



**SCOTTISH WATER'S PERFORMANCE
2018-19**

About this document

This document reports Scottish Water's performance delivery in 2018-19, the fourth 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 2018-19 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 Delivery Plan sets out how Scottish Water plans to deliver its objectives, within the financial limits set in the Final Determination².

Overview of performance

We are pleased to report that, overall, Scottish Water continued to perform well in 2018-19.

The overall level of customer service (as measured by the OPA score) exceeded the target range. This compares very favourably with historic performance across the industry.

Scottish Water has also achieved year-on-year improvements in the household customer experience measure which was introduced in 2015/16 to measure the success of Scottish Water's interactions with its customers.

Scottish Water's operating costs were around 3% higher than projected in its Delivery Plan³. Scottish Water has indicated that most of the difference relates to one-off costs including weather incidents. Going forward, we will keep this area under close review to understand whether this underperformance is a one-off.

Scottish Water's capital expenditure of £660m in 2018/19 was 6% below its central forecast in the Delivery Plan and broadly in line with expenditure in 2017/18 after adjusting for inflation. As in previous years, we can only judge how Scottish Water has performed on capital expenditure at the end of the 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*.

³ Scottish Water's Delivery Plan projection for operating costs is the Final Determination assumption for 2018/19 adjusted for lower local authority rates and higher legislative and pension costs.

Summary of Scottish Water's Performance for the year 2018-19

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	383-400	403	✓✓	The OPA score in 2018-19 exceeded the lower (383) and upper (400) end of the target range. The score in 2018-19 was 3 points lower than the all-time record score for Scottish Water of 406 achieved in 2017-18.
Levels of service to household customers	Household Customer Experience Measure (hCEM) index	>82.6	87.5	✓	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 2018-19 was 1.2 points higher than in 2017-18.
Delivery of 2015-21 investment programme	Overall Measure of Delivery (OMD) index	175	193	✓	The score achieved in 2018-19 exceeded the latest target of 175. Although a significant delivery challenge remains, overall progress remains ahead of target.
Delivery of remaining projects from previous investment programmes	Number of completion projects delivered since April 2015	33-36	35	ON TRACK	There was a total of 37 remaining projects from previous investment programmes. The March 2018 Delivery Plan update set a target of 33-36 remaining projects to be delivered by March 2019.
Performance against leakage target	Leakage level in million litres per day	500-575	480	✓✓	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)	700	660	ON TRACK	Capital expenditure is in line with expenditure in 2017-18 after adjusting for inflation. Investment was lower than the central forecast projected in the Delivery Plan.
Operating costs (excluding PPP costs)	Operating expenditure (£ million)	416	428	X	Scottish Water has indicated that most of the difference relates to one-off costs.
Financial strength					
Key financial ratios	Cash interest cover*	1.6	1.8	✓	The key financial ratios remain ahead of target. This was the result of several factors, including above-forecast revenue. *After maintenance costs (consistent with the Final Determination).
	Funds from operations to net debt	10.1%	13.2%	✓✓	

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

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