

Maureen Watt MSP  
Convener  
Infrastructure and Capital Investment Committee  
Scottish Parliament  
EDINBURGH  
EH99 1SP

— 30 June 2011



### **SCOTTISH WATER ANNUAL REPORT AND ACCOUNTS 2010-11**

I have laid Scottish Water's Annual Report and Accounts for the year 2010-11 before Parliament today.

The Annual Report for 2010-11 demonstrates the continuing success of Scottish Water in meeting Ministerial objectives and outperforming the regulatory settlement. I am very pleased to note this continuing success which confirms the Government's view that Scottish Water should remain in public ownership where it can operate to the benefit of all the people of Scotland.

Scottish Water is subject to incentive-based regulation explicitly designed to reward good performance and to lock in these benefits for customers through continuing improvement. The final determination by the Water Industry Commission for Scotland (WICS) for the regulatory control period 2010-15 placed the onus on Scottish Water to seek out further efficiencies and customer service improvements.

This builds on previous performance. For the regulatory control period 2006-10, Scottish Water was challenged to reduce its costs by £1.5 billion while still delivering all of the outputs that were required by Ministers. Scottish Water outperformed this requirement, providing additional efficiencies and benefits to customers to the value of around £175 million which comprise cost savings of around £100 million, additional investment outputs of around £45 million, and better levels of service worth around £30 million. The WICS estimate that these additional benefits equate to around £12 per household each year.

The success of Scottish Water is due to the commitment and skills of the workforce. The efficiency targets set by the WICS for the period 2010-15 are demanding and are monitored and reported on a continuing basis. To meet them, and to develop the wider role envisaged by Ministers in the Building a Hydro Nation consultation paper, Scottish Water will require a determined, experienced and effective management and a committed, skilful and well motivated workforce.

I have made it clear to the Board and management of Scottish Water that the Government expects them to outperform the current regulatory settlement in similar fashion to the outperformance achieved in 2006-2010.

The regulatory framework within which Scottish Water is operating is unique in the public sector and its remuneration framework reflects this. The remuneration framework has been structured since 2006, under arrangements first put in place by the previous administration, to meet the requirement to outperform efficiency targets. As such, the package was agreed before current public sector pay arrangements were in place.

The Annual Report identifies the incentive structure applying to senior management and the payments that have been agreed by the Scottish Water Boards in light of performance as verified by its independent regulators. An incentive framework is also in place throughout the organisation measured against similar performance targets.

I also recognise that a stable and transparent framework covering the entirety of the regulatory period is necessary. I look to the Board of Scottish Water to ensure that the management and workforce of Scottish Water is properly focussed on outperformance. In establishing and managing a remuneration framework to achieve that objective I expect the Board to act responsibly and with restraint, taking full cognisance of Ministers' public sector pay policy and of the following factors: affordability, business need, business performance, reputation issues, and prevailing political and economic circumstances. I expect the Board also to take into account the overall package of benefits, including pension entitlements, that are available to all Scottish Water employees as a result of being in the public sector.



**ALEX NEIL**