

Progress of Interventions to Meet the Needs on the Development List – Q2 2023/24

Investment Group

Progress of Interventions to Meet the Needs on the Development List – Draft Report Q2 2023/24

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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 October 2023 (Quarter 2 2023/24). It has been prepared for the Investment Group (IG) 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 IG 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 (Q1 23/24 versus Q2 23/24). 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 £80m to £873m 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 £3.3bn.

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.

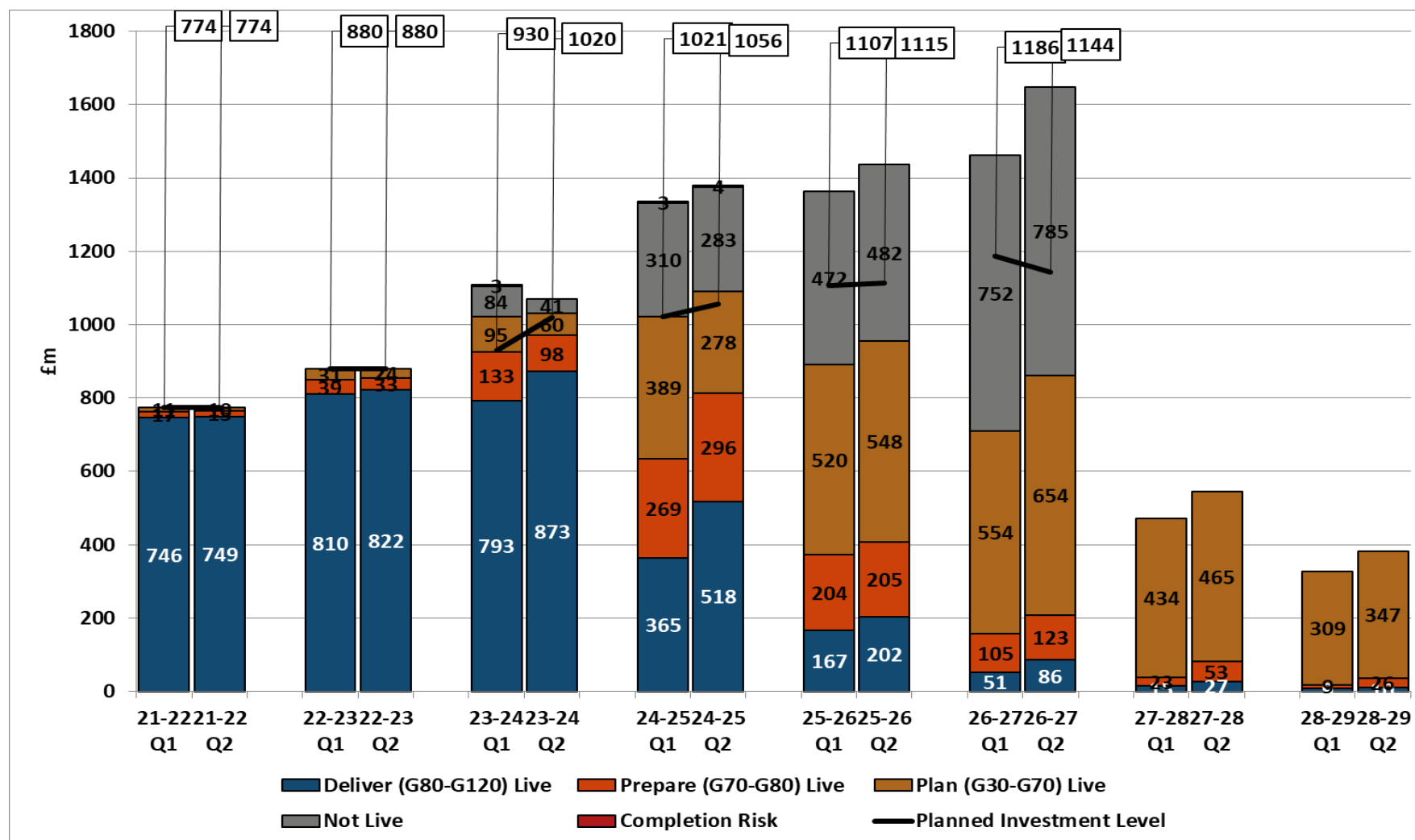


Figure 1: Annual Investment Profile – maturity of investment at the end of Quarter 1 2023-24 (previous) and at the end of Quarter 2 2023-24 (current)

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 2 23/24, PCL was 113.7%. 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 Q2 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 Q2:

- 9 Project Investment Appraisal stages were completed within the quarter. This includes the additions to the forecast (3 or 8% of the initial demand).
- 9 of 9 projects progressed through first time at Investment Group or through offline approval. These projects had a value of c.£139m.
- 2 of the approved Stage 3a and Stage 4 Project Investment Appraisal documents were shared with sector stakeholders in November. The third will be shared by the end of November.

