

Investment Planning & Prioritisation Group Progress of interventions to meet the Needs on the Development List - Report Quarter 3 2022/23

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Investment Planning & Prioritisation Group
Progress of interventions to meet the Needs on the Development List – report
Q3 2022/23

Contents

1. Purpose	1
2. Summary of Current Investment Maturity	2
3. Indicator of overall progress towards the Committed List	3
4. Progress of the development of interventions with Level 1 and 2 appraisals	4
5. Summary	8
Appendices	9
Appendix A – Inflation Assumption	9
Appendix B - Tabular information for Figure 1: 6 Year Investment Profile – PPD stage comparing investment forecast at the end of Quarter 1 2022-23 (previous) and at the end of Quarter 2 2022-23 (current) investment	9

1. Purpose

This report sets out how Scottish Water is progressing in developing interventions to address the needs on the ‘Development List’ up to the end of December 2022 (Quarter 3 2022/23). It has been prepared for the Investment Planning and Prioritisation Group (IPPG) set up by Ministers to provide reassurance and report on the delivery of their Objectives.

What Is Monitored

The Development List contains named Needs and Needs associated with repair, refurbish and replacement activities.

Where interventions are forecast to exceed £3m or are novel or contentious, a Level 1 or 2 project investment appraisal is developed to assess the options to deliver the need.

Each quarter Scottish Water reports to IPPG on its progress in developing interventions to address the needs on the Development List. This report includes:
Section 2 – Summary of Current Investment: providing an overview of the current investment forecast over the 6-year investment period

Section 3 - Indicator of overall Progress towards the Committed List (PCL): to provide reassurance to stakeholders on the overall volume of intervention

development relative to what is required to meet expected investment levels in future years.

Section 4 - Progress in the development of interventions with Level 1 and 2 appraisals: to provide reassurance to stakeholders on progress of developing interventions subject to a Level 1 and Level 2 appraisal [and other projects and programmes of interest to stakeholders] and a view of current expectations of when they will reach future appraisal stages.

2. Summary of Current Investment Maturity

The current outturn forecast of investment over the 6-year investment period is provided below (Figure 1). This shows the maturity of investment across the period and how it has developed since the previous quarter (Q2 22/23 versus Q3 22/23). Appendix A contains the inflation assumptions.

Live Investment is categorised by Plan (Gate 30-60), Prepare (Gate 70/80), Deliver (Gate 80 -120) and Non-live Investment, (Pre Gate 30). The “Deliver” category includes both projects which have been committed for delivery (post Gate 90) and those at detailed design stage but not yet committed. The data also includes allowance for risk associated with the potential additional cost increase of the SR15 Completion programme.

The level of investment in delivery for 22/23 and 23/24 has increased by £39m and £86m respectively since previously reported in Q1 (blue bars). This is as a result of projects continuing to mature through the Plan and Prepare phases and is in line with what is necessary to achieve the planned level of annual investment. The total of investment in Delivery is now £2.4bn.

The combination of the Live and Non-Live Investment can exceed the Planned Investment Level shown on the figures as interventions can be initiated but will not necessarily be committed. A tabular view of the data represented in the figure is available in Appendix B.

