

**INVESTMENT PLANNING & PRIORITISATION GROUP (IPPG)  
MINUTES OF 13<sup>th</sup> MEETING  
Scottish Government, Victoria Quay, 21 September 2022**

**Attendees:**

Jon Rathjen, Scottish Government (Chair)	Mark Dickson, Scottish Water
Stuart McCaskell, Scottish Government	Simon Parsons, Scottish Water
Alan Sutherland, WICS	Barbara Barbarito, Scottish Water
Michelle Ashford, WICS	Sharon Forrester, SEPA
David Satti, WICS	David Harley, SEPA
Sue Petch, DWQR	

**ITEM 1 WELCOME AND APOLOGIES FOR ABSENCE**

1. There were apologies from Ruby Keddie, Barry Greig, Niki Maclean, Gail Walker, Douglas Millican, Donald MacRae and Tom Hedley.

**ITEM 2 MINUTES AND ACTIONS ARISING FROM MEETING OF 22 JUNE 2022**

2. The previous minutes were agreed to be an accurate record, subject to the following amendment.
  - Paragraph 16 – DWQR wasn't fully consulted about reprioritisation of the appraisal.
3. The action points were reviewed:
  - **AP1** – Agenda item 4.
  - **AP2** – Closed. SW's investment group considered that "land registration" should not become a new need.
  - **AP3** – Complete.
  - **AP4** – Carried forward.
  - **AP5** – Complete.
  - **AP6** – Agenda item 7.
  - **AP7** – Complete.
  - **AP8** – Closed. The report is with APS awaiting publication.
  - **AP9** – Carried forward.
  - **AP10** – Complete.
4. Alan Sutherland raised Action 4 (SW to provide update on management approach prioritisation) and noted that it is difficult to understand the consequences of SW's decisions for future investment needs. He asked how SW would report any disconnect between maintenance and asset replacement in terms of the long-term position. Alan raised motor control centres as an example, noting SW has a list of requirements and the average life of the asset; SW plans to replace some 33-50% during this period but has reported its an area of acute concern. Simon Parsons highlighted that the MAs provide the relevant information on programmes of work. Alan suggested that there is little consistency between the flow of work, the origination expectations of demand and the current planned levels of demand. He added that previously there was a formalised Q&S process and the end of the programme was a defined point in

time which explained what would not be delivered. The Chair highlighted that the new process doesn't work in the same way and was designed to be more flexible. Alan suggested that stakeholders need to be aware of the projects SW has chosen to deliver, and what might have been chosen; if there is no sight of the range of possibilities, then the group can't be confident that the best projects have been chosen. Simon noted that previously, the technical expression gave a list of projects but it didn't cover the vast majority of what SW actually delivered. He added that the MAs do give better visibility but it will take time to develop processes.

5. David Satti noted that previously there was an allowance for capital maintenance and suggested that due to the potential for overlap between MAs, the level of demand may be overestimated. He echoed Alan's comments that it is difficult to determine consequences if SW reprioritises as there is no visibility for the existing asset base. Simon suggested that SW could explore a number of MAs in detail with WICS to provide re-assurance on the approach taken. Alan noted his concerns that for some MAs the unit cost appears to change and that this should typically be a fixed cost, regardless of how many units are delivered. Simon noted that unit costs could change depending on the project. The Chair concluded that it would be helpful to understand the assumptions behind the MAs. Michelle Ashford added that assumptions may impact on other MAs too, so it is also important to understand the linkages. Sue Petch agreed, highlighting that a large project such as Glenfarg will also require maintenance and it is not clear if the allocation will be adjusted across MAs.

**Action 1 – SW to provide update on management approach prioritisation.**

**Action 2 – SW to provide update on lighthouse projects.**

### **ITEM 3 IPPG WORKING GROUP REPORT**

6. Simon Parsons presented the working group update report. In particular he noted that:
  - The Working Group met once in the last quarter with the next meeting scheduled for November.
  - Ahead of the meeting, SW had arranged sessions with stakeholders to provide an update on the investment planning scenario.
  - IPPG WG had endorsed the Q2-22/23 Needs List for submission to IPPG.
  - The working group reviewed the proposed governance of adjustment to Needs on the Development List - any material changes will still go to IPPG WG for endorsement.
  - The net-zero update was postponed due to time constraints. SW had circulated the update to stakeholders and it would formally be published during climate week.
7. Alan Sutherland queried how the MAs and Committed List work together. Simon confirmed that if a project has a value greater than £1m it would be added as a named project, otherwise it would be captured as a programme of work. Alan noted there are only 2 new Needs this quarter and asked whether this means no priorities had arisen from the MAs. Simon clarified that once a Need has been

