



**SCOTTISH WATER'S PERFORMANCE
2016-17**

About this document

This document reports Scottish Water's performance delivery in 2016-17, the second year of the six-year regulatory control period 2015-21.

During the regulatory control period, we expect Scottish Water to continue to improve its efficiency, to maintain, at a minimum, its levels of service and to deliver the £3.5 billion investment programme required to achieve drinking water, environmental and other objectives set for the industry by the Scottish Ministers.

We assessed Scottish Water's performance by comparing what was delivered in 2016-17 with Scottish Water's Delivery Plan published in March 2015. The Delivery Plan sets out how Scottish Water plans to deliver its objectives, within the financial limits set in our Final Determination¹.

Since the start of the regulatory control period, 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 the Scottish Ministers, Scottish Water updated its Delivery Plan in March 2016 and 2017.

Overview of performance

The table sets out our assessment of Scottish Water's performance for some of the key indicators that measure outcomes for customers and the environment. We have also annotated our assessment with a short comment.

We are pleased to report that, overall, Scottish Water continued to perform well in 2016-17, with all areas achieving a rating of 'on track' or better. The overall level of service, as measured by the 'Overall Performance Assessment' (OPA) score, was at the top end of the target range, and five points above the score achieved in 2015-16. Scottish Water further reduced its leakage and cut its controllable operating costs. It has a strong balance sheet and has increased its capital expenditure. Going forward, it is expected to engage with stakeholders to discuss how any financial outperformance could be used to the benefit of customers and communities across Scotland.

Our view is that overall progress in the delivery of the investment programme is good. Looking forward, there are, however, a small number of projects which may prove challenging to deliver. Scottish Water is confident it will continue to meet its 'Overall Measure of Delivery' (OMD) target. Working with the Scottish Government and the other regulators in the OMG², we will continue to monitor closely Scottish Water's performance.

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

² The Output Monitoring Group is chaired by the Scottish Government and includes the regulators WICS, SEPA, DWQR and CAS as well as Scottish Water.

Summary of Scottish Water's Performance for the year 2016-17

Area of performance	Measure	Performance		Our rating	Remarks
		Target	Actual		
Key outcomes for customers and the environment					
Levels of service to customers and the environment	Overall Performance Assessment (OPA) index	381-400	398	ON TRACK	The OPA score in 2016-17 was 5 points higher than in 2015-16.
Levels of service to household customers	Household Customer Experience Measure (hCEM) index	>82.6	85.8	✓	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 2016-17 was 1.5 points higher than in 2015-16.
Delivery of 2015-21 investment programme	Overall Measure of Delivery (OMD) index	83	108	✓	The original March 2015 delivery profile was revised in the 2016 Delivery Plan update. The score achieved in 2016-17 exceeded the revised target of 83 (the original target was 103).
Delivery of remaining projects from previous investment programmes	Number of completion projects delivered since the start of the 2015-21 regulatory control period	26-29	29	ON TRACK	There was a total of 37 remaining projects from previous investment programmes. The March 2016 Delivery Plan update set a revised target of 26-29 remaining projects to be delivered by March 2017.
Performance against leakage target	Leakage level in million litres per day	500-575	495	✓✓	The level of leakage was significantly below the minimum service level for the period (575 ML/d), and below 500 ML/d, which is both the level achieved in the previous year and the target level set out in the Final Determination for the end of this regulatory control period.
Expenditure					
Investment costs	Capital spend (£ million)	551-609	627	ON TRACK	The delivery of the investment programme picked up pace in 2016-17. Capital expenditure increased to £627 million from £483 million in 2015-16.
Operating costs (excluding PPP costs)	Operating spend (£ million)	382	381	ON TRACK	Like-for-like controllable costs decreased by £4.3 million (1.5%) in real terms relative to 2015-16.
Financial strength					
Key financial ratios	Adjusted cash interest cover	1.6	2.0	✓✓	This financial outperformance was the result of a number of factors, including above-forecast revenue and a favourable movement in working capital.
	Ratio of funds from operations to net debt	10.9%	13.6%	✓✓	

Key: ✓✓ Significant outperformance
 ✓ Outperformance
ON TRACK On track

✗ Underperformance
 ✗✗ Significant underperformance

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**Water Industry Commission for Scotland
Moray House
Forthside Way
Stirling FK8 1QZ
T: 01786 430200
E: enquiries@watercommission.co.uk
www.watercommission.co.uk**

Design by The Write People for Design Ltd Tel: 01786 445022 www.thewritepeople.co.uk