Highlights from project investment appraisals completed within the quarter are included in Table 1.

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

Table 1: Project Investment Appraisal Highlights

Rockcliffe Bathing Water Improvement to Sufficient Status	Stage 3b	September 2023
<p>Rockcliffe bathing water had been historically poor, and in 2021, against a backdrop of potential de-designation, it was agreed with SEPA and Scottish Government that Scottish Water would undertake ‘best endeavour’ to maintain Rockcliffe’s bathing water status. Temporary chemical disinfection was deployed in bathing water season 2021. SEPA applied to the Minister for a ‘step change’ dispensation of previous year’s results, which was successful. As part of this submission, Scottish Water confirmed that it would deliver a new secondary treatment works at Kippford.</p> <p>In October 2022, in light of significantly increasing costs, Scottish Water approached SEPA to understand if SEPA would accept permanent chemical disinfection instead of a new permanent secondary treatment works.</p> <p>Temporary chemical disinfection is classified as a short term, temporary measure to protect Rockcliffe bathing water and SEPA cannot licence it for permanent use, therefore a new secondary treatment works is the only option available to improve Rockcliffe bathing water.</p> <p>This project initially underestimated the public feeling against construction of a conventional WWTW which became apparent during the community consultation. The Scottish Water response to the consultation was to engage the community to agree the site location from a series of options, which has increased the complexity of the project.</p> <p>The proposed solution is now more remote and designed to be largely below ground to mitigate visual impact. The presence of hard rock at the chosen location is adding considerable cost.</p> <p>Concerns were raised at IG relating to the high cost of this project relative to population. The project estimated cost is £21.3m to serve a permanent population equivalent (p.e.) of 382 which increases to 1,407 p.e. during the tourist season.</p>		

Eela Water Stage 3b		
<p>Eela Water WTW was built in 1978 and is located near Ollaberry in the North Voe area of Shetland, supplying up to 4.3Ml/d of water to 5,400 customers. The WTW is a conventional treatment plant incorporating coagulation, clarification and filtration stages, prior to chlorine disinfection and chloramination. A treatment facility at this location will be retained in the long term to provide resilience of supply to the north of Shetland.</p> <p>Eela WTW was originally identified for investment following an operational incident in November 2018, attributed to a hydraulic restriction in the clarifiers. The ongoing performance and poor condition of the clarifiers remains a risk to supply as does the condition of the clear water tank (CWT). Other priority needs agreed with DWQR are: microbiology, disinfection by-products (DBPs), water supply resilience and Operational Technology (OT). Additional needs also identified include: health and safety, asset condition, and discolouration (due to manganese) in both the final water and in the network.</p> <p>At Stage 3a, Option 2b (upgrade existing WTW with new inlet works, CWT and a new dissolved air flotation (DAF) clarification stage) was identified as the preferred option. In addition, to reduce the current risk to supply, interim measures to secure water quality have been delivered. These included improving systems to allow in-service sludge removal and clarifier cleaning to be undertaken safely, whilst also improving flow control and water quality monitoring for the existing clarifiers. The development of options between Stage 3a and Stage 3b identified two options for the replacement of Eela WTW (Options 2b and 3a). Based on the additional water quality benefits and risk reduction coupled with reduced complexity, Option 3a – New upsized Ceramic Membrane WTW is considered to represent the best value option. This option is now being developed to Stage 4.</p>		

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

An overview of the appraisals at stage 2/3a/3b/4 that were forecast to be delivered during Q2 2023/24 and the appraisals delivered is shown in Appendix C (provided as a separate Excel table).

The purpose of the table in Appendix C 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.

There are three main themes driving the reduced performance against forecast:

- **Prioritisation/workload.** This affected 16% (6) of the forecast projects which had forecasts adjusted to the following quarters in line with the dynamic programme. For example, within the water portfolio, projects at Winterhope WTW, Glendevon WTW and Robertson WTW were being progressed through the PIA process. However, new and emerging projects at Mannofield WTW and Daer WTW have become a higher priority requiring resources to provide technical information and evidence for the value management workshops for their stage 1 and 2 PIA. This is positive change as Scottish Water is reacting to the needs of the business, sector stakeholders and customers.
- **Investment Phasing/priority adjustments.** This has affected 13% (5) of the forecast projects. This has impacted both flooding and growth projects where projects are now being hoppered at Gate 50 rather than progressing through the later gates.
- **Scope and costing.** This affected 18% (7) of the initial projects. There has been a delay in completing Net Present Cost and Carbon (NPCC) assurance in these cases.

Table 2: Appraisal at Stage 3a/b and 4 anticipated for Q2 compared to actuals.

