Investment Planning & Prioritisation Group Working Group: Progress of interventions to meet the needs on the Development List report Q4 2022/23

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Scottish Government
Riaghaltas na h-Alba

Investment Planning & Prioritisation Group Working Group

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Contents

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 March 2023 (Q4 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 (Q3 22/23 versus Q4 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 2023/24 has increased by £111m to £671m since previously reported in Q3 (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 £2.7bn.

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.

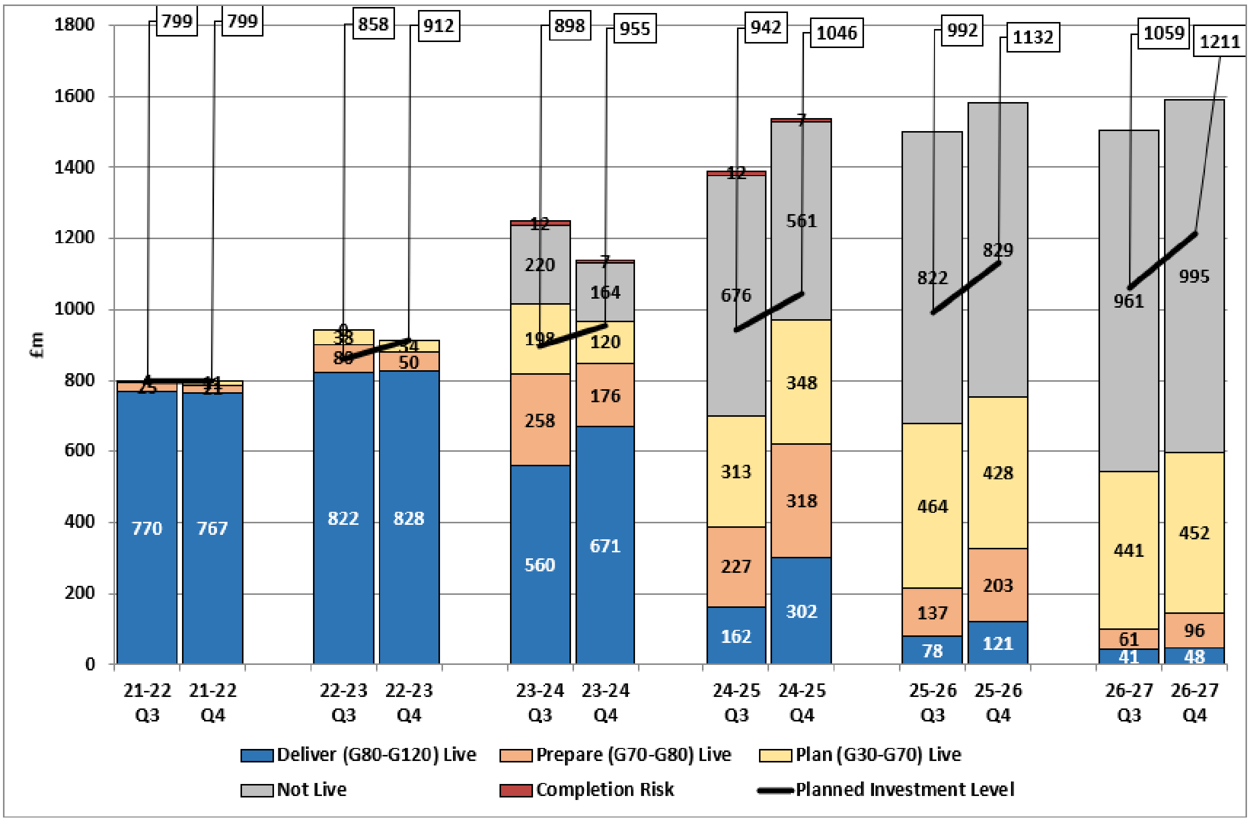

Figure 1: Annual Investment Profile – maturity of investment at the end of Quarter 3 2022-23 (previous) and at the end of Quarter 4 2022-23 (current)

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 4 22/23, PCL was 113.6%. 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 appraisals[1]
- 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

Strong progress has been made in project level decision making within Q4:

- 25 project investment appraisals stages were completed within the quarter. This includes the additions to the forecast (8 or 19% of the initial demand).
- These projects had a value of c.£316m.
- Project investment appraisal documents continue to be shared with all stakeholders at Stage 3a and 4.
- A positive end of year progress session was held with Professor Bryan Adey, both in terms of business-as-usual delivery of PIA, but also the continual improvement and increased capability within Scottish Water.