approved, it will allow projects to be progressed and added to the Development List so that the need can be met. He added that once a project reaches Gate 90 it will be added to the Committed List as a project or programme of work. Alan noted that the MA have allocations of money, but it is not clear how to understand how much customer money has been spent in those areas at a point in time. Mark Dickson clarified that information on costs was provided in the Committed List. Simon added that paper 13-22-05 provides the new additions each quarter.

8. David Satti noted that some 15 years ago, SW produced “table G” which had a list of projects every quarter and this informed the graphs. He added that WICS appreciated this high level of detail, and that it would be helpful to have this level of granularity again. David queried whether a monthly table update could be provided. Alan added that further information is required to understand future pressures. Sue Petch noted that if a MA approach exists, then SW is actively investing but detail is not provided to this group. She raised the Chemical Dosing MA as an example – the level of investment is stated when projects go on the Committed List but IPPG won’t see what’s currently in development. Simon noted some £12-13m had been added for chemical dosing this quarter which is a large number of projects. Sue queried what this means for the level of demand for that MA. Alan asked how IPPG could be confident that the right projects were promoted. Simon confirmed that each MA has an investment trigger, and once this has been reached, SW must promote investment – projects won’t be left behind. Simon added that for the recent WICS information return SW provided the total level of demand, what funds have been allocated in the period and what has already been spent. He noted that SW could provide the list of individual projects if helpful.
9. Alan noted that MAs have maximum funds allocated for the period, but there is no link back to the long run average for asset replacement. He added that SW might deliver what the MA requires but it is not clear how to assess the potential backlog of repair and replacement work being built up. Simon confirmed that each MA has a forecast to predict the potential asset replacement demand over the 6 year period. SW also assesses the level of demand through on-going inspections. Alan suggested that stakeholders need further information on how the models operate. Simon offered to provide further information to WICS. The Chair concluded that there is a sufficient level of information for this high level group in the form of the “Transfers to Committed List” paper. He added that the process is a consequence of IPPF and that members would need to have trust in SW’s judgement. The Chair suggested that SW could provide a paper to help build understanding in how risk is managed over time.
10. Sue highlighted that there is sufficient detail provided for projects on the Committed List and requested that a similar approach is provided for the Development List. Barbara Barbarito confirmed SW would consider how to provide further information.
11. Alan queried how SW is able to develop Needs without a specific location identified. Simon noted that Needs should be independent of location, for example the sludge strategy for Scotland or cyber security – these Needs are linked to a MA and therefore have been added to the Development List. He

added that once the Need is mature, locations will be identified. David raised the sludge strategy and asked whether SW needs to identify locations before providing information on costs. Simon confirmed that this is the case. Sue noted that greater detail is available within JDGs and asked whether further information could be made available to other stakeholders. Barbara confirmed that the Information Sharing Tool would offer this detail and offered to provide an update on timing.

**Action 3 – SW to present paper on how risks are managed for asset replacement.**

**Action 4 – SW to consider how to provide further detail for Interventions to meet the needs on the Development List.**

**Action 5 – SW to provide an update on Information Sharing Tool.**

#### **ITEM 4 INVESTMENT PLANNING SCENARIO**

12. Simon Parsons presented the update. Highlights included:

- The SW Board reviewed the IPS in August, and a summary was issued to WICS as part of the information return.
- There are on-going discussions with WICS and SG in terms of charging decisions for 2023-24.
- The original investment expectation in the Final Determination was £4.5bn, some movement due to investment reclassification means that the true figure is £4.9bn.
- The original funding assumptions suggested a real terms charge increase of some 12.6% over the period, assuming increases were capped at CPI + 2%.
- Due to the cost crisis, SW is reviewing plausible investment scenarios to outline the impact of high and low charge increases as well as an alignment with the Final Determination.
- Capital inflation is higher than initially forecast, and this also has a negative impact on the funds available.
- Conversely, the transformation plan is providing benefits which will allow some £100m additional investment within the period.
- The “plausible low” scenario would have an impact on asset replacement as well enhancement.
- SW’s capital investment programme is largely funded by customer charges. However, there may be an option to bring forward borrowing earlier in the period to mitigate lower charge increases.
- SW’s Chair has requested a discussion with the Cabinet Secretary to outline the IPS and agree a way forward to ensure a full investment programme can be delivered. SW has sought legal advice on its statutory duties.
- SW’s aim is to deliver scenario 1. However, if changes are required it will seek to reprioritise the investment programme and consider whether investment should be scaled back.

