
**INVESTMENT PLANNING & PRIORITISATION AND DELIVERY GROUP (IPPDG)
MINUTES OF 17th MEETING
Scottish Government, 20th September 2023, 10.30, St Andrew's House,
Conference Room C and D, Edinburgh.**

Attendees:

Jon Rathjen, Scottish Government (Chair)	Barry Greig, Scottish Government
Mark Dickson, Scottish Water	Alan P Scott, Scottish Water
Simon Parsons, Scottish Water	Alex Plant, Scottish Water
Aileen MacKenzie, Scottish Water	Alan Sutherland, WICS
David Satti, WICS	Duncan Robertson, SEPA
Matt Bower, DWQR	Nathan Critchlow-Watton, SEPA
Gail Walker, Consumer Scotland	Rob Mustard, Scottish Water
Niki Maclean, SPSO	

ITEM 1 Welcome and apologies for absence

1. There were apologies from Michelle Ashford and Sue Petch.

ITEM 2 Minutes and actions arising from meeting of 21st June 2023 – SG

2. The previous IPPG minutes were agreed to be an accurate record subject to the following amendment:
 - section 25 - David Satti noted that the programme overheads were recorded as £500m instead of £5m.

Review of IPPG actions

Action 1 – All to consider a comms strategy for investment reporting. **Carried forward** – SG note: largely for awareness, however SW took an action to progress consideration/development of appropriate comms which will link to this action.

Action 2 – SG to prepare a paper for separate discussion with IPPG stakeholders on process for SR27. **Ongoing**

Action 3 - SG to submit Q4-22/23 needs list to Ministers. **Complete**

Action 4 – SW to arrange discussion with WICS on Asset Stewardship Model. **Complete**

Action 5 - SW to submit a paper for the IPPG's consideration on how to provide greater detail on Management Approaches/Outputs. **Complete**

Action 6 – SW to set up meeting on Transformation portfolio and methodology with WICS and interested others. **Complete**

Action 7 – SW to confirm timescale for sludge treatment processes is agreed with SEPA. **Complete – continuous bilateral activity.**

Action 8 – SW to review the existing Water Resilience needs and bring a detailed paper forward for IPPG's consideration to provide an overview of what's covered relating to water resilience supplies. **Complete**

Action 9 – SW to add a range to the PIA forecast. **Complete**

Action 10 - SG to submit IPPG report to Ministers and publish. **Complete**

Action 11 – SW to review Appendix A. **Complete.**

Action 12 – SW to review and clarify to the Group why figure 2 overheads are included within the committed list additions figure. **Complete**

Alan Sutherland (AS) noted three areas of concern set out by WICS which they would like explained further.

- Basis of level of capitalisation
- Comparing outturn to 17/18 prices
- Statutory v regulatory accounting differences

SW confirmed it would liaise with WICS and provide details in future reports.

Action 13 – SW to confirm whether the Transformation additions are included as part of the transformation payback in the additional session identified at Action

2. Discussions ongoing

3. David Satti has met Nisarg Hirani twice and two outstanding questions remain to be resolved:
 - Which projects' transformation benefits are committed to the efficiencies from the Final Determination (FD)?
 - How to achieve better transparency where cash benefits accrue to a project.
4. Jon Rathjen noted that the benefits will vary over time and we therefore need to think about how this develops over time; this is an important topic and we will need to keep bringing back to the group for continuous refinement. It was suggested that Transformation becomes a standing agenda item.

Action 17.01 – **Scottish Water to provide WICS with detail in relation to capitalisation and inflation, and differences in the regulatory comparisons. – Amended/Aileen M.**

Review of DAG Actions

ACTION 1 – SW to establish timeline for the Task & Finish Group and confirm to Group – **Complete**; Group has been set up and is working on issues, see paragraph 5.