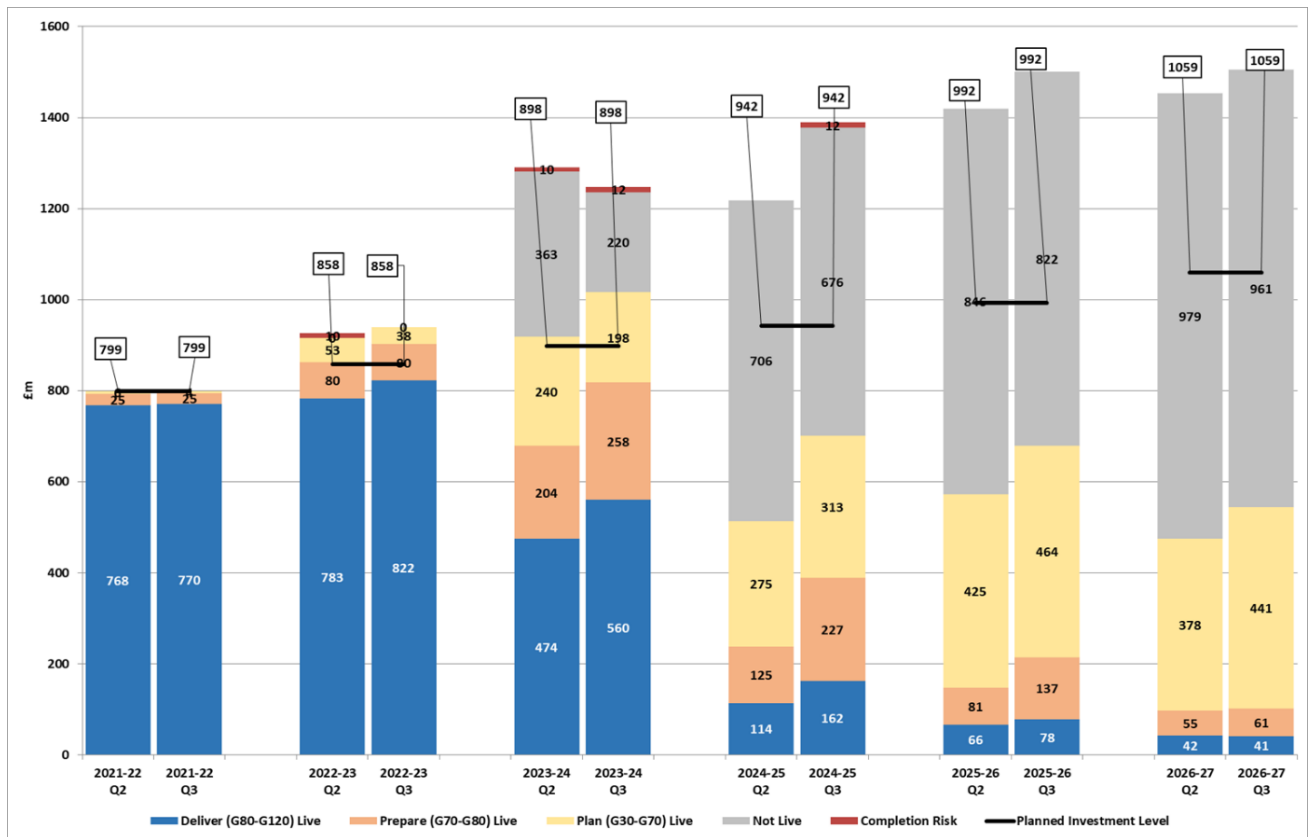


Figure 1: Annual Investment Profile – maturity of investment at the end of Quarter 2 2022-23 (previous) and at the end of Quarter 3 2022-23 (current)

3. Indicator of overall progress towards the Committed List

The indicator of overall Progress towards the Committed List (PCL) is a high-level measure of the overall volume of intervention development relative to what is required for expected investment levels in future years. This measure assesses whether we are promoting sufficient volumes through the stages in each of its development pathways.

PCL was created using a top-down approach by splitting the investment profile between each development pathway. PCL tracks the impact of project forecasts on future investment levels.

PCL was set at 100% to achieve the required investment profile in future years. A score of less than 100% indicates that the rate of overall progress in developing interventions may not be sufficient. A score of more than 100% indicates that the rate of overall progress is more than sufficient to achieve planned investment levels and will allow prioritisation/choice in what to commit to delivery. Changes may occur due to 'positive' or 'negative' attrition. 'Positive attrition' occurs if forecast costs for an intervention have reduced or if the required delivery timescales have been extended. 'Negative attrition' occurs if forecasts costs have increased, or additional evidence is required which extends the project appraisal process.

At the end of Quarter 3 22/23, year to date PCL was 107% and the end of year forecast is currently 117%. This indicates that we are developing sufficient volumes of investment across the programme to achieve planned investment in future years. Some interventions are taking longer to progress through the appraisal process than was originally forecast (Section 3 provides an overview) and continue to be monitored closely. The development and commitment of other interventions that meet the MA policies have been progressed to maintain delivery efficiency.

4. Progress of the development of interventions with Level 1 and 2 appraisals

The purpose of this section is to provide:

- An overview of the progress of interventions in Q3 that are subject to Level 1 and 2 appraisals¹
- Highlights from significant Level 1 or 2 project investment appraisals completed in the last quarter
- A review of lessons learnt from the delivery of PIA forecast in the last quarter and a look ahead to the next quarter.
- The full list of interventions with Level 1 and 2 appraisals, with an indication of the anticipated timing, is shown in Appendix C, which is an additional document to this paper.

Quarterly review of progress of appraisals

Good progress has been made in project level decision making within Q3:

- 10 project investment appraisals stages were completed within the quarter. This includes the additions to the forecast in the quarter (4 or 14% of the initial demand).
- 9 of 10 projects progressed through first time at IAG/IG or through offline approval. These projects had a value of c.£147m.
- Project investment appraisal documents continue to be shared with all stakeholders at Stage 3a and 4.
- A positive session with the Independent Customer Group (ICG) was held in December 2022 to cover Value Management as part of the PIA process. The feedback reflected the continual improvements in this process.

Highlights from project investment appraisals completed within the quarter are included in Table 2.