13. Simon clarified that Scenario 1 represents the outcome of the original Final Determination (FD). He added that if SW can’t achieve the same revenue

through customer charges, it will need to consider how to deliver the same level of investment. Alan Sutherland highlighted that subsequent to the FD, other commitments had arisen such as RBMP. He suggested that if WICS produced the FD today it would likely require a higher level of investment, and have cost allowances built in. Alan suggested scenario 1 should therefore be considered as the “FD plus”. The Chair noted that additional investment beyond the FD would be captured by out-performance.

14. David Harley asked when SW would start to understand the impact to delivery of scenario 1. The Chair confirmed that it is already clear total investment will reduce due to a lower charge increase in 2022-23 (some £140m less revenue across the period). Alan added that if charge increases for 2023-24 are less than or equal to CPI, there will be another significant loss of revenue. Michelle Ashford queried whether it is likely SW would expend its full cash balance and if this would mean it could no longer invest or run the business. Simon confirmed that one month’s spend is roughly £120m and SW has always sought to maintain this cash balance in case of emerging risks. SW has increased the minimum cash balance due to Covid-19 uncertainties and there are no plans to reduce this amount due to the continuing economic uncertainties.
15. Alan noted that it is unclear how SW would reach a £200m cash balance in 2 years as it is likely there will still be a charge increase in 2023-24. SW offered to provide some clarity.
16. The Chair noted that SW is exploring its legal obligations to determine the regulatory minimum it must invest. SW will share this analysis with regulators as soon as possible. David Satti queried the impact on investment if SW didn’t deliver projects to capture growth. Alan suggested that delivering capacity for growth is essential to provide extra revenue year on year.
17. David Harley noted that SW had raised the potential of other funding possibilities and asked when stakeholders would receive an update. Simon noted that SW intends to meet with the Cabinet Secretary to discuss this and will provide an update when it can. He also clarified that unless Ministerial Objectives change, SW’s Board will still aim to deliver them fully.

#### **Action 6 – SW to clarify its cash balances.**

#### **ITEM 5 Q2-22/23 PROPOSED NEEDS LIST**

18. SPa presented the list:
  - **N533** – Amendment to add additional sites as agreed with DWQR.
  - **N3283** – SW acquired the PFI contract in 2018; it was operated as a PFI within SW due to holding external debt. SW has now come to an agreement to pay off all outstanding debt and all assets will formally become part of SW from 1 October 2022. No tier 2 investment is required but the Need is included here for completeness.
19. Alan Sutherland queried whether the changes due to N3283 would score against capital lending. The Chair confirmed this was the case and that in

principle, SG would increase lending in 2022-23 to maintain the overall level of net new borrowing; however, capital spend is currently under review across the SG. Alan also asked about opex considerations, noting his assumption there's a net benefit as the equity return is gone. Simon confirmed that previously SW Grampian Services operated the contract and Aberdeen Environmental Services was the PFI company. The change should be net positive on PFI costs. David Satti noted that SW highlighted performance had improved over time and asked if investment was required to achieve this change. Simon noted that there was an agreed maintenance plan in place when SW acquired the contract and there had been no investment to date; SW does intend to invest to improve performance further in the future.

20. Sue Petch raised N533 and noted that the group 2 sites are considered less vital than group 1. She suggested the importance score should be amended to differentiate the projects. SW agreed to make the change.
21. All members confirmed that they were content to endorse that the conclusion is reasonable in light of the process that has been followed. The Scottish Government confirmed that the needs list would be submitted to Ministers.

