



**Scottish  
Water**

Trusted to serve Scotland

# **Annual Return 2016/17**

## **Overview**

Scottish Water  
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**Appendix A –Board Assurance Statement**

## 1. Executive Summary

This overview reports on Scottish Water's performance and activities in 2016/17, the second year of the 2015-21 regulatory period.

In our 2015 Delivery Plan we stated that we were determined to deliver significant further improvements for our customers and out-perform our commitments. As we conclude the second year of the 2015-21 period we are on-track to achieve this ambition. Key highlights of our progress in 2016/17 include:

- We have successfully driven up customer satisfaction and driven down the number of complaints. As a result our Customer Experience score has risen further this year, and is currently at 85.8, well above our Delivery Plan target of 82.6. Since the start of the regulatory period we have reduced the points lost by 18%;
- We have continued to deliver a level of customer service, as measured by the Overall Performance Assessment (OPA) measure, within the upper end of our plan range at 398; 402 when measured on the methodology that applied in the 2010-15 period;
- We have been recognised in a recent WHICH? report which ranked the water industry as the most trusted sector amongst Scottish consumers;
- We have delivered further leakage reduction in 2016/17, already out-performing the target level set in the Final Determination for the end of the regulatory period;
- The water quality we delivered to our customers' taps in 2016 at above 99.91% continues to outperform levels delivered in previous regulatory periods, and was well above our Delivery Plan target;
- The momentum in delivering our investment programme increased during 2016/17. We invested a total of £626.7 million in 2016/17 compared to £482.6 million in 2015/16. Our Overall Measure of Delivery score for 2016/17 outturned well above our Delivery Plan year-end target of 83 points at 108;
- Through successful joint working with SEPA, the Scottish Government and the Water Industry Commission for Scotland we are recommending an option to achieve the required environmental outcomes in the Lower River Clyde at a substantially lower cost than envisaged in our 2016 Delivery Plan update;
- We are now generating and hosting more renewable electricity than we consume in our operations;
- We continue to receive wider recognition for our activities. In 2016, we were awarded the UK Water Industry Sector Award for Health and Safety, the Scottish Business award for 'Fair Work Employer', and the HR Network 'Best Workplace in Scotland' award. We were also accredited with a gold standard in Investors in Young People, which is the highest award available;
- We are outperforming the challenging financial limits for 2016/17 set out in the Final Determination 2014 and forecast a closing cash balance in March 2021 of £57 million compared to our 2015 Delivery Plan position of £40 million.

## 1.1 2016/17 Dashboard

Table 1 shows the 2016/17 year-end position for the key regulatory outputs set out in the Regulatory Contract.

<b>Annual Dashboard – 2016/17</b>			
<b>Measure to be reported</b>	<b>Delivery Plan Target 2016/17</b>	<b>Actual 2016/17</b>	<b>Current RAG Status</b>
<b>Output Delivery</b>			
Investment: Overall Measure of Delivery (OMD) 2017 Delivery Plan update	83	108	G
Investment: Complete SR10 projects by March 2015	26 - 29	29	G
<b>Levels of Service</b>			
Overall Performance Assessment	381	398	G
Household Customer Experience Measure	>82.6	85.8	G
Leakage (MI/d)	575	495	G
<b>Expenditure</b>			
Total capital expenditure (£m)	551 – 609	626	
Operating and PPP Costs – non IFRS (£m)	547	537	G
Operating and PPP Costs – IFRS* (£m)	506	496	G

\*IFRS = International Financial Reporting Standard

**Table 1 – Annual Regulatory Dashboard – 2016/17**

<b>Performance status</b>
<b>Performance below target</b>
<b>Performance on or above target</b>

## **1.2 Customer Experience Measure**

We introduced our household Customer Experience Measure (hCEM) in April 2015. We set out in our 2015 Delivery Plan our aim to improve on the score of 82.6 (out of 100) achieved in 2014/15. Our score for 2016/17 was 85.8, an 18% reduction from 17.4 points lost in 2014/15 to 14.2 in 2016/17. This reduction is as a result of improvements in the 7 areas of performance measured under our household CEM. Written customer complaints have been driven down this year to their lowest ever level of 807, compared to 1,145 in 2015/16, while customer satisfaction for those customers who had a service issue is at its highest ever level of 90.7%.

## **1.3 Overall Performance Assessment (OPA)**

In our 2015 Delivery Plan we set out our commitment to achieve an OPA score at or above 380 points in 2015/16 rising to 385 points by 2020/21, and our aspiration to achieve an equivalent OPA score at, or above, 400 points.

In reporting year 2016/17 we have again exceeded our 2015 Delivery Plan commitment scoring 398 points compared to 393 in 2015/16; we note our score would be 402 when measured on the methodology that applied in the 2010-15 period. This has been driven in the main by reductions in water related environmental pollution incidents and improvements in waste water treatment works compliance.

## **1.4 Customer Satisfaction**

We agreed with the Customer Forum to build a benchmarking indicator which would track customer satisfaction of Scottish Water alongside other companies in other sectors using the UK Customer Satisfaction Index (UKCSI) survey from The Institute of Customer Service. Our aspiration is to match the levels of customer satisfaction of leading providers of essential goods and services.

The January 2017 UKCSI results confirm we continue to lead amongst Water and Sewerage companies. Our particular strengths have been recognised in relation to being easy to contact (where we have the strongest score across the utility sector) and quick resolution of issues.

Our progress has also been recognised in the recent 'WHICH?' Consumer Insight Report. 'WHICH?' tested consumers' views of the trust they had in different sectors and ranked the water industry as the most trusted sector amongst Scottish consumers.

## **1.5 Leakage**

Our reported leakage for 2016/17 is 495 MI/d, our lowest ever level, and a 5 MI/d reduction on our reported level of 500 MI/d for 2015/16. We continue to target leakage through proactive leakage detection and repair, pressure management, and improvements in repair cycle times.

## **1.6 Compliance**

### **Drinking water quality compliance**

For the calendar year 2016, both overall compliance with water quality standards (99.92%) and water quality at customer taps (99.91%) maintained the high levels of compliance achieved in 2015. Whilst marginally lower than in 2015 we continue to outperform levels delivered in previous regulatory periods, and are still significantly above our Delivery Plan commitment of 99.88%.

### **Waste water compliance**

Waste water treatment works compliance is reported as 4 failing works (Newmachar, Dufftown, Fyvie and Meigle) at 31 March 2017 compared to 6 in March 2016. Our level of performance compares against our Delivery Plan 2015-21 commitment of, at most, 5 works failing.

### **Environmental Pollution Incidents**

The overall number of Environmental Pollution Incidents experienced in 2016/17 was 239. This compares to an overall level of 257 in the previous year. Our Delivery Plan commitment is to remain below 330 incidents per annum for this measure.

### **Bathing Waters**

Scotland had 84 bathing waters officially designated for 2016, of which 71 could potentially be affected by Scottish Water assets. Overall performance was good and operational events were managed by the agreed response and reporting protocols with SEPA to ensure compliance. Improvements will be delivered in the current period at Portobello West, Fisherrow Sands, Rockcliffe and Kinghorn and investigations will be undertaken at a further 5 sites to confirm whether there is an impact from our assets.

## **1.7 Investment Planning & Delivery**

To prepare for this investment period we put in place new investment planning and delivery arrangements with strengthened in-house investment planning capability and three new delivery alliances. This revised business model and tailored supply chain are driving momentum in delivering our investment programme during 2016/17. We have invested a total of £626.7 million this year compared to £482.6 million in 2015/16. Our Overall Measure of Delivery score for 2016/17 is well above our Delivery Plan year-end target of 83 points at 108 points.

Since April 2015 we have delivered over £1 billion of investment, with over 1,500 projects starting on site. Around 216 businesses employing over 2,200 people are delivering the programme.

