

Strategic Review 2021 to 2027 (SR21) Governance Explanatory Note

Section 1 - SR21 Governance Overview

Ministers Objectives

Ministers' draft Objectives for the 2021-27 regulatory period were the subject of a [public consultation](#) in 2018. In response to the consultation, stakeholders agreed that the proposed policy framework was broadly [correct](#).

Updated draft Objectives were then the subject of a [second public consultation](#) in early 2020. This consultation sought feedback on areas of the policy framework that had been updated since the initial consultation.

The Objectives were finalised and published in December 2020.

The [Scottish Water \(Objectives: 2021 to 2027\) Directions](#) were designed to:

- Achieve the maximum affordable improvements in public health and standards of environmental protection;
- Achieve these outcomes while taking prudent steps to ensure that water charges remain stable and Scottish Water's capital programme is of a scale that can be delivered efficiently in the interests of all current and future water customers;
- Support housing and economic growth in communities across Scotland;
- Build upon the high standards of service achieved in the 2015-21 regulatory period;
- Ensure the longer term challenges and opportunities facing the industry are recognised, considered and planned for; and
- Respond to the Global Climate Change Emergency.

The Directions for 2021-27 also asked Scottish Water to work with partners to start to deliver the long-term Water Sector Vision, identifying how it will continue to deliver high quality services in a changing world.

Investment Planning and Prioritisation Framework (IPPF)

Recognising the need to be able to respond flexibly to the longer term challenges facing the industry and to cater for the need to carefully prioritise investment going forward, stakeholders worked together to co-create an Investment Planning and Prioritisation Framework (IPPF) for SR21.

The framework was developed to embrace Ethical Business Practices (EBP) and to align with the principles of Ethical Business Regulation (EBR). Encouraging collaboration, openness, trust and transparency amongst stakeholders and involving them in dynamic cycles of prioritisation in the lead up to, and throughout, the 2021-27 period.

The Scottish Water investment programme will therefore no longer be fixed at the start of the period, but will build over time.

To support this process, Scottish Water worked with stakeholders to co-create a Strategic Plan, which sets out their role in starting to deliver the long term Water Sector Vision. The Strategic Plan was published in February 2020.

Scottish Water is also working to develop a transformation plan. It will be a living document, which evolves over time, as Scottish Water better understands the long term challenges it will face.

The Scottish Water IPPF High Level Process Document sets out a number of detailed processes that specify how stakeholders will use the framework to prioritise and select which needs are to be addressed during the period. A summary of the key steps is included below.

IPPF Process

Ahead of the period, Scottish Water worked with stakeholders to develop a long list of 'business needs and opportunities', which outlined the high level investment projections for a 25+ year planning horizon (the 'Long List').

Stakeholders carried out an initial categorisation of the needs and opportunities included in this long list, by assessing them against a set of pre-agreed criteria, using an independent and internationally recognised prioritisation technique (MoSCoW).

These priority needs are now being reviewed in light of the draft Ministerial Objectives for the period, the likely finance available for investment, the capacity and capability of the supply chain and the extent to which further study is required (to clarify the needs). This will allow Scottish Water to create an initial view of the type of needs and opportunities they expect to address across the regulatory period (6 years) for discussion with stakeholders and will form the first version of the 'Short List'.

The 'Long List' and 'Short List' will remain under stakeholder review throughout the period to take account of emerging needs and changing priorities. A well-defined change mechanism must therefore be maintained, so as to provide a transparent audit trail that records the development of the documents over time.

To facilitate the creation of a rolling investment programme, Scottish Water will work with stakeholders to develop the framework and tools that will be used to prioritise needs and opportunities, to ensure they take account of their significance, impact and urgency.

The needs and opportunities Scottish Water are proposing to bring forward from the 'Short List' on to the 'Development List' will be included on a transitory list known as a 'Proposed Needs List', which will be shared with stakeholders.

Stakeholders are invited to come together at the quarterly Investment Planning and Prioritisation Working Group (IPPG WG) meeting, to review the 'Proposed Needs

Lists' as they are brought forward by Scottish Water. In proposing needs, Scottish Water should provide the group with reassurance that developing the needs it includes will start to create a balanced investment programme, which will help to achieve the Objectives set out by Ministers for the regulatory period. At the end of the meeting, members are asked if they are content to endorse the submission of the proposed list to the Investment Planning and Prioritisation Group (IPPG).

Informed by comments from stakeholders at the quarterly IPPG WG meeting, Scottish Water will take the proposed needs list to the Scottish Water Board for approval.

Having been updated to reflect the comments of the IPPG WG and Scottish Water Board, stakeholders will then be invited to review the 'Proposed Needs Lists' at the quarterly IPPG meeting, where members will be asked if they are content to endorse the submission of the proposed list to Ministers for approval. In proposing these needs, Scottish Water should provide the group with reassurance that developing the needs it includes will make progress towards the Objectives set by Ministers for the period, which includes the Water Sector Vision that was co-created with stakeholders.