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

Project Investment Appraisal Highlights

Loch Katrine carbon capture

Stage 4 Jan-23

The 9,500 hectare (Ha) Loch Katrine estate is Scottish Water's largest single land holding and as such is our biggest opportunity for carbon capture to address our residual emissions to deliver our Net Zero ambition. Loch Katrine is the main water supply for Glasgow and in developing the Land Management Plan Forestry and Land Scotland have ensured that the woodland creation activities do not put water yield or water quality at risk.

There has been significant community and stakeholder engagement in developing the plan, with the Loch Lomond and Trossachs National Park being very supportive of this opportunity to transform the landscape.

Over the 10 year duration of the Land Management Plan, over 4,600Ha of new woodland area will be developed and poor condition peatland restored. The work is forecast to store nearly a million tonnes of carbon over the next 60 years. The proposed changes will see more than 40% increase in biodiversity across the estate, delivering a 15-20% increase across all Scottish Water landholdings, representing a major contribution to our statutory biodiversity duties. The PIA has been shared with stakeholders.

Dunside non-operational reservoir

Stage 4 Mar-23

Dunside non-operational reservoir is a good example of expansive thinking, and a project with the potential to contribute towards the net-zero ambition. It is a non-operational reservoir that has investment needs for matters in the interests of safety to be compliant with the Reservoir (Scotland) Act 2011 (The Act). Resilience requirements due to the impact of climate change were investigated and an assessment of customer and community use of the asset was completed (and none was found).

The preferred option taken into delivery is to breach the reservoir and plant trees in the land space available. This removes an asset which would have ongoing liabilities and maintenance requirements, and turns it into a carbon sequestration opportunity, returning the land to its natural state and contributing to our net zero target.

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 Q4 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. A target of c.50% of milestones to be achieved is set due to the dynamic nature of the programme. 25

PIA Stages or 49% of the initial forecast were completed up from 31% (9) in the previous quarter. There are two main themes driving the missed forecasts:

- Repriorisation due to workload. This affected 20% (10) of the forecast projects which had forecasts adjusted to the following quarters in line with the dynamic programme. As an example, projects affected included Boardhouse and Kirbister WTW.
- Further investigation required to allow robust evidence for decision making. This affected 26% (13) of the initial projects. This included for example, investigation to ascertain scope and options (including survey requirements) at Peatville Terrace, Edinburgh (IFOS). 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), and some further work required for the Bertha Park W/WW Growth projects.

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

- Capacity and capability support offered by the PIA team into early 23/24 to support change of people/capacity within water and wastewater teams.
- Acceleration of projects into Q4 for project investment decisions
- A review of project forecasts for April-23.

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

	Portfolio					
Appraisal	Water		Wastewater		Customer Engagement and Flourishing Scotland/other	
Stage	Dec-22 forecast	Mar-23 actual	Dec-22 forecast	Mar-23 actual	Dec-22 forecast	Mar-23 actual
Stage 2: Strategic Optioneering Review (G40)	6	2	2	1	0	0
Stage 3a: Outline Investment Appraisal (G50)	4	1	15	10	0	0
Stage 3b: Outline Project Appraisal (G70)	5	3	6	2	0	0
Stage 4: Project Appraisal for Commitment (G80/90)	5	2	3	2	2	2

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
5029160000	EFOS – Riverside Road Galson	3A	Jul-22	Oct-23	New information on a nearby flooding cluster which required further investigation - additional properties investigated to be added to the At Risk Register (ARR).
Consequence					
Additional customer interviews, surveys undertaken to establish At Risk Register (ARR) risk and reworking of the preferred solution required including additional modelling.					
502762	Eastern Stirling Villages - Growth	Stage 3a (G50)	IAG Jun-22	IAG Jun-23	Further Optioneering -
Consequence Short to medium term growth is being accommodated by optimisations at Plean and temporary treatment at Cowie – delivered under a sub project. Costs are being re-assessed to understand when is the right time to invest in a centralised WwTW vs. continual refurbishment of existing assets.					
503212	Skellyton WwTW – Growth	Stage 3a (G50)	IAG Jun-22	IAG Feb-25	Further Optioneering – RCA required and confirmation of Formula A from SEPA. Variation licence may be suitable.
Consequence Opportunity for solution to be a no build if licence variation is accepted by SEPA.					