We started the 2015-21 period with 37 projects from the previous programme which were due but not completed by March 2015. By 31 March 2017 we had delivered 29 of these projects, at the top of our target range of 26 to 29.

## **1.8 Wholesale service**

Activity in the retail market has continued to grow in recent years with the number of Licensed Providers now up to 25 operating in Scotland; more than half of customers have already switched provider since the market opened. The public sector contract switch from Business Stream to Anglian Water on 1 March 2016 was successful and we worked closely with both Licensed Providers to support a smooth process.

During 2016/17 we supported a number of significant market initiatives aimed at improving the integrity of market data, the fairness of charges and protecting Scottish Water's core services from financial risks associated with the competitive market.

## **1.9 Research and Innovation**

In 2016 we produced our first Annual Innovation Report which sets out our strategic approach to innovation that centres around three streams of activity; embedding innovation capability in Scottish Water, delivering knowledge and capability through our Research and Development Programme and trialling new technologies.

## **1.10 Expenditure, Performance and Efficiency**

### **Financials**

The regulated surplus before tax of £99.5 million was £3.3 million lower than in 2015/16 (£102.8 million).

### **Revenue**

Regulated revenue for the year totalled £1,149.0 million (2016: £1,120.4 million).

Revenue from services supplied to household customers increased by £19.3 million, or 2.4%, to £840.0 million reflecting the 1.6% tariff increase effective from 1 April 2016 and the increase in properties connected to the network.

Revenue from wholesale services supplied to Licensed Providers increased by £6.8 million, or 2.3%, to £298.3 million reflecting the project to identify and bring into charge unregistered premises partly offset by an average tariff decrease of 0.4% and a reduction in consumption.

Revenue from other sales increased by £2.5 million to £10.7 million.

### **Total costs**

Total costs increased by £34.9 million to £880.3 million (2016: £845.4 million).

Operating costs, including PPP costs, were £495.9 million, £15.4 million higher than in 2015/16. Within these costs, regulated operating costs of £381.1 million were 3.7% or £13.5 million higher than in 2015/16 and PPP costs were £1.9 million at £114.8 million.

The increase was primarily due to: the changes in National Insurance, higher local authority rates charges, higher energy prices and an increase in the bad debt charge. After adjusting for these items and new operating costs associated with capital investment, like-for-like controllable costs, decreased in real terms by 1.5% or £4.3 million.

Depreciation, including PPP depreciation, increased by £12.0 million to £273.0 million, due to the profile of capital investment in the year. The gain on sale form asset disposals was £8.5 million lower than 2015/16 at £6.2 million.

### **Finance costs**

As at 31 March 2017, the weighted average interest cost of the outstanding long-term debt was 4.43% (2016: 4.73%). Net interest payable during the year was £147.7 million, £1.9 million lower than in 2015/16. The finance costs total is net of a foreign exchange gain of £0.3 million (2016: £1.2 million) in respect of forward Euro currency contracts.

PPP finance costs were £1.1 million lower at £21.5 million.

During the year, net debt increased by £133.4 million to £3,189.1 million (being loans of £3,424.3 million less cash balances of £235.2 million). The increase was driven by a £133.4 million decrease in cash balances due to the level of the capital investment programme. There was no change in the total borrowing from the Scottish Government.

### **1.11 Board Changes**

James Coyle and Paul Smith were appointed as new members of the Board during 2016.

Terms of office for James Spowart and Andrew Wyllie expired on 31 March 2017

Geoff Aitkenhead, Executive Director Capital Investment, retired from Scottish Water in July 2016 having served as an Executive Board member since the formation of Scottish Water.

Samantha Barber and Iain Lanaghan have been appointed from 1 April 2017.

### **1.12 Recognition**

We are committed to engaging our employees and monitor how well we are sustaining their engagement through regular employee opinion surveys. In 2016, we were awarded the UK Water Industry Sector Award for Health and Safety, the Scottish Business award for 'Fair Work Employer', and the HR Network 'Best Workplace in Scotland' award.

We recognise the importance of attracting and developing the next generation of people to work in the water industry in Scotland. In 2016 Scottish Water was accredited with a gold standard in Investors in Young People, which is the highest award available.

### **1.13 Looking Forward**

Our Delivery Plan for 2015-21 remains ambitious and sets out to build on our success to date. Over the remainder of the regulatory period our focus remains on providing our customers a leading service while at the same time reducing their charges in real terms. We will seek to continue to drive up customer experience, improve the supply of continuous high quality drinking water, minimise the impact of our discharges on the environment and outperform the challenging financial limits set out in the Final Determination 2014.



Preparations continued during 2016/17 on the rolling investment programme 2018 (IR18) to confirm those outputs included in our Delivery Plan 2015-21 that are subject to further investigation or the level of customer demand.

#### **1.14 Governance of the Annual Return**

We have retained the methodologies and processes used for producing the detailed information in Scottish Water's Annual Return to the Water Industry Commission developed over previous years. We also retained Black and Veatch to audit the information reported in the Annual Return as part of the normal assurance to the Scottish Water Board and consequently the Commission. Our process for preparing the Annual Return achieved ISO9001 accreditation in March 2015 and was recently recertified for the second time as part of a BSI audit in January 2017 for a further year. Our approach continues to ensure that the Annual Return submission is based on sound processes and assumptions, and is subject to continuous improvement.

Please find our Board assurance statement at Appendix A.

## 2. Key Outputs and Service Delivery

### 2.1 Customer Satisfaction

#### 2.1.1 Customer Experience Measure (CEM)

We introduced our household Customer Experience Measure (hCEM) in April 2015 to ensure that the level of service experienced by our customers sits at the heart of what we do and is a key driver of our performance improvement. Performance is measured against a number of quantitative and qualitative indicators and combined to produce an annual score out of 100, which is made up of the elements summarised in Figure 1 below:

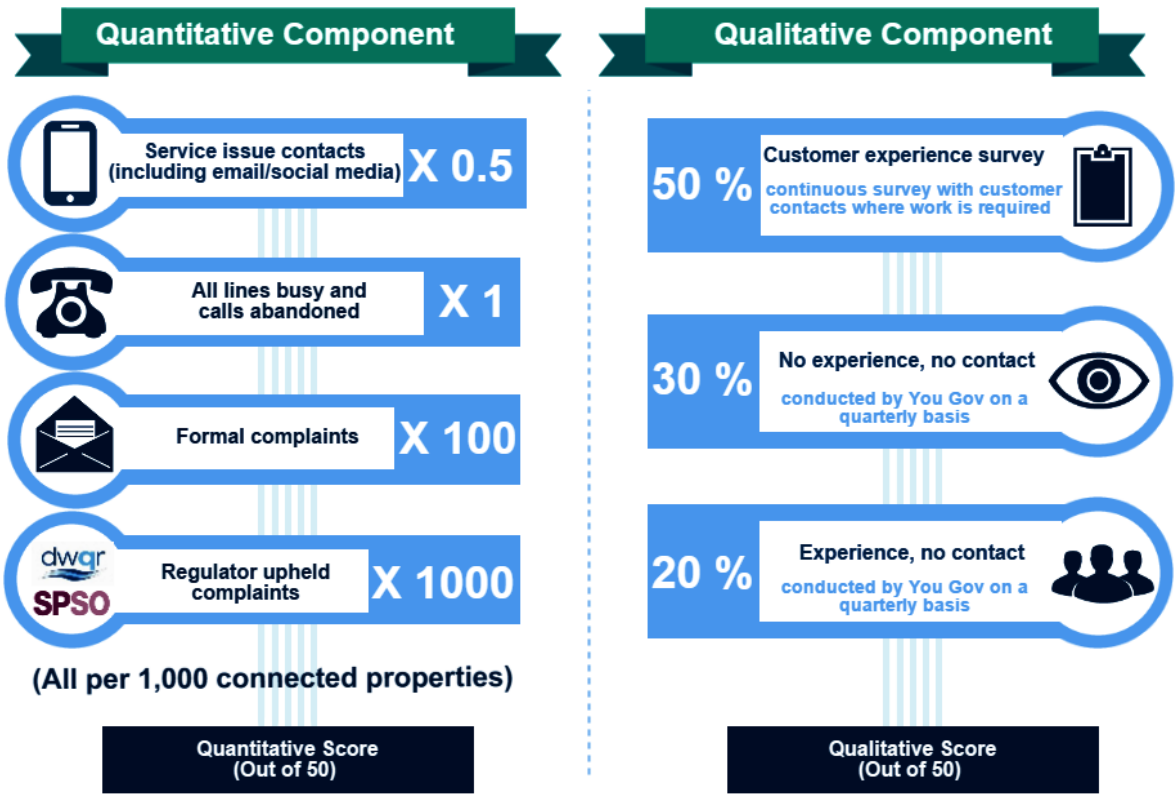


Figure 1 – Component elements of the household Customer Experience Measure

The score is improved by driving down unwanted service contacts, abandoned calls and complaints and by increasing customers’ satisfaction with their experience of Scottish Water.

We set out in our 2015 Delivery Plan our aim to improve on the score of 82.6 (out of 100). Our score for 2016/17 is 85.8 - a reduction in lost points of 18% since 2014/15. This was achieved primarily by continuing to drive down the number of complaints we receive and drive up the customer satisfaction of the service we delivered. Details of the component elements of the household Customer Experience measure and the number of points lost on each are shown below in Table 2.1

Measure	2015/16		2016/17	
	Input	Points lost	Input	Points lost
<b>Quantitative elements</b>				
Service issue contacts	291,401	4.89	290,764	4.85
All lines busy and calls abandoned	3,582	0.12	2,888	0.10
Written complaints	1,145	3.85	807	2.69
Regulatory upheld complaints	1	0.03	2	0.07
<b>Qualitative elements</b>				
Customer experience survey	89.5%	3.06	90.7%	2.71
No experience - no contact	94.0%	1.05	94.67%	0.93
Experience - no contact	77.1%	2.65	76.39%	2.75
<b>Total points lost</b>		<b>15.65</b>		<b>14.11</b>

**Table 2.1 – Household Customer Experience Measure – points lost 2015/16 and 2016/17**

During 2016/17 our customer contact centre received the lowest in-month number of calls in the history of Scottish Water.

Formal complaints, as measured in the household CEM, have been driven down to their lowest ever level, with a 30% reduction in 2016/17. This has been achieved by responding to those who have not scored us highly in the customer experience survey so reducing the need for customers to make formal written complaints.

We have developed and in 2017/18 are now operating a separate non household Customer Experience Measure that will support us in improving the service and experience to our non-household customers. This new measure covers a wide sector such as Licensed Providers, Developers and business customers. For the first time we are now collecting feedback from business customers who have contacted us directly, with a view to understanding different levels of expectations and how we can improve their experience of dealing with Scottish Water. We are committed to delivering a year on year improvement in our performance to non-household customers. This will be enabled by the use of our new Customer Relationship Management system which is due to be implemented in 2017.

## **2.1.2 UK Customer Satisfaction Index**

We agreed with our customers to build a benchmarking comparison which would track customer satisfaction of Scottish Water alongside other companies in other sectors using the UK Customer Satisfaction Index (UKCSI) survey from The Institute of Customer Service. Our aspiration is to match the levels of customer satisfaction of leading providers of essential goods and services.

The results of the UKCSI survey in January 2017 confirmed we continue to lead amongst Water and Sewerage companies. Our particular strengths have been recognised in relation to being easy to contact (where we have the strongest score across the utility sector) and quick resolution of issues. We did note some movement in the overall utility category with the introduction of a number of on-line retail utility services reaching high levels of satisfaction. We achieved a score of 76.4 in the January 2017 survey and continue to perform well in the Utility Sector.

We are working closely with the Institute of Customer Service to gain a better insight and understanding from this service benchmark and to work towards our aspiration of matching the levels of customer satisfaction of leading providers of essential goods and services.

We have been recognised in a recent WHICH? report. Their Consumer Insight Report tested consumers' views of the trust they had in different sectors and ranked the water industry as the most trusted sector amongst Scottish consumers, as shown in Figure 2:

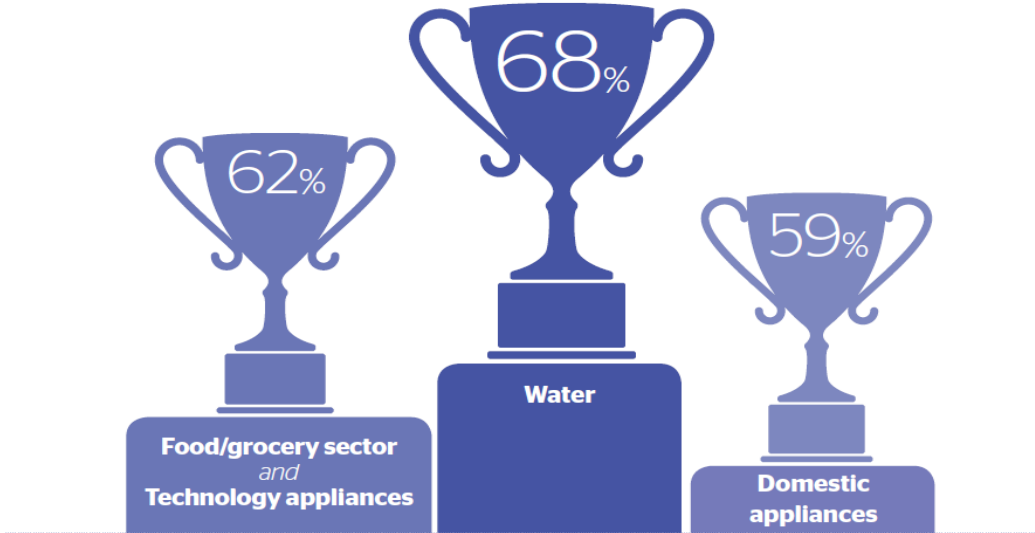


Figure 2 – The industry sector / organisations most trusted in Scotland are<sup>1</sup>:

<sup>1</sup> WHICH? Consumer Insight report: A Scottish consumer snapshot 2016  
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## 2.2 Customer Service

### Overall Performance Assessment (OPA)

In reporting year 2016/17 we have again exceeded our 2015 Delivery Plan commitment scoring 398 points compared to 393 points in 2015/16.

Table 2.2.1 below reports our 2016/17 performance for each of the 17 indicators within OPA.

Indicator	AR17 OPA score	AR16 OPA score	Change
% of properties subject to inadequate water pressure	37.39	37.38	0.01
Connected properties experiencing unplanned interruptions	36.03	35.76	0.27
Hosepipe restrictions	12.50	12.50	0
Security of Supply absolute performance	11.25	11.25	0
Security of Supply performance against target	12.50	12.50	0
% of water samples that comply with parameters	43.17	43.60	-0.44
Leakage	12.50	12.50	0
<b>Water Service (sub-total)</b>	<b>165.34</b>	<b>165.49</b>	<b>-0.15</b>
% properties suffering sewer flooding incidents caused by overloading	24.97	24.91	0.06
% properties suffering sewer flooding incidents caused by other causes	37.50	37.50	0
Sewer flooding (at risk)	12.48	12.50	-0.02
<b>Sewerage Service (sub-total)</b>	<b>74.95</b>	<b>74.91</b>	<b>0.04</b>
Category 1 & 2 sewage EPIs	21.85	22.95	-1.10
Category 3 sewage EPIs	10.51	10.16	0.35
Category 1 & 2 water EPIs	11.23	8.69	2.54
Sewage sludge disposal	12.50	12.50	0
Number of non-compliant sewerage treatment works	46.00	43.00	3.00
<b>Environmental Performance (sub-total)</b>	<b>102.09</b>	<b>97.30</b>	<b>4.79</b>
Customer contact (Total of complaints and telephone performance)	18.50	18.59	-0.09
Assessed customer service	37.50	37.50	0
<b>Customer Service (sub-total)</b>	<b>56.00</b>	<b>56.09</b>	<b>-0.09</b>
<b>Total</b>	<b>398.38</b>	<b>393.79</b>	<b>3.59</b>

Table 2.2.1: OPA Performance 2016/17

The major movements against the OPA indicators are explained below.

