

**INVESTMENT PLANNING & PRIORITISATION GROUP (IPPG)
MINUTES OF 15th MEETING
Scottish Government, 15 March 2023, 09:30, Victoria Quay,
Edinburgh, EH6 6QQ.**

Attendees:

Jon Rathjen, Scottish Government (Chair)	Mark Dickson, Scottish Water
Ruby Keddie, Scottish Government	Tracey Gee, Scottish Water
Stuart McCaskell, Scottish Government	Simon Parsons, Scottish Water
Barry Greig, Scottish Government	Barbara Barbarito, Scottish Water
Michelle Ashford, WICS	Sharon Forrester, SEPA
Nikki Maclean, SPSO	David Harley, SEPA
David Satti, WICS	Sue Petch, DWQR
Gail Walker, Consumer Scotland	

ITEM 1 Welcome and apologies for absence

1. There were apologies from Alan P Scott, Alan Sutherland, John Kenny, Robert Stewart, and Ian Buchannan.

ITEM 2 Minutes and actions arising from meeting of 7 December 2022 – SG

2. The previous minutes were agreed to be an accurate record.
3. The action points were reviewed:
 - AP 1 – SW to provide an update on information sharing tool. **Closed** – Barbara Barbarito confirmed that the tool will be further developed, and stakeholders will be kept informed.
 - AP 2 – SW and SG to create Glossary and upload slides on PCL calculation. **Complete.** SW confirmed that the folder has been created and relevant files will be uploaded shortly.
 - AP 3 – SG to submit IPPG report to Ministers and publish on website. **Not Complete.**

ITEM 3 IPPG Working Group Report – SG

4. Barry Greig presented the working group update report. He noted that:
 - The Working Group discussed the update to the Investment Planning Scenario and noted that there was 1 new Need brought forward in the previous quarter.
 - The group reviewed the development of MAs and requested that SW better articulate the reasons for the changes raised in the papers.
 - The Working Group reviewed the content of the quarterly report setting out the additions Scottish Water has made to the Committed List in Quarter 3 2022-23 and noted that projects and programmes for a total value of £207m have been added to the Committed List
 - SW gave a presentation on Black Esk WTW providing information on customer engagement and the project appraisal. SW highlighted the lessons learned and how these can be applied to future appraisals.

- SW also gave a presentation on how Digital Needs are governed.
5. Simon Parsons noted that IPPGWG had requested that SW provides an overview of how the transformation project is governed and an update would be provided in May.

ITEM 4 Investment Planning Scenario – SW

6. Simon Parsons presented the update. Highlights included:
- SW charges have been set at a 5% increase for 2023-24, below the cap of CPI+2%, in light of the cost-of-living crisis.
 - This means that investment will be reduced from £4.9 bn to £4.4 bn.
 - SG has clarified that Ministerial Objectives still remain the same, but they may take longer to deliver due to the reduction of funds.
 - SW will still invest significantly more in SR21 compared to the previous period.
 - The paper sets out the hierarchy of investment.
 1. maintaining service to current customers
 2. meeting regulatory and community commitments
 3. improving services, providing services to future customers, and replacing long life assets.
 - The initial Tier 1a investment assumption for the period was between £0.9bn to £1.3bn. As the latest forecasts suggest that investment will be at the low end of the range, SW has reduced the top of the range to £1.2bn.
 - This means that the Tier 2 range will be £3.2bn to £3.5bn. As SW's main way of maintaining service to existing customers is the on-going replacement of assets, the allowance remains at £1.75bn.,
 - SW has removed the ring-fenced allowance from enhancement and growth which means the total allocation will be in the range £1.45bn to £1,75bn. Enhancement and growth has been split into three categories: commitments, regulatory demands, and choices.
 - SW has also produced a £3.9bn scenario for internal use should funding be lower than expected.
 - This new IPS will be the baseline from April and classed as IPS23.
 - With less funds available for investment, it may take longer to deliver Ministerial Objectives for enhancement and growth, extending delivery into SR27.
7. The Chair highlighted that Ministerial Objectives would only be changed during the period if SW or WICS requested an interim determination. He added that IPS23 provides reassurance and regulators will need to review to give assurance that SW is not going to breach its regulatory obligations.
8. David Harley welcomed the update and noted that Scottish Environmental Protection Agency (SEPA) has its own Ministerial Objectives. He raised concerns that there may be delays to environmental Objectives, particularly in relation to River Basin Management Plan (RBMP) where there is high public expectation.