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	23/24 Q1	23/24 Q2	23/24 Q3	23/24 Q4
Stage 2 Strategic Options Review (G40)	5	7	3	5
Stage 3a: Outline Investment Appraisal (G50)	8	6	8	8
Stage 3b: Outline Project Appraisal (G70)	8	15	7	17
Stage 4: Project Appraisal for Commitment (Based on G80)	13	7	9	10

5. Summary

The IPPG members are asked to:

- Note the developing maturity of the current Investment forecast.
- Note that the Q4 Progress to Committed List (PCL) was 113.6%, 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%	10.1%	5.5%	1.3%	0.6%	1.5%

Appendix B - Tabular information for Figure 1: 6 Year Investment Profile – PPD stage comparing investment forecast at the end of Quarter 3 2022-23 (previous) and at the end of Quarter 4 32022-23 (current) investment.

6 Year Investment £m - 2021-22	**Previous Q3**	**Current Q4**	**Variance**
Deliver Live	770.3	766.8	-3.5
Prepare Live	24.8	20.7	-4.1
Plan Live	3.9	11.5	7.6
Not Live	0.0	0.0	0.0
Completion Risk	0.0	0.0	0.0
Total	**799.0**	**799.0**	**0.0**
Planned Investment Level	799.0	799.0	0.0

6 Year Investment £m - 2022-23	**Previous Q3**	**Current Q4**	**Variance**
Deliver Live	821.8	828.0	6.2
Prepare Live	79.9	50.1	-29.8
Plan Live	38.5	34.1	-4.3
Not Live	0.0	0.0	0.0
Completion Risk	0.0	0.0	0.0
Total	**940.2**	**912.2**	**-28.0**
Planned Investment Level	858.0	912.0	54.0

6 Year Investment £m - 2023-24	Previous Q3	Current Q4	Variance
Deliver Live	560.0	670.7	110.7
Prepare Live	257.7	176.1	-81.6
Plan Live	198.1	120.5	-77.7
Not Live	220.2	163.9	-56.3
Completion Risk	12.1	6.6	-5.5
Total	**1248.1**	**1137.7**	**-110.4**
Planned Investment Level	898.0	955.0	57.0

6 Year Investment £m - 2024-25	Previous Q3	Current Q4	Variance
Deliver Live	161.6	302.3	140.7
Prepare Live	226.9	317.9	91.0
Plan Live	312.5	348.2	35.7
Not Live	676.4	560.9	-115.5
Completion Risk	12.1	6.6	-5.5
Total	**1389.5**	**1536.0**	**146.5**
Planned Investment Level	942.2	1046.0	103.8

6 Year Investment £m - 2025-26	Previous Q3	Current Q4	Variance
Deliver Live	77.7	121.1	43.4
Prepare Live	136.9	203.3	66.4
Plan Live	464.3	428.2	-36.1
Not Live	822.1	829.1	7.0
Completion Risk	0.0	0.0	0.0
Total	**1501.1**	**1581.7**	**80.6**
Planned Investment Level	992.3	1132.0	139.7

6 Year Investment £m - 2026-27	Previous Q3	Current Q4	Variance
Deliver Live	40.9	48.1	7.3
Prepare Live	61.2	96.1	34.9
Plan Live	441.3	451.7	10.4
Not Live	961.3	995.0	33.7
Completion Risk	0.0	0.0	0.0
Total	**1504.7**	**1591.0**	**86.4**
Planned Investment Level	1059.3	1211.0	151.7

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The Scottish Government
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