ACTION 2 – Secretariat and SW to establish a Short Life Task Group to consider the issues, including clarifying what gets reported elsewhere and what should be brought into this report and reported to the DAG working Group. – **Complete**, group has been set up

ACTION 3 – Group members to offer any further views on definitions to SW/DAG Secretariat for consideration and discussion at the Definitions Short-Life Task Group. Stakeholders who would like to be involved in the SLTG should inform the Secretariat. **Complete – part of TOR for Group**

ACTION 4 – SW to provide update report on impact of water scarcity on delivery to DWQR by end of first week of July. **Complete**

ACTION 5– SW to agree a reconciliation of numbers with WICS. **Complete**

ACTION 6 – SG to circulate stakeholder groups paper in due course. **Complete**

ACTION 7– SW to recirculate the document with the links between the JDGs and IPPG/DAG. **Complete**

ACTION 8 – SW/Secretariat to carry out a gap analysis of governance structures having considered the distribution and sequencing of all governance groups including JDGS, IPPG, and reflect in review paper in preparation. **Ongoing, initial SG paper circulated.**

5. Alan P Scott provided an update on the Short-life Task Group– A cross stakeholder call was held on 11th September bringing together a diverse range of perspectives seeking to agree common definitions, outputs and outcomes and how they are used. There are already definitions in the Annual Return so we need to consider whether there is good reason for a change to those – for further SW and WICS discussion.
6. SW currently has 186 outputs in its systems which it is aimed to rationalise down to below 60 workable outputs. The Group will meet again, but it is likely to be over months rather than weeks given the range of different stakeholder perspectives to consider.
7. David Satti noted his participation in the working group – WICS need the outputs set out to enable comparative analysis. He agreed there are areas to discuss including the key issue of a lack of clarity on outputs which WICS sees as necessary to enable this group to better understand how investment is delivering.
8. Jon Rathjen agreed there is a need for a collective view and acknowledged that there has been a concern around this topic over the last couple of years. There is broad agreement that reported outputs are currently at a high level, but we need to continue to work closely together through the working group to address these concerns to achieve the granularity required and reach a common viewpoint.

ITEM 3 IPPG and DAG Working Group Reports – SG

9. Barry Greig presented the working group update reports. IPPG and DAG working groups met at Glenfarg in August, it was good to get out and see the site to appreciate some of the challenges and have a presentation on water resilience issues.
10. There was agreement to merge the IPPG and DAG groups to be known as IPPDG. The meeting considered the IPS update, and that paper is presented today. There were no new needs. The quarterly reports on MAs, Progress of Interventions towards the Development List and the Transfers to the Committed List papers were all reviewed. The presentation on Water Resilience led to a lot of discussion on why Per Capita Consumption (PCC) is higher in Scotland since the pandemic has ended. It demonstrated that opportunities appear to be around reducing customer demand rather than leakage.

Questions on the Working Group Update Paper:

11. Alan Sutherland noted it was helpful to better understand the additions to the Committed List and timing of these, particularly around £120m allocated of

committed investment for Bertha Park where the scheme is being funded now and the growth in housing will take 30-40 years to reach its maximum.

12. Simon Parsons confirmed every project or programme at G90 goes onto the Committed List each and will have LBE added, gateway dates etc. i.e. it is similar to the old technical expression table. There will be projects on Committed List which will go into the future periods. For Bertha Park, the Project Investment Appraisal (PIA) will have looked at the options for what needs done now and what needs done in future and when as well if SW need to upgrade the infrastructure. There are other drivers for this project so SW have developed a scheme to address Growth, Maintenance and sewer flooding in city centre through a system planning approach. The PIA is available to all stakeholders and explains what's there why we've chosen the option
13. Gail Walker noted that the IPPGWG had discussion on Water Resilience and PCC including reference to understanding the patterns of the consumer behaviour and research related to this. CS are keen to understand how any future consumer focused research may be developed in future.
14. Simon Parsons noted that ongoing policy development work was also relevant as it is considering water efficiency issues. The pilot scheme in Inverness is also providing information along with local comms etc. However, it was noted that SW don't have the direct billing link which could otherwise be used to develop better consumer awareness.
15. Jon Rathjen noted that as part of the proposed consultation SG will ask questions around what people are willing to do with regards to efficiency.
16. Barry Greig noted SG will explore level of research knowledge via the customer research group, and report back to the Working Group.

