
INVESTMENT PLANNING & PRIORITISATION AND DELIVERY GROUP (IPPDG) MINUTES OF 18th MEETING

Scottish Government, 13th December 2023, 10.00, Conference Room, Scottish Water, Fairmilehead Office, Edinburgh.

Attendees:

Jon Rathjen, Scottish Government (Chair)	Alex Plant, Scottish Water
Rosemary Greenhill, Scottish Government	Rob Mustard, Scottish Water
Alice Mitchell Scottish Government	Wendy Kimpton, Scottish Water
Simon Parsons, Scottish Water	Alan Sutherland, WICS
Sharon Forrester, SEPA	Aileen MacKenzie, Scottish Water
David Satti, WICS	Sue Petch, DWQR
Matt Bower, DWQR	Emma Ash, Consumer Scotland
Barbara Barbarito, Scottish Water	

ITEM 1 Welcome and apologies for absence

1. There were apologies from Michelle Ashford, WICS, Gail Walker, Consumer Scotland, Nikki Maclean, SPSO, David Harley, SEPA.
2. It was noted that this will be Sue's last IG meeting. The Chair thanked Sue for support at these meetings over many years and the spirit with which she has entered discussion contributing towards a collaborative team approach.

ITEM 2 Minutes and actions arising from meeting of 20th September 2023 – SG

3. The previous IPPG minutes were agreed to be an accurate record and no amendments were requested:

Review of IPPG actions

Action 17.01 – WICS to provide clear questions for Scottish Water on their areas of concern in relation to capitalisation and inflation and the evidence around the differences in the regulatory comparisons. This is to be brought into reports in the future.

Action 17.02 – Scottish Water to consider investment comms and then share with stakeholders. [Note this is linked to action 16-01 from the June meeting.]
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Action 17.03 – SG to submit IPPG report to Ministers and publish on website.

Action 17.04 – SW to clarify the reporting issue and give consideration to whether we are explaining committed spend clearly enough and appropriately addressing any optimism bias (paras 64 and 65 in minutes)

Action 17.05 - SG to submit DAG report to Ministers and publish on website.
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Actions from September

Action 17.01 – Complete, this will be covered as part of the methodology for SR27

Action 17.02 – Following the working group meeting the draft of the Scottish Water CEO introduction from interim P&P report, setting out the choices and challenges that the existing changes to funding have had, was shared with stakeholders. Agreement that this action can be closed

Action 17.03 – Complete.

Action 17.04 – On agenda, complete

Action 17.05 - Complete

ITEM 3 Working Group Report – SG

4. Rosemary Greenhill presented the Working Group update from the meeting on the 29th Nov. It was noted that this was a productive meeting. The key areas of discussion at that meeting were:
 - Outcome and outputs paper – this has now been updated in Objective Connect to include the definitions and diagram showing linkages.
 - Proposed needs list – Industrial Emissions Directive exemption has been removed and work is required at 9 sites to comply. Agreed that this is the right thing to do, no disagreement.
 - Adjustments to needs –tidying up of needs associated with Private Finance Initiative sites, no issues.
 - Management Approaches – there was good discussion on trade-offs on investment and funding, the choices if charges progress as expected or if they don't. Still waiting on feedback from SG but the information was helpful to feed into this discussion.
 - Progress of Interventions – Challenges of the Rockcliffe Bathing Water project were discussed and this site has since been picked up by the BBC.
 - Transfers to the Committed List – several additions to the list were noted.
 - Joint Development Group – it was agreed a separate paper is not required to report on this but topics of interest such as tankering should be raised to this group where appropriate for information.

5. Alex Plant – In relation to the discussion on the investment / funding trade-offs, want to extend thanks for everything done to ensure that information has been fed into the Scottish Government discussions. The Scottish Water Board discussed yesterday and a response to the letter submitted to the Cabinet Secretary would be appreciated while noting that ultimately the setting of charges is a Board decision.

Scottish Government team have tried to make sure that the Ministers understand the consequences if Scottish Water are unable to raise charges by as much as needed. The information was very timely and hope to have a response later this week.

6. David Satti – In relation to the decision not to include a report from the JDGs. In previous periods the commentary which accompanied the graphs gave a flavour of the issues which were being faced. While don't want to go back to the graphs as WICS aren't at the JDGs they don't get this visibility so how do we bring that colour?

