

SCOTTISH WATER'S PERFORMANCE

2020-21

December 2021

About this document

This report sets out our assessment of Scottish Water’s performance in the financial year 2020-21, the final year of the regulatory control period 2015-21.

It covers a period during which the Covid-19 pandemic was impacting on all of our daily lives. In Scottish Water’s case, the period of lockdown and subsequent measures to make its activities ‘Covid secure’ inevitably affected its operations and caused delays in delivering the investment programme.

We have assessed performance by comparing what Scottish Water delivered in 2020-21 with its Delivery Plan. The Delivery Plan sets out how Scottish Water intends to deliver its objectives, within the financial limits that we set in our ‘final determination’¹.

The Delivery Plan was originally published in March 2015. It has been updated each year to reflect changes in the profile of delivery that were agreed by the Outputs Monitoring Group (OMG)².

¹ Water Industry Commission for Scotland (2020), ‘The Strategic Review of Charges 2015-21: Final Determination’, December.

² The Outputs Monitoring Group has now been replaced by the Delivery Assurance Group (DAG). However, the purpose and membership of the group remains unchanged. It continues to be chaired by the Scottish Government and includes the regulators WICS, the Scottish Environment Protection Agency (SEPA), the Drinking Water Quality Regulator (DWQR) and Citizens Advice Scotland (CAS), as well as Scottish Water.

Overview of performance

We are pleased to report that, overall, Scottish Water continued to perform well in 2020-21. Customer service (as measured by the overall performance assessment, or OPA, score) exceeded the target range. This compares very favourably with historic performance across the water industry. Scottish Water also achieved year-on-year improvements in the household and non-household customer experience measures.

Scottish Water's operating costs were 4% higher than the level projected in its Delivery Plan³. The increase is due in part to the impacts of the Covid-19 pandemic. It also reflects the higher than forecast costs for energy reported by Scottish Water, in spite of the significant progress it has made on renewables. Looking forward, we are increasingly focused on making sure that the information we collect from Scottish Water, and its reporting to us and other stakeholders, remain fit for purpose.

Scottish Water's capital expenditure of £612m in 2020-21 was 16% below its central forecast in the Delivery Plan. This lower than planned level of investment reflects in large part the impact of the Covid-19 pandemic, which led to three months of site closures and a cautious restart to working 'on site'.

It is worth noting that even before the Covid-19 pandemic, some evidence was emerging (as reported in our previous performance reports) of an output delivery challenge for completing the remaining elements of the investment programme for the regulatory period. Scottish Water now expects that 86 projects (with a forecast cost of £290m) that were due to be completed by March 2021 will now be completed after that date.

While this is not particularly unusual for an investment programme involving several thousand projects and more than £3.6 billion⁴ of investment, it will be important that Scottish Water delivers the expected customer benefits from these remaining projects as soon as possible. We will continue to monitor closely Scottish Water's investment costs and progress on delivery in this area.

³ Scottish Water's Delivery Plan projection for operating costs is the assumption made in the final determination for 2020-21, adjusted for lower local authority rates and higher legislative and pension costs.

⁴ The final determination for 2015-21 allowed for investment of £3,040 million in 2012/13 prices, which is equivalent to £3,650 million in 2020/21 prices.

Transforming to meet the industry vision

We published our final determination for the six-year regulatory control period 2021-27⁵ in December 2020. The determination set an expectation that Scottish Water will have to undergo a fundamental transformation if it is to deliver the ambitions set out in the long-term vision for the Scottish water sector⁶ and achieve its ambitious net zero emissions target for 2040.

As the determination signalled, this transformation will include establishing the required organisational capacity, capabilities and strategic direction. In particular, Scottish Water will need to:

- set out the outcomes and outputs necessary to deliver the vision, the profile for delivering those outputs, the timescales and expected costs – and involve stakeholders to build consensus around this work;
- establish the route-map and trajectory to achieving net zero emissions by 2040;
- develop a comprehensive understanding of future asset replacement needs;
- put in place an enhanced analytical capability that allows better decision making and takes account of the full range of impacts and benefits of investment;
- develop a performance reporting regime that provides confidence to stakeholders, customers and communities that Scottish Water is delivering against their expectations;
- follow the principles of candour and openness, aligned with high-quality analysis, that will be necessary to build the confidence of customers, regulators and other stakeholders;⁷
- demonstrate how it will achieve its ambition of making the customer and community voice an integral part of their decision-making processes.