ITEM 4 Investment Planning Scenarios Update – SW

17. Simon Parsons clarified that the process for the update of the Investment Planning Scenario (IPS) is that the paper is discussed with the IPPGWG, before going to SW Board then this Group. It will go back to SW Board next week following which SW will implement any changes in allocations. The basis of the paper is £4.4bn in 17/18 prices, which hasn't changed.
18. Alan Sutherland – questioned the retention of the £4.4bn scenario which doesn't include reductions in non-household income, but includes the money from transformation benefits, nor does it consider the impact of pricing decisions. Therefore, WICS view is that the £4.4bn represents about £4.0bn of cash and in 17/18 deliverables is about £3.6bn.
19. Alex Plant agreed the need to explain for clarity why the cost of what SW needs to deliver has gone up, what the cash position noting it was important also to avoid conflating the cost versus outputs discussion.

20. Gail Walker – asked how to you balance development with service delivery to support ongoing customer needs? Customers need trust and confidence if they are paying water and drainage charges and need to understand ‘what am I getting for my bills’.
21. Simon Parsons clarified the agreed prioritisation approach in place and confirmed that some areas such as sewer flooding and growth have seen investment levels reduced to maintain the current service levels for existing customers. SW is well aware of its clear commitment to balance growth with existing customers’ needs. For the next WG SW intend to share what IPS23.2 mean in terms of outputs, particularly around asset replacement. Jon Rathjen noted this aspect should be agreed before the meeting to ensure expectations are being met.
22. David Satti noted a lower scenario hasn’t been offered for this IPS, so what would be reduced if the available funding were less than £4.4bn? Simon Parsons clarified that SW had previously provided £3.9bn and £4.9bn scenarios and the £100m blocks of investment in between these two ranges. If more or less money were available, that’s where changes would need to be made.
23. Niki Maclean – A communication strategy around this would be useful as it would be very hard for the public to understand the intricacies of this so clear comms potentially would help to understand this further. Alex Plant suggested it was for SW to set out clearly what you are getting for the money you pay, need to be presented simply for public to understand. Bottom line is that due to inflation it is more expensive than originally expected but there are positives to report in terms of progress and SW are broadly on track to deliver what we have said we will despite getting less for our money.

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.]

24. Jon Rathjen noted that, linked to this, there are other elements to be considered like resilience, drought, climate adaptation etc which also need to be addressed including how these would be funded.

ITEM 5 Q2–23/24 Proposed Needs List - SW

25. There was no proposed new Needs list this quarter. Current Needs work includes PFI needs which will come to a future meeting.

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

26. Simon Parsons presented the paper which aims to provide confidence that work is progressing and will be able to develop enough to meet the investment plan. Every quarter will see the maturity developing.
27. David Satti raised the issue of deliverability with reference to page 7 highlighting the issues in appraising projects and the impact of the high demand within the consultancy market. Once the projects get to delivery, there are challenges

around the availability of project managers appearing to impinge on acceptance. Given the high-demand skills market and higher capital inflation, at what point do we need to say are we promoting too much?

28. Simon Parsons – agreed some resources are indeed a challenge and there was a lot of discussion at the WG around this e.g., having to move people over to drought action which takes people away from PIA work. The consultancy market is challenging, with the industry losing skilled resource to other infrastructure areas such as renewables. Mark Dickson noted one of benefits of the dynamic programme however is it helps to keep a steady flow of investment which helps SW to develop and retain the skills needed rather than stopping and starting. SW therefore need the ‘hopper’ of investment overflowing as that is what allows choice making where required.
29. Simon Parsons – The paper sets out where we are in terms of Progress against the Committed List (PCL), work progressing and highlights some key projects such as Bertha Park and a Repeat Customer Interruptions (RCI) project in the Peterhead area. It also lists projects reforecast by 12 months and implications of these to others.
30. The Development List Q1 2023-24 report was agreed. The Chair requested the report be submitted to Ministers.

