

Annual Return 2009/10

Overview

DOCUMENT CONTROL

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**Scottish
Water**

Always serving Scotland

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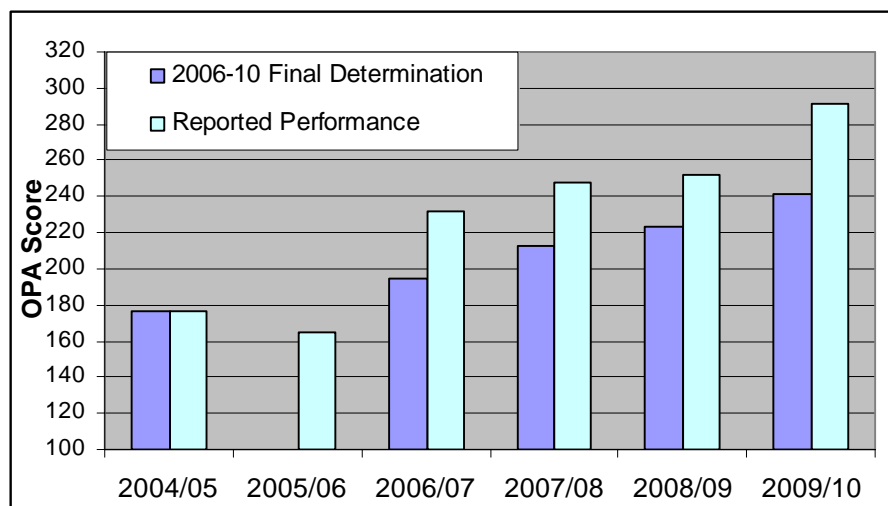
1. Executive Summary

This overview document reports on Scottish Water's performance and activities in 2009/10, the fourth and final year of the 2006 - 10 regulatory period; a period during which we maintained service during the coldest winter, with highest snowfalls, in 30 years.

We are pleased with the progress we have made addressing the challenges we took on when accepting the final determination of the 2006 price review. In particular we are pleased with our OPA performance, our progress on leakage and customer satisfaction, and output delivery. Our principal achievements in 2009/10 are summarised below.

Overall Performance Assessment

We have delivered a major programme to improve performance in most of the twelve measures that comprise the Overall Performance Assessment (OPA). That programme has demonstrated good progress, with the score for 2009/10 of 291 showing a 76% improvement over the corresponding reported performance for 2005/06 despite the removal of a potential nine points as a result of billing contacts no longer being part of our OPA measurement. This performance has significantly exceeded the regulatory target for 2009/10 of 241.



Leakage

Our reported leakage for this report year is 703.6 MI/d, a 98.1 MI/d reduction on our reported leakage from 2008/09 successfully out-performing our target for 2009/10 to reduce leakage to between 710-750 MI/d.

Customer Satisfaction Measures

There are two main measures of satisfaction that we use:

- Perceptions Survey
- Transactional Survey

Perception Survey

In March 2010 an independent research agency conducted wave 10 of our Perception Survey. This survey is used to measure householders' perceptions of Scottish Water and the service we provide. Scottish Water has been consistently recording perception based customer satisfaction at, or above, 90% since April 2004. In our latest survey, satisfaction reached an all time high of 96%.

Transactional Survey

We track our customers' satisfaction with how effectively we handle their contact with us through this independently managed survey. The Transactional Survey is carried out twice a year with 1,600 customers being interviewed, providing a robust account of customer satisfaction. Overall satisfaction in our latest survey reached 82%, our highest score to date.

Customer Service

Our performance against our published Guaranteed Standards of Service improved from 99.57% in 2008/09 to 99.61% in 2009/10. This compares with 91.4% at the formation of Scottish Water.

We again maintained unconstrained supplies to all our customers during the report year.

We have continued with our programme of community and stakeholder engagement on a wide number of issues.

Compliance

Overall Water Quality Compliance

Overall compliance with water quality standards continues to be of a very high standard for the 2009 calendar year, with 99.83% of all water quality tests conducted in our sampling programme complying with quality standards (2008: 99.81%; 2007: 99.81%).

Compliance at customers' taps (used for calculation of OPA) was again very high at 99.78% in 2009, comparable with 99.75% in 2008.

Wastewater Treatment

Wastewater Treatment Works compliance figure at 31 March 2010 is reported as 12 failing sites against a Delivery Plan target of 30. This figure has been agreed with SEPA. This is an improvement of 12 over the previous year.

Scottish Water will continue to focus on improving processes and alignment of operational and investment activities. This will be supported and driven by a functional structure, which will ensure the appropriate focus and continuous improvement in compliance.

Bathing Waters

Scotland had 80 bathing waters officially designated under the EU Bathing Water Directive for the 2009 season, 69 of which could be directly impacted by Scottish Water assets. Bathing water results improved in 2009, the weather being generally better with more sun and warmer temperatures enhancing UV disinfection.

Compared to the 2008 season, the number of failing bathing waters has reduced by 2 (from 5 down to 3) with 6 additional bathing waters achieving Guideline standards (up to 40 from 34 last year). Of the five bathing waters which failed in 2008, only Saltcoats failed again in 2009.

Scottish Water's performance led to only one bathing water failure being confirmed as due to asset failure, at Irvine.

Investment

Outputs

Q&SII: Scottish Water delivered 99.88% of outputs by 31 March 2010.

Q&SIIIa: We outperformed our 2009/10 Delivery Plan target of 95.54% of outputs with an outturn of 95.98%.

Q&SIIIa and Q&SII Conclusion Programme

During 2009-10 we delivered £611.3m of investment against the Delivery Plan target of £626m.

The central case for forecast investment completion costs post March 2010 is £236.5m which includes £56m of risk provision; £35m of embedded project risk to cover known risks specific to projects and £21m of programme risk reserve. In the high case scenario there is a further £20m of risk reserve giving an overall risk provision of £76m on the base completion programme costs. The components of the overall forecast completion costs of £226-256m are detailed below.

	£million
Base Completion Costs	180
Embedded Project Risk	35
Sub Total	215
Programme Risk reserve	11 - 41
Completion Cost Range	226 - 256

Financials

Scottish Ministers set Scottish Water's (consolidated) maximum net new borrowing limit at £184.8 million for 2009/10 with a further £34.0 million made available in March. Actual net new borrowings in 2009/10 were £218.8 million for Scottish Water.

Financial out-performance has been calculated in accordance with the methodology set out by the Commission on 16 November 2007, applied to the combined business of Scottish Water, SWBS Holdings and Business Stream - to align with the approach adopted at the Strategic Review of Charges 2005. On this basis, Scottish Water has generated £162.5m financial out-performance in the 2006-10 period as set out on page 22.

Scottish Water Vision

During 2009 we established and launched our vision – *to be Scotland's most valued and trusted business, one that we can all be proud of.*

Board Changes

During the report year the following changes have occurred in Scottish Water's Board.

Three new non-executive directors joined the Board on 1 April 2009. These are Dr James M Spowart, Alan Bryce and Andrew Wyllie. Pat Kelly was also reappointed as a non-executive director from 1 April 2009 and Lynne Peacock joined as a non-executive director on 6 May 2009, replacing Alistair Buchannan who left on 28 April 2009.

Information Improvements

We have continued to build on the foundations we laid in earlier years improving the completeness, availability, reliability, access to and reporting of information. Our information is dependent on our staff and contractors complying with processes for data collection and processing.

