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| Scottish water’s performance  2022-23 |
|  |
| February 2024 |

CONTENTS

[About this document 4](#_Toc159847631)

[Executive Summary 5](#_Toc159847632)

[1. Overview of WICS and the 2021-27 Strategic Review of Charges 7](#_Toc159847633)

[1.1. WICS’ role in the Scottish water industry 7](#_Toc159847634)

[1.2. How WICS performs its role 7](#_Toc159847635)

[1.3. Scottish Water’s funding in 2022-23 9](#_Toc159847636)

[2. Scottish Water’s expenditure in 2022-23 10](#_Toc159847637)

[2.1. Capital Investment 12](#_Toc159847638)

[2.2. Operating and Private Finance Initiative expenditure 15](#_Toc159847639)

[2.3. Other costs 16](#_Toc159847640)

[2.4. Cash balance 17](#_Toc159847641)

[3. The delivery of key outcomes for customers and the environment 17](#_Toc159847642)

[3.1. Delivery of investment projects 19](#_Toc159847643)

[3.2. Levels of service 20](#_Toc159847644)

[4. Conclusion 23](#_Toc159847645)

# About this document

**This report sets out WICS’ assessment of Scottish Water’s performance in the financial year 2022-23, the second year of the 2021-27 regulatory control period.**

The report covers six areas:

* WICS’ role in the Scottish water industry;
* how WICS performs this role;
* Scottish Water’s funding in 2022-23;
* Scottish Water’s expenditure in 2022-23;
* what Scottish Water delivered for that expenditure in 2022-23 in terms of levels of service to customers and outcomes for the environment; and
* conclusions.

# Executive Summary

The Water Industry Commission for Scotland (WICS) is the economic regulator of the Scottish water industry. Each year, WICS publishes an assessment of Scottish Water’s overall performance in the year, against the forecasts made at the time WICS set charge caps for the regulatory control period covering the six years from 2021-22 to 2026-27 (as set out in the Final Determination of charges)[[1]](#footnote-2) and against performance in previous years. This report provides WICS’ assessment of Scottish Water’s performance in financial year 2022-23, the second year of the regulatory control period.

In last year’s report on Scottish Water’s performance covering financial year 2021-22, WICS confirmed that Scottish Water had broadly maintained its performance during the year.[[2]](#footnote-3) However, WICS highlighted that there was slippage in Scottish Water’s delivery of the capital investment programme. In particular, Scottish Water had not met its target dates for delivering the investment projects that were carried forward from the previous regulatory control period covering 2015-21 (known as completion projects).

In financial year 2022-23, there are still signs that Scottish Water is experiencing delays completing projects that were meant to be delivered in the previous regulatory control period covering 2015-21. These delays mean that customers are not yet receiving the full benefits of the investment that they have already paid for. WICS and other industry stakeholders are monitoring performance in these areas closely.

In 2022-23, Scottish Water raised charges in line with inflation, which was below the annual average cap of CPI inflation + 2% from the Final Determination of charges.[[3]](#footnote-4) This was driven by concerns around the pressures on the cost of living that customers were facing. As a consequence, Scottish Water now has lower funding available for investment than was assumed in the Final Determination over 2021-27. Over the year, WICS has engaged with Scottish Water to request further information on the impact of this lower funding on the investment programme and, ultimately, Scottish Water’s ability to meet the Objectives of the Scottish Ministers. The information requested would form an investment ‘baseline’, which would provide a forecast of capital investment expenditure, tangible deliverables (such as kilometres of mains replaced) and benefits delivered from that investment over the 2021-27 regulatory control period.

At the time of writing this performance report in February 2024, Scottish Water has made progress in providing this baseline; although there is still further work to be done in this area.[[4]](#footnote-5)

Therefore, for the purposes of this performance report, WICS compares Scottish Water’s reported performance in 2022-23 against:

* the allowed for expenditure from the Final Determination;
* Scottish Water’s own measures of progress in delivering the investment programme, levels of service, water quality and environmental performance; and
* Scottish Water’s past performance.

On this basis, whilst WICS has concerns over the delays in completing projects that were meant to be delivered in the previous regulatory control period (as mentioned above), WICS is pleased to report that in 2022-23 Scottish Water continued to maintain its performance in line with past performance. WICS welcomes that Scottish Water has:

* recovered some of the slippage in capital investment expenditure by around £35m;
* spent less than the allowed for operating expenditure and expenditure related to legacy Private Finance Initiative (PFI) contracts;[[5]](#footnote-6) and
* maintained performance on key levels of service measures.

WICS will continue working with Scottish Water on the provision of further information on the investment programme and would expect to report Scottish Water’s performance against this information in next year’s performance report covering financial year 2023-24. Such information will form a key foundation of WICS’ regulatory approach to the Strategic Review of Charges 2027 (SRC27), which WICS will set out in its draft methodology later this year.