Action 17.03 - SG to submit IPPG report to Ministers and publish on website.

ITEM 7 Transfers to the Committed List – SW

31. Simon Parsons summarised the paper highlighting that £317m of investment moved onto the Committed list in Quarter 1. The Committed List has the full breakdown of projects. The top additions by value were Bertha Park and RCI Newfield Pump Station to Broadmuir Trunk Main (TM) DMA (Peterhead Newfield 12” TM). The Craigmaddie and Mugdock Footpaths project was also added to the Committed List. The total value on CL post March 2021 £2,410m.
32. SW asked the Group to note additions in the quarter and the momentum of projects moving to the CL.
33. Jon Rathjen responded to say the paper is very useful and he personally feels he is getting the right level of detail. He tested whether it’s enough for this meeting appreciating that others may need more detail through bilateral meetings. Does this offer sufficient detail on projects?
34. David Satti noted that the inflation projections are updated every 6 months, but suggested the reported numbers should be reviewed in light of current inflation information. Alan Sutherland stressed the need to account for sectorial inflation; we also know capital inflation runs ahead of CPI. While it is accepted there are good reasons for the approach taken, WICS’ view is that current inflation rates on what SW invests are needed.

35. Jon Rathjen responded by endorsing the current approach while acknowledging that there are headwinds in the sector which introduce volatility and therefore uncertainty in rates. He suggested the reports use the text to show where the issues may be.
36. Simon Parsons clarified carbon intensity is the amount for construction, linked to how much carbon we expected for the amount of investment need to deliver that investment. 200-300 tonnes per £1m invested was the initial assessment. Alan P Scott noted that when appraising options SW consider the whole-life carbon cost. Eela is a good example of where the difference between upgrade v replacement linked to the whole-life carbon to get best value for outputs.

ITEM 8 Craigeith Lighthouse Project – SW

37. This project forms part of the Edinburgh and Lothians Drainage Strategy which is trying to get ahead of future growth issues before they arise. Working closely with SG and City of Edinburgh Council (CEC) to look at surface water removal as part of this. As part of this work now all CEC planning decisions need to consider what will happen to surface water as part of developments.
38. This is a long term 20–25-year approach. Initial assessment 30-35% reduction in flooding across the catchment not just sewer but also other flooding. Initial view positive and 21 core opportunities have been identified across the catchment. Focusing on 6 key priorities initially. Tested against different scenarios. £10m to cover everything and looking at varying routes for funding.
39. Gail Walker asked whether there had been discussions around how the proposal for Option 4 (Arboretum Place) would be managed as it is a significant route within the city? Grant Vanson confirmed SW are working closely with CEC to develop this as part of their planning too.
40. Jon Rathjen welcomed the overview as very helpful, noting it would be useful to be able to explore this further including how it can link blue–green infrastructure to the grey infrastructure in the future. A scale exemplar would help people see the opportunity. He encouraged further exploration of co-funding opportunities and how all the parties can work together as this develops including the need to develop new models to ensure action makes a real difference beyond aesthetics.
41. Gail Walker praised this work as an example of Thought Leadership and welcomed these developments. CS view is that the public do positively recognise when agencies work together. CS suggest the project be used as a demonstrator to help build understanding and allow the public to play a part in change. CS encourage consideration of appropriate incentives to local authorities to make Blue Green Infrastructure part of BAU and highlighted research that Consumer Scotland have recently published on [overcoming barriers to the adoption of blue-green infrastructure](#).
42. Jon Rathjen agreed there would be value in returning to this are on a future agenda to improve understanding of the consequences of these new approaches and to help ensure they progress.