Rosemary Greenhill – Suggest that there is an update at the start of the working group meeting on any topical issues experienced in the last quarter e.g. tankering due to drought, the impact of storms and the actions taken to address.

Sue Petch noted that the slide decks that go to DWQR and SEPA could also be shared with WICS.

Action 18.01 – Add a topical issues item to future WG agendas to allow discussion on issues such as extreme weather which may have impacted service and delivery.

7. David Satti – Outputs and outcomes - thought we were going to discuss outputs today? At what point can we get into outputs specifically?

Simon Parsons – this isn't on the agenda today it links to the work on the baseline, we had hoped to have this for today but have been impacted by covid hitting some key staff so hope to have it next week. This will set out the outputs per MA.

Wendy Kimpton – noted that the links to Asset Class for WICS will follow this, in the New Year

Action 18.02 – Include dedicated time at the next IGWG to discuss outputs in more detail.

ITEM 4 Q3 – 23/34 Proposed Needs List – SW

8. Simon Parsons – There is one new need which has been identified to ensure compliance with the Industrial Emissions Directive due to the removal of the exemption. The needs will enable compliance with the directive at 9 facilities through the introduction of improvements.

Daldowie WWTW is a key site linked to this need as it is due to be replaced and new processes will be installed as part of that. Scottish Water are having ongoing discussions with SEPA on timing at this site to avoid unnecessary work.

Digesters at Allanfearn WWTW are currently offline but will be compliant once work there is completed.

Final compliance ideally after 2031, so still working with SEPA to agree the timescales for this regulatory requirement to reach compliance.

ITEM 5 Report on the progress of interventions to meet the needs on the Development List - SW

9. Simon Parsons – presented this paper which provides confidence that work is progressing onto the Committed List as the investment period progresses by showing how the programme is maturing quarter by quarter.

This year nearly all of the programme is now in delivery which gives confidence that the investment target will be reached. Next year £518m is already in delivery already so confident of meeting next year too. Scottish Water are seeing demand of more than £1.2bn that meets MA policies that they do not have funding for. This is being driven by both inflation and higher demand and requires phasing of investment into SR27. Some projects will extend into the SR27 period and hopper lists are now being developed at different gateways to manage investment.

Any changes to charges which provide less than £4.4bn would lead to increased investment being moving more into the next period.

Progress to Committed List (PCL) – measure showing how projects are progressing through to delivery, the target is 110% and at the end of Quarter 2 23/24 PCL was 113% so work progressing well.

Project Investment Appraisals (PIAs) – Two PIAs are specifically called out in the report - Rockcliffe Bathing Water improvement and Eela Water WTW replacement.

10. **Rockcliffe Bathing Water (BW)** – Prior to the introduction of temporary chemical dosing this BW had failed for the previous four out of five years. During the design work it was established that Scottish Water is the main contributor to the failure of this BW. During the development of a permanent solution lots of work has been undertaken with the local community to try and progress an acceptable solution which protects the BW and minimises the impact on residents. The team have been looking to partly bury the site to minimise the impact of the works, but the site is in rock which has found to be harder than originally expected. More work is needed on this solution as rock excavation is also not palatable for community. Concerns were raised at the WG around the high cost at this site for a low population.

11. Jon Rathgen – does high cost include the burying of the works and would changing the location reduce the cost?

Yes, the costs do include the burying but there are other significant elements to the works which will still be needed so it will still be a high cost solution with limited alternative options.

12. Alan Sutherland – would Scottish Water comply if this was built? Are there other environmental impacts within the BW catchment that could still impact?

Simon Parsons confirmed that 70% of the environmental load is a result of the Scottish Water impact and work with SEPA in the development of the works confirmed that the BW would be compliant when finished.

There has been some discussion around whether the temporary dosing could continue on a permanent basis, but SEPA require a permanent solution as they cannot licence temporary dosing.

13. Jon Rathgen – Scotland has 98% compliance on BW currently, with the optics and how BW are seen, compliance with this is required. This is a site with very high costs that will inform future discussions with the Ministers when it comes to the designation of future BWs. The cost of compliance with BW standards needs to be considered in the future but this site is designated therefore needs to be protected.
14. Alan Sutherland – does this need to be part of a wider social conversation rather than just with Ministers?