This year saw the first phase of implementation of CISP, our Capital Investment Systems and Process project. Our delivery partners are now using the one corporate system and our Q&S3b programme is set up on the system and subject to improved governance. The second phase of the project will see the Q&S2/3a completion programme migrated which will further enhance compliance and consistency. This project addresses a number of issues for our capital investment reporting including:

- A reduction in the number of non-corporate tools used to support the management and governance of the capital investment programme (spreadsheets, databases etc.);
- Improvements in regulatory compliance and consistency and accuracy in external reporting; and
- Improvements in data confidence grades.

Governance of the Annual Return

The methodologies and processes used for producing the detailed information in Scottish Water's Annual Return to the Water Industry Commission have been further enhanced this year by improvements to data collection and reporting systems in specific areas (such as sewer flooding recording). This approach, along with the formal audits carried out by the Regulatory Reporter has ensured that this submission is based on sound processes and assumptions. The governance of the production of this Return has also been enhanced this year with the introduction of review sessions with the Finance & Regulation Director and General Manager Regulation for certain, key elements of the Annual Return such as leakage, customer numbers, OPA and financials.

2. Key Outputs and Service Delivery

2.1 Service Outputs and Performance

Overall Performance Assessment (OPA)

We delivered a major programme to improve performance in most of the twelve measures that comprise the Overall Performance Assessment (OPA). That programme has demonstrated good progress, with the score for 2009/10 of 291 showing a 76% improvement over the corresponding reported performance for 2005/06 despite the removal of a potential nine points as a result of billing contacts no longer being part of our OPA measurement. This performance has greatly exceeded the regulatory target for 2009/10 of 241.

OPA Performance by Service

	2006/07	2007/08	2008/09	2009/10
Water Service	104	114	125	125
Sewerage Service	68	69	71	71
Customer Service	25	27	18*	18
Environmental Performance	35	38	38	77
Total	232	248	252	291
Regulatory Target	195	213	223	241

* Response to billing contacts was removed completely from the OPA measure at the start of the 2008/09 report year.

Significant Improvements

The areas, in which we made the most significant improvement in 2009/10 are:

- WWTW compliance improved from 9.94% population equivalent non-compliant to 0.89% (+36.9 points)
- Properties affected by low pressure improved from 2,974 (0.12%) to 2,496 (0.10%) (+1.4 points)
- Sewer flooding due to other causes improved from 175 incidents (0.0073%) to 156 incidents (0.0064%) (+1.3 points)
- Water quality improved from 99.75% to 99.78% (+0.7 points)

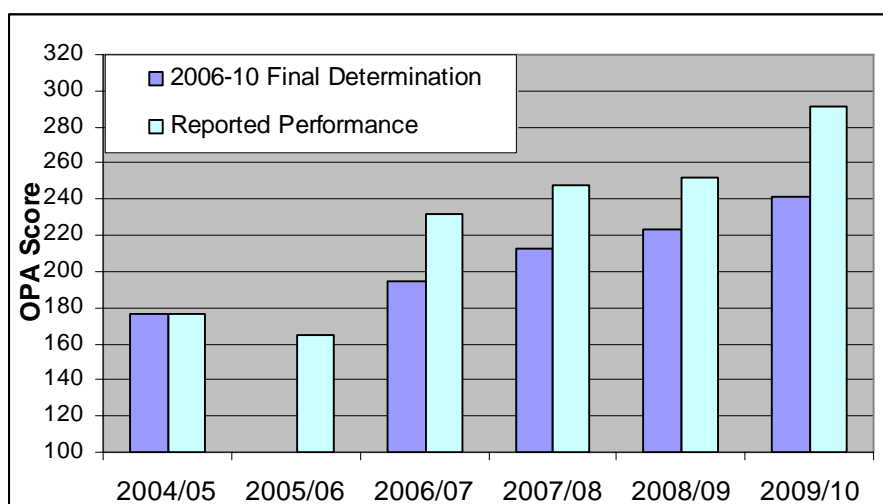


Table 2.1 below shows our performance on each of the measures:

Table 2.1: OPA Performance

Indicator	AR09 OPA Performance	AR10 OPA Performance	AR09 weighted OPA score	AR10 weighted OPA score	Change
% of water samples that comply with parameters	99.75%	99.78%	43.0	43.7	0.7
% of properties subject to inadequate water pressure	0.12%	0.10%	29.5	30.9	1.4
Connected properties experiencing unplanned interruptions	0.95%	1.12%	27.9	25.9	-2.0
Hosepipe restrictions	0	0	25.0	25.0	0.0
Leakage	-4.78%	-3.65%	20.0	22.5	2.5
% properties suffering sewer flooding incidents caused by overloading	0.0018%	0.0024%	24.8	24.4	-0.4
% properties suffering sewer flooding incidents caused by other causes	0.0073%	0.0064%	33.9	35.2	1.3
Sewer flooding (at risk)	0.0164%	0.0205%	11.9	11.4	-0.5
Sewage sludge disposal	0.00%	0.00%	12.5	12.5	0.0
% pe served by non-compliant sewerage treatment works	9.94%	0.89%	5.0	41.9	36.9
% written complaints responded to within 10 days	100.00%	99.98%	9.4	9.4	0.0
% telephone calls answered within 30 seconds	97.41%	96.19%	9.0	8.4	-0.6
			251.9	291.2	39.3

Each of the OPA elements and their scores are discussed below.

Percentage of Water Samples that Comply with Parameters

Our water quality performance is discussed in Section 2.2 below.

Percentage of Properties Subject to Inadequate Water Pressure

The overall number of low pressure properties has reduced from 2,974 in March 2009 to 2,496 in March 2010. Targeted investment and operational changes have improved pressure to 1,062 properties during 2009/10. All remaining properties with unclear/incomplete address details have been investigated. As a result of the investigation work, customer complaints and better information, 1,772 properties were added to the register and 1,188 properties were removed.

Connected Properties Experiencing Unplanned Interruptions

Table 2.2 shows the change in the number of properties that experienced unplanned interruptions compared to last year. Our OPA score has been impacted by three large incidents experienced this year. In April 2009, 6,890 properties were affected by an incident in Erskine with supply being restored to 4,294 in 7 hours 15 minutes and the remainder in 9 hours 30 minutes.

In July 2009 a burst on a 30 inch main in Cumbernauld resulted in 8,731 properties suffering a loss of supply. 4,026 properties were restored in 8 hours 45 minutes and the remaining 4,705 were restored in 14 hours 30 minutes.

Finally, in December 2009, 3,967 properties in Bishopbriggs suffered a loss of supply with 1,574 restored in 8 hours 15 minutes and the remainder restored in just over 11 and a half hours.

Despite the number of properties affected we maintained communications with customers.

For the Cumbernauld incident, the continuous movement of available water between District Metered Areas (DMAs) reduced the customer and OPA impact and provided areas with water for short durations at a time.

Table 2.2: Unplanned Interruptions to Supply

	2008/09	2009/10
Properties interrupted for 6 to 12 hours	12,064	17,252
Properties interrupted for 12 to 24 hours	5,748	5,534
Properties interrupted for more than 24 hours	71	90
Total number of properties interrupted for more than 6 hours	17,883	22,876
Total number of properties interrupted for more than 12 hours	5,819	5,624

Hosepipe Restrictions

We have not required any hosepipe restrictions since Scottish Water was formed in 2002.