#### **Action 7 - SG to submit Q2-22/23 needs list to Ministers.**

#### **ITEM 6 UPDATE ON MANAGEMENT APPROACHES**

22. Simon Parsons presented the paper, noting that the portfolio review process is on-going. He provided updates for specific MAs:
  - **Enabling economic growth** – The forecast is above the allocation towards the end of the period. No changes at this time but SW will keep under review.
  - **Motor control centres** - Allocation reduced due to a longer lead time and lower demand.
  - **Recurring customer interruptions** - Significant increase in demand due to asbestos mains.
23. Michelle Ashford noted it would be helpful to understand the scale of the increase for recurring customer interruptions. Simon clarified that the current level of demand is too big to meet within portfolio, SW will either have to amend the policy or reprioritise elsewhere. David Satti noted that if asbestos mains are deteriorating faster than expected this would impact asset replacement assumptions. Simon noted that SW's Board will review the policy and that an update will be provided to IPPGWG.
24. Alan Sutherland queried why some MAs appeared to be missing (MA007 – MA010). Simon confirmed he would check and clarify the numbering. **[Post meeting update:** SW confirmed that as the process of development of MAs has matured some MAs have been subsumed into other MAs and there have been others which were deemed to be unnecessary as the relevant policies were already included in other MAs.]

#### **Action 8 – SW to clarify MA numbering.**

## ITEM 7 REPORT ON THE PROGRESS OF INTERVENTIONS TO MEET THE NEEDS ON THE DEVELOPMENT LIST

25. Simon Parsons presented the update and gave a short overview of the report:

- **Summary of current investment maturity** – SW is on track for this year. The level of committed investment for 2022-23 and 2023-24 has increased since previously reported in Q4.
- **Progress to the Committed List** – At the end of quarter 1, PCL was 111% which is above the top end of the target range.
- **Progress of the development of interventions with level 1 and 2 appraisals** – 15 of the 42 project investment appraisals included in the March forecast for Q1 have been delivered to the forecast.

26. Alan Sutherland queried whether the black baselines in Figure 1 would reconcile back to the Final Determination (FD). Simon confirmed that the baselines are aligned with either the FD or SW's Delivery Plan. Alan noted that there are commitments for year 5 of the regulatory period and asked whether these are considered more important than any new Needs arising from MAs. Simon confirmed that under the current Investment Planning Scenario any projects which reach Gate 90 are considered as committed. Mark Dickson added that any projects which are pre-Gate 90 and have an enforcement notice are also committed. Sue Petch asked whether the Committed List would provide sight of the expected budget in 2026-27. Mark confirmed this is the case but noted for the current projects money would typically be spent earlier in the period.

27. Michelle Ashford noted that at IPPGWG she suggested SW should flag appraisals with significant delays; for example Annex 3 shows that 43 have slippage greater than 12 months. Simon confirmed that SW would consider how to provide an update on the key projects and any consequences arising from delays.

28. David Satti noted that £799m was invested during 2021-22 but that it is difficult to understand what has been delivered and whether the money was spent efficiently. Simon confirmed that SW had provided a list of outputs in the information return to WICS and queried whether this should be provided to IPPGWG. Barbara Barbarito noted that it would be easier to provide the list of outputs on the Committed List and asked WICS for input on the type of information to be provided for the Development List.

29. The IPPG Q1 2022-23 report was agreed. The Chair requested the report be submitted to Ministers.

**Action 9 – SW to provide update to IPPGWG on appraisals with significant changes in forecast dates.**

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

**ITEM 8 TRANSFERS TO THE COMMITTED LIST**

30. Simon Parsons presented the paper and summarised the key points:
- In quarter 1, 14 named projects were added to the Committed List with a cost of £61m and programmes of work worth £185m for a total of £246m.
  - The total value of the Committed List at quarter 1 is £1,1493m.
  - Most of the investment was in the digital policy MA due to PSTN being added as a programme of work; this is a substantial programme replacing obsolete BT lines at SW's works.
  - In the transformation MA, several projects were also added, the most significant one being the NCSD phase 3 project at an estimated £12 million.
  - The latest inflation assumptions are included in table 4.
31. Sue Petch suggested there is a lack of transparency in the reporting, for example a manganese monitor at Black Esk at a value of £78k is listed individually but there is no detail for the PSTN addition with a value of £60m.

**ITEM 9 A.O.B.**

32. The next meeting was scheduled for 7 December 2022, location to be confirmed.

Stuart McCaskell  
Scottish Government  
October 2022