# Overview of WICS and the 2021-27 Strategic Review of Charges

## WICS’ role in the Scottish water industry

The Water Industry Commission for Scotland (WICS) is the economic regulator of Scottish Water. WICS is a non-departmental public body with an independent Board, which was established through the Water Services etc. (Scotland) Act 2005.[[6]](#footnote-7) As set out in the Act, WICS has a statutory duty to promote the interests of customers. Fulfilling these duties involves three main activities:

* setting caps on charges for household customers and on wholesale charges for the retailers (known as licensed providers) that serve non-household customers through a process known as the Strategic Review of Charges;
* monitoring Scottish Water’s performance against the forecasts made at the time of setting charge caps; and
* overseeing the orderly functioning of the non-household retail market in Scotland.

These activities are set out in the WICS Corporate Plan for the regulatory control period. The current Corporate Plan covers the six years from 2021-22 to 2026-27.[[7]](#footnote-8)

The WICS Corporate Plan also sets out:

* WICS’ strategy;
* the funding that WICS will receive through the levies raised from Scottish Water and licensed providers; and
* the key performance indicators (KPIs) that WICS will use to measure its progress on delivering the requirements of the Corporate Plan.

One of the KPIs is for WICS to publish an annual report on Scottish Water’s overall performance in each year. This report provides WICS’ assessment of Scottish Water’s performance in financial year 2022-23.

## How WICS performs its role

As explained above, WICS sets caps on charges for household customers and wholesale charges for licensed providers through a multi-stakeholder, transparent and consultative process known as the Strategic Review of Charges. The period covered by the Strategic Review of Charges is known as the regulatory control period, which is currently six years in duration. The process ends with WICS confirming these charge caps in a Final Determination before the regulatory control period begins. For example, the Final Determination published in December 2020 set the charge caps to apply over the regulatory control period 2021-22 to 2026-27.[[8]](#footnote-9)

WICS sets charge caps based on its assessment of the lowest reasonable overall cost incurred by Scottish Water in delivering the investment priorities set by Scottish Ministers (known as the Ministerial Objectives).[[9]](#footnote-10) These charge caps must also be consistent with the Principles of Charging, which are also set by Scottish Ministers. To set these charge caps, WICS forecasts the cash (from revenue and borrowing) that Scottish Water requires to cover the efficient[[10]](#footnote-11) cost of Scottish Water providing water and wastewater services and delivering the investment priorities set out in Ministerial Objectives.

These forecasts therefore cover three broad categories:

* **Sources of cash:** covering revenue and net new borrowing from the Scottish Government;
* **Uses of cash:** covering the efficient cost of running the business (see the section on the different categories of expenditure) and delivering the investment programme; and
* **Benefits delivered:** covering what customers receive in terms of levels of service performance and tangible deliverables from the investment programme (known as investment outputs or contributions to higher level outcomes).[[11]](#footnote-12)

Collectively, WICS refers to these forecasts as ‘the baseline’, which is usually provided before the regulatory control period begins.[[12]](#footnote-13) During the regulatory control period, WICS will then compare Scottish Water’s reported performance against the forecast values in the baseline and seek to understand any differences. Such monitoring allows WICS to report on whether Scottish Water has delivered the required efficiencies and the investment programme and, ultimately, to hold Scottish Water to account for delivery.

In relation to the baseline for the investment programme, the Strategic Review of Charges 2021 (SRC21) followed a different approach. The baseline for the investment programme was based on top-down allowances, with the expectation that the further detail on the investment programme (e.g. on the tangible deliverables) would follow. This is discussed further below.

## Scottish Water’s funding in 2022-23

Scottish Water provides water and wastewater services to around 2.6 million households across Scotland. It also acts as a wholesaler[[13]](#footnote-14) to licensed providers who serve around 150,000 non-household customers, encompassing businesses, industrial users, charities and the public sector. Households and licensed providers pay charges to Scottish Water for these services. As set out above, WICS sets a cap on the change in charges over the regulatory control period. For the 2021-27 regulatory control period, WICS set an average annual cap of CPI inflation + 2%. As such, the expectation was that charges would increase by CPI + 12.6% by 2026-27 (i.e. the end of the regulatory control period) to allow Scottish Water to increase levels of investment and start making progress towards achieving net zero emissions by 2040.

The Final Determination gave Scottish Water flexibility to decide on the profile of charges each year, subject to the average annual cap of CPI + 2%. In 2022-23, Scottish Water decided to raise charges in line with inflation, rather than the average annual charge cap from the Final Determination. This was driven by concerns around the pressures on the cost of living that customers were facing. Table 1 shows Scottish Water’s charges in real terms against the assumptions made in the Final Determination.