Leakage

Our reported leakage for this report year is 703.6 MI/d, a 98.1 MI/d reduction on our reported leakage from 2008/09 successfully out-performing our target for 2009/10 to reduce leakage to between 710-750 MI/d.

Number of Incidents of Sewer Flooding Caused by Overloading of Main Sewers

In 2009/10 there were 58 incidents of flooding from overloaded mains sewers that caused internal flooding of customers' properties. This was a small increase of 2 incidents from the number of incidents reported for 2008/09.

Number of Incidents of Sewer Flooding from Other Causes on Main Sewers

In 2009/10 there were 156 incidents of flooding from other causes on main sewers that caused internal flooding of customers' properties. This was a decrease of 19 incidents from 2008/09 despite there being 30 incidents in July 2009 alone.

Sewer Flooding (properties at risk)

Our register of properties at risk of flooding from overloaded sewers has reduced from 383 in 2008/09 to 328 in 2009/10. However, our OPA score has decreased since last year. This is because the OPA score takes account of our Delivery Plan target of properties to be removed from the register in each year. We score OPA points only to the extent that we remove more properties than we declared in our Delivery Plan (for which funding was provided in the Final Determination). In 2008/09 the target was 100 properties whereas this year it was 253. These figures are included in the calculation of the OPA score.

Table 2.3: Properties at Risk of Flooding from Sewers

	2008/09	2009/10
At risk of flooding twice in ten years	203	168
At risk of flooding once (but less than twice) in ten years	180	160
Total number of properties at risk of flooding at least once in ten years	383	328

Sewage Sludge Disposal

All sewage sludge from Scottish Water is disposed of through approved routes in compliance with all relevant legislation.

Percentage of Population Equivalent Served by Non-compliant Sewage Treatment Works

The compliance of Scottish Water's waste water treatment works improved significantly in 2009/10. In 2008/09, 9.94% of the population equivalent in Scotland was served by waste water treatment works that were non-compliant and this has improved to 0.89%. Two PFI works were non-compliant (Dalmuir and Fraserburgh) as at March 2009 and contributed significantly (8.31% non-compliant) to the poor performance on this measure last year. Both moved into compliance in this report year.

Percentage Written Complaints Responded to within 10 days

Performance on this measure has shown a slight decrease compared to the maximum value of 100% achieved in 2008/09. Only one written complaint was not responded to within 10 working days and this saw our compliance fall to 99.98%.

Percentage Telephone Calls Answered within 30 seconds

For the period December and January of this reporting year there was an 83% increase in call volumes compared to the previous December and January due to the severe winter weather experienced.

The high call volume in this period resulted in a drop in the number of calls answered within 30 seconds for 2009/10 to 96.19% compared to the previous year's performance of 97.41%.

Our strategy for dealing with this high-level of customer's calls was to increase staff numbers in the call centre, aiming to ensure that customers could get through to Scottish Water for help and advice. This was achieved by supplementing our customer advisers with emergency volunteers sourced from other teams across the business.

Information was also made available to customers in newspaper adverts and via press releases to local newspapers.

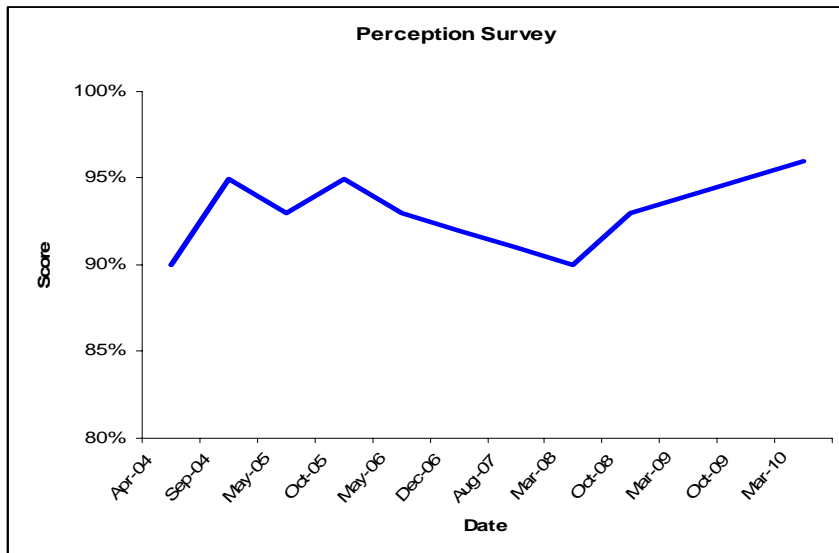
Other Customer Service Measures

There are two main measures of satisfaction that we use:

- Perceptions Survey; and
- Transactional Survey.

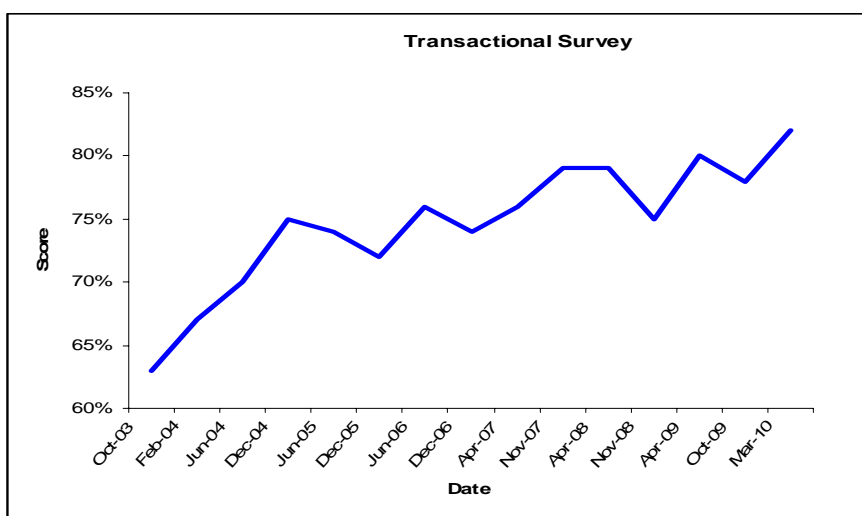
Perception Survey

In March 2010 an independent research agency conducted wave 10 of our Perception Survey. This survey is used to measure householders' perceptions of Scottish Water and the service we provide. Scottish Water has been consistently recording perception based customer satisfaction at, or above, 90% since April 2004. In our latest survey, satisfaction reached an all time high of 96%.



Transactional Survey

We track our customers' satisfaction with how effectively we handle their contact with us through this independently managed survey. The Transactional Survey is carried out twice a year with 1,600 customers being interviewed, providing a robust account of customer satisfaction. Continuous efforts to improve our service are reflected in the progressive satisfaction results achieved. Overall satisfaction in our latest survey reached 82%, our highest score to date.



In order to drive improvements further, we have reviewed the way we measure customer satisfaction. The Transactional survey will now be replaced by the Customer Experience Score – an ongoing postal survey. This will allow us to track customer satisfaction on a rolling basis throughout the year.

2.2 Drinking Water Service

Compliance - Water Quality Compliance

Overall Water Quality Compliance

Overall compliance with water quality standards continues to be of a very high standard for the 2009 calendar year, with 99.83% of all water quality tests conducted in our sampling programme complying with quality standards (2008: 99.81%; 2007: 99.81%).

Compliance at customers' taps (used for calculation of OPA) was again very high at 99.78% in 2009, comparable with 99.75% in 2008.

