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CHALLENGING YEARS AHEAD FOR SCOTTISH WATER

A report published today reviews the final year of operation before merger of the three Scottish Water authorities: East of Scotland Water Authority, North of Scotland Water Authority and West of Scotland Water Authority. The three authorities merged to form Scottish Water on 1 April 2002.

The report, by the Auditor General for Scotland, Robert Black, states that financial control was maintained in the period leading up to the creation of Scottish Water, financial targets were achieved and the audits were completed on time.

“Scottish Water needs to ensure that sound governance arrangements are established and that financial and management systems inherited from the three previous water authorities are harmonised in a controlled and cost-effective way,” said Mr Black.

The report notes that the accounts of the three authorities disclosed exceptional costs in the two years up to March 2002 of £86.6 million, which are attributed to reorganisation. They relate mainly to payments under voluntary severance schemes which were set up to reduce costs to meet efficiency targets and in preparation for the creation of Scottish Water.

“Costs associated with the merger will continue as Scottish Water develops,” said Mr Black. “However the Water Industry Commissioner envisages annual efficiency savings of about £165 million by 2005/06 and he will be monitoring Scottish Water’s performance.”

The Auditor General intends reporting back to Parliament on the progress achieved by Scottish Water in its first full year (2002/03). His current report is the first of its kind on water and will provide the basis for future audit work.

The report also identifies unpaid bills as a continuing problem. The net level of debts across the three authorities increased from £79 million at the end of 2000/01 to £95 million (net of provision for bad debts) at the end of 2001/02.

“The non-payment of water and sewerage charges is a significant issue in Scotland and warrants early attention by Scottish Water,” said Mr Black. “Progress made in this important area will remain under review.”

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Notes:

1. The report, *Overview of the 2001/02 water authority audits*, will be available on the Audit Scotland website from Thursday 28 November 2002.
2. The combined turnover of the three water authorities in 2001/02 was £862 million. The number of staff employed across the three authorities in 2001/02 averaged 5,600 and staff costs were approximately £160 million.
3. The figure for exceptional costs includes redundancy payments and additional pension provision for those taking early retirement.
4. The Auditor General is responsible for securing the audit of the Scottish Executive and most other public bodies in Scotland, except local authorities. He investigates whether spending bodies achieve the best possible value for money and adhere to the highest standards of financial management. The Auditor General is independent and is not subject to the control of the Scottish Executive or the Scottish Parliament.
5. Audit Scotland is a statutory body set up in April 2000, under the Public Finance and Accountability (Scotland) Act, 2000. It provides services to the Accounts Commission and the Auditor General for Scotland.