

Scottish Water's Performance

2017-18

About this document

This document reports Scottish Water's performance delivery in 2017-18, the third 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 2017-18 with Scottish Water's Delivery Plan, originally published in March 2015 and updated annually to reflect changes to the delivery profile agreed through the Outputs Monitoring Group (OMG)¹. The 2015 Delivery Plan sets out how Scottish Water plans to deliver its objectives, within the financial limits set in the Final Determination².

Overview of performance

The following 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 2017-18, with all areas achieving a rating of 'on track' or better. The overall level of customer service (as measured by the OPA score) exceeded the target range and was 8 points above the score achieved in 2016-17. This was Scottish Water's highest ever OPA score and compares very favourably with historic performance across the industry. Scottish Water also further reduced its leakage, cut its controllable operating costs and has increased its capital expenditure.

Scottish Water has a strong balance sheet and we expect it to outperform its projected closing cash balance by the end of this regulatory period. Scottish Water is expected to engage with the Scottish Government and other stakeholders to discuss how any financial outperformance could be used to the benefit of customers and communities in the current or next regulatory period.

Our view is that overall progress in the delivery of the investment programme remains broadly on target, despite there being a small number of projects which Scottish Water is finding challenging to deliver. Going forward, there remains a significant output delivery challenge for the remainder of the regulatory period. Working with the Scottish Government and the other regulators in the OMG, we will continue to monitor closely Scottish Water's performance.

¹ The Output Monitoring Group is chaired by the Scottish Government and includes the regulators WICS, SEPA, DWQR and CAS as well as Scottish Water.

² Water Industry Commission for Scotland, 'The Strategic Review of Charges 2015-21 - Final Determination'.

Summary of Scottish Water's Performance for the year 2017-18

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	382-400	406	✓✓	The OPA score in 2017-18 was 8 points higher than in 2016-17. 406 is Scottish Water's highest ever OPA score.
Levels of service to household customers	Household Customer Experience Measure (hCEM) index	>82.6	86.3	✓	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 2017-18 was 0.5 points higher than in 2016-17.
Delivery of 2015-21 investment programme	Overall Measure of Delivery (OMD) index	128	148	✓	The score achieved in 2017-18 exceeded the latest target of 128 (the original March 2015 target was 138). ³
Delivery of remaining projects from previous investment programmes	Number of completion projects delivered since April 2015	31-33	34	ON TRACK	There was a total of 37 remaining projects from previous investment programmes. The March 2017 Delivery Plan update set a target of 31-33 remaining projects to be delivered by March 2018.
Performance against leakage target	Leakage level in million litres per day	500-575	492	✓✓	The level of leakage was significantly below the minimum service level for the period (575 ML/d), and below 500 ML/d, which is the lower end of the range of the economic level of leakage as set out in the Final Determination.
Expenditure					
Investment costs	Capital expenditure (£ million)	630	647	ON TRACK	Capital expenditure increased to £647 million from £627 million in 2016-17. Investment was slightly higher than projected, consistent with Scottish Water being ahead of target on output delivery.
Operating costs (excluding PPP costs)	Operating expenditure (£ million)	397	396	ON TRACK	Like-for-like real operating costs fell by £5 million (1.3%) relative to 2016-17.
Financial strength					
Key financial ratios	Cash interest cover*	1.6	2.0	✓✓	This financial outperformance was the result of a number of factors, including above-forecast revenue. *After maintenance costs (consistent with the Final Determination).
	Funds from operations to net debt	10.2%	14.3%	✓✓	
Key:	✓✓ Significant outperformance	X Underperformance			
	✓ Outperformance	XX Significant underperformance			
	ON TRACK On track				

³ The OMD target is adjusted to reflect any changes to the output delivery profile agreed at the OMD.



Water Industry Commission for Scotland

Moray House, Forthside Way Stirling FK8 1QZ

T: 01786 430200

E: enquiries@watercommission.co.uk

www.watercommission.co.uk

November 2018