Table 1: Charges to date (real terms)

|  |  |  |
| --- | --- | --- |
| Annual change in charges (real terms, excluding inflation) | 2021-22 | 2022-23 |
| Scottish Water actual | 1.8% | 0% |
| Scottish Water actual: cumulative | 1.8% | 1.8% |
| Final Determination assumed: cumulative | 2.0% | 4.0% |

As a result of this different profile of charges, Scottish Water has lower funding available for investment than was assumed in the Final Determination over 2021-27. The combination of lower charges in 2022-23 and higher cost inflation over the financial year of 10.1% (based on CPI financial year average inflation of 10.1% in 2022-23) reduces allowed for investment by around £600m over the regulatory control period (2017-18 prices, CPI-based). This reduction in investment arises due to Scottish Water adopting a different profile of charges than WICS assumed in the Final Determination, and is still based on Scottish Water recovering its revenue to the level assumed in the Final Determination in 2026-27. However, WICS notes from Scottish Water’s more recent assumptions that some of this reduction is offset by other factors (e.g. updated forecasts for operating expenditure).[[14]](#footnote-15) The reduction in allowed for investment will be even greater if revenue cannot be recovered in real terms to the level assumed in the Final Determination for 2026-27. Over 2022-23, WICS has written to Scottish Water to ask for further information on the implications of this lower funding on the investment programme and Scottish Water’s ability to meet the Objectives of the Scottish Ministers.[[15]](#footnote-16) This request is discussed in further detail below in relation to the delivery of outcomes for customers and the environment.

In the remainder of this performance report, the ‘modelled’ values, which are used for the purposes of comparison, are based on the profile of charges of CPI + 2% a year from the original Final Determination (unless stated otherwise).

# Scottish Water’s expenditure in 2022-23

Providing essential water and wastewater services requires Scottish Water to spend money in the following areas:

* **Capital investment:** spending on maintaining, upgrading and building new water sources, pipes, treatment plants and other equipment that is required to provide water and wastewater services.
* **Operating expenditure:** spending on ongoing, day-to-day activities required to provide water and wastewater services.
* **Private Finance Initiative (PFI) expenditure:** regular payments to third-party organisations providing wastewater assets and services on behalf of Scottish Water for a period under legacy contracts.
* **Interest:** the finance costs on Scottish Water’s existing loans and additional borrowing that Scottish Water receives each year from the Scottish Government (less the interest on the loans repaid in the year); and
* **Taxation:** corporation tax on any taxable profits that Scottish Water earns.

In total, Scottish Water spends around £1.6bn across these areas each year (on average over the past five years). Figure 1 shows the breakdown of Scottish Water expenditure by each area based on annual average expenditure reported over the past five years.[[16]](#footnote-17)

Figure 1: Scottish Water’s expenditure

WICS monitors Scottish Water’s performance in each year of the regulatory control period. For expenditure, WICS compares Scottish Water’s reported expenditure in each area against the allowed for expenditure from the Final Determination for the 2021-27 regulatory control period – which is the expenditure element of the baseline (as discussed above).[[17]](#footnote-18)

Comparing reported expenditure against the allowances made in the Final Determination requires Scottish Water to report the information on a consistent basis. Over 2022-23, WICS has raised broad questions on Scottish Water’s reporting of expenditure, including on the policies that Scottish Water follows in deciding whether an item of expenditure is categorised as capital investment or operating expenditure and whether these policies have changed over time.[[18]](#footnote-19) If there has been a change to these policies following the Final Determination, then it could mean that comparisons between reported and allowed for expenditure in these areas are not fully like-for-like.

WICS will engage further with Scottish Water to understand whether there has been a change to these policies, and will cover this area in more detail in its methodology for SRC27. However, for the purposes of this performance report, WICS examines Scottish Water’s reported capital investment and operating expenditure without any adjustments.

The remainder of this section covers each item of expenditure in turn, beginning with capital investment – the most material part of Scottish Water’s cost base – before turning to operating expenditure and other costs.

## Capital Investment

New investment allowed for over the 2021-27 regulatory control period

The Final Determination for the 2021-27 regulatory control period recognised that investment would need to increase significantly over the next two decades. Moreover, the Scottish Government has an ambitious net zero emissions target which it requires Scottish Water to meet by 2040 (the mitigation challenge). Achieving this target will require a different approach to investing that takes account of broader costs and benefits of investment, such as the impact on carbon emissions and natural and social capital.

Scottish Water’s investment delivery is monitored by the multi-stakeholder Investment Group (formerly the Investment Planning and Prioritisation Group and Delivery Assurance Group). This group oversees the development of the ongoing investment programme, ensuring that it represents a balanced programme that makes progress towards the Objectives set by Scottish Ministers. It also monitors the delivery of investment projects which Scottish Water has committed to deliver.

In WICS’ report on Scottish Water’s performance in 2021-22,[[19]](#footnote-20) WICS identified that Scottish Water’s capital investment was around £135m lower than the level allowed for in the Final Determination in the first year of the regulatory control period.[[20]](#footnote-21) This is shown in Figure 2, which compares reported capital investment against the allowances made in the Final Determination for the first two years of the regulatory control period.