Microbiological Quality

Microbiological standards apply to water leaving treatment works, in service reservoirs and supplied at customers' taps.

a) water leaving treatment works

In 2009, 30,999 samples were taken for faecal and total Coliform analysis. Compliance with the faecal coliform standard was 99.98% (up from 99.97% in 2008) and with the total coliform standard was 99.90% (a large rise from 99.76% in 2008).

b) water in service reservoirs

In 2009, 53,109 samples were taken for faecal and total Coliform analysis. Compliance with the faecal coliform standard was 99.98% (99.98% in 2008) and the total coliform standard was 99.74% (slightly down from 99.75% in 2008).

c) water at customers' taps

In 2009, 14,386 samples were taken for faecal coliforms and total coliform analysis. Compliance with the faecal coliform standard was 99.97% (slightly down from 99.99% in 2008) and the total coliform standard was 99.54% (up from 99.45% in 2008).

Compliance with the total Coliform standard is at its highest since 2002, Constant examination of all data and continual improvements have resulted in further advancements in customer water quality. The small deterioration in faecal Coliform compliance, however, should not give cause for alarm as this equates to only 4 failures out of a total of 14,386 tests (0.03%), an increase of only 2 failures from 2008.

The following summary table highlights performance in water quality for microbiological quality from 2006 to 2009 based on regulation samples:

Table 2.4: Microbiological quality of water

		2006 fails	2006 compliance	2007 fails	2007 compliance	2008 fails	2008 compliance	2009 fails	2009 compliance
Treatment Works	Coliforms	70	99.79%	33	99.90%	76	99.76%	30	99.90%
	Faecal Coliforms	24	99.93%	10	99.97%	10	99.97%	6	99.98%
Service Reservoirs	Coliforms	12 3	99.78%	12 8	99.77%	13 7	99.75%	13 8	99.74%
	Faecal Coliforms	32	99.94%	16	99.97%	11	99.98%	12	99.98%
Customer Taps	Coliforms	11 4	99.22%	78	99.46%	79	99.45%	66	99.54%
	Faecal Coliforms	9	99.94%	5	99.97%	2	99.99%	4	99.97%

Chemical Sampling

Physical and chemical standards apply to water supplied at customers' taps. 119,724 tests were carried out at customers' taps for all parameters during 2009. Of these 99.77% (99.75% in 2008) complied with the regulatory standards.

The following summary table highlights the performance of the key chemical parameters for 2006 to 2009.

Table 2.5 Chemical Quality of Water

	2006 fails	2006 compliance	2007 fails	2007 compliance	2008 fails	2008 compliance	2009 fails	2009 compliance
THM Total	93	94.75%	77	95.57%	81	95.19%	89	94.59%
Iron	70	98.70%	50	99.07%	70	98.67%	49	99.06%
Colour	46	99.15%	28	99.48%	15	99.72%	12	99.77%
Manganese	43	99.20%	45	99.16%	41	99.22%	24	99.54%
Aluminium	28	99.48%	16	99.70%	13	99.75%	7	99.87%

Abstraction Licensing

We have recently submitted our first annual Water Resource data return to SEPA covering 407 abstraction and impoundment activities which have been authorised under the Controlled Activities Regulations (CAR) in approximately 300 Water Use Licences. It is a legal requirement of the Water Use Licence to provide SEPA with our abstraction and compensation data to enable SEPA to monitor our compliance against the conditions of the licence – typically maximum abstraction limits from our sources and minimum compensation flow requirements from our reservoirs.

To comply with these new data return requirements, we installed new flow monitoring equipment or refurbished existing equipment during the 2006-10 period at 407 locations. Using data from the recently installed measurement equipment, we submitted our first data return to SEPA for the 2009 calendar year.

SEPA will undertake a compliance assessment of the data over the coming months, and are keen to work with us to review licence conditions and develop processes relating to compliance and reporting of environmental incidents.

Water Resource Strategic Studies

We have been progressing with the development of water resource strategic studies in 78 Water Resource Zones to inform our investment programme during the current period. These studies are focused on understanding the limitations that the new standards associated with Water Framework Directive have on our abstraction activity. This work has been progressed in partnership with SEPA and SNH.

We have delivered 65 cumulative outputs to Quarter 4 2009/10 exceeding our Delivery Plan target of 64. The remaining 13 outputs have been programmed for delivery after March 2010. Two outputs were delayed because of the severe winter weather. There are still 5 WRZ where final agreement has not been reached with SEPA due to concerns over data, cost effectiveness or the appropriateness of the scheme. The overall programme (78 WRZ in total) is on track to deliver the agreed output profile.

2.3 Wastewater Service

Compliance - Wastewater Serviceability

Wastewater Treatment

Wastewater Treatment Works compliance figures at 31 March 2010 is reported as 12 failing sites against a Delivery Plan target of 30. This figure has been agreed with SEPA. This is an improvement of 12 over the previous year.

Scottish Water will continue to focus on improving processes and alignment of operational and investment activities. This will be supported and driven by a functional structure, which will ensure the appropriate focus and continuous improvement in compliance.

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Compared to the 2008 season, the number of failing bathing waters has reduced by 2 (from 5 down to 3) with 6 additional bathing waters achieving Guideline standards (up to 40 from 34 last year). Of the five bathing waters which failed in 2008, only Saltcoats failed again in 2009.

Scottish Water's performance led to only one bathing water failure being confirmed as due to asset failure, at Irvine.

Pollution Incidents

For 2009/10, the number of Environmental Pollution Incidents (EPI) set out in the Ministerial Directions was 939 and Scottish Water ended the year on 788, a figure that has been confirmed with SEPA.

The pattern throughout the year remained similar to 2008/09, although numbers in the third quarter significantly reduced and the last quarter showed a slight increase.

During this year the EPI team were realigned to Customer Service Delivery with a new reporting and recording process put in place. Further training of all operational staff has also taken place over the latter part of 2009/10.

Scottish Water will continue to work closely with SEPA to improve the reporting of pollution incidents arising from Scottish Water assets and to ensure both investment and asset maintenance is correctly targeted.

Unsatisfactory Intermittent Discharges (UIDs)

During 2009/10, Scottish Water has delivered 102 UID outputs, with a total of 264 UIDs being improved during the period 1 April 2006 to 31 March 2010. The outputs comprise physical improvement, operational interventions, and those where modelling has confirmed no need for physical intervention.

It is currently anticipated that the complete Q&SIIa UID programme will comprise 307 outputs as opposed to the original 277.

Dalmuir WWTW

Following a series of operating and process improvements during late 2008 and early 2009 the PFI operated Dalmuir WWTW has performed in a compliant state throughout the 2009-10 financial year.

However, this compliant state was achieved and can only be maintained by dosing the influent with significant amounts of ferric salts on a daily basis. However, since the inception of this practice in early 2009 it has caused significant problems in both the treatment and drying phases at Daldowie STC (operated under a separate PFI contract) being the place where Dalmuir's sludge is treated.

As a result, and in order to protect the processes at Daldowie STC, only around half of the sludge produced at Dalmuir WWTW can be safely treated at Daldowie STC without giving rise to operational and process problems. The remainder has had to be centrifuged at the Scottish Water operated Shieldhall WWTW and the resultant cake disposed of.

In 2009/10 Scottish Water incurred a net cost of £5.2m, principally linked to the centrifuging activities but also as a result of having to compensate the Daldowie PFI company for the problems which affected their works.

