

Section 1 Board Overview

Introduction

The Business Plan is the key document from Scottish Water for the Strategic Review of Charges. It should set out Scottish Water's view on the lowest reasonable overall cost of fulfilling its core functions, including meeting Ministers' objectives and improving levels of service, for the 2010-14 period.

The Board Overview should present a concise, high-level summary of the important features of Scottish Water's Strategic Business plan. We expect that the contents of the Overview should be endorsed by the Scottish Water Board.

We expect that the Board Overview should:

- set out Scottish Water's strategy for the 2010-14 period;
- set out the Charge caps that Scottish Water believes should apply from 2010;
- identify key issues that Scottish Water wishes to bring to the attention of the Commission and stakeholders;
- summarise the key information from the remainder of the plan; and
- set out any longer-term views that Scottish Water may have.

Scottish Water is not required to submit any tables for this section. However, it should ensure that any information presented is consistent with the information in the rest of the Business Plan.

Strategy

Scottish Water should set out its strategic vision for the business. It should identify its strategic goals and show how these goals are influenced by, and can respond flexibly to, changes and trends in its external business, environment. This analysis should comprise, but need not be restricted to, the business environment in terms of customers (including retailers), competition, Ministers' objectives and costs. In particular, Scottish Water should show how its strategic goals are consistent with meeting Ministers' objectives for the lowest reasonable overall cost.

Scottish Water should assess the extent to which it has the competencies within the business to attain its strategic goals, and should set out how it proposes to address any gaps. It should indicate key assumptions that underpin its strategy and identify material uncertainties, showing how these are to be addressed.

Scottish Water should indicate what key actions, with timescales, it proposes to carry out to attain its strategic objectives, and how it will monitor and incentivise progress and generate accountability within the business. It should set out how it proposes to resource the initiatives that it considers necessary to achieving the strategic goals.

Charge Caps

In the Board Overview, Scottish Water should set out the charge caps that it believes represent the lowest reasonable overall cost of delivering Ministers' Objectives for the 2010-14 period.

Key issues

If Scottish Water feels that there are any key issues not covered in the sections of the plan, this should be identified in the Board Overview section and their significance and impact explained.

Summarise key information

It is not necessary to summarise every piece of information from each Section of the Plan. Instead, Scottish Water should ensure that material assumptions and key information from the rest of the plan are summarised.

We suggest that Scottish Water sets out key information from Sections 2 to 9 such that the following is included:

- outputs for customers (drawing on Section 2);
- business influences and efficiency challenge (drawing on Sections 3 to 6);
- investment programme (drawing on Sections 2, 5 and 6);
- financial implications (drawing on Sections 7 and 8); and
- wholesale business analysis (drawing on Sections 9 and 10).

Outputs for customers

Scottish Water should set out a summary of the key outcomes that customers can expect Scottish Water to deliver during the 2010-14 period and provide confirmation that these are consistent with Ministerial objectives. We suggest that Scottish Water should include its proposed output delivery targets to meet Ministers' objectives, including the projected Overall Performance Assessment for each year of the 2010-14 period in this Section, as well as any other outputs for customers that it considers important (eg leakage reduction).

Business influences and efficiency challenge

Scottish Water should set out at a summary level what it considers the key business influences are. It should also explain the efficiency challenge it has set itself in terms of:

- operating expenditure;
- capital maintenance; and
- capital enhancement.

Investment programme

Scottish Water should summarise its capital investment plans for 2010-14. It should set out:

- total capital expenditure;
- total maintenance

- water quality enhancements;
- wastewater quality enhancements;
- customer service improvement expenditure; and
- expenditure to meet forecast supply and demand levels.

It should explain key milestones within the plan and assure the Commission that it has taken all reasonable steps to ensure that the programme is deliverable within the 2010-14 review period.

Financial Implications

Scottish Water should summarise the impact on its finances of the proposals in its Business Plan. It may wish to comment on:

- its total revenue from customers;
- the level of new borrowing that it expects to require during 2010-14;
- its view on the cost of capital;
- the impact on financial statements; and
- any financial ratios that it considers are important.

Wholesale business analysis

Sections 9 and 10 of the plan request that Scottish Water:

- reviews the current separation of wholesale and retail activities;
- analyses the impact of Section 29e on its business;
- reports the incidence of costs on Scottish Water's value chain; and
- sets out the costs it would incur if it were to bill household customers directly.

Any key information from these analyses should be summarised in the Board overview.

Longer-term views

Whilst the Board Overview should concentrate on explaining Scottish Water's view on the lowest reasonable overall cost of achieving Ministers' objectives, it is important that it is set out in a longer-term context.

In particular, Scottish Water should set out the longer-term impact of its plan on:

- prices to customers;
- investment levels (including longer-term capital investment projects);
- sustainability; and
- competition.

Reporter Guidance

The report on Scottish Water's Section 1 should, as a minimum, cover the following guidance.

Overview

The Reporter should check whether the Overview provided by Scottish Water accurately reflects the contents of its plan.

Assessment of approach

The Reporter should describe the process established by Scottish Water to ensure that Section 1 is well founded and consistently supported by the information in sections 2 to 10. The audit trails linking sections of the business plan with the supporting information shall be reviewed and their adequacy commented upon. The Reporter should audit the process on a sample basis. The Reporter should give an opinion on the effectiveness of the process and whether it has been followed. In addition the Reporter should audit Scottish Water's proposals for capital investment and comment on how they integrate with and affect other areas of the business plan.

Compliance with the guidance

The Reporter should comment on Scottish Water's compliance with the guidance in the business plan information requirements and the effects of any non-compliance on the robustness of its overall strategy.

Material assumptions

The Reporter should summarise and comment on the key material assumptions underpinning Scottish Water's strategy in each of the areas of the plan.

Efficiency assumptions

The Reporter should review and comment on how assumptions about efficiency have been reviewed by Scottish Water board and developed into a statement of assumptions on efficiency improvements approved by the board.

Areas of concern and challenges

The Reporter should set out the major causes for concern and challenges made to Scottish Water during his audit of the business plan, and whether these challenges were satisfactorily resolved.