

# SCOTTISH WATER'S COMPLIANCE OFFICER'S REPORT

# ANNUAL COMPLIANCE OFFICER'S REPORT FOR 2025/26

## COMPLIANCE OFFICER'S ACTIVITIES

### ANNUAL REPORT ON BUSINESS SEPARATION 2025/26

#### 1 Introduction

This report fulfils the reporting requirements of the Water Services (Intra-Group Regulation) Directions 2006, as amended (the "Intra-Group Directions") in relation to 2025/26. It covers the duties of the Compliance Officer and implementation of practices, procedures and systems to ensure compliance with the Market Directions. The specific responsibilities of the Compliance Officer are:

- to provide advice to Scottish Water on compliance with the Market Directions;
- to ensure the ring-fencing of Business Stream so that its management and operations are independent from Scottish Water; and
- to ensure that each Licensed Provider is treated no more or less favourably than any other.

The associated Compliance Statement sets out the detailed arrangements by which Scottish Water will comply with its responsibilities in 2026/27.

#### 2 Compliance with the Market Directions

##### 2.1 *Advice to Scottish Water*

The Compliance team resolves enquiries from the organisation in relation to compliance with the Market Directions. In 2024/25 there were 25 enquiries. These included:

- advising on the handling of potential historic agreements that may qualify as pre-existing agreements under Schedule 3 of the 2005 Act;
- the correct process for removing PFI sites from the market on expiry of the relevant contract and
- providing advice on the inadvertent sharing of an e-mail containing information about a customer with an LP which was not registered to that customer.

Compliance training was provided by to all new starts within the key market-facing teams, and new senior staff and to the one new LP entrant to the market during the period.

##### 2.2 *Compliance with the Intra-Group Directions*

Scottish Water is required to manage its systems and processes so that no Licensed Provider is able to access Scottish Water's confidential information, or that of any other Licensed Provider. In 2025/26 no Licensed Provider had access to any of Scottish Water's premises, equipment or facilities. Scottish Water's systems were only accessible to people working for or on behalf of Scottish Water, and subject to password and profile-controlled access. As set out in the Compliance Statement, in 2025/26 there were four portals accessible to Licensed Providers with the following functionality (i) to allow the submission of requests for operational activities and to see information about the wholesale services in general; (ii) to view general information about ongoing operational activity; (iii) to allow LPs to make applications for new customer connections, and (iv) to view information about the trade effluent service, but only in relation to customers that registered to them, and only for the period of registration. Over 2026/27, it is not expected that any further "self-service"

functionality will become available. In relation to business smart metering, should that be rolled out in the period, it is expected that the Central Market Agency (CMA) will operate a portal to allow LPs to access this data.

### ***Intra-group contracts***

At the end of 2025/26, there were four intra-group contracts between Scottish Water and Business Stream, each of which has been approved in advance by the Commission:

- Business Stream's use of the Scottish Water marque was covered by a licensing agreement;
- Business Stream provided a meter reading service to Scottish Water in relation to non-market domestic properties managed by a third party to whom Scottish Water was a sub-contractor; and
- Scottish Water provided two services to Business Stream: Internal Audit services; and Insurance and Taxation Advice.

In order to allow Scottish Water Internal Audit employees to carry out audits on Business Stream activities, two individuals have time-limited password-controlled access to a secure portal for the sharing of sensitive documents.

There were no contracts between Scottish Water and any other Licensed Provider. There are currently two Licensed Providers which have affiliates that own or operate Wastewater Treatment Works under PFI contracts with Scottish Water. In accordance with the annual process, Scottish Water has written to each relevant Licensed Provider asking them to ensure the confidentiality of the market information held by the affiliated PFI contractor. Over the Strategic Review of Charges period many of the PFI sites are expected to return to SW so this will reduce as a potential issue.

### ***Investigations***

The Compliance team identified and/or investigated two compliance concerns in 2025/26. These related to:

- dealing with an LP's concerns about a second LP who also runs a water efficiency consultancy for business customers; and
- ensuring that two members of staff who had left Scottish Water to join other companies in the water industry were aware of their continuing contractual obligations.

During the year, the Compliance function supported two internal audits which were carried out on market-facing processes. The review of potential risks to the market level playing field, which was carried out in 2024/25 was also refreshed. No specific concerns were identified.

There were no formal complaints from Licensed Providers or the Commission in 2025/26.

### ***2.3 Compliance with the Governance Code Directions***

Scottish Water is required to ensure that Business Stream has an independent management structure and independent operations. Throughout 2025/26, this was delivered in line with the requirements of the Governance Code through Scottish Water Horizons Holdings Limited (SWHH), and Scottish Water Business Stream Holdings Limited (SWBSH), which exercise Scottish Water's ownership responsibilities in relation to Business Stream.

As required by its Standard Licence Condition A9 (“SLC A9”), Business Stream provided Scottish Water with the appropriate assurances that, during the period from 1 January to 31 December 2025, it (i) only received financial support on commercial, arm’s length terms; (ii) had an appropriate financial structure; and (iii) ensured that its Scottish customers were not disadvantaged by its operations in England and Wales.

#### **2.4 Compliance with the Codes and Services Directions**

Scottish Water complied with the Codes and Services Directions in 2025/26. Operational Code performance is reported to the Board and out-performed the corporate target. Market Code metrics also out-performed the corporate target. These obligations were subject to external audit by the Central Market Agency (“CMA”) with no significant negative findings. Reporting arrangements in relation to operational and Market Code metrics in the English and Welsh market changed over 2025/26 so it not possible in this report to provide a comparison between Scottish Water’s performance and the performance of companies in that market. However, it is noted that in 2025/26 Scottish Water’s performance on a metric based on an overall retail measure of experience is higher than any English or Welsh company achieved on their equivalent measure (R-MeX).

The Compliance team monitored operational performance to ensure that each Licensed Provider was treated no more or less favourably in relation to compliance with the operational standards, and in terms of recovery in the rare instances of KPI failure. There was no evidence of preferential treatment to any LP, either in terms of pass/fail KPI performance or the time taken to resolve KPIs (outperformance of KPI).

#### **2.5 Other market requirements**

There are a number of other requirements within the Market Directions. The following activities were carried out to fulfil these obligations:

- The Compliance team kept records of all meetings between Scottish Water and Business Stream. These records were cross-referenced against the equivalent records held by Business Stream to ensure consistency.
- Each Licensed Provider was offered a senior-level meeting with an appropriate staff within Scottish Water. The Business Stream and Scottish Water Chief Executives met 3times in 2025/26 – the Compliance Manager attended each of these meetings.
- Scottish Water continued to develop its policy on Section 29E departures through the “Partner Ecosystem” approach. This will be reviewed in the light of the expected future changes to water sector legislation and proposals set out in Scottish Water’s Business Plan for the Strategic Review of Charges and the Long-Term Strategy.

### **3 Conclusion**

In the 2025/26 financial year, Scottish Water continued to operate robust separation and market-facing structures. Systems and processes are in place to monitor the level of Scottish Water’s performance and there continues to be effective identification and remediation of potential and actual issues. Scottish Water is committed to ensuring that its separation and market obligations are achieved.

**Emma Campbell**  
**Compliance Officer**