At Dalmuir WWTW following a substantial set of operational and process upgrades by the PFI Company in late 2008 and early 2009 we have agreed to pay the Dalmuir PFI Company an additional annual sum from April 2009 in relation to operating costs of £2m and a one-off sum of £1m in respect of additional items of capital expenditure.

2.4 Progress on Q&SII and Q&S III Capital Investment Programme

Q&SII OUTPUT DELIVERY

The outputs delivered to date against the WIC18 Ver 3.6 baseline targets, are detailed in the table below. Project delays associated with land and planning have caused us to miss the 2009/10 target of 99.89% outputs delivery by just one project. We had delivered 99.88% of outputs at March 2010. The delayed project was at Tarbert, on the Western Isles, where severe winter weather delayed acceptance into April 2010. Of the 1,161 projects in the quality programme 1,155 (99.5%) have achieved beneficial use, 1,140 projects (98.2%) have been submitted for approval with 1,101 projects (94.8%) being signed-off to date.

Q&SII PROGRAMME			WIC18 Target	Delivered Outputs to End March 2010	% To date
DW – FT	Properties receiving FT provision of water	nr	408	408	100%
DW – P	Removal of properties from the poor pressure register	nr	1,391	1,391	100%
DW – WQ	Drinking Water drivers addressed	nr	592	589	99.5%
WM – R	Mains rehabilitated	km	3,051	3,051	100%
WW – C	Continuous discharges removed	nr	582	578	99.3%
WW – FR	Removal of properties from 'at risk' flooding register	nr	829	829	100%
WW – FT	Properties receiving FT provision of sewerage	nr	667	667	100%
WW – R	Sewers rehabilitated	km	409	409	100%
WW – uCSO	uCSOs removed	nr	428	427	99.8%
				Overall	99.88%

The remaining Q&SII outputs are primarily associated with drinking water quality, the removal of wastewater continuous discharges and the removal of unsatisfactory storm overflows.

Q&SIIIa OUTPUT DELIVERY

At 31 March 2010, we have exceeded our Delivery Plan forecast for Q&S IIIa outputs. Of the 18 programme output categories, by comparison with our February 2009 Delivery Plan update, we have:

- **outperformed in five categories:**
 - strategic wastewater capacity;
 - WWTW upgraded for existing consents;
 - water safety plans;
 - site security; and
 - reduced water abstraction.

- **met our Delivery Plan target for eight categories:**
 - drinking water quality;
 - flow monitoring;
 - flood studies;
 - backflow prevention;
 - cross-connections made redundant;
 - UIDs improved;
 - systems to meet IPPC regulations; and
 - landfill sites decommissioned.

- **exceeded the Ministerial Objective for strategic water capacity;** although not pursuing the out-performance forecast in our February 2009 Delivery Plan update due to a drop in market demand:

- **delivered a shortfall in four categories:**
 - malodour abatement (two works behind forecast);
 - WWTW upgraded for new consents (three outputs behind);
 - first time provision of sewerage service (one community behind); and
 - improved disinfection (180,000 population behind).

The severe winter weather caused delays on a number of projects aiming for acceptance in March 2010. Some of these outputs will now reach acceptance in April. Regulatory signature for these April deliveries will be pursued for the end of June, along with all the outputs delivered in Q4.

The table below lists the number of outputs achieved against the Delivery Plan target.

Q&S III Programme	Delivery Plan Target 2006-10	Delivered Outputs to end of March 2010	Q&SIIIa Target	% Completed To 31/3/10
Number of works where odour problem is addressed	13	11	14	78.6
Improve drinking water quality for 1.5m people (m) (1)	3.00	3.57	3.00	119.0
Improve disinfection control for 4m people	3.80	3.62	4.31	84.0
Number of water resource zones with reduced abstraction	64	65	78	83.3
Number of water sources provided with flow monitoring and recording	521	521	521	100
Number of flood studies undertaken (2)	29	29	29	100
Number of backflow prevention devices installed	235	235	235	100
Number of cross connections made redundant	5,500	5,500	5,500	100
Number of sites with increased security	1,016	1,019	1,016	100.3
% of population covered by water safety plans	50%	52%	50%	104.8
Number of unsatisfactory intermittent discharges improved (3)	264	264	307	86.0
Number of WW treatment works discharges improved to meet new consent requirements	27	24	27	88.9
Number of First Time Provision projects to meet environmental objectives in the Directions (cumulative)	8	7	9	77.8
Number of WW treatment works upgraded to meet existing consent requirements	17	18	18	100
Number of management and monitoring systems at works to meet IPPC Regulations	1	1	1	100
Number of landfill sites contained, monitored and decommissioned	17	17	17	100
Provide strategic capacity at WW treatment works (pe)	42,094	59,340	42,094	141.0
Provide strategic capacity at W treatment works (pe)	151,000	144,919	174,693	83.0

Notes:

- (1) The February 2009 Delivery Plan update showed 30 flood studies to be completed but one of these relates to a reservoir not owned by Scottish Water and the total has been reduced to 29 with the agreement of the OMG.
- (2) The February 2009 Delivery Plan update showed 319 UIDs to be improved. However the Airdrie and Coatbridge UIDs have been removed from the Q&SIIIa programme and moved into Q&SIIIb Early Start, reducing the number to 307.

Good progress has been made during the year across many programme areas on output sign-off. At March 2010, there remained only 220 Q&SIIIa projects that had yet to receive regulatory signature.

Q&SIII and Q&SII Conclusion Programme Financial Profiles

During 2009-10 we delivered £611.3m of investment against the Delivery Plan target of £626m.

The central case for forecast investment completion costs post March 2010 is £236.5m which includes £56m of risk provision; £35m of embedded project risk to cover known risks specific to projects and £21m of programme risk reserve. In the high case scenario there is a further £20m of risk reserve giving an overall risk provision of £76m on the base completion programme costs. The components of the overall forecast completion costs of £226-256m are detailed below.

	£million
Base Completion Costs	180
Embedded Project Risk	35
Sub Total	215
Programme Risk reserve	11 - 41
Completion Cost Range	226 - 256

3. Expenditure, Financial Performance and Efficiency

HCA financial results

The table below compares the Historical Cost Accounting results for Scottish Water's activities to March 2010 excluding subsidiaries. The financial results below exclude all of the statutory adjustments required under the International Accounting Standards.

£'M HCA	2009/10	2008/09	Variance
Turnover	1,066.2	1,029.7	36.5
Operating Costs	437.0	422.8	-14.2
Depreciation/amortisation	301.5	266.5	-35.0
Gain on Sale of Assets	-1.6	-1.5	0.1
Total costs	736.9	687.8	-49.1
Operating Surplus before Interest	329.3	341.9	-12.6
Net Interest	155.3	149.5	-5.8
Profit before tax – Regulated	174.0	192.4	-18.4
Profit before tax – Non Regulated	0.3	0.8	-0.5
Profit before tax – Scottish Water	174.3	193.2	-18.9
Taxation Charge	33.3	64.9	31.6
Profit after tax	141.0	128.3	12.7

For the year ending 31 March 2010 Scottish Water's costs (excluding subsidiaries and IAS 19 costs) totalled £736.9 million. Costs included in tables E1 (£326.5 million), E2 (£274.0 million) and E3 (£138.5 million) total £739.0 million. The £2.1 million difference relates to costs recharged to Business Stream under Service Agreements (£2.0 million). These costs have been netted off against Scottish Water's expenditure in line with group inter-company transaction reporting.