### Connected Properties Experiencing Unplanned Interruptions

Table 2.2.2 shows the change in the number of properties that experienced unplanned interruptions compared to last year. A total of 6,753 weighted properties, or 0.25% of the total population, received a supply interruption greater than 6 hours.

	2015/16	2016/17
Properties interrupted for 6 to 12 hours	5,718	5,379
Properties interrupted for 12 to 24 hours	632	609
Properties interrupted for more than 24 hours	84	39
<b>Total number of properties interrupted for more than 6 hours</b>	<b>6,434</b>	<b>6,027</b>
<b>Total number of properties interrupted for more than 12 hours</b>	<b>716</b>	<b>648</b>
<b>Total 'weighted' properties interrupted for more than 6 hours</b>	<b>7,318</b>	<b>6,753</b>

**Table 2.2.2 - Unplanned Interruptions to Supply 2016/17**

### **Percentage of water samples at customer taps that comply with parameters**

In 2016/17 the percentage of water samples at customer taps that complied with parameters marginally reduced to 99.912% causing our OPA performance to decrease by 0.44 points to 43.17 points.

### **Environmental Pollution Incidents (EPIs)**

#### **a) Wastewater Category 1&2 EPIs**

The number of incidents increased in 2016/17 from 10 to 12. This decreased our OPA performance by -1.10 points to give us 21.85 OPA points for this indicator.

#### **b) Wastewater Category 3**

The number of incidents decreased in 2016/17 from 247 to 226. This increased our OPA performance by 0.35 points to give us 10.51 OPA points for this indicator.

#### **c) Water Category 1&2**

The number of incidents decreased in 2016/17 from 3 to 1. This increased our OPA performance by 2.54 points to give us 11.23 OPA points for this indicator.

### **Non-compliant Sewage Treatment Works**

Last year we reported 6 failing waste water treatment works and 43 OPA points for this indicator. We report 4 failing works for 2016/17 resulting in an improved score of 46 OPA points.

### **Leakage**

Our reported leakage for 2016/17 is 495 MI/day which is a 5 MI/day reduction on our reported level for 2015/16. We continue to target leakage through proactive leakage detection and repair, pressure management and modulation, and improvements in repair cycle times.

We are continuing our work to further improve the data associated with leakage reporting both internally and through participation in UK improvement initiatives.

## 2.3 Drinking Water Service

### Overall Water Quality Compliance

For the calendar year 2016, while marginally lower than 2015, overall compliance with water quality standards reached our second highest ever level at 99.92% and water quality at customer taps achieved 99.91% compliance. We continue to outperform levels delivered in previous regulatory periods, and are significantly above our Delivery Plan commitment of 99.88%.

### Microbiological Quality

Microbiological standards apply to water leaving treatment works, in service reservoirs and supplied at customer taps.

#### a) water leaving treatment works

In 2016, 26,021 samples were taken for *E.coli* and coliform analysis. Compliance with the *E.coli* standard was 99.99% and with the total coliform standard was 99.87%.

#### b) water in service reservoirs

In 2016, 50,323 samples were taken for *E.coli* and coliform analysis. Compliance with the *E.coli* standard was 99.99% and the total coliform standard was 99.89%.

#### c) water at customer taps

In 2016, 14,058 samples were taken for *E.coli* and coliform analysis. Compliance with the *E.coli* standard was 99.99% and the total coliform standard was 99.74%.

Table 2.3.1 highlights performance in microbiological water quality for 2015 and 2016 based on regulatory samples:

		2015 fails	2015 compliance	2016 fails	2016 compliance
Treatment works	Coliforms	16	99.94%	33	99.87%
	<i>E.coli</i>	0	100%	2	99.99%
Service reservoirs	Coliforms	63	99.87%	53	99.89%
	<i>E.coli</i>	5	99.99%	4	99.99%
Customer taps	Coliforms	34	99.76%	37	99.74%
	<i>E.coli</i>	1	99.99%	1	99.99%

Table 2.3.1 - Microbiological quality of water

### Chemical Sampling

Physical and chemical quality standards apply to water supplied at customer taps. 114,041 tests were applied to samples taken from customer taps to test for all parameters during 2016. Table 2.3.2 highlights the performance of the key chemical parameters for 2015 and 2016.

	2015 fails	2015 compliance	2016 fails	2016 compliance
Trihalomethanes (THMs)	2	99.87%	8	99.47%
Iron	28	99.45%	23	99.54%
Colour	0	100%	0	100%
Manganese	13	99.74%	10	99.80%
Aluminium	3	99.94%	1	99.98%

Table 2.3.2 – Key Chemical Parameters

## **Water Resources Licensing**

We submitted our annual Water Resource data return to SEPA for the 2016 calendar year, which covers abstraction and impoundment activities authorised under the Controlled Activities Regulations (CAR) and includes data for 272 abstraction and 101 compensation activities. It is a legal requirement of CAR licences to provide SEPA with data on our abstraction and compensation activities to enable them to monitor our compliance against the conditions of the licences we hold – typically maximum abstraction limits from our sources and minimum compensation flow requirements from our reservoirs.

In terms of CAR licence compliance, performance in 2016 showed a broadly stable position compared to 2015 for abstractions with a slight reduction in compensation flow sites that were compliant all year, however this position was recovered in the later months of the report year. We have an on-going programme with SEPA to review abstractions, compensation requirements and CAR licences.

## **Resilience**

Our customers have told us that improving resilience of water supplies is a priority area for service improvement in order to reduce the likelihood of long term interruptions to supply. Our customers also asked us to consider further the appropriate level of investment to be made in this area and the benefits this would deliver.

We have developed a structured approach to assessing supply system resilience, and have completed field work on the 17 largest systems. We are now commencing work on the assessment of the remaining 31 systems and plan to complete these by 2021.

Assessments have confirmed the Ayrshire system as the highest priority for improvement in resilience of supply. To achieve this we are developing a strategic connection to the Glasgow system which will deliver resilience and water quality improvements. The scheme is being delivered in three phases; the first phase is about to be commissioned into service, the other two phases are going through the “Prepare” stage with starts on site forecast for Summer 2017 and Spring 2018.

The key resilience schemes set out in our Delivery Plan are the South Edinburgh resilience and the duplication of the Glenhove Pumping Station to Dalnacoulter Service Reservoir. We have developed the South Edinburgh scheme and it is now going through the “Prepare” stage with a start on site forecast for Autumn 2017; while the Glenhove scheme is forecast to be completed this year.

## **Water efficiency**

Our plan to increase awareness of the benefits of water efficiency progressed during 2016/17. Our water efficiency trial is now in the second year of data collection and early indications show that modest consumption reductions look possible where properties have both physical interventions and customer education activities applied. A financial incentive is being included in the trial during 2017. The learning from the trial to date has allowed us to develop our plan to provide water efficiency advice packs to 49,000 household customers in areas which are more susceptible to water supply shortages.