9. Sue Petch highlighted that there appears to be less investment on water quality compared to SR15 and raised similar concerns to SEPA. She added that some of the delivery profile has shifted to SR27 (i.e., disinfection improvement has been completely moved to the next period). Sue Petch noted her concerns that a significant amount of investment is building up for SR27. Simon Parsons noted that SW is open to having further conversations with regulators to discuss re-prioritisation. from April 2023. Sue Petch asked if formal response is necessary from the regulators as this is a difficult and challenging issues for DWQR.
10. David Satti welcomed the update, noting that it is helpful to have visibility of the deliverables. He added that WICS would like to know the implications for delayed investment and what SW is pushing out for future customers. David Satti also noted that WICS would like to see the list of outputs to help determine what customers are getting for their money in light of the challenges due to inflation.
11. Michelle Ashford noted that SW's priority is to maintain service to customers and asked whether SW can add details on its performance. Simon Parsons answered that the update could be added to the Performance and Prospects report when stating CEM and OPA. He added that when SW reports on the IPS it can state whether there is impact or risk to performance measures.
12. Gail Walker asked how reduced funding would impact service provision, for example, would there be delays for customers experiencing external flooding. She highlighted that SW would need to carefully manage messaging and engagement with customers and foster better ways of working together with other responsible authorities (e.g., LAs). Simon Parsons highlighted that any investment in wastewater infrastructure has a positive effect on the environment and customers, and that SW would consider how to articulate this point. He also noted that the Met Office has reported that a 10-fold increase in severe storms is expected over the next 30-40 years in Scotland.
13. Sue Petch asked for clarification on what "committed" means in the paper. Simon Parsons confirmed that this is where SW has an agreement in place and it cannot break a commitment, for example, the Highland PFI returning to SW. He added that some of the commitments may not be on the Committed List yet.
14. David Harley asked whether a comms strategy is planned to articulate the delays. The Chair stressed that SW still intends to deliver the required investment but that the pace would change. It was noted that the total level of investment is still uncertain, and that it may be revised upwards depending on economic conditions. The Chair highlighted that the main message is that SW continues to maintain progress and is investing more than in previous periods. It was suggested that SW should consider how to articulate the impact on customers and communities if it is unlikely to meet a commitment.
15. Simon Parsons suggested that SW meet with DWQR and SEPA to discuss priorities, ideally ahead of 1 April 2023 when IPS23 goes live. SW would provide the priority list in advance of this meeting and explain what additional projects could be delivered if there is more funding.

16. David Harley queried when SW would make a decision on whether the £3.9bn scenario applies. The Chair highlighted that charges are already set for 2023-24 and that the next decision about charges for 2024-25 will be made at the end of this calendar year.
17. Niki Maclean asked whether a comms strategy would be developed, noting it would be beneficial to highlight any reduction in investment and the impact on customers. The Chair suggested high level points could be stated in SW's Performance and Prospects report and noted that there is still a commitment to deliver against the Objectives, albeit with some projects rescheduled. David Satti highlighted it would also be useful to note the impact on future customers if delays arise. The Chair suggested further discussion may be necessary, tied into the strategic review of charges (SRC) process. He added that the ToR for the next SRC process needs set shortly and suggested SG could produce a paper for the next meeting.

Action 1: SW to set up bi-lateral discussion with stakeholders on implications of capital allocation choices set out in the IPS23 baseline paper.

Action 2: All to consider comms strategy for investment reporting.

Action 3: SG to prepare a paper for separate discussion with IPPG stakeholders on process for SR27.

ITEM 5 Q4-22/23 Proposed Needs List – SW

18. Simon Parsons presented the list:
- N3295 – The Need arises in the context of intense public and media pressure around sewage spills.
 - Work on developing the Improving Urban Waters Routemap will lead to significant environmental improvements, but SW has identified there is a gap associated with monitoring the flow that goes through SW's wastewater treatment works. The Need will help SW understand what equipment it has and what is required. Investment is estimated between £10m-£12m.
19. Michelle Ashford noted that in England, water companies are already getting the information on pass forward flow. However, there is no awareness of the quality of what is being spilled or what the impact is on the water body. She suggested that there is an opportunity here for SW to obtain instruments which may fill this information gap.
20. Sharon Forrester confirmed that SEPA is supportive of this Need and hopes that it is a first phase which will then be rolled out to smaller WwTW. She also welcomed the focus on intelligent networks. Simon Parsons confirmed that the initial phase would add monitoring to 80 of its 1600+ WwTW.

21. David Satti noted that WICS is supportive but that it would be helpful to understand the outcome of monitoring. Simon answered that previous focus has been on water quality impacts and targeting significant spills. SW must now focus on aesthetic issues. Simon Parsons added that in many cases there is no long-term impact on water quality, but that SW still has a requirement to reduce the number of environment pollution incidents and it is necessary to understand wastewater treatment compliance issues.
22. All members confirmed that they were content to endorse that the conclusion is reasonable in light of the process that has been followed. The Scottish Government confirmed that the needs list would be submitted to Ministers.