The surplus before tax in the year for Scottish Water was £174.3 million, £18.9 million lower than in 2008/09 (2009 - £193.2 million). The regulated surplus before tax was £18.4 million lower at £174.0 million (2009 – £192.4 million). The surplus for non regulated activities was £0.5 million lower at £0.3 million.

Turnover

Regulated turnover for the year totalled £1,066.2 million (2009 - £1,029.7 million) and is analysed by category in the table below:

	2009/10	2008/09	Change
	£m	£m	£m
Household	737.4	704.7	32.7
Wholesale	324.6	319.9	4.7
Other	4.2	5.1	-0.9
Total regulated turnover	1,066.2	1,029.7	36.5

Turnover from services supplied to household customers increased by £32.7 million or 4.6% to £737.4 million driven mainly by the tariff increase effective from 1 April 2009. Turnover from wholesale services supplied to Licensed Providers increased by £4.7 million or 1.5% to £324.6 million. Turnover from other sales reduced by £0.9 million to £4.2 million.

Total costs

Total costs of £736.9 million were £49.1 million higher than in 2008/09.

Operating costs of £437.0 million were £14.2 million higher than 2008/09. Within these costs, regulated operating costs of £301.9 million were 4.0% or £11.7 million higher than in 2008/09 while PFI costs were £2.5 million higher at £135.1 million.

From a regulatory cost perspective, like-for-like costs actually reduced by £8.7 million or 3.5%, but £20.4 million of specific additional costs were incurred, namely: £3.1 million for costs associated with the extreme winter weather; £6.9 million associated with restructuring the business; £1.7 million of additional bad debt charges; £5.7 million for power price increases reflecting market conditions; and increased local authority rates charges of £1.3 million. The table below summarises this movement:

	2009/10 £m	2008/09 £m	(inc)/dec £m	%
Regulated Operating Costs (SW only)	301.9	290.2	-11.7	
Winter costs	-3.1		3.1	
VR costs	-8.1	-3.5	4.6	
Other restructure costs	-2.3		2.3	
Average inflation (0.46%)		1.1	1.1	
New Opex	-0.9		0.9	
Bad debt a typical credit	6.4	8.1	1.7	
Like for Like costs	293.9	295.9	2.0	0.7%
Power price increase	-5.7		5.7	
LA rates	-34.3	-33.0	1.3	
SEPA and WIC costs	-15.1	-15.4	-0.3	
Like-for-like real controllable costs	238.8	247.5	8.7	3.5%

Depreciation, including infrastructure depreciation, increased by £35.0 million to £301.5 million, predominantly as a consequence of the capital investment programme. The gain on sale from asset disposals was £0.1 million higher than in 2008/09 at £1.6 million.

The average number of employees during the year decreased by 49, or 1.4%, to 3,534 (including SWS secondees). The number of employees in total at March 2010 (3,472), reduced by 100 from the March 2009 figure (3,572).

Finance costs

As at 31 March 2010, the weighted average interest cost of the £3,013.3 million outstanding debt was 5.2% (2009 – 5.5%). Net interest payable during the year was £155.3 million, £5.8 million higher than in 2008/09.

During the year, net debt increased by £81.2 million to £2,859.8 million (being loans of £3,013.3 million less cash balances of £153.5 million). The increase was driven by a £218.8 million increase in borrowings from the Scottish Government and a £137.6 million increase in cash balances.

Taxation

Scottish Water's tax charge was £33.3 million, (2009 – £64.9 million), an effective rate of 19.1%, (2009 – 33.6%) in respect of deferred taxation. The effective rate for the year was favourably impacted by prior year adjustments associated with increased capital allowances claimed on work-in-progress reflected in the 2008/09 tax computation. The effective rate for 2009 was impacted by the requirement to revisit changes introduced by the Finance Act

2007 in relation to assets classed as industrial buildings. This required a cumulative catch-up in the 2008/09 deferred tax computation.

Borrowing Limit

Scottish Ministers set Scottish Water's (consolidated) maximum net new borrowing limit at £184.8 million for 2009/10 with a further £34.0 million made available in March. Actual net new borrowings in 2009/10 were £218.8 million for Scottish Water. There was no change in the borrowing for Scottish Water Business Stream Holdings Ltd.

OUT-PERFORMANCE

2006-10 OUT-PERFORMANCE ASSESSMENT FOR SCOTTISH WATER (INCLUDING BUSINESS STREAM GROUP)

Overview

Financial out-performance has been calculated in accordance with the methodology set out by the Commission on 16 November 2007, applied to the combined business of Scottish Water, SWBS Holdings and Business Stream - to align with the approach adopted at the Strategic Review of Charges 2005. On this basis, Scottish Water has generated £162.5m financial out-performance in the 2006-10 period as set out below.

Financial assessment

	£m
<u>Final determination expectation</u>	
Allowed gross debt at 31 March 2010 from 2005 final determination	3,236.4
Forecast cash at 31 March 2010 from 2005 final determination	<u>-2.0</u>
Allowed net debt at 31 March 2010 from 2005 final determination	<u>3,234.4</u>
<u>Actual performance</u>	
Actual debt at 31 March 2010	3,071.8
less: actual cash balance at 31 March 2010 - Scottish Water	-153.5
less: actual cash balance at 31 March 2010 - Business Stream	-20.8
less: actual cash balance at 31 March 2010 - SWBSH	<u>-38.6</u>
Actual net debt at 31 March 2010	2,858.9
add: borrowing to complete Q&S2/3a – based on maximum forecast of completion costs of investment to be undertaken post 31/3/10	256.5
less: costs of Q&S3b enhancement only - undertaken pre 31 March 2010 but not financed in 2005 final determination	-44.2
add: infrastructure charge income received but not yet applied as at 31 March 2010	0.5
add: excess of 2009/10 PFI capital upgrade allowance above actual Seafield odour investment costs in 2009/10	<u>0.2</u>
Adjusted forecast net debt on completion of Q&S3a (incl Q&S2)	<u>3,071.9</u>
Forecast out-performance	<u><u>162.5</u></u>

Explanation of approach

1. The assessment has been undertaken for the combination of Scottish Water (excluding SW Horizons) and the Business Stream companies to ensure consistency with the basis on which the final determination target was set in 2005. All references in this section to Scottish Water therefore apply to the combination of Scottish Water and the Business Stream companies.
2. In the 2005 final determination, the Commission expected that, on completion of the delivery of the 2006-10 ministerial objectives (Q&S3a), Scottish Water would have net debt of £3,234.4m.
3. The actual debt at 31 March 2010 of £3,071.8m is as reported in table M28 and the Scottish Water group annual accounts (notes 17 and 18) and comprises £3,064.7m of Government debt and £7.1m of non-Government debt.
4. The actual cash balance in table M28 and the Scottish Water group annual accounts (note 13) of £218.5m includes £5.6m cash relating to the Horizons non-regulated businesses. Excluding this cash balance, the cash balance that should be included in the above assessment is £212.9m which represents £153.5m cash in Scottish Water, £38.6m cash in SWBS Holdings, and £20.8m in Business Stream.
5. To calculate Scottish Water's forecast debt on completion of the Q&S3a programme, two key adjustments are required – firstly to add to the actual 31 March 2010 debt position the forecast costs of completing the Q&S2/3a programme; secondly to subtract from the 31 March 2010 debt position the actual cost incurred in delivering Q&S3b enhancement investment before 31 March 2010, which was not financed as part of the 2005 final determination. Two other minor adjustments are required. Details of these are all set out below.
 - a. The forecast cost of completing the Q&S2/3a investment programme is £226m - £256m, with a best estimate forecast of £236m. For the purpose of this out-performance assessment, we have adopted the most prudent approach of using the upper end estimate of investment completion costs, £256m. This estimate of £256m includes £180m of forecast project costs, £35m of project risk reserves, and £41m of programme risk allowances.
 - b. The cost incurred on the Q&S3b early start investment programme prior to 31 March 2010 was £65.2m (£27.7m in 2008/09 and £37.5m in 2009/10). £21m of this cost related to capital maintenance and £44.2m related to enhancement investment. We have therefore adjusted for the enhancement element only of £44.2m.
 - c. Two other minor adjustments have been made to recognise cash received for which no expenditure has yet been incurred - £0.5m greater infrastructure income than applied to relevant infrastructure growth expenditure, and £0.2m greater PFI capital allowance than applied to the Seafield odour upgrade in 2009/10.

