

SCOTTISH WATER'S PERFORMANCE

2019-20

About this document

This report sets out our assessment of Scottish Water's performance delivery in 2019-20, the fifth year of the six-year regulatory control period 2015-21. It therefore covers the period to March 2020, just before the full effects of the Covid-19 pandemic took hold in Scotland.

Covid-19 has had an impact on all of our daily lives. In the case of Scottish Water, we recognise that the lockdown and subsequent measures to make its activities 'Covid secure' will inevitably impact on its operations and progress in delivering the investment programme. The impact of the pandemic on progress against the targets set for the regulatory control period 2015-21 will only start to be seen in next year's performance report.

We have assessed Scottish Water's performance by comparing what was delivered in 2019-20 with Scottish Water's Delivery Plan. The Plan was originally published in March 2015 and has been updated on an annual basis 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 2019-20.

The overall level of customer service (as measured by the Overall Performance Assessment (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. This measure was introduced in 2015-16 to assess and report on Scottish Water's interactions with its customers.

Scottish Water's operating costs were in line with the level projected in its Delivery Plan³. Scottish Water's capital expenditure of £665m in 2019-20 was 6% below its central forecast in the Delivery Plan. As in previous years, we can only judge how Scottish Water has performed on capital expenditure at the end of the regulatory control period.

Overall progress in delivering the investment programme was broadly on target, despite there being a small number of projects that Scottish Water is finding challenging to deliver. Even before the Covid-19 pandemic, evidence was emerging of an output delivery challenge for completing these remaining projects by the end of the regulatory period; albeit that Scottish Water has made good progress during the last year with getting projects 'on site'. We will continue to work with Scottish Water, the Scottish Government and the other regulators in the OMG to understand the full effects of the Covid-19 pandemic on the delivery of the remainder of the investment programme in the final year of the regulatory control period (2020-21).

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, along with some brief commentary.

¹ The Output Monitoring Group is chaired by the Scottish Government and includes the regulators WICS, the Scottish Environment Protection Agency (SEPA), the Drinking Water Quality Regulator (DWQR) and Citizens Advice Scotland (CAS), as well as Scottish Water.

² Water Industry Commission for Scotland, 'The Strategic Review of Charges 2015-21: Final Determination' November 2014.

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 2019-20

Area of performance	Measure	Performance		Our assessment	Remarks
		Target	Actual		
Key outcomes for customers and the environment					
Levels of service to customers and the environment	OPA index	384-400	402	✓	The OPA score in 2019-20 exceeded the lower (384) and upper (400) end of the target range. The score in 2019-20 was 1 point lower than last year's score of 403 and 4 points below Scottish Water's record score of 406 in 2017-18.
Levels of service to household customers	Household Customer Experience Measure (hCEM) index	>82.6	88.0	✓	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 2019-20 was 0.5 points higher than it was in 2018-19.
Levels of service to non-household customers	Non-household Customer Experience Measure (nhCEM) index	>77.5	85.2	✓	The nhCEM was introduced in 2018-19 to assess the level of satisfaction of non-household customers. It works much like the hCEM. The score in 2019-20 was 3.5 points higher than it was in 2018-19.
Delivery of 2015-21 investment programme	Overall Measure of Delivery (OMD) index	208	215	✓	The score achieved in 2019-20 exceeded Scottish Water's central forecast of 208 points.
Delivery of remaining projects from previous investment programmes	Number of completion projects delivered since April 2015	36	36	ON TRACK	A total of 37 projects remain from previous investment programmes. The March 2016 Delivery Plan update set a target of 36 remaining projects to be delivered by March 2020.
Performance against leakage target	Leakage level in million litres per day	500-575	464	✓✓	The reported 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)	710	665	ON TRACK	Investment was lower than the central forecast projected in the Delivery Plan.
Operating costs (excluding PPP costs)	Operating expenditure (£ million)	421	420	ON TRACK	Operating costs were in line with the central forecast projected in the Delivery Plan.
Financial strength					
Key financial ratios	Cash interest cover*	1.6	2.0	✓✓	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	10.0%	12.7%	✓✓	

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

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