Figure 2: Capital investment in 2021-22 and 2022-23[[21]](#footnote-22)

In 2022-23, Scottish Water’s reported investment was around £35m higher than the investment allowed for in the Final Determination.[[22]](#footnote-23) WICS welcomes that Scottish Water has made some progress in recovering part of the slippage in investment in the previous year, recognising that year-to-year fluctuations are an inevitable part of Scottish Water managing and delivering a large and complex multi-year investment programme. WICS notes that cumulative investment in the first two years of the regulatory period is around £100m lower than the level allowed for in the Final Determination.[[23]](#footnote-24)

Investment from previous regulatory control periods

As explained in WICS’ report on Scottish Water’s performance in 2021-22, Scottish Water ended the previous regulatory control period with funded investment that had still to be delivered. Having investment outstanding at the end of the regulatory control period is not unusual given the size and complexity of Scottish Water’s investment programme. The Strategic Review of Charges 2015 (SRC15) had funded 86 projects with a forecast cost of completion of £291m in outturn prices.[[24]](#footnote-25) Customers had paid for the associated benefits, but Scottish Water had not delivered these projects by the start of the current regulatory control period. This was due to a combination of on-site delays in construction, third-party issues such as delays in permits being granted, re-scoping of the required solution extending the completion time, and the impact of Covid-19 restrictions in the final year of the 2015-21 regulatory control period.

Figure 3 shows the total completion investment as of 31 March 2021 and the level of completion investment delivered in the first two years of the regulatory control period.

Figure 3: Capital investment in 2021-22 and 2022-23

As shown in Figure 3, Scottish Water delivered around £60m of completion investment in 2022-23. This means that Scottish Water now has around £100m of completion investment remaining that it forecasts that it will deliver by the end of the 2021-27 regulatory control period. WICS will monitor the delivery of the remaining completion investment closely to ensure that customers receive the benefits from this investment that they have already paid for.

## Operating and Private Finance Initiative expenditure

As set out above, operating expenditure relates to Scottish Water’s spending on ongoing, day-to-day activities. Private Finance Initiative (PFI) expenditure relates to the payments Scottish Water makes to third parties for the provision of wastewater treatment and the subsequent treatment, recovery and/or disposal of the solids, known as sludge, that remain from the wastewater treatment process (which are a valuable resource that can be used to generate renewable energy). [[25]](#footnote-26)

Operating expenditure

Figure 4 shows Scottish Water’s reported operating expenditure against that allowed for in the Final Determination.[[26]](#footnote-27)

Figure 4: Operating expenditure in 2022-23

As shown in Figure 4, operating expenditure was £8m (or 2%) below the level allowed for in the Final Determination.

The allowed for expenditure in the Final Determination included an efficiency challenge of 1% per annum. While Scottish Water has spent less than the allowed for expenditure, the underlying efficiency position will depend on the levels of operating expenditure relative to what Scottish Water has delivered for that money over time (e.g. volumes of water delivered). Another element is understanding Scottish Water’s level of operating expenditure relative to that of other companies after controlling for differences in uncontrollable operating characteristics (e.g. population served, volumes delivered and geography). WICS will set out its approach to estimating operating efficiency in its methodology for SRC27, which will be published later this year.

PFI expenditure

Figure 5 shows Scottish Water’s reported PFI expenditure against that allowed for in the Final Determination.

Figure 5: PFI expenditure in 2022-23

As shown in Figure 5, PFI expenditure was £7m (or 4%) below the level allowed for in the Final Determination.

## Other costs

Scottish Water had lower net new borrowing in the year compared to the level assumed in the Final Determination (net new debt of £125m versus £170m assumed in the Final Determination).[[27]](#footnote-28) Scottish Water also has lower interest costs in the year than was assumed in the Final Determination given that it has been able to refinance maturing legacy loans at much lower interest rates, and real interest rates on new loans in 2022-23 are much lower than was assumed in the Final Determination.

Scottish Water paid no tax in the year.

## Cash balance

Whilst Scottish Water’s reported cash balance for the core business has reduced from £516m in 2021-22 to £390m in 2022-23, it remains higher than the £132m assumed in the final determination.[[28]](#footnote-29) A key contributor to this higher cash position is the reported delay in investment delivery to date against the assumptions made in the Final Determination (worth around £200m in cash terms). The remaining differences include lower operating costs, PFI costs, and interest payments relative to the Final Determination. These differences are partially offset by Scottish Water’s lower revenue over the period to date. WICS notes that the cash balance has since reduced to £259m as of September 2023.[[29]](#footnote-30)

# The delivery of key outcomes for customers and the environment

Over the course of 2022-23, WICS has engaged with Scottish Water to request additional information on the investment programme over the remainder of SRC21 and beyond.[[30]](#footnote-31) Through these letters, WICS has requested an investment ‘baseline’ or forecast for the remainder of the regulatory control period, covering:

* what Scottish Water is planning to deliver in terms of projects or programmes with tangible investment outputs and measurable contribution to outcomes;[[31]](#footnote-32)
* what benefits will be delivered in terms of improvements to levels of service;
* at what expected cost; and
* by when, with intermediate dates to allow progress to be understood.

