

CentralMarketAgency

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Central Market Agency,
48 Enterprise House,
Springkerse Business Park,
Stirling, FK7 7UF.

Telephone: 01786 468 860
Fax: 01786 468 868
Email: info@cmascotland.co.uk
Website: www.cmascotland.co.uk