

SCOTTISH WATER'S PERFORMANCE 2015-16



About this document

This document reports Scottish Water's performance in delivering outcomes for customers and the environment in 2015-16, the first year of the six year regulatory control period 2015-21.

During the period, Scottish Water is expected to continue improving its efficiency, maintain its levels of service and deliver the £3.5 billion investment programme required to achieve drinking water, environmental and other improvement objectives set for the industry by Scottish Ministers.

We assessed Scottish Water's performance by comparing what was delivered in 2015-16 with the projections in their Delivery Plan published in March 2015, at the start of the regulatory control period. The Delivery Plan sets out the projected profiles for delivering the agreed objectives, within the financial limits set in our Final Determination¹.

During the year, Scottish Water has introduced a range of improved delivery processes that have impacted on these projected profiles. Following discussions with the industry regulators², and with the agreement of Ministers, Scottish Water has provided a revised set of profiles for the period in their March 2016 Delivery Plan update.

Overview of performance

The table opposite provides an overall rating, alongside a comment on performance, for key indicators that affect outcomes for customers and the environment.

Where the indicator has been impacted by the March 2016 update to the delivery profiles, both the original March 2015 target and the revised target are shown.

We are pleased to report that, overall, Scottish Water continued to perform well in 2015-16, with most areas achieving a rating of 'on track' or better. The overall level of service (as measured by the OPA score) was within the expected range and close to the all-time high recorded in the previous year. Leakage was significantly reduced, and operating costs were also lower than expected. Key financial indicators displayed a significant improvement in financial strength. Were these ratios to remain at or above present levels in the coming years, Scottish Water would be expected to engage with stakeholders and discuss how financial outperformance could be used to the benefit of customers and the environment.

Progress with the investment programme remains on track overall, as measured against both the original and revised delivery profiles. There has been a shortfall in the completion of the small number of projects remaining from previous investment periods against the original March 2015 target. Scottish Water has provided assurances that they will meet the revised targets for the delivery of these projects. Along with the quality regulators, we will continue to monitor closely Scottish Water's performance in this area.

¹ Water Industry Commission for Scotland, 'The Strategic Review of Charges: The Final Determination'.

² The Outputs Monitoring Group regulators comprise WICS, SEPA, DWQR and CAS.

Summary of Scottish Water's Performance for the year 2015-16

Area of performance	Measure	Performance		Our rating	Remarks
		Projected	Actual		
Key outcomes for customers and the environment					
Levels of service to customers and the environment	Overall Performance Assessment (OPA) index	380-400	393	ON TRACK	The methodology used to calculate the OPA score was revised ahead of the start of the 2015-21 regulatory control period. Using the previous methodology, the 2015-16 score would be 398 (2 points below the 2014-15 all-time high of 400).
Levels of service to household customers	Household Customer Experience Measure (hCEM) index	82.6	84.3	✓	The new household Customer Experience Measure (hCEM) was introduced to assess in a more detailed way the level of satisfaction of Scottish Water's household customers.
Delivery of 2015-21 investment programme	Overall Measure of Delivery (OMD) index	<u>Original</u> 71-75 <u>Revised</u> 52-54	<u>Original</u> 75 <u>Revised</u> 73	ON TRACK	The original March 2015 delivery profile was revised in the Delivery Plan 2016 update submitted to the Scottish Government in March 2016. Delivery performance achieved both the original and revised targets.
Delivery of remaining projects from previous investment programmes	Number of completion projects delivered	28	22	✗	The completion projects were subject to delays associated with a range of factors including planning and construction issues. Scottish Water has provided assurances that they are focussing on delivering the 15 remaining projects as soon as possible. The March 2016 Delivery Plan update has set a revised target of 26-29 projects to be delivered by March 2017.
Performance against leakage target	Leakage level in million litres per day	500-575	500	✓✓	The level of leakage was significantly lower than in 2014-15 (544 ML/d) and below the minimum service level for the period (575 ML/d), meeting the target level set out in the Final Determination for the end of the regulatory control period.
Expenditure					
Investment costs	Capital spend (£ million)	509	483	ON TRACK	Investment costs were slightly lower than initial projections, due to the re-profiling in the delivery of the investment programme.
Operating costs (excluding PPP costs)	Operating spend (£ million)	381	368	✓	Like-for-like operating costs (£284 million) were slightly lower than in 2014-15 (£288 million).
Financial strength					
Key financial ratios	Cash interest cover	3.1	3.7	✓✓	The significant financial outperformance was due to a number of factors, including above-forecast revenue, below-forecast operating costs, re-profiling of the investment programme and reduction in net new borrowing.
	Funds from operations to net debt	10.7%	13.5%	✓✓	

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

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