Action 4 - SG to submit Q4-22/23 needs list to Ministers.

ITEM 6 Report on the progress of interventions to meet the needs on the Development List – SW

23. Simon Parsons presented the update. Highlights included:
- **Summary of current investment maturity** – the level of investment in delivery for 2022-23 and 2023-24 has increased by £39m and £86m, respectively since Q2.
The total amount of investment in Delivery is now at £2.4bn, demonstrating good forward momentum of projects passing through the gateways towards delivery.
 - **Progress to the Committed List** – At the end of Quarter 3, PCL was on target at 107% and SW is forecasting a score of 117% for year-end.
 - **Progress of the development of interventions with level 1 and 2 appraisals** – 10 project investment appraisals were completed in the quarter and 9 of the 10 projects progressed through first time at the Investment Appraisal Group. These projects had a value of some £147m. Key appraisals included:
 - Castle Moffat WTW
 - Aberlour WwTW
SW noted that neither project is currently included in IPS23.
 - SW highlighted projects where the appraisals have moved out by 12 months:
 - Liberton Trunk Mains.
 - Milngavie WTW
 - Robertson WTW
 - The paper also sets out the learnings that SW identified from the delivery of appraisals in the last quarter to give the group more visibility on how forward planning is adjusted as a result of the process.
24. Michelle Ashford asked for an explanation of the asset stewardship model. Simon Parsons offered to provide an update following the meeting.

Action 5 - SW to arrange discussion with WICS on Asset Stewardship Model

25. David Satti noted that there is a risk of a £3.9bn investment planning scenario and asked at what point would SW make a decision to start slowing down with projects going through the gates. Simon Parsons answered that projects are not

financially committed until gate 90. He raised Aberlour as an example, noting it is not currently on the list of growth projects, but SW is aware investment will be required. SW will pause the project at gate 60 and it will be released if more funds are available. Simon Parsons added that under the £3.9bn IPS SW may need to stop projects already on the Committed List. Simon Parsons noted that SW is keen to agree the new IPS23 baseline to provide clarity to internal investment groups on whether projects should progress.

26. Sue Petch commented that the link between the Development List and transfers to Committed List is still unclear in terms of which projects have had appraisals. Simon Parsons highlighted that the reporting redefined workstream provides an opportunity to refresh the reporting and provide clarity and that SW would provide an update on the links. The Chair queried whether projects have reference numbers to allow tracking. Simon Parsons confirmed that references do exist on the transfers to Committed List paper. The Chair asked whether any MAs were exceeding the allocation. Simon Parsons offered to provide an update at IPPGWG.

Action 6 - SW to consider how to provide the link between the Development List and transfers to the Committed List.

27. David Satti queried the timeline for further visibility on Management Approaches commitments. Simon Parsons noted that stakeholders do have visibility of what is in a MA, but that SW could consider how to report the level of investment against a MA. Sue Petch highlighted that additional detail is provided at JDGs and it could be offered to the working group. Simon Parsons confirmed that SW uses a MA dashboard to track commitments. He suggested that a paper is submitted to IPPGWG to provide detail on MAs and outputs.

Action 7- SW to submit a paper for the IPPWG's consideration on how to provide greater detail on Management Approaches/Outputs.

28. The IPPG Q3 2022-23 report was agreed. The Chair requested the report be submitted to Ministers.

Action 8 - SG to submit IPPG report to Ministers and publish on website.

ITEM 7 - Transfers to the Committed List

29. Simon Parsons presented the paper, summarising the key points:
- In In Quarter 3 2022-23, 28 projects at a cost of £79m and programmes of work with a value of £127m have been added to the Committed List, giving a total addition for the quarter of £207m.
 - the total value of the Committed List is now £1.84 billion.
 - the most significant addition is associated with the Highland PFI contract; it has recently returned to SW and SW recently negotiated the final value and agreed on an initial payment.
 - Key projects included:
 - field connectivity project – improving connectivity for workers in areas with poor internet connections.

- Herricks WTW – The site was originally constructed in 1970 and much of it now requires replacement.
- Recurring customer interruptions in Stornoway – The intervention is prioritised due to the high frequency of bursts.
- The inflation assumptions are regularly reviewed and although there is a slight improvement to forecasts, there remains challenges with availability of materials.

30. Michelle Ashford noted that the title of the paper didn't match the agenda item.
SW confirmed this would be updated.

ITEM 8 – AOB

31. The next meeting was scheduled for 21 June 2023, to be hosted by Scottish Water at Fairmilehead, Edinburgh.

Ruby Keddie
Scottish Government
April 2023