## **Water Pressure**

We are undertaking a study to assess the risk of low water pressure to our customers and to assess the potential influences and root cause(s) of low pressure. We will also review the potential low pressure locations against those recorded in our Low Pressure Register. The study is being delivered using a combination of desktop actions and field verification using pressure loggers with a target completion date of April 2018.

## **2.4 Waste Water Service**

### **Compliance**

#### **Waste water treatment**

Waste water treatment works compliance is reported as 4 failing works (Newmachar, Dufftown, Fyvie and Meigle) at 31 March 2017. This level of performance compares against our Delivery Plan 2015-21 commitment of, at most, 5 works failing. 6 failing works were reported in 2015/16. There has been an increase in the number of high risk waste water treatment works this year from 36 in 2015/16 to 51 in 2016/17. Failure prevention plans are in place for failing, high risk and at risk works to mitigate the risk to the works and the environment.

SEPA has changed its Compliance Assessment Scheme to remove the clause which allowed operators to submit improvement plans where works experienced sample (or other) failures. Once agreed with SEPA this enabled further compliance sampling to be set aside pending completion of the agreed actions. As a consequence some of the compliance failures now arising may have previously been addressed through agreed improvement plans.

#### **Bathing Waters 2016**

Scotland had 84 bathing waters officially designated for 2016, of which 71 could potentially be affected by Scottish Water assets. Improvements will be delivered by Scottish Water in the current period at Portobello West, Fisherrow Sands, Rockcliffe and Kinghorn and investigations will be undertaken at a further 5 sites to confirm whether there is an impact from our assets. Until this is completed, our assets at these sites will continue to present a risk to the performance of these bathing waters. During 2016 there were no incidents at these assets that caused a failure leading to a poor classification.

The 2016 Bathing Season was characterised by generally dry and warm weather, with short periods of excessive rainfall. Overall performance was good and operational issues were managed by the agreed response and reporting protocols with SEPA to ensure compliance. We undertake extensive pre-season inspections of assets that may impact bathing waters to identify any issues and ensure they are managed to minimise the risk to the bathing water.

#### **Pollution Incidents**

The overall number of EPIs (Categories 1-3) experienced in 2016/17 was 239; this includes 1 category 1&2 water incident, 12 category 1&2 waste water incidents and 226 waste water category 3 incidents. This compares to an overall level of 257 EPIs in the previous year. Our Delivery Plan commitment is to remain below 330 incidents per annum.

#### **Waste water sludge**

Each year, we are required to submit a register detailing our activities in relation to sludge recycling to agricultural land. The register is based on a calendar year and reports each

recycling event, the sludge volumes, quality and soil conditions of the receiving farmland to demonstrate that it contributes to the soil nutrient and organic condition. The 2016 register identifies that all recycling activities complied with the Sludge (Use in Agriculture) Regulations, which specify the safe levels of potential contaminants such as metals, with 58,128 tonnes of sludge being recycled.

### **Unsatisfactory Intermittent Discharges**

We continued to reduce the number of Unsatisfactory Intermittent Discharges (UIDs) on our sewerage network as a result of our investment programme during 2016/17, with the completion of a further 25 outputs against a forecast of 9.

Since 2014 we have been able to reduce the number of UID (net), accounting for additional UID identifications through studies and removals due to investment delivery, from 857 to this year's figure of 738. The activities to further reduce the number of UIDs are on-going and are expected to continue over a number of investment periods. However it is also likely that the outputs of on-going and future studies will cause the number of UIDs to increase further.

### **Sewer Flooding**

Reducing flooding from sewers continues to be one of our customers' highest priorities and we have been making progress on delivering our commitment to address internal sewer flooding for those customers at highest risk, i.e. those customers with a 10% chance or greater per annum of being flooded internally.

We have continued to address internal sewer flooding for those customers who have been on our register for over 4 years. This year we completed our largest flooding project to date, in Elmvale Row, Glasgow, where £12 million has been invested to reduce internal and external sewer flooding risk to 28 properties and the local streets that have suffered recurring problems with sewer flooding over a number of years. This resulted in 10 properties being removed from the internal sewer flooding register. In total, 39 properties were removed from the internal register in 2016/17.

New problems continue to be found, resulting in further additions to the flooding register. This year there was a higher than average 86 number of additions to the register. The primary reason for this has been the Oak Mall shopping centre, Greenock. Following a flooding event in 2015, 30 premises within the Mall were added to our high risk register in 2015/16. Further detailed investigations have confirmed that a total of 69 premises in the Mall are at high risk.

At 31 March 2017 the number of properties on our internal sewer flooding register was 381 (315 if the Oak Mall shopping centre, Greenock was treated as three properties). As a result of the number and complexity of additions this year, and particularly the 69 additions at Oak Mall, we expect the number of properties on our 'at risk of internal sewer flooding' register will remain above the expected service level minimum of 370 until at least 2019.

In line with our Delivery Plan commitments we are also developing solutions for around 400 external sewer flooding areas where customers have experienced repeat flooding events. We are working to improve our understanding of customers' properties that have a sewer flooding resilience of less than 1:30 years. As a result, we have identified the risk of a higher level of external sewer flooding from overloaded sewers than was previously understood. This is being further investigated and an update will be provided to the Output Monitoring Group.

## 2.5 Investment Planning and Delivery

The capital programme is monitored quarterly by the Output Monitoring Group, and the associated Working Group, with progress reported to Scottish Ministers.

Momentum in delivering investment increased during 2016/17 with our supply chain of Alliances and Tier 1 contractors, rural and supplier frameworks now fully mobilised. Our rate of investment in 2016/17 at £630 million, compared to £482.6 million in 2015/16, is the highest annual value in the current and previous regulatory periods.

Our delivery performance as measured by the Overall Measure of Delivery continues to outperform the agreed target. At the end of March 2017, our OMD score was 108 points against a target of 83.

We set out below the progress made on a number of investment areas during 2016/17:

- **Dalmarnock / Daldowie waste water treatment works:** Through successful joint working with SEPA, the Scottish Government and the Water Industry Commission for Scotland we are recommending a potential option to achieve the required environmental outcomes in the Lower River Clyde at a substantially lower cost than envisaged in our 2016 Delivery Plan update. In our 2016 Delivery Plan update we included a £100 million risk allowance to address discharges to the Lower River Clyde. If our recommendation is accepted, this risk allowance may not be required and could be available to augment the IR18 allowances.
- **Kelvingrove:** A tunnelling project was included in our 2015 Delivery Plan to remove the wastewater discharges with a view to improving water quality in the Lower River Kelvin. Recent data suggests that our joint work with SEPA in the wider catchment has driven improvements in river quality. In light of these improvements and the scale and potential impact of the proposed tunnel solution in terms of the work required in Kelvingrove Park, we are working with SEPA to review the required improvements for our discharges and the options to address these. In light of this review, which we are seeking to conclude by the end of 2017, the Output Monitoring Group has agreed that it would be appropriate to pause and ring-fence the investment financing associated with this project pending the outcome of the review.
- **Strategic Glasgow Sewerage Scheme:** We continued to progress our plan to improve the river water quality and the natural environment of the River Clyde and its tributaries; to enable the Greater Glasgow area to grow and develop, alleviate sewer flooding and deal with the effects of increased rainfall and climate change. Projects completed as part of this programme in 2016/17 included work to address unsatisfactory overflows in the Clydebank, Barrhead and Thornliebank areas of the city. Work also commenced on a £13 million tunnelling scheme in Paisley town centre.

Delivery of outputs in 2016/17 against the agreed delivery profiles is shown in the following three tables.