Table 2: Project Investment Appraisal Highlights

Castle Moffat WTW		The area supplied by Castle Moffat WTW has a history of microbiology exceedances of regulatory standards, which will continue if no measures are taken to address disinfection incapability. This PIA also includes an early-stage assessment of the preferred option for the nearby Hopes WTW.
Stage 3a	Oct-22	

¹ Level 1 appraisals are carried out for needs that require the early identification of placemaking and external partnership involvement. These are likely to be complex and time intensive. Level 2 appraisals are carried out for needs that are likely to require substantive system, programme and project investments and will be subject to a robust economic appraisal.

		The preferred option is to rationalise Hopes from Castle Moffat WTW, and upgrade and enhance Castle Moffat WTW in phases: new chlorine contact tank (2025), new filters (2030), (ion exchange by 2040). This will deliver benefits to customers by prioritising the highest risks first for the lowest NPC and carbon impact. The PIA has been shared with stakeholders.
Aberlour WwTW		This is a wastewater growth project; with growth projected to exceed site capacity by 2024.
Stage 3a	Nov-22	The recommended intervention is to upgrade the current works with a biofilter; the lowest cost and carbon option, which utilises existing assets and has future flexibility should further growth materialise beyond the current forecasted requirements. The PIA has been shared with stakeholders.

A review of lessons learnt from the delivery of PIA forecast in the last quarter

An overview of the appraisals at Stage 2/3a/b/4 that were forecast to be delivered during Q3 2022/23 and the appraisals delivered is shown in Table 3.

The purpose of Table 3 is to provide internal visibility to enable forward planning for Level 1 and 2 needs and to ensure enough work is being appraised to support the investment programme. It is not intended to be a fixed set of dates and the dates presented are the earliest that those will be achieved. 50% of milestones to be achieved is targeted due to the dynamic nature of the programme. 10 PIA Stages or 31% of the initial forecast were completed down from 41% (16) in the previous quarter.

For example:

- The projects are subject to reprioritisation in a dynamic programme
- Dates have been reforecast to take into account lessons learnt from previous project investment appraisals, recosting of scopes and alternative options
- The dates are set to align with our challenge of achieving 50% less time to start on site, which results in ambitious milestone forecasts
- Some PIAs will require iterating after senior review at the Investment Group, which can have knock-on impacts on the rest of the programme.

There are three main themes driving the missed forecasts:

- Further investigation required to allow robust evidence for decision making. This affected 28% (9) of the initial projects. Unavoidable issues included survey requirements to inform the need (Liberton trunk main), pressure logging for Cockmuir DSR, investigation of additional flooding properties at Barron Terrace and Waggon Road, and investigation to confirm scope at Peatville Terrace, Edinburgh (IFOS).

- Confirmation of scope & costing. This affected 25% (8) of the forecast projects.
 - As per Q2 report in a demonstration of the PIA approach driving the best value decision, cost escalations for the preferred option have driven costing of alternative options (Eela Water WTW Stage 3b) or rescoped options (Kirk Yetholm WwTW Stage 3a).
 - Other costs were revisited in line with learning from the IG query for Marykirk WwTW to utilise the output of the Asset Stewardship Model (ASM) for BAU costing for WW projects. This affected 3 projects.
- Reprioritisation due to workload. This affected 13% (4) of the forecast projects which had forecasts adjusted to the following quarters in line with the dynamic programme. As an example, projects affected included East Stirling Villages (WW) and two water resilience projects.

Work to minimise the time associated with these activities in the last quarter has included:

- Projects which are yet to reach G50 will be re-baselined to current prices to avoid the need to reevaluate at G70.
- A financial pack is now issued at G70 (Stage 3b) to explain any significant cost changes and learnings for the future
- Discussions have been held with the owners of the ASM model & NPCC to align use of ASM at project level. The principles of use being drafted to allow consistent application and avoid further queries. Further ASM improvements should be considered as part of SIDM.
- Capacity and capability support offered by the PIA team into early 23/24.

Table 3: Appraisal at Stage 3a/b and 4 anticipated for Q3 compared to actuals

Appraisal	Portfolio			
	Water		Wastewater	
Stage	Sep-22 forecast	Dec-22 actual	Sep-22 forecast	Dec-22 actual
Stage 2: Strategic Optioneering Review (G40)	5	0	2	1
Stage 3a: Outline Investment Appraisal (G50)	5	3	9	2
Stage 3b: Outline Project Appraisal (G70)	2	1	5	1
Stage 4: Project Appraisal for Commitment (G80/90)	3	2	1	0

Projects reforecast by 12 months

In line with the dynamic programme a small number of projects have been reforecast by >12 months since the baseline forecast in April 2022. These are listed in Table 4 with the known consequences explained.