Jon Rathgen agreed that it does. Currently, it is the Ministers that designate BWs but wider awareness of designations and the impact of them is required. This is a good example and could also use Ayr, Dunoon and Campbeltown etc.

Rosemary Greenhill – We do need a conversation about the understanding of water designations and include shellfish waters as part of this too. It needs to be part of the current policy review work and the balance of risks. People expect we can fix it without understanding the costs associated.

Alex Plant – once understood the public value element is very important to people but the understanding needs to be improved. This is a powerful aspect of showing difference and making argument for ongoing investment. Within Scotland customers have the advantage of money being reinvested back into the business. There are ongoing internal discussions around how Scottish Water raise their public profile further, so they are less under radar to win hearts and minds for the future.

15. Emma Ash – When waters are designated as BW does that require two stages of treatment?

Simon Parsons – Rockcliffe has basic treatment at present which can't cope with the loading currently. Secondary treatment treats effluent to a better standard and addresses the bacterial elements. Due to UWWTW directive most BW sites have secondary treatment and may have UV too. Where there are BWs which still fail these are generally down to poorly maintained private ST's. Scottish Water do provide a tankering service supported by the SG in some of these areas to ensure they are properly maintained.

Rosemary Greenhill – there will be a requirement to look at again at agglomerations as a result of recast standards which may give an incentive to pick up some of these private systems.

Simon Parsons – noted that if Scotland wanted more excellent BW would need to do more to be able address these private systems. Designations of BWs generate expectations when they are identified there is a need to consider what the gap between being excellent to good / excellent standard would be. How do

you get ones you have to a better standard? Would connecting more of the private systems help this.

Alan Sutherland – in terms of cost, carbon, reputational benefits it is worth looking at. In eastern Europe there is a conflict between world bank and eastern European states as the UWWTD pushes for measures to address UWWTD which could have an impact.

It was agreed that further work was required in this area to understand the potential benefits of providing treatment of private supplies, the implications of the recast standards and consideration of the implications of new BW designations.

ACTION 18.03 - UWWTD group to scope and feedback to this group at a future point. Part of answer may be in legislation – Scottish Government

16. Simon Parsons – the other project appraisal called out in the report is Eela Water WTW in Shetland. The works is in a poor condition and needs to be replaced. This is an asset replacement and resilience need, and Scottish Water are utilising experience from Bonnycraig at Eela to deliver a new ceramic membrane treatment works.

Scottish Water are reviewing how progress on PIAs is reported with the introduction of hopping.

17. Alan Sutherland – how does cost of replacement for something like Eela water compare to the MEAV for the asset replacement of the works? What is the actual demonstrated cost for replacement works v cost asset replacement. If we were running with MEAV of £70bn and the replacement cost was £100bn need to understand this. What is the demonstrated evidence of fix or replace things so we understand this so we don't give the wrong impression of what we are doing. Particularly when capital inflation is rampant.

Simon Parsons – The standards at which we replace are far higher than what was at the site before. The benefit of the ceramic membranes is that these can be built in Inverness and shipped up which has advantages in delivery time.

Rob Mustard – with regards to inflation there is some protection though the contracts but some areas e.g. labour are not as well protected but where we can do offsite and repeatable construction it helps to reduce the risks on projects.

Alan Sutherland – understand that there is some protection but will have a step change when these contracts change and need to factor that into future costing rather than on the current costs.

Rob Mustard and Wendy Kimpton are doing work on MEAV for infra and non infra cost curves. Currently comparing and there will be movement on these that needs to be discussed. Yesterday taking Board through the replacement of delivery and supply chain over next few years to try and protect against some of these headwinds.

18. Note Alex Plan was not in attendance after this item.

ITEM 6 Transfers to the Committed List - SW

19. Barbara Barbarito presented the Transfers to the Committed List paper. This paper provides a summary of the projects ready to commit into delivery. The order of the paper has been reshuffled since the WG meeting to make it clearer.

Sue Petch – noted that there had been a request for an additional table by programmes.

This has not called out in this paper but will be included in future papers.

Alan Sutherland questioned whether there was a reason why projects that have already been delivered are still shown on the committed list?