Informed by these discussions, Scottish Water will determine which needs and opportunities it wishes to submit to the Scottish Government for Ministerial approval. In making this submission, Scottish Water will indicate whether the 'Proposed Needs List' has been endorsed by stakeholders and, where there is not unanimous endorsement, will confirm why Scottish Water judges that it should still be taken forward.

Once approved by Ministers, the needs and opportunities included on each of the 'Proposed Needs Lists' will be added to the 'Development List'. This will be a "living" document that will be shared with stakeholders and built upon throughout the period.

A well-defined change mechanism must be maintained for making additions and changes to the 'Development List', so as to provide a transparent audit trail that records its development over time.

Needs or opportunities included on the 'Development List' will be progressed by Scottish Water until such time as a scoped project/study/maintenance allowance has been developed and an output or outputs defined. Scottish Water will be expected to keep stakeholders updated on progress throughout the development phase.

Where appropriate, before moving needs or opportunities on to the 'Committed List', Scottish Water will undertake project or sub-programme appraisals and make these available to stakeholders on request. Where an appraisal is deemed to be particularly strategic, novel, or contentious, or where Scottish Water believe it would benefit from independent comment or review, stakeholder input will be sought at the appropriate stage of development.

Appraisals will be subject to a review process, which is currently being developed with stakeholders. This review will act as an assurance function, to keep focus on and build stakeholder confidence in the cost effectiveness of investment, and as an

opportunity to create a platform for continuous improvement for all aspects of future appraisals.

The defined output(s) will then be added to the 'Committed List' and will move in to Delivery.

Delivery

The 'Committed List' will form the basis for reviewing the SR21 delivery programme and will be a "living" document that will be built upon throughout the period.

A well-defined change mechanism must be maintained for making additions and, if necessary, changes to the 'Committed List', so as to provide a transparent audit trail that records its development over time.

At the start of the 2021-27 period Scottish Water will publish a Delivery Plan. This will set out the needs that are currently on the 'Development List', those for which outputs have been defined and added to the 'Committed List' and a forecast of the type of needs and opportunities Scottish Water expects to address across the rest of the regulatory period.

Reviewing the Rolling Investment Programme

Under current proposals, Scottish Water plans to conduct an annual portfolio review, engaging with stakeholders to ensure the investment programme remains financeable (by reviewing the available finance and latest estimate of emerging programme cost) and is maximising progress towards the Ministerial Objectives, which include the Water Sector Vision, and the Strategic Plan.

This review will consider any needs or opportunities that have emerged throughout the past year and could result in changes to the 'Short List', which will be updated to maintain a rolling forecast of the needs Scottish Water expects to address in the next 6 years.

Informed by this review, Scottish Water will present an annual Delivery Plan Update for Ministers' approval. This will summarise any additions and/or changes that have been made to the 'Development List' and 'Committed List' throughout the year, and will provide a revised forecast of the types of activities Scottish Water expects to address over the rest of the period (as per the latest version of the 'Short List').

Scottish Water will implement feedback loops to ensure lessons learned from the delivery of defined outputs is considered both in the annual Portfolio Review (including whether the intended benefits have been delivered) and in future prioritisation cycles.

Governance Structure

The introduction of the Investment Planning & Prioritisation Framework (IPPF) meant the governance structure needed to evolve to ensure it could continue to manage in-

period delivery, whilst also meeting the requirements of the new prioritisation process.

The SR21 governance structure has therefore been designed to build on the success of the SR15 structure, whilst acknowledging the following three distinct activities for the 2021-27 period:

- seeking reassurance on the delivery of committed outputs (as per SR15 Output Monitoring Group (OMG));
- near-term planning (0-10 year horizon); and
- strategic/long term planning (25 year horizon).

Based on stakeholder feedback, and recognising these three activities, four high-level groups have been put in place to govern the development and delivery of the SR21 investment programme. These groups were formed in August and September 2019, in order to receive the first 'Proposed Needs List' (also known as the 'First Tranche'), as it was brought forward by Scottish Water, and to begin the process of implementing the new prioritisation framework.

The structure includes a new group similar to the Output Monitoring Group (OMG), which was in place between 2006-2019. This group will now be known as the Delivery Assurance Group (DAG) and will seek reassurance on the delivery of the projects and sub-programmes included on the 'Committed List'.

A new Investment Planning and Prioritisation Group (IPPG) was formed in September 2019 to govern the development of the future investment programme, monitor progress towards Ministers' Objectives, which include the Water Sector Vision, and the Scottish Water Strategic Plan, and consider the strategies that are needed to support the water industry of the future..

The DAG and IPPG are each supported by their own working group, formed in August 2019. These groups will provide analysis and reports as directed and required.

The structure includes an additional layer of governance, in the form of short life task groups, which are intended to support the work of the 4 high level groups. The process associated with establishing these short life groups was developed with input from stakeholders and is the subject of a separate document.

As a result of the introduction of the new framework, the Terms of Reference for each of the governance groups will remain subject to ongoing review by the IPPG and DAG throughout the period.