Objective	Quarterly monitored programme areas	2016/17 Year end Target	2016/17 Year end Actual	Total number of outputs over the regulatory period
Drinking water quality and reliability	Water treatment works improved	1	1	27
	Zones made compliant with iron & manganese standards	No outputs planned to be delivered in 2016/17		88
	Improvements to reliability of supply (catchments and treatment)	1	3	47
	Improvements to reliability of supply (networks and storage)	9	11	82
	Distribution mains cleaned (km)	No outputs planned to be delivered in 2016/17		5,928
	Water quality etc studies to inform future periods	44	86	344
	2010-15 outputs planned to complete in 2015-21	2	6	22
Drinking water security of supply	Water supply resilience strategy and improvements made	3	7	18
	Zones with improved security of supply (SOSI)	1	1	11
	Security measures and improvements to the infrastructure of critical reservoirs	30	77	689

**Table 2.5.1: Drinking Water outputs**

Objective	Quarterly monitored programme areas	2016/17 Year end Target	2016/17 Year end Actual	Total number of outputs over the regulatory period
Protecting and enhancing the environment	WWTWs improved to meet UWWTD	7	7	25
	Waste water networks improved to meet UWWTD	7	17	60
	Number of improvements required to meet UWWTD - Glasgow completion	26	36	94
	Improvements required to meet the Water Framework Directive	1	1	21
	Studies to inform requirements under the revised Bathing Waters Directive	No outputs planned to be delivered in 2016/17		11
	Environmental studies to inform future periods	0	5	130
	Improvements required by the Compliance Assessment Scheme; odour reduction and sludge management	10	19	42
	2010-15 outputs planned to complete in 2015-21	7	8	15
Flood risk management	Reservoirs Act - improvements to dams	7	11	57
	Flood Risk Management Act - models and integrated catchment studies	0	13	218

**Table 2.5.2: Environmental outputs**

Objective	Quarterly monitored programme areas	2016/17 Year end Target	2016/17 Year end Actual	Total number of outputs over the regulatory period
Supporting economic development	New connections to households and businesses	Demand driven	41,796	56,500
	New waste water capacity for 58,000 people		2,143	58,000
	First time non domestic meters installed		7,382	18,000
	Installation of wholesale meters		18,170	75,500
Climate change	Climate change vulnerability assessments	4	54	122
Long term cost of service	Improvements in renewable power and energy efficiency (GWh)	7.0	9.29	17.5

**Table 2.5.3: Supporting Scotland's economy outputs**

We started the 2015-21 period with 37 projects from the previous programme which were due but not completed by March 2015. We have achieved regulatory sign-off for 29 of these projects at the top of our target range of 26 - 29. A further 2 projects are now in supply and providing benefits to customers and 4 more are under construction.

As set out in our 2017 Delivery Plan update, we have allocated £100 million of our actual and forecast financial outperformance to augment capital maintenance to address emerging risks to customer service and to manage any cost pressures in the overall investment programme.

### Community Engagement

Every day we carry out planned works in communities all across Scotland to maintain the levels of service to customers or to improve drinking water quality or the environment. Our work tends to involve street works or building which can have an impact not only on our customers lives, but the community overall.

Keeping our Customers at the heart of everything we do has led us to focus on what kind of positive or negative impact any project could have on the lives of our customers and their communities and the services we provide them.

As well as using traditional communications methods such as letters and postcards, a number of innovative communications tools are being used including poster advertising, as were used in the roadworks required to improve the Dundee water supply; dedicated webpage; radio adverts, and Facebook adverts.

Facebook adverts allow us to communicate not just with local residents and businesses in the vicinity of the works, but with a much wider audience including transient customers who can also be affected by traffic management or road closures. Using Facebook adverts for Hurllet Road in Barrhead, for example, meant we were able to reach nearly 50,000 people in the area and received over 7,600 clicks in just 3 weeks which includes everything from people clicking through to our website, to 'likes', 'comments' and 'shares'.



A screenshot of a Facebook advertisement. At the top left is the Scottish Water logo and name, with "Sponsored" and a Euro symbol below it. To the right is a "Like Page" button. The main text of the ad says "We're working at the junction of A736/Hurllet Road for 3 weeks from 24th Oct. Plan ahead". Below this is a blue graphic with white icons of a cyclist, a car, a van, and a bus. Underneath the graphic is the text "Hurllet Traffic Management" and "Keep up to date with our work - http://bit.ly/2dBHKIV". At the bottom left is the website "SCOTTISHWATER.CO.UK" and at the bottom right is a "Learn More" button.

We will continue to embed the 'Communities at the Heart' message across Scottish Water and our supply chain partners and look for opportunities to leave a positive legacy at the end of every project.

## 2.6 New connections

Since April 2015, we have connected 41,796 new households and businesses to our network, and have delivered new waste water capacity for 2,143 people. In addition we have broadened our investment approach to provide strategic capacity for the water and domestic sewerage services for additional business demand as well as new housing. This approach has been subject to minimising the likelihood of creating redundant assets and thereby protecting existing customers from undue risk.

There were 4 areas that were most active in terms of development: Edinburgh City, Glasgow City, South Lanarkshire and Aberdeenshire; including a number of business developments such as Aberdeen Harbour, Chivas – Dumbarton, Scottish Leather Group and Lochaber Smelter.

Due to the demand driven nature of new connections to households and businesses, we are working to confirm the investment demand for the 2018-21 period as part of the rolling investment review (IR18). We continue to expect higher demand for new connections in the 2018-21 period with our initial forecasts being around 15% higher than our Delivery Plan position for the 2015-18 period.

New waste water capacity has been delivered for 2,143 people in the areas of Guildtown, Crocketford, St Mary's, Lochgair, Kingsbarns, Inveraray and Garlieston Harbour, with the largest project at Wellbank delivering capacity to 870 people.

## 2.7 Wholesale Service

2016/17 has seen the Scottish competitive market continue to develop rapidly with licences granted to a further three Licensed Providers. In addition there has been some consolidation with a number of mergers and joint ventures having been announced and one Licensed Provider in the process of leaving the market. The total number of Licensed Providers operating in the retail market in Scotland is now 25. Market share has continued to become more distributed across the market as businesses have continued to switch Licensed Providers in significant numbers.

We continue to develop our wholesale service, particularly via the replacement of many of our key IT systems, to enable a more efficient, responsive and automated service to Licensed Providers. In agreement with Licensed Providers, we are proposing to add additional elements to the wholesale service key performance to encompass our meter replacement programme and exemption scheme requests and updating the connections timescales that are required to be met.

We have participated in a number of cross-market initiatives:

**Market data quality programme:** We have continued to register gap site candidates identified by the Central Market Agency's (CMA) project to match Supply Points to business premises recorded by the Scottish Assessors Association (SAA), working with participating Licensed Providers. In addition to a project to process the candidates identified by the CMA, an on-going process has been established to pro-actively identify new gap sites (for example, arising from properties reconfigured by customers). The cost of the project and this on-going activity will be financed from the incremental revenue delivered by the initiative.

Following on from the CMA's work, we initiated a further project with the objectives of improving market data quality, completing the matching of Supply Points to SAA data and facilitating changes in charging policy planned by the Scottish Government. The project is being implemented by Scottish Water under the governance of the CMA board.

**Charging at vacant premises:** We have worked with the CMA, WICS, and Licensed Providers, on preparations for the introduction of charges for vacant non-household premises from 1 April 2017. This has included definition of requirements for changes to the CMA's charging calculations, supporting development of communication material and changes to market processes to facilitate the new arrangements.

**Changes to Licensed Provider credit terms:** Following a series of consultations, WICS has implemented changes to Licensed Providers' credit terms to protect Scottish Water from financial risks associated with the market. We have supported the development of these proposals and have worked with Licensed Providers to apply the resulting changes to each Licensed Provider's Wholesale Service Agreement.