43. Alan Sutherland suggested one of the reasons these solutions can be costed out is that people aren't fully costing the Net-Present Value (NPV) properly. Most people will do NPV based on 25 years free use of that asset without the ongoing maintenance of the Blue Green alternative. If you extend the NPV to say 80 years you are then replacing the asset as part of the term, a point missed in the 25 year NPV. Would be useful to do a NPV analysis what we would have spent versus what is being spent to help show the benefits.

ITEM 9 Progress report of performance against the committed list – SW

44. Mark Dickson presented the paper noting that the costs in the paper are in outturn and we can give in 17/18 going forward too.

The highlights from the Executive Summary were:

- At the end of Q1 2023/24 Tier 2 planned investment was £190m this is an increase in investment on previous years.
- Progress against forecast – acceptance was the challenge but has now stabilised. Expecting this to improve.
- Ongoing delivery risks already covered in a lot of the discussion. Still some issues but resequencing where required. Biggest resource demand is coming from renewables market.
- Customer benefits – A key discussion topic at DAG has been in relation to what improvements to reporting are needed to be able to monitor outputs and outcomes for customers from projects delivered on the Committed List. At a high-level, customer benefits from Investment are identified as part of the assessment of investment needs. Each need is linked to either a Ministerial Objective or asset management policy (Management Approach), and therefore projects added to the Committed List are known to deliver these needs.
- Bilateral in place with DWQR and SEPA to go through projects to give detailed info and the presentation decks are available on OC.

45. Alan Sutherland agreed the headline IPOD looks okay, but queried whether that is because the positive Start on Site (SOS) position is countering poorer performance against other milestones? Clearly SOS is important, but regulatory delivery and checking on levels 2 and 3 is more important.

46. Mark Dickson agreed challenges remain on acceptance, specifically around 30 projects. SW have worked through these with SEPA and DWQR and the majority are now substantially complete. As projects are progressing onto the Committed List, we are putting more realistic acceptance dates into the system in line with new learning gained through the process. SW agree the need for transparency and that opportunities to develop further are there; overall, the portfolio is on track, albeit behind on acceptance.

47. Jon Rathjen summarised that this is an area to be noted and followed up at future meetings summarised thus:

- Consideration of whether there is an optimism bias.

- What are we doing with acceptance learnings – show progress over time.
- Come back to these questions in 6 months to help show progress.

48. Alan Sutherland identified some lack of clarity in the reporting on pages 20 and 21, which indicate 20 projects started on site of which 16 delivered to date, the next quarter shows 21 projects SOS, but 24 projects reached acceptance.
49. Jon Rathjen noted that as Chair he finds the ranges and flow preferable, rather than the old graphs, as these give sense of dynamism. He accepted there may be a need for bilateral review of some of the large projects to keep a view on drift on acceptance dates. It is positive we are achieving SOS dates given past challenges, but if we're not getting acceptance due to market conditions etc then what do we need in order to consider that factor fully over time?
50. David Satti noted discussion on some delays on large projects happens at bilaterals, so WICS don't always have visibility; it would be useful therefore to see some of the issues at IPPDG if there are lessons to be learnt, with detailed discussion at Working Group. Barry Greig noted the secretariat has been considering how best to build links with JDGs and will revert to IPPDGWG.
51. The Committed List Q1 2023-24 report was agreed. The Chair requested the report be submitted to Ministers.

Action 17.04 – SW to clarify the reporting issue and give consideration to whether we are we explaining committed spend clearly enough and appropriately addressing any optimism bias.

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

ITEM 10 – AOB

52. The Chair thanked Mark Dickson and Barry Greig, who are retiring, for their contributions to this group
53. The next meeting is scheduled for 13th December 2023, hosted by SG; venue tbc