4. Key Supporting Information

Modern Equivalent Asset Valuation (MEAV)

In comparison with the previous reporting year (Annual Return 2008/09), we have used the same methodology to derive data for completion of the MEAV.

There are 4 key elements that can impact on the valuation. These are:

- Updated asset information from the inventories
- Revised cost curves
- Revised on-costs
- Changes in cost index value (COPI)

In AR10 we have updated our asset information and applied COPI for the reporting year, but our cost curves and on-costs have been applied on the same basis as in AR09 and our 2nd Draft Business Plan.

Summary of Gross MEAV

Scottish Water's reported Annual Return 2010 gross asset inventory valuation is £43.0 billion. The gross valuation is dominated by the infrastructure valuation of £35.5 billion, comprising 82.5% of the total. The non-infrastructure total valuation is £7.4 billion, which is 17.1% of the total valuation. Support services' reported valuation is approximately £171 million representing only 0.4% of the gross asset inventory valuation.

Asset Type	AR09 Gross MEAV (£m)	% of total	AR10 Gross MEAV (£m)	% of total	% change
Water Infrastructure	£12,116.56	27.64%	£11,802.00	27.42%	-2.60%
Water Non - Infrastructure	£3,970.21	9.06%	£3,952.45	9.18%	-0.45%
Wastewater Infrastructure	£24,150.96	55.10%	£23,695.13	55.05%	-1.89%
Wastewater Non-Infrastructure	£3,408.40	7.78%	£3,420.22	7.95%	0.35%
Support Services	£183.19	0.42%	£170.80	0.40%	-6.76%
Total	£43,829.32	100.00%	£43,040.60	100.00%	-1.80%

The combined gross valuation of water and wastewater infrastructure assets has decreased by £0.77 billion on the value reported in AR09. There has been a decrease in the gross valuation for non-infrastructure assets of £0.06 billion.

Water Resources, Supply and Demand and Security of Supply Index

This year we have continued to provide unconstrained services with none of the population affected by hosepipe restrictions.

The reporting of our Security of Supply Index (SOSI) is a relatively new requirement for Scottish Water. The SOSI is an indicator of the extent to which a company is able to guarantee provision of its planned level of service. This measure is used in England and Wales (E&W) to assess a company's security of supply to its customers but also to track changes in the service offered to customers over time.

Our SOSI score has been improving year on year as a result of the positive effects of the leakage reduction programme, growth and other water quality projects. However, this year the score has remained relatively unchanged from the previous year mainly due to the impact of the severe winter weather resulting in increased demand / leakage and delays in some water quality projects coupled with the ongoing data improvement programme. Our score remains in the lowest banding for SOSI indicating that there are "large deficits against target headroom".

The Final Determination supported our Business Plan to secure additional investment (over and above reducing leakage to the economic level) to meet the challenge of securing the long term supplies in selected zones. This will have a resultant positive impact on the SOSI and OPA scores during the course of 2010-15.

5. Competition

On 1 April 2008, the non-household market opened to retail competition. Market arrangements are governed by the Market Code, the Operational Code and the Disconnections Document.

The prime role of the Central Market Agency (CMA) is to administer the transfer of customers between Licensed Providers and to calculate the monies due to Scottish Water from Licensed Providers for the supply of water and sewerage services in line with the Wholesale Scheme of Charges. Scottish Water in turn invoices Licensed Providers, based on the settlement calculations undertaken by the CMA. All eligible premises, or supply points, are required to be registered at the CMA and market participants provide the CMA with regular information flows to keep the information updated and to allow the CMA to undertake its functions. The information provided includes, for example, meter reading data or details of new meter installations or disconnections.

All the data provided by Scottish Water in the Annual Return relating to the supply of water and sewerage services to eligible premises is based on the settlement reports supplied to it by the CMA. Scottish Water additionally invoices Licensed Providers directly for certain transactional services, such as metering related activities or disconnections. The data supporting those activities is derived from Scottish Water's systems.

For each settlement run, the CMA provides an aggregated settlement report which is used by Scottish Water for billing purposes and thereby is reflected in the General Ledger. Additionally for each settlement run, to enable reconciliation of wholesale charges by market participants, the CMA also provides a disaggregated settlement report. These disaggregated settlement reports have been used to populate the Annual Return A and P Tables, consistent with last year. In line with the Market Code and Code Subsidiary Documents, all settlement runs for 2009/10 are expected to complete in February 2011. Therefore the P Tables show the billed revenue at the end of March 2010 and not the final settlement position for 2009/10.

During the year, Scottish Water has investigated about 60% of the records that are flagged 'Vacant'. The study will not be complete until July 2010 and Licensed Providers have indicated that billing record changes will not be complete before October 2010. The return for 2010/11 will therefore be derived from better quality data from CMA.

At 31 March 2010, Scottish Water had in place agreements for the supply of services with five Licensed Providers. One Licensed Provider exited the market in the report year when its licences were revoked.

6. Further Information

Board Changes

During the report year the following changes have occurred in Scottish Water's Board.

Three new non-executive directors joined the Board on 1 April 2009. These are Dr James M Spowart, Alan Bryce and Andrew Wyllie. Pat Kelly was also reappointed as a non-executive director from 1 April 2009 and Lynne Peacock joined as a non-executive director on 6 May 2009, replacing Alistair Buchannan who left on 28 April 2009.

Information Improvements

We have continued to build on the foundations we laid in earlier years improving the completeness, availability, reliability, access to and reporting of information. Our information is dependent on our staff and contractors complying with processes for data collection and processing. In 2009/10, compliance has improved, aided in part by systems improvements; as an example the confidence grades for the number of properties below reference level of pressure have improved from B3 last year to B2 for 2009/10 (i.e. +/- 5%). The previously-used spreadsheet is now being decommissioned. Another area of improvement is in the use of radar rainfall data from the Met Office; we have improved and expanded our use of this data and assessment of storm events during this report year by bringing this work in-house.

This year saw the successful first phase of implementation of CISP, our Capital Investment Systems and Process project. Our delivery partners are now using the one corporate system, our Q&S IIIb programme is set up on the system and subject to improved governance. The second phase of the project will see the Q&S2/3a completion programme migrated which will further enhance compliance and consistency. This project addresses a number of issues for our capital investment reporting including:

- A reduction in the number of non-corporate tools used to support the management and governance of the capital investment programme (spreadsheets, databases etc.);
- Improvements in regulatory compliance and consistency and accuracy in external reporting; and
- Improvements in data confidence grades.