**Shared Supplies:** During 2016/17 we have run a project, working with Licensed Providers and customers to identify potential solutions to separate shared supplies so that, where practically and economically feasible, customers are individually billed based on their metered consumption. The project is now reaching a conclusion and an enduring process is being implemented to help address customer issues relating to shared supplies.

**Service Levels:** We completed 91% of Licensed Provider requested tasks within the required Operational Code or Disconnection Document KPIs in 2016/17, excluding tasks which had been delayed at customer or Licensed Providers' request. Performance remained high across many service areas but fell below the target level of 95%, predominantly due to difficulties with the scheduling and delivery of metering field work in the first half of the year. A recovery project and changes to our processes addressed the underlying issues with the result that performance improved close to the target level of 95% in the final months of the year.

During 2016/17 we have continued to support English wholesalers as they prepare for implementation of the competitive market framework in England in 2017. We have met with a number of English companies over the last year to share our experience of water retail competition.

### 3. Expenditure, Performance and Efficiency

#### IFRS financial results

Table 3.1 compares the results for Scottish Water's regulated activities to 31 March 2017 on an IFRS basis consistent with the presentation within Table M4 of the Regulatory Accounts for 2016/17.

£million	2016/17	2015/16	Change
<b>Turnover</b>	<b>1,149.0</b>	<b>1,120.4</b>	<b>28.6</b>
Operating costs	381.1	367.6	-13.5
PPP operating costs	114.8	112.9	-1.9
Infrastructure maintenance costs	117.6	118.6	1.0
Depreciation / amortisation (incl PPP)	273.0	261.0	-12.0
Gain on sale of assets	-6.2	-14.7	-8.5
<b>Total costs</b>	<b>880.3</b>	<b>845.4</b>	<b>-34.9</b>
<b>Operating surplus before interest</b>	<b>268.7</b>	<b>275.0</b>	<b>-6.3</b>
Finance costs - net	147.7	149.6	1.9
PPP interest charges	21.5	22.6	1.1
<b>Regulated surplus before tax</b>	<b>99.5</b>	<b>102.8</b>	<b>-3.3</b>
Taxation credit/(charge)	2.7	21.3	-18.6
<b>Surplus after tax</b>	<b>102.2</b>	<b>124.1</b>	<b>-21.9</b>

Table 3.1: IFRS financial results

#### Revenue

Regulated revenue for the year totalled £1,149.0 million (2016: £1,120.4 million) and is analysed by category in Table 3.2 below:

£million	2016/17	2015/16	Change
Household	840.0	820.7	19.3
Wholesale	298.3	291.5	6.8
Other	10.7	8.2	2.5
<b>Total regulated revenue</b>	<b>1,149.0</b>	<b>1,120.4</b>	<b>28.6</b>

Table 3.2: Regulated revenue for 2016/17

Revenue from services supplied to household customers increased by £19.3 million, or 2.4%, to £840.0 million reflecting the 1.6% tariff increase effective from 1 April 2016 and the increase in properties connected to the network.

Revenue from wholesale services supplied to Licensed Providers increased by £6.8 million, or 2.3%, to £298.3 million reflecting the project to identify and bring into charge unregistered premises partly offset by an average tariff decrease of 0.4% and a reduction in consumption.

Revenue from other sales increased by £2.5 million to £10.7 million.



## Total costs

Total costs increased by £34.9 million to £880.3 million (2016: £845.4 million).

Operating costs, including PPP costs, were £495.9 million, £15.4 million higher than in 2015/16. Within these costs, regulated operating costs of £381.1 million were 3.7% or £13.5 million higher than in 2015/16 and PPP costs were £1.9 million higher at £114.8 million.

The increase was primarily due to: the changes in National Insurance, higher local authority rates charges, higher energy prices and an increase in the bad debt charge. After adjusting for these items and new operating costs associated with capital investment, like-for-like controllable costs, decreased in real terms by 1.5% or £4.3 million. Table 3.3 below summarises this movement:

	March 2017 £m	March 2016 £m	Variance £m	%
Headline – SW only	381.1	367.6	-13.5	-3.7%
Local Authority rates charges (net)	-64.3	-61.6	2.7	
Gaps 3 project costs	-3.9	-2.8	1.1	
National Insurance changes	-2.6	-	2.6	
Energy price (above 2.14% inflation)	-0.8	-	0.8	
SEPA & WICS costs	-15.1	-15.0	0.1	
Bad debt charge	-16.0	-12.8	3.2	
New operating costs	-1.4	-	1.4	
<b>Like-for-like controllable costs</b>	<b>277.0</b>	<b>275.4</b>	<b>-1.6</b>	<b>-0.6%</b>
Average RPI inflation at 2.14%		5.9	5.9	
<b>Like-for-like real costs reduction</b>	<b>277.0</b>	<b>281.3</b>	<b>4.3</b>	<b>1.5%</b>

**Table 3.3: Movement in regulated operating costs 2015/16**

The increase in PPP costs of £1.9 million to £114.8 million was attributable to the annual indexation of service costs of £1.4 million and lower compliance deduction applied in 2017 (£0.9 million 2016: £3.5 million), partly offset by the lower volumes of waste being treated by the PFI schemes.

Infrastructure maintenance costs were £1.0 million lower than last year at £117.6 million reflecting the profile of maintenance expenditure.

Depreciation, including PPP depreciation, increased by £12.0 million to £273.0 million, due to the profile of capital investment in the year. The gain on sale form asset disposals was £8.5 million lower than 2015/16 at £6.2 million.

## Finance costs

As at 31 March 2017, the weighted average interest cost of the outstanding long-term debt was 4.43% (2016: 4.73%). Net interest payable during the year was £147.7 million, £1.9 million lower than in 2015/16.

PPP finance costs were £1.1 million lower at £21.5 million.

During the year, net debt increased by £133.4 million to £3,189.1 million (being loans of £3,424.3 million less cash balances of £235.2 million). The increase was driven by a £133.4 million decrease in cash balances due to the level of the capital investment programme. There was no change in the total borrowing from the Scottish Government.

## Taxation

Scottish Water's tax credit was £2.7 million (2016: £21.3 million). It was announced in the March 2016 UK budget statement that the Finance Act 2016 would reduce the rate of corporation tax, effective from April 2020, to 17%. As this change has been substantively enacted at the balance sheet date, deferred tax balances have been re-measured. The re-measurement of deferred tax due to the reduction in the UK rate of corporation tax from 20% to 18% had already been reflected in the 2015/16 tax credit. Therefore, the re-measurement of deferred tax due to the reduction in the corporation tax rate to 17% generated the majority of the tax credit in 2016/17.

## Reconciliation of cash from Final Determination to Actual Results 2017

The closing cash balances forecast in the Final Determination for 31 March 2017 were £165.0 million. Actual cash balances at the year-end were £235.2 million.

The £70.2 million increase in cash to 31 March 2017 compared to the Final Determination is summarised below in Table 3.4.

Closing cash	2014/15 £m	2015/16 £m	2016/17 £m	Total £m
Final Determination 2014	265.0	216.3	165.0	
Actual results	345.4	368.6	235.2	
<b>Difference</b>	<b>80.4</b>	<b>152.3</b>	<b>70.2</b>	
Generated during 2014/15		80.4	80.4	
Generated during 2015/16		<b>71.9</b>	71.9	
Utilised during 2016/17			<b>(82.1)</b>	
Timing differences	50.5	9.3	(150.8)	(91.0)
Available to support investment	29.9	62.6	68.8	161.3
	<b>80.4</b>	<b>71.9</b>	<b>(82.1)</b>	<b>70.2</b>

**Table 3.4: Comparison of cash in 2016/17 to the Final Determination**

Timing differences that can be expected to reverse out over the remainder of the regulatory period have reduced the cash position by £91.0 million at 31 March 2017 relative to the Final Determination, primarily due to the re-phasing of Government borrowing. The increase in cash balances, excluding timing differences of £161.3 million, will as set out in our 2017 Delivery Plan update be used to:

- support investment delivery, including the Ayrshire Resilience Scheme and Strategic Mains Diversions;
- augment IR18 allowances, subject to the approval with respect to the risk provision for Daldowie and Dalmarnock Waste Water Treatment Works; and
- augment capital maintenance to address emerging risks to customer service and to manage any cost pressures in the overall investment programme.