Such a ‘baseline’ or forecast would allow stakeholders to understand better:

* future changes to the investment programme, recognising that investment priorities may change as further and better information becomes available; and
* the extent of progress on transitioning towards an increased level of asset replacement investment and any underinvestment in the existing asset base that may be being generated in the meantime and will therefore need to be met by future customers.

To help provide this visibility, WICS updated the investment tables in its annual return reporting requirements.

As of the time of writing this report, Scottish Water has made some progress on providing such a baseline. For example, on 26 January 2023, Scottish Water provided an interim submission, ahead of providing a submission by asset grouping, which would allow WICS to understand the extent of Scottish Water’s progress on transitioning towards an increased level of asset replacement.

WICS has made clear that it would expect to report performance against this information in next year’s performance report covering 2023-24.

Looking ahead to SRC27, the approach to the investment baseline will be an important area. In particular, the approach will need to ensure that there is sufficient granular evidence on the investment programme to allow WICS to set price limits and then monitor performance to allow the industry stakeholders to hold Scottish Water to account for delivery, whilst recognising that investment priorities might change during the regulatory control period. For example, the investment programme might need to be reprofiled due to some investment projects becoming more pressing. Such changes can be accommodated within a baseline, provided there is a clear explanation (and audit trail) to show how the existing baseline has changed and what the new baseline now is for monitoring Scottish Water’s performance. WICS will cover these proposals in more detail in the methodology for SRC27 that will be published later this year.

For the purposes of this report, WICS compares Scottish Water’s reported performance in 2022-23 against:

* Scottish Water’s measures of progress in delivering the investment programme, levels of service, water quality and environmental performance and targets for those measures; and
* Scottish Water’s past performance.

## Delivery of investment projects

Progress to 2022-23

Scottish Water now tracks progress on investment delivery through its Indicator of Progress of Delivery (IPOD). Scottish Water introduced this measure in 2021-22 to replace the Overall Measure of Delivery (OMD), which it reported from 2010-11 to 2020-21.

Once Scottish Water commits to an investment project, it forecasts when the project will achieve each delivery milestone.[[32]](#footnote-33) These forecasts are aggregated across all relevant projects, to provide an overall forecast. Scottish Water then tracks its actual progress on project delivery against the overall forecast, forming the basis of the indicator. The indicator allows stakeholders to understand whether Scottish Water is on track with delivering its investment programme, with Scottish Water having a target range of being within +/-3 months of its forecast. Figure 6 shows Scottish Water’s progress against the indicator, as of March 2023.

Figure 6: Overall investment delivery against the Scottish Water baseline

Figure 6 shows that, at an overall level, Scottish Water is around 1 month behind schedule on its indicator, but within its target range.

Scottish Water also disaggregates and reports the indicator by delivery milestone. As identified in WICS’ report on Scottish Water’s performance in 2021-22, Scottish Water is experiencing delays once projects have started ‘on site’ and construction has commenced. WICS continues to have concerns in this area, noting that as of the end of Quarter 4 of 2022-23, Scottish Water’s progress towards ‘project acceptance’ once work has begun on site is below the target range for the quarter, and approximately six months behind target.[[33]](#footnote-34)

Similarly, as of March 2023, there was a shortfall in the completion of the 86 projects remaining from the 2015-21 regulatory control period relative to Scottish Water’s own target. Table 2 shows that Scottish Water had delivered 59 of the 80 projects that it had expected to have completed by Quarter 4 of 2022-23, a shortfall of 21 projects.

Table 2: Progress on completion investment

Number of projects

|  |  |  |  |
| --- | --- | --- | --- |
| Stage | Forecast at March 2021 | Actual at Q4 2021-22 | Variance |
| Pre Start on Site | 0 | 3 | 3 |
| In Construction | 6 | 24 | 18 |
| **Construction Complete** | **80** | **59** | **-21** |
| Total | 86 | 86 | 0 |

As set out above, WICS will monitor the delivery of the remaining completion investment closely to ensure that customers receive the benefits from this investment that they have already paid for. Scottish Water has not provided details of the impact of these delays in respect of the levels of service customers receive, or underlying levels of risk. WICS will continue to explore this with Scottish Water.

## Levels of service

There are various aspects to the service provided by Scottish Water, and there are accordingly various measures of levels of service. This report covers three metrics which aggregate the different areas of service into an overall score, which can be monitored over time:

* Overall Performance Assessment (OPA);
* Household Customer Experience Measures (hCEM); and
* Non-household Customer Experience Measures (nhCEM).

Each of these are covered in turn.