Appraisal	Portfolio					
Stage	Water		Wastewater		Customer Engagement and Flourishing Scotland/other	
	July 23 forecast	Oct-23 actual	July 23 forecast	Oct-23 actual	July 23 forecast	Oct-23 actual
Stage 2: Strategic Optioneering Review (G40)	3	1	2	0	0	0
Stage 3a: Outline Investment Appraisal (G50)	1	0	5	1	0	0
Stage 3b: Outline Project Appraisal (G70)	4	5	8	1	0	0
Stage 4: Project Appraisal for Commitment (G80/90)	4	1	6	0	0	0

Projects reforecast by 12 months

There are no additional projects reforecast by >12 months this quarter. However, reviews of prioritisation lists for Flooding, Growth and Water Quality are being undertaken which will lead to the reforecast of some projects in these areas.

Forecast for 23/24

The forecast for 23/24 is shown below (Table 3).

Table 3: Forecast of project appraisals at each gateway to be delivered during the following quarters of 23/24

2023/2024	Q1 (actual)	Q2 (actual)	Q3	Q4
Stage 2 Strategic Options Review (G40)	3	1	3-7	0-3
Stage 3a Outline Investment Appraisal (G50)	0	1	6-13	6-12
Stage 3b Outline Project Appraisal (G70)	2	6	3-7	7-13

Stage 4 Project Appraisal for Commitment (G80)	2	1	3-7	5-11
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5. Summary

The IG members are asked to:

- Note the maturity of the current Investment Forecast
- Note that the Q2 Progress to Committed List (PCL) was 113.7%, 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%	6.2%	2.7%	1.6%	1.5%

Appendix B - Tabular information for Figure 1: 8 Year Investment Profile

PPD stage comparing investment forecast at the end of Quarter 1 2023-24 (previous) and at the end of Quarter 2 2023-24 (current) investment.

6 Year Investment £m - 2021-22	Previous Q1	Current Q2	Variance
Deliver Live	745.8	749.4	3.6
Plan Live	11.1	9.7	-1.4
Prepare Live	17.4	15.3	-2.1
Not Live	0.0	0.0	0.0
Completion Risk	0.0	0.0	0.0
Total	774.4	774.4	0.0
Planned Investment Level	774.4	774.4	0.0

6 Year Investment £m - 2022-23	Previous Q1	Current Q2	Variance
Deliver Live	809.8	822.0	12.2
Plan Live	30.6	24.1	-6.5
Prepare Live	39.1	33.3	-5.7
Not Live	0.0	0.0	0.0
Completion Risk	0.0	0.0	0.0
Total	879.4	879.4	0.0
Planned Investment Level	879.5	879.5	0.0

6 Year Investment £m - 2023-24	Previous Q1	Current Q2	Variance
Deliver Live	793.0	872.7	79.7
Plan Live	95.0	59.7	-35.3
Prepare Live	133.2	97.6	-35.6
Not Live	84.0	40.8	-43.2
Completion Risk	3.3		-3.3
Total	1108.4	1070.7	-37.7
Planned Investment Level	930.0	1020.0	90.0

6 Year Investment £m - 2024-25	Previous Q1	Current Q2	Variance
Deliver Live	364.6	518.2	153.7
Plan Live	388.6	277.5	-111.1
Prepare Live	269.1	295.7	26.6
Not Live	309.7	283.3	-26.4
Completion Risk	3.3	3.9	0.7
Total	1335.3	1378.7	43.4
Planned Investment Level	1021.0	1055.5	34.5

6 Year Investment £m - 2025-26	Previous Q1	Current Q2	Variance
Deliver Live	167.4	202.3	34.9
Plan Live	519.7	548.5	28.7
Prepare Live	204.3	204.7	0.4
Not Live	472.0	482.4	10.3
Completion Risk	0.0	0.0	0.0
Total	1363.4	1437.8	74.4
Planned Investment Level	1107.0	1114.6	7.6

6 Year Investment £m - 2026-27	Previous Q1	Current Q2	Variance
Deliver Live	51.1	86.0	34.9
Plan Live	554.1	653.7	99.6
Prepare Live	105.1	122.6	17.6
Not Live	752.0	785.3	33.3
Completion Risk	0.0	0.0	0.0
Total	1462.3	1647.6	185.3
Planned Investment Level	1186.0	1143.8	-42.2

6 Year Investment £m - 2027-28	Previous Q1	Current Q2	Variance
Deliver Live	14.9	27.2	12.4
Plan Live	434.2	464.5	30.4
Prepare Live	22.5	53.4	30.9
Not Live	0.0	0.0	0.0
Completion Risk	0.0	0.0	0.0
Total	471.6	545.2	73.6
Planned Investment Level	0.0	0.0	0.0

6 Year Investment £m - 2028-29	Previous Q1	Current Q2	Variance
Deliver Live	8.9	10.2	1.3
Plan Live	308.6	346.6	38.0
Prepare Live	9.0	26.0	17.0
Not Live	0.0	0.0	0.0
Completion Risk	0.0	0.0	0.0
Total	326.5	382.8	56.3
Planned Investment Level	0.0	0.0	0.0



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