



Investment Planning & Prioritisation Framework (“IPPF”)

SR21 Strategic Plan Supporting Document

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1. Why Investment Planning and Prioritisation is important

a. Background

At the start of this century, Scottish Water was created to transform the industry's performance, delivering substantial improvements to drinking water quality, environmental protection, efficiency, and customer service. Over the next 25 years Scottish Water plans to transform how services are delivered again, as we deal with the climatic threats to our services, replace our ageing assets, and play our full part in reducing emissions to beyond net zero.

Our investment needs will continue to increase significantly to replace ageing assets and ensure that our services are resilient to climate change, however, the necessary investment to deal with climate change is much more uncertain and will be regularly assessed.

To continue to deliver great value we must maximise the