Overall Performance Assessment

Traditionally, the water industry has measured levels of service using a basket of different measures called the Overall Performance Assessment (OPA). The OPA covers 17 different measures covering operational performance (e.g. supply interruptions, leakage and pollution incidents) and customer service, and weights them into an overall score. In the 2021-27 regulatory control period, Scottish Water has redefined the OPA into what it now calls the “New OPA”.[[34]](#footnote-35) This redefinition involved removing individual measures from the OPA basket of measures that it considers are captured elsewhere (e.g. customer service through the Customer Experience Measures), changing the definitions of some measures, and changing the weights so that the New OPA is now a score out of 450 points (compared to 418 points available for the OPA in place between 2010-11 and 2020-21).

In 2022-23, Scottish Water reported a score of 401 (89% of total score available) against a target range of 395 – 410 points and a score in 2021-22 of 398.[[35]](#footnote-36)

WICS also measures Scottish Water’s performance on the previous OPA in place between 2010-11 and 2020-21, to understand changes in underlying performance consistently over several years. For the small number of measures which are no longer collected by Scottish Water, proxy values are used.[[36]](#footnote-37) Scottish Water’s reported performance on the previous version of the OPA in place from 2010-11 onwards was 397 points for 2022-23.[[37]](#footnote-38) Figure 7 shows performance over time, based on the previous OPA measure.

Figure 7: Progress on the OPA over 2010-11 to 2022-23

This score is an increase on the score of 386 for 2021-22, driven by improvements in the following areas:

* an improvement in wastewater treatment work compliance (worth 7 points);
* a reduction in sewer flooding incidents due to overloaded capacity (worth 2.5 points); and
* a reduction in both category 3 environmental pollution incidents and interruptions to supply, and improvements in customer service (collectively worth 3.5 points).[[38]](#footnote-39)

These improvements were offset by small reductions in performance in the following areas:

* an increase in category 1 and 2 environmental pollution incidents (worth 1 point);[[39]](#footnote-40) and
* a reduction in drinking water quality (worth 0.5 points).

Customer Experience Measures (CEM)

The CEM is a measure of Scottish Water’s service which combines a qualitative survey-based component, with a quantitative component measuring the volume of events and issues that impact customers. This is measured separately for Scottish Water’s household and non-household (i.e. wholesale) services.

WICS can report that Scottish Water has broadly maintained its performance on its household and non-household Customer Experience Measures. The scores for these measures are shown against the annual targets in the Figure 8.[[40]](#footnote-41)

Figure 8: Performance on the Customer Experience Measures

# Conclusion

WICS concludes that Scottish Water has maintained its performance during 2021-22 and 2022-23, with slight improvements in levels of service performance (as measured by the previous OPA measure), and recovery of some of the previous year’s slippage in capital investment expenditure. However, WICS continues to have some concerns regarding the progress of investment delivery, especially in relation to apparent delays once projects start ‘on site’ and construction commences, and the investment carried forward from the previous regulatory control period. WICS and other stakeholders will continue to monitor progress in these areas closely over the remainder of this regulatory control period.

WICS will continue working with Scottish Water on the provision of further information on the investment programme, and would expect to report Scottish Water’s performance against this information in next year’s performance report covering 2023-24. Such information will form a key foundation of WICS regulatory approach to the SRC27, which WICS will set out in its draft methodology later this year.