Table 4: Projects reforecast by >12 months

Project	Name	PIA Stage	G40 Original forecast dates (Sept-22)	G40 Current dates (Jan-23)	Reason for the movement
5037590000	Liberton Trunk Mains	Stage 2	G40 (stage 2) was initially forecasted in SR15, before commencement of IAs	Aug-23	Delay to non-destructive testing (NDT) surveys results
Consequence					
<p>The results from the NDT surveys will inform the extent of the Need. There is a chance that there is no Need (if NDTs show asset does not qualify for promotion under the MA025). Initial need was raised as between 2012 and 2016 there were over 60 bursts in the Liberton Trunk Mains (TMs) and associated distribution mains attributed to the Alnwickhill PRVs. Since the PRV replacement in 2017 there have been no bursts. There are 4 mains downstream of the PRVs that are cross connected and run as one network. Although all the bursts can be attributed to the performance of the PRVs, work is being carried out by Scottish Water to understand if the mains present a security of supply risk.</p>					
Project	Name	PIA Stage	G40 Original forecast dates (Sept-22)	G40 Current dates (Jan-23)	Reason for the movement
509532	Milngavie WTW	2	July 22	November 2023	Project on hold. Prioritised other projects (Bradán and Turriff)
Consequence					
<p>These projects are Plan and Prepare only for SR21 so no delays to any major investment.</p>					
Project	Name	PIA Stage	G40 Original forecast dates (Sept-22)	G40 Current dates (Jan-23)	Reason for the movement
509438	Roberton WTW	2	May 22	November 23	Project on hold. Prioritised other projects (Bradán and Turriff)

Consequence

These projects are Plan and Prepare only for SR21 so no delays to any major investment.

Forecast for 23/24

The forecast for 23/24 is shown below (Table 5).

Table 5: Forecast of project appraisals at each gateway to be delivered during the following quarters of 22/23

	2023 Q1	2023 Q2	2023 Q3	2023 Q4
Stage 2: Strategic Options Review (G40)	6	13	3	0
Stage 3a: Outline Investment Appraisal (G50)	8	9	14	7
Stage 3b: Outline Project Appraisal (G70)	13	27	6	9
Stage 4: Project Appraisal for Commitment (G80/90)	15	10	9	3

5. Summary

The IPPG members are asked to:

- Note the developing maturity of the current Investment forecast.
- Note that the Q3 Progress to Committed List (PCL) was 107%, indicating that the rate of overall progress is more than sufficient to achieve planned investment levels.
- Note the progress and learning on project investment appraisals.

Appendices

Appendix A – Inflation Assumption

The revised inflation assumption used are shown in Table 1. We recognise that some costs within our capital programme are increasing at a greater rate than the current CPI projection. We continue to assess and monitor this Capital Price Inflation value to allow us to better understand potential cost increases across the programme.

Table A: CPI Assumption (%)

Inflation Assumption	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Programme Inflation Assumption	4.0%	10.0%	6.9%	1.9%	0.9%	2.0%

Appendix B - Tabular information for Figure 1: 6 Year Investment Profile – PPD stage comparing investment forecast at the end of Quarter 2 2022-23 (previous) and at the end of Quarter 3 2022-23 (current) investment.

6 Year Investment £m	2021-22			2022-23			2023-24			2024-25			2025-26			2026-27		
	Previous (Q2)	Current (Q3)	Variance	Previous (Q2)	Current (Q3)	Variance	Previous (Q2)	Current (Q3)	Variance	Previous (Q2)	Current (Q3)	Variance	Previous (Q2)	Current (Q3)	Variance	Previous (Q2)	Current (Q3)	Variance
Deliver Live	767.8	770.3	2.5	782.6	821.8	39.3	474.0	560.0	85.9	113.5	161.6	48.1	66.4	77.7	11.3	41.9	40.9	-1.1
Prepare Live	25.3	24.8	-0.5	80.0	79.9	-0.1	204.2	257.7	53.6	124.7	226.9	102.2	81.0	136.9	55.9	54.7	61.2	6.5
Plan Live	5.9	3.9	-2.0	53.4	38.5	-15.0	240.3	198.1	-42.2	274.8	312.5	37.7	425.1	464.3	39.2	378.2	441.3	63.1
Not Live	0.0	0.0	0.0	0.0	0.0	0.0	362.6	220.2	-142.4	705.6	676.4	-29.2	846.4	822.1	-24.3	978.5	961.3	-17.2
Completion Risk	0.0	0.0	0.0	10.1	0.0	-10.1	10.0	12.1	2.1	0.0	12.1	12.1	0.0	0.0	0.0	0.0	0.0	0.0
Total	799.0	799.0	0.0	926.1	940.2	14.2	1,291.1	1,248.1	-43.0	1,218.6	1,389.5	170.9	1,418.9	1,501.1	82.1	1,453.4	1,504.7	51.3
Planned Investment Level	799.0	799.0	0.0	858.0	858.0	0.0	898.0	898.0	0.0	942.2	942.2	0.0	992.3	992.3	0.0	1,059.3	1,059.3	0.0



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