Climate Change

The Climate Change (Scotland) Act is now in place and this sets an expectation on all public bodies that we will contribute towards the Government's goals for carbon reduction and adapting to climate change. Our activities over the past year have helped position Scottish Water to respond to these national goals.

Carbon Mitigation

Over the past year we have worked to scope and develop a carbon whole life costing tool that could be applied to ensure carbon is taken into account during investment decisions. Work remains to complete and embed this system, but it will enable us to

assess the carbon associated with the construction and maintenance of assets, and also the ongoing operational carbon emissions. This will be trialled and improved to ensure sound decision making in the future. We have also used this approach to inform a SEPA project on the carbon cost of regulation.

In the past year we have completed our third carbon footprint, for the 2008/09 financial year. This shows in base terms, that our footprint has remained static at around 475,000 tonnes carbon dioxide equivalents, however this hides a like-for like fall in carbon as we have been able to account for more activities. For the first time, we completed the footprint in-house (verified externally), in order to better understand the data analysis and reporting issues, which has helped us improve the quality of the data. We have been able to demonstrate a fall in carbon on a like for like basis, with around 9,000 tonnes of carbon dioxide equivalents saved through leakage reduction. Our footprint and analysis continues to be published on our website.

We have also developed a carbon plan for Scottish Water that has engaged all parts of the business in setting out mitigation goals and putting in place the mechanisms to deliver the actions. This will shortly be available on our website and we view this as a living document that will continue to be updated on an annual basis to drive further action.

Our Delivery Plan for 2010-15 includes a number of projects focussed on carbon mitigation, notably to install 25GWh of hydropower, pilot projects to investigate varying wastewater treatment intensity to save carbon and, examining sustainable treatment options.

Adapting to Climate Change

Over the past year we have participated in joint work with the UK water industry to understand the impact of the updated UK Climate Impact Programme projections of climate change that were released in summer 2009. Scottish Water is the technical lead for the industry in a joint DEFRA, EA, SEPA, UK Water Industry Research project to look at the impact of the projections on future rainfall, river flows and groundwater recharge. This will enable the improved guidance on water resource planning.

Within 2010-15 we have plans to improve our understanding of the risk across the asset base in order to ensure that long term service resilience can be managed.

7. Looking Forward

Scottish Water Vision

During 2009 we established our vision – ***to be Scotland’s most valued and trusted business, one that we can all be proud of.***

We have set out six aspirational pillars that support the achievement of our vision, over the longer term, and ensure delivery of the required improvements in the 2010-15 period, and these are:

<p>SERVING</p> <p>Always delivering a positive customer experience</p>	<p><i>We aspire never to disrupt the lives of customers, always delivering a high quality service and a leading customer experience.</i></p>
<p>COMMITTED</p> <p>Always proud to deliver</p>	<p><i>We aim to engage people to share our goals and ideals, and be proud to deliver our product and service commitment.</i></p>
<p>STRONG</p> <p>Always financially robust</p>	<p><i>We aim to secure access to the necessary finance and pursue a constant focus on delivering value for money.</i></p>
<p>LEADING</p> <p>Always shaping our future</p>	<p><i>We aspire to shape our future, always acting with integrity and focussed on understanding and delivering what is right for customers in Scotland.</i></p>
<p>RESPONSIBLE</p> <p>Always doing the right thing for Scotland</p>	<p><i>We aim to fully address the social, economic and environmental impacts of all we do to ensure we are a sustainable business contributing to a sustainable Scotland.</i></p>
<p>GROWING</p> <p>Always seizing opportunities to add value</p>	<p><i>We aim to always use our assets and investment opportunities in a way that adds value to Scotland and grows our value and reputation.</i></p>

During 2009 we commenced a business restructure to transform the way we deliver service to customers and to drive through further efficiencies in readiness for the 2010-15.

2010 - 2015

Scottish Ministers have confirmed their acceptance of Scottish Water's Delivery Plan for the 2010-15 regulatory period as approved by the SW Board on 24 February 2010.

Ministers welcome the desire within the plan to outperform the Final Determination of November 2009. They are clear that it is important to the continued success of Scottish Water as a publicly owned utility that such out-performance is achieved.

We are committed to delivering and outperforming the 2010-15 regulatory contract and remain confident about the pace and effectiveness of our delivery.

Achieving out-performance will enable Scottish Water to progress considerably towards our vision.

Baseline Programme

Table K of the Annual Return submission is the baseline for monitoring delivery of the Ministerial objectives in the 2010-15 period and is consistent with the final determination financing. Table K is based on gross project costs in 2007/08 prices and is a forward looking view based on the forecast position at December 2009 consistent with our Delivery Plan. It incorporates the information required for the Commission's Overall Measure of Delivery (OMD)

Table G in the 2010 Annual Return sets out the actual expenditure and updated forecasts in outturn costs based on the position at March 2010.

Governance

The methodologies and processes used for producing the detailed information in Scottish Water's 2008/09 Annual Return to the Water Industry Commission have been further enhanced this year by improvements to data collection and reporting systems in specific areas (such as sewer flooding recording). This approach, along with the formal audits carried out by the Regulatory Reporter has ensured that this submission is based on sound processes and assumptions. The governance of the production of this Return has also been enhanced this year with the introduction of 2 one-day review sessions with the Finance & Regulation Director and General Manager Regulation for certain, key elements of the Annual Return such as leakage, customer numbers, OPA and financials.

Appendix 1 – Board Assurance Statement

Annual Return 2009/10 ASSURANCE STATEMENT

Background

The Board is required to confirm that it has endorsed the Overview to the Annual Return.

The Board has charged the Chief Executive, with the responsibility to establish and maintain sound systems of internal control that support the completion of the Annual Return submission to the Water Industry Commission.

The systems of internal control that support completion of the Annual Return are designed to ensure:

- The accuracy and consistency of reporting
- That soundly based assumptions and judgements are used
- Audit trails are maintained for origination and approval of all data in the Annual Return
- The identification, understanding and reporting on material data exceptions
- The reliability of information for decision making and for performance assessment.
- Compliance with applicable regulatory and legislative reporting requirements.

The systems of control are designed to reduce the risk of material error and to provide effective assurance on the completion of the Annual Return.

Process

The Board gains assurance as to the effectiveness of internal control through:

- the controls and assurance process put in place by the Executive Directors to ensure that the Annual Return is consistent with the requirements of regulatory reporting;
- a signed assurance statement from the Chief Executive concerning the operation of the systems of internal control;
- reporting from Executive Directors on associated matters;
- the results of both internal and external audit, and other internal and external review agencies;
- the adequacy of management response to issues identified by audit and review activity; assurances relating to the corporate governance requirements for the organisation; and
- the operation of anti-fraud policies, whistle-blowing processes and arrangements for special investigations.

Outcomes

Based on the Board's knowledge of the effectiveness of the systems of internal control that support the completion of the Annual Return, the Board has endorsed the Overview to the Annual Return. The Board has been assured that the assumptions, judgements and confidence grades used are appropriate, reasonable and consistent with the requirements of regulatory reporting.

SIGNED
(on behalf of the Board of Scottish Water)


CHIEF EXECUTIVE OFFICER

Date 7th June 2010