1. WICS (2020), ‘2021-27 Final Determination', available at https://wics.scot/publications/price-setting/strategic-review-charges-2021-27/determinations/2021-27-final-determination. [↑](#footnote-ref-2)
2. WICS (2023), ‘Scottish Water’s Performance 2021-22’, available at https://wics.scot/publications/scottish-water/performance/scottish-water-performance-report-2021-22. [↑](#footnote-ref-3)
3. Scottish Water raised charges in line with the consumer price index (CPI) measure of inflation. [↑](#footnote-ref-4)
4. For example, Scottish Water provided an interim submission on 26 January 2024. [↑](#footnote-ref-5)
5. PFI expenditure relates to the payments that Scottish Water makes to third parties for the provision of wastewater treatment and the subsequent treatment, recovery and/or disposal of the solids, known as sludge, that remain from the wastewater treatment process (which are a valuable resource that can be used to generate renewable energy). [↑](#footnote-ref-6)
6. The Water Services etc. Scotland Act 2005, available at Water Services etc. (Scotland) Act 2005 (legislation.gov.uk). [↑](#footnote-ref-7)
7. WICS (2020), ‘Corporate Plan 2021-27’, December, available at https://wics.scot/publications/our-performance/corporate-plan/corporate-plan-2021-27. [↑](#footnote-ref-8)
8. WICS (2020), ‘2021-27 Final Determination', available at https://wics.scot/publications/price-setting/strategic-review-charges-2021-27/determinations/2021-27-final-determination. [↑](#footnote-ref-9)
9. Scottish Government (2020), ‘Scottish Water: directions 2020’, December, available at: https://www.gov.scot/publications/scottish-water-directions-2020/. [↑](#footnote-ref-10)
10. An improvement in efficiency is defined as either a reduction in costs with no deterioration in service; or maintaining costs, while improving service. [↑](#footnote-ref-11)
11. Outputs are tangible deliverables provided by an investment project, driven by legislative or other requirements, which will contribute toward meeting investment drivers or outcomes. Outcomes are higher level objectives that customers and society value – for example, a clean water environment. [↑](#footnote-ref-12)
12. SRC21 followed a different approach, with allowances for investment based on top-down allowances rather than bottom-up evidence of forecast expenditure, tangible deliverables and milestones for delivery. [↑](#footnote-ref-13)
13. Wholesale services include water production, treatment and transport and wastewater removal, treatment and disposal. It excludes the customer facing activities that are the responsibility of the retailers. [↑](#footnote-ref-14)
14. In cash terms, the allowed for investment may also pay for fewer investment projects given that capital price inflation has been higher than general economy wide inflation as measured by the CPI. Scottish Water reports on page 7 of its Annual Report and Accounts for 2022-23 that its more recent forecasts allow for £4.4 Billion of investment over the regulatory period (2017-18 prices, CPI-based). [↑](#footnote-ref-15)
15. A letter titled ‘Reporting quality and completeness’ was sent to Scottish Water on 13 December 2022 (available at https://wics.scot/publications/price-setting/strategic-review-charges-2021-27/regulatory-information-requests/src21-letter-reporting-quality). A second letter, ‘Reporting quality and completeness improvement plan’, was sent to Scottish Water on 21 March 2023 (available at https://wics.scot/publications/price-setting/strategic-review-charges-2021-27/regulatory-information-requests/src21-letter-reporting-quality-improvement-plan). [↑](#footnote-ref-16)
16. Expenditure is rounded to the nearest £5m. [↑](#footnote-ref-17)
17. In WICS’ Final Determination for the 2021-27 regulatory control period, WICS grouped these areas into the following two categories: ‘Tier 1’, comprising the regular and recurring costs such as operating expenditure, interest, PFI expenditure, asset repair and refurbishment and payments to developers for connecting new properties (known as reasonable cost contributions); and ‘Tier 2’, comprising the costs of investing to improve levels of service, provide services to new customers, and replace the existing asset base.