It was agreed that a G110 / completed project list should be added to the paper but also show the longer term commitments flowing into future investment periods e.g. Bertha Park.

ACTION 18.04 – G110 / completion list project list to also include what is flowing into the next period e.g. Glenfarg will definitely go into the next period, so 50% might be in SR21, and 50 % in SR27, commitment for next period.

Sue Petch – Howden is shown as £5.4m – is this an addition to the existing project?

Action 18.05 – Check if Howden project shown as £5.4m is an addition to the existing project at that site and confirm to DWQR.

ITEM 7 Progress report of performance against the Committed List – SW

20. Rob Mustard presented the paper – Year to date investment is just above £0.5bn, forecasting to be over £1bn by the end of the period. IFAC which measures forecasting accuracy is forecast to be 97-103% by the end of the year. IPOD is split into 3 areas start on site is performing well but G100 and G110 are areas of concern so there is a focus on this area.

There are some tricky projects like Rockcliffe and there are challenges with some projects particularly relating to land and power. These completion projects didn't go through the integrated wedge as it didn't exist at that point so we aren't seeing the benefits that are now being realised from the improved ways of working. Rob confirmed that he has these projects under short interval control and is providing quarterly updates to DWQR and SEPA in the bi-laterals.

21. Alan Sutherland – It would be helpful to understand what Scottish Water are getting for money now compared with what it used to get. If the inflation impact was stripped out what would you get? How much are current contracting arrangements saving us? Have decent handle on what is being spent but not so much on what we are getting compared with what we used to get for the same money.

Simon Parsons – the work on the outputs will help to give a view on this and this will be set out in future Transfers to the Committed List papers.

Alan Sutherland – agreed that that will give good bottom up but a top down view on this would help.

It was collectively agreed that the top down approach would be easier for some project / types of work such as kilometres of water main replace than it would be for others. Changes within a treatment works would be harder to compare as the standards that the works meets would be different to what was there before. Examples to help explain what things change over time to tell the story would be helpful. Need to make sure that Scottish Water are not underselling the amount of efficiency that they are getting from asset replacement.

Rob Mustard – there are a lot of activities underway on outputs, inflation etc, and a lot of the information is there. There is a need for Scottish Water to feed this back as a first pass.

Simon Parsons – The work on outputs is significant and will be part of discussion at the next working group meeting.

Alan Sutherland – need to understand the level of risk that is running – Scottish Water are investing £1bn a year, which sounds like a lot more than a few years ago so Ministers / customers would expect that they are getting a lot more than before. Are Scottish Water really catching up with the infrastructure deficiency or is that being eaten by inflation? There are moving targets of inflation, expectations, technology what are these movements and what story line is going forward.

ACTION 18.06 – set out time table for what Scottish Water will deliver in relation to understanding the impact of demand, inflation, asset replacement etc and how we can move towards the full answer of whether they are getting the same amount for the same money as before.

Needs to feed into the rest of the work on this. Is it WG or the SR27 group? Or is it part of outputs and outcomes discussions. Will need to come back to the WG but the SR27 group will be doing. The progress against the timeline will need to be updated to this group.

22. Rob Mustard – G100 and G110 completions is an area of specific focus as well as completion of the SR15 projects. We are seeing some good improvements coming through.

Alan Sutherland – raised concerns of optimism bias around recovery of the measures. There have been several periods where there has been an indication that Scottish Water is going to get back on target in next 6 months to a year but that seems overly optimistic. Don't know if the lighter blue columns are really a forecast - have these been tested? Have a hard look in the light blue bars not just

the next 3-6 months but longer term too. Need to be realistic and challenging targets.

Sue Petch – have looked at previous quarters graphs comparing what was forecast v what was achieved and that did give confidence.

Jon Rathgen –the back end of the programme has historically been the harder part of the programme to land. What in that element is achievable? Are there problem projects within there?

Rob Mustard – great challenge and acutely worried about realism, have started kicking tyres particularly on completion progress. The forecasts are getting closer even in Q3. Some areas are performing really well, and others that aren't are an area of focus.

23. David Satti – Conversations on Bertha Park and underway, on the SOS graphs is there ever a situation not hitting that milestone? Is it within range? Acceptance and completion are where the issues are, where we are compared with should be. Is SOS just a gimme, with situation, does it give a false sense of progress? WG conversation all want to be agreeing and coming to same conclusion unless we can get under this issue. Does SOS give a false sense of progress?