## **4. Supporting Information**

### **4.1 Research and Innovation**

Our research shows that customers expect higher levels of service and greater levels of resilience at an affordable cost. External factors such as climate change and the economic environment, together with opportunities offered by technology developments, mean that innovation is a key enabler of continuing to meet customer expectations.

In 2016 we produced our first Annual Innovation Report which sets out our strategic approach to innovation that centres around three streams of activity; embedding innovation capability in Scottish Water, delivering knowledge and capability through our Research and Development Programme and trialling new technologies.

We have continued to raise awareness of the need for innovation at leadership events and have introduced training modules as part of our leadership development programme to equip leaders with the knowledge and tools to drive innovation in their areas.

We continue our contribution to the UKWIR programme that looks at cross-industry topics which aim to address climate change, leakage, asset management and compliance.

### **4.2 Board Changes**

As at March 2017, the Scottish Water Board consisted of:

#### Chair

Lady Susan Rice CBE

#### Executive Directors

Douglas Millican - CEO

Alan P Scott – Finance Director

Peter Farrer – Chief Operating Officer

#### Non-executive Directors

Alan Bryce

James Coyle

Lynne Peacock

Matt Smith OBE JP

Paul Smith

James Spowart

Andrew Wyllie CBE

Terms of office for James Spowart and Andrew Wyllie expired on 31 March 2017

Samantha Barber and Iain Lanaghan have been appointed from 1 April 2017.

### **4.3 Executive Leadership Team**

Geoff Aitkenhead, Executive Director Capital Investment, retired from Scottish Water in July 2016 having served as an Executive Board member since the formation of Scottish Water. Mark Dickson, who was previously Director of Technology, Information and Business Change, has assumed responsibility for capital investment leadership, and he was succeeded by Rob Mustard. In August, we welcomed Brian Lironi to Scottish Water as Director of Corporate Affairs.

#### **4.4 Recognition**

In 2016, Scottish Water was named as 'Fair Work Employer of the Year' at the Scottish Business Awards and as the HR Network's 'Best Workplace in Scotland' for the second time in recent years.

These awards were in recognition of Scottish Water creating jobs and working environments which allow people to thrive and demonstrate excellence. These new awards are in addition to our retention of existing "Service Mark" accreditation from the Institute of Customer Service, The Chartered Institute of Procurement and Supply "Platinum accreditation" status, and confirmation of our Living Wage accredited employer Status.

The excellence of Scottish Water and our people has been recognised by a number of other awards including Investors in Young People Gold Accreditation, the highest award possible for the recruitment and retention of young people.

Our commitment to achieving the highest levels of health and safety were further recognised when we were again named as winner of the prestigious UK Water Industry Sector Award for Health and Safety 2016.

## **5. Looking forward**

Our Delivery Plan for 2015-21 remains ambitious and sets out to build on our success to date. Over the remainder of the regulatory period our focus remains on providing our customers a leading service while at the same time reducing their charges in real terms. We will seek to continue to drive up customer experience, improve the supply of continuous high quality drinking water, minimise the impact of our discharges on the environment and outperform the challenging financial limits set out in the Final Determination 2014.

### **Rolling Investment Review (IR18)**

Preparations continued during 2016/17 to confirm those outputs included in our Delivery Plan 2015-21 that are subject to further investigation or the level of customer demand. As a result, we have identified the following additional demands on the IR18 allowances:

- We expect the growth in new housing to continue, which will require additional investment in the provision of new infrastructure and strategic capacity.
- The investment required to deal with sewer flooding is greater than envisaged in our Delivery Plan. There has been an increase in the number of properties that have suffered sewer flooding and are at high risk of flooding again. Combined with this, the solutions required to protect these properties are typically more complex than those required in previous regulatory periods.
- Improvements required to the drinking water quality at Invercannie and Oykel Bridge water treatment works have been identified in conjunction with DWQR.
- As OMG180 projects have progressed through our 'Plan, Prepare, Deliver' process the costs have become more certain. As a result, we forecast that the cost of these projects will outturn in the range of £3 million below to £29 million above that provided for in our 2015 Plan.

The above highlights that there are considerable pressures on the IR18 allowances and we will continue to work with stakeholders to ensure these are managed within the finance provided through the final determination of charges 2014. In our 2016 Delivery Plan update we included a £100 million risk allowance to address discharges to the Lower River Clyde. Through successful joint working with SEPA, the Scottish Government and the Water Industry Commission for Scotland we are recommending a potential option to achieve the required environmental outcomes in the Lower River Clyde at a substantially lower cost than envisaged in our 2016 Delivery Plan update. If our recommendation is accepted, this risk allowance may not be required and could be available to augment the IR18 allowances.

### **Strategic Review of Charges 2021-27**

We undertook horizon scanning as one of the first activities in the development of our longer term strategy to prompt consideration of the strategic issues that Scottish Water might face in the future and to support the development of plausible future scenarios. We have developed a set of plausible future scenarios to help us test our strategic approaches to the longer term issues we might face and to inform the development of our longer term strategy and the refresh of our Strategic Projections. We commenced a programme of customer engagement and research to identify our customers' priorities for the 2021-27 period and the longer term.

We welcome the Water Industry Commission's document 'Innovation and Collaboration' setting out the Commission's approach for setting prices for 2021 to 2027 and the establishment of the Customer Forum. We look forward to working with the Water Industry Commission for Scotland and the Customer Forum in determining the most effective way that customers remain at the heart of decision making in the water industry.

# Appendix A: BOARD ASSURANCE STATEMENT

## Annual Return 2016/17 ASSURANCE STATEMENT

### Background

The Board is required to confirm that it has endorsed the Overview to the Annual Return.

The Board has charged the Chief Executive, with the responsibility to establish and maintain sound systems of internal control that support the completion of the Annual Return submission to the Water Industry Commission.

The systems of internal control that support completion of the Annual Return are designed to ensure:

- The accuracy and consistency of reporting
- That soundly based assumptions and judgements are used
- Audit trails are maintained for origination and approval of all data in the Annual Return
- The identification, understanding and reporting on material data exceptions
- The reliability of information for decision making and for performance assessment.
- Compliance with applicable regulatory and legislative reporting requirements.

The systems of control are designed to reduce the risk of material error and to provide effective assurance on the completion of the Annual Return.

### Process

The Board gains assurance as to the effectiveness of internal control through:

- the controls and assurance process put in place by the Executive Directors to ensure that the Annual Return is consistent with the requirements of regulatory reporting;
- a signed assurance statement from the Chief Executive concerning the operation of the systems of internal control;
- reporting from Executive Directors on associated matters;
- the results of both internal and external audit, and other internal and external review agencies;
- the adequacy of management response to issues identified by audit and review activity; assurances relating to the corporate governance requirements for the organisation; and
- the operation of anti-fraud policies, whistle-blowing processes, and arrangements for special investigations.

### Outcomes

Based on the Board's knowledge of the effectiveness of the systems of internal control, that support the completion of the Annual Return, the Board has endorsed the Overview to the Annual Return. The Board has been assured that the assumptions, judgements and confidence grades used are appropriate, reasonable and consistent with the requirements of regulatory reporting.

**SIGNED**  
(On behalf of the Board of Scottish Water)

**CHIEF EXECUTIVE OFFICER**

**Date**

31/5/17