    However, WICS’ experience to date in this regulatory control period is that the categories of ‘Tier 1’ and ‘Tier 2’ is causing unnecessary confusion among stakeholders. As such, in order to understand the underlying drivers of performance, this performance report covers each item of expenditure at the more disaggregated level set out in Figure 1. [↑](#footnote-ref-18)
18. A letter titled ‘Reporting quality and completeness’ was sent to Scottish Water on 13 December 2022 (available at https://wics.scot/publications/price-setting/strategic-review-charges-2021-27/regulatory-information-requests/src21-letter-reporting-quality). A second letter, ‘Reporting quality and completeness improvement plan’, was sent to Scottish Water on 21 March 2023 (available at https://wics.scot/publications/price-setting/strategic-review-charges-2021-27/regulatory-information-requests/src21-letter-reporting-quality-improvement-plan). [↑](#footnote-ref-19)
19. WICS (2023), ‘Scottish Water’s Performance 2021-22’, available at https://wics.scot/publications/scottish-water/performance/scottish-water-performance-report-2021-22. [↑](#footnote-ref-20)
20. Investment in 2021-22 was around £135m lower in 2022-23 prices (or £120m in 2021-22 prices) than allowed for in the Final Determination. [↑](#footnote-ref-21)
21. For 2022-23, Scottish Water reported investment of £886m in its annual report and accounts (p. 5). The £819m reported in Figure 3 reconciles with the £886m in Scottish Water’s annual report by subtracting completion investment of £61m, and reducing capital expenditure by a further £7m to reflect a defective capital work delivered by a third party (£7m is equal to the payment received by Scottish Water from a contractor for the defective capital work). Numbers do not add due to rounding. [↑](#footnote-ref-22)
22. Allowed for investment in the Final Determination of £784m in 2022-23 is after updating the assumed inflation from the Final Determination for the reported actual inflation for financial years 2020-21, 2021-22 and 2022-23. This has the effect of increasing the Tier 1 expenditure in cash terms and therefore reducing the cash available for investment. It also assumes that the £36m of additional borrowing over the period arising from the repayment of the AES bank debt (as explained in WICS’ report on Scottish Water’s overall performance for 2021-22) is spread equally over each year of the 2021-27 regulatory control period. This would increase the assumed borrowing in the Final Determination to £175m in 2022-23. [↑](#footnote-ref-23)
23. Part of this £100m difference between the allowed for investment from the Final Determination and reported investment to date relates to how Scottish Water has profiled charge caps in the first two years of the regulatory control period. The Final Determination assumed CPI + 2% in the first two years, while Scottish Water has raised charges by CPI + 1.8% and CPI + 0% in 2021-22 and 2022-23 respectively. Scottish Water’s profile of charges has therefore reduced the allowed for investment by around £30m to date in the regulatory control period. [↑](#footnote-ref-24)
24. Scottish Water’s latest view is that it will cost £284m to deliver the completion investment as set out in Section G of the Annual Return 2023 (AR23). [↑](#footnote-ref-25)
25. Around 40-50% of wastewater is treated by third parties under PFI contracts. 80% of the sludge that remains from the wastewater treatment process is treated, recovered and/or disposed of by third parties under PFI contracts. [↑](#footnote-ref-26)
26. As set out in WICS’ report on Scottish Water’s overall performance for 2021-22, the allowed for operating expenditure in the Final Determination is restated to reflect that Scottish Water redefined operating expenditure to reflect improvements to its systems of cost capture. [↑](#footnote-ref-27)
27. The Final Determination set assumptions for net new borrowing, which relates to the borrowing raised in the year net of the borrowing repaid in the year. As explained above, restating the Final Determination to reflect the adjustment for the repayment of AES Ltd bank debt would result in assumed borrowing of £175m. [↑](#footnote-ref-28)
28. The closing cash balance in the restated Final Determination model (consistent with the updates described in last year’s performance report) would be £109m in 2022-23. The cash balance modelled in the Final Determination was net of the projected outturn costs of completion investment from the 2015-21 regulatory control period. [↑](#footnote-ref-29)
29. Scottish Water (2023), ‘Interim Report and Accounts 2023: Performance and prospects for the six months to 30 September 2023’, p.52. [↑](#footnote-ref-30)
30. A letter titled ‘Reporting quality and completeness’ was sent to Scottish Water on 13 December 2022 (available at https://wics.scot/publications/price-setting/strategic-review-charges-2021-27/regulatory-information-requests/src21-letter-reporting-quality). A second letter, ‘Reporting quality and completeness improvement plan’, was sent to Scottish Water on 21 March 2023 (available at https://wics.scot/publications/price-setting/strategic-review-charges-2021-27/regulatory-information-requests/src21-letter-reporting-quality-improvement-plan). [↑](#footnote-ref-31)
31. As set out above, outputs are tangible deliverables provided by an investment, driven by legislative or other requirements, which will contribute toward meeting investment drivers or outcomes. Outcomes are higher level objectives that customers and society value – for example, a clean water environment. [↑](#footnote-ref-32)
32. The Indicator of Progress of Delivery covers three project milestones: project acceptance, start on site and financial closure. Only projects separately identified on Scottish Water’s Committed List receive IPOD points. This includes projects which have a forecast cost of over £1m; or have had a Level 1 or 2 appraisal (which includes projects which are novel or contentious); or deliver a named need on the Development List. [↑](#footnote-ref-33)
33. The ‘Delivery Assurance Group Progress Report on Performance Against the Committed List’ for Q4 2022/23 (https://www.gov.scot/publications/delivery-assurance-group-progress-report-performance-against-committed-list-quarter-4-2022-23/) reported that the IPOD score for the ‘start on site gate’ was 145 – in the upper half of target range of 108 to 151 points. However, the IPOD score for the subsequent ‘project acceptance’ gate was 233 – below the target range of 247 to 272 points. [↑](#footnote-ref-34)
34. Scottish Water changed the name of the measure to the “Outcome Performance Assessment”. The differences to the OPA in place over 2015-21 relate to the removal of Security of Supply (absolute performance and performance against target), Sewer Flooding At Risk, Customer Contact (Written Complaints, Lines Busy, Abandoned Calls, Customer Survey), and Assessed Customer Service measures. There were also changes to the methodology for aggregating the overall score compared to that in place over 2015-21. [↑](#footnote-ref-35)
35. Page 111 of the Scottish Water Annual Report and Accounts for 2022-23 provides a target range for 2022-23. [↑](#footnote-ref-36)
36. These measures are: security of supply performance against target, telephone answering customer survey, and assessed customer service. [↑](#footnote-ref-37)
37. Rounded down from 397.8 in line with reporting practice from past years. [↑](#footnote-ref-38)
38. Category 3 environmental pollution incidents are defined as minor pollution events that have a localised visible impact on the environment. [↑](#footnote-ref-39)
39. Category 2 environmental pollution incidents relate to significant pollution events that have a significant impact on the environment of less than 1km and cause a significant reduction in amenity. Category 1 environmental pollution incidents relate to major pollution events that have an extensive visible impact on the environment of over 1km or the loss of amenity such as bathing water beach closure. [↑](#footnote-ref-40)
40. The annual target for household CEM (hCEM) and non-household CEM (nhCEM) is the low end of the target range, as reported in B5.31 and B6.39 of the Annual Return, and on page 111 of the Scottish Water Annual Report and Accounts for 2022-23. [↑](#footnote-ref-41)