The extent of the transformation that will be required was brought into focus by the outcomes of COP26 and by the recent challenges caused by storm events. It is clear that Scottish Water faces a number of significant challenges in setting out to achieve net zero emissions and in maintaining levels of service. Meeting these challenges will require a ‘laser like’ focus by Scottish Water on strategic prioritisation of investment.

We will support this process by continuing to monitor Scottish Water’s progress in transforming itself and, along with other stakeholders, will provide input into their proposals as they develop.

⁵ <https://wics.scot/publications/price-setting/strategic-review-charges-2021-27/determinations/2021-27-final-determination>.

⁶ Scottish Government (2020), ‘Scottish Water: directions 2020’, December. Available at Scottish Water: directions 2020 - gov.scot (www.gov.scot).

⁷ More information about the conceptual framework underpinning this approach is set out in Law and Corporate Behaviour: Integrating Theories of Regulation, Enforcement, Compliance and Ethics by Professor Christopher Hodges. Published by Hart and Beck 2015 and Ethical Business Practice and Regulation by C Hodges and R Steinholtz. Published by Hart and Beck 2017.

The extent of progress will be a key factor in determining our approach for the next regulatory period commencing in 2027. As such, we will look for Scottish Water to have made considerable progress over the next two years and will be reporting on this progress in future performance reports.

SUMMARY OF SCOTTISH WATER'S PERFORMANCE FOR THE YEAR 2020-21

Area of performance	Measure	Performance		WICS' assessment	Remarks
		Target	Actual		
Key outcomes for customers and the environment					
Levels of service to customers and the environment	OPA index	385-400	404	✓	The OPA score in 2020-21 exceeded the lower (385) and upper (400) ends of the target range. The score in 2020-21 was 2 points higher than last year's score of 402 and 2 points below Scottish Water's record score of 406 in 2017-18.
Levels of service to household customers	Household Customer Experience Measure (hCEM) index	>82.6	88.5	✓	The hCEM was introduced at the start of the current regulatory control period to assess the level of satisfaction of Scottish Water's household customers. The score in 2020-21 was 0.4 points higher than it was in 2019-20.
Levels of service to non-household customers	Non-household Customer Experience Measure (nhCEM) index	>77.5	88.4	✓	The nhCEM was introduced in 2018-19 to assess the level of satisfaction of non-household customers. The score in 2020-21 was 3.2 points higher than it was in 2019-20.
Delivery of 2015-21 investment programme	Overall Measure of Delivery (OMD) index	240-260	229	✘	The score achieved in 2020-21 was lower than Scottish Water's target primarily due to the impact of Covid-19 in investment delivery. We will continue to monitor the completion of the remaining projects.

Delivery of remaining projects from previous investment programmes	Number of remaining projects delivered since April 2015	37	36	ON TRACK	A total of 37 projects remained from previous investment programmes. The March 2016 Delivery Plan update set a target of delivering all 37 of the remaining projects by March 2021. The final project was delivered shortly after March 2021.
Performance against leakage target	Leakage level in million litres per day	500-575	463	✓✓	The reported level of leakage was significantly below the minimum service level for the period (575 MI/d), and below 500 MI/d, which is the lower end of the range of the calculated 'economic level of leakage'.
Expenditure					
Investment costs	Capital expenditure (£ million)	730	612	*	Capital expenditure was 16% lower than the central forecast projected in the Delivery Plan, primarily due to the impacts of the pandemic.
Operating costs (excluding PPP costs)	Operating expenditure (£ million)	431	448	*	Operating costs were 4% higher than the central forecast projected in the Delivery Plan due, in part, to the impacts of the pandemic.
Financial strength					
Key financial ratios	Cash interest cover*	1.6	1.6	✓	The key financial ratios remain in line or ahead of target. This was the net effect of several factors, including above-forecast revenue. *After maintenance costs (consistent with the final determination).
	Funds from operations to net debt	10.0%	10.7%	✓	

Key: ✓✓ Significant outperformance * Underperformance
✓ Outperformance ** Significant underperformance
ON TRACK On track



WICS
Moray House
Forthside Way
Stirling
FK8 1QZ

T: 01786 430 200
E: enquiries@wics.scot

WICS Economic
regulation for
Scotland's water