Rob Mustard – IPOD is a new measure for this period, part of the basket of three which provide programme visibility. Take confidence that G90 is being achieved through PCL and work coming through, if didn't see that then would have less confidence and progress coming though.

David Satti – There is a gap between progress from getting onto the committed list but to then getting value for customers. Summary of IPOD is on track but is that skewing the overall progress.

24. Alan Sutherland - where are you starting from, twinkle in eye to completion of project where are you progressing? If you go back most of issues would have been in that earlier part not measuring. Between financial approval and SOS is where starting to measure. If you already have that all that should be there. If you are putting a lot of weight on that then understating work before that or obscuring other things if that's where all the focus is. Question is really the measurement, where you start process, x-y initial differentiation won't be much but what happens when starting to measure that is important.

Financial approval 1st Jan, 1st April SOS, not big differentiator, once into output delivery etc then the scope for variance increases over time

Simon Parsons – forecast in 2-3 months much more accurate than in 2-3 years. SOS is always a good indicator that work is progressing.

Sue Petch– do value the discussions in the bi-laterals and the JDGs as then get that sight of what delays are seeing and the potential impacts.

Rob Mustard – Scottish Water are looking at how to provide greater insight in

what's happening in programme as this will help to explain. With regards to optimism bias, trying to also keep delivery partners in tension too to get them to deliver the dates.

25. Simon Parsons – As SR27 develops consideration of how this evolves into the next period is required so that measures work for Scottish Water internally as well as for the stakeholders.
26. Jon Rathgen – the documentation is in good state so not looking to change it just now, more about words and what they are telling rather than changing the graphs etc.
27. Rosemary Greenhill – are we missing on what's going well and focussing on where the challenges are. Pick out lessons from what's going well, why are we feeling contented, are there new innovations, standardisation etc. Good messages for Ministers etc to hear some of these examples as it gives them confidence that we are dealing with issues despite the challenges of climate change etc.

David Satti – the presentation at last meeting on Blue Green was very useful at doing this.

Simon Parsons – Urban Water Routemap would be worth taking into the next meeting to highlight progress and innovations in this area. Big bit of work there that is positive.

Action 18.07– add Urban Water Routemap to agenda for next meeting.

ITEM 8 – AOB

28. Rob Mustard – Scottish Water are embarking on the procurement of Supply Chain delivery, for SR27 and beyond, starting this now as have to do under procurement rules. This will cover areas across delivery, engineering etc so is a sizable piece of work. Will bring to this group or the SR27 entity. Currently early stages will be going to Scottish Water Board in June next year for validation of the approach. Will be types of work in it. There will be challenges as doing at a time of volatility with energy markets and the E&W approaches. Also need to keep delivery going as we do this.
29. Jon Rathgen - Format of group – will be referred to as the Investment Group. Format of meeting and topics felt right today, some additional areas of info needed. Move forward with this approach and will keep the timing balanced to allow space if there are contentious items. These are important meetings and need the time to discuss issues.

Alan Sutherland – some more general discussion about what's in development would be useful to give visibility of what's in that space.

Rosemary Greenhill – will review the TOR for both groups;

30. The next meeting is scheduled for XXXXX, hosted by SG; venue tbc

Summary of Actions from 13th December 2023
Action 18.01 – Add a topical issues item to future WG agendas to allow discussion on issues such as extreme weather which may have impacted service and delivery.
Action 18.02 – Include dedicated time at the next IGWG to discuss outputs in more detail.
Action 18.03 - UWWTD group to scope and feedback to this group at a future point. Some of answer may be in legislation
ACTION 18.04 – G110 / completion list project list to be included also including what is flowing into the next period e.g. Glenfarg will definitely go into the next period, so 50% might be in SR21, and 50 % in SR27, commitment for next period.
Action 18.05 – Check if Howden project shown as £5.4m is an addition to the existing project at that site and confirm to DWQR.
ACTION 18.06 – set out time table for what Scottish Water will deliver in relation to understanding the impact of demand, inflation, asset replacement etc and how we can move towards the full answer of whether they are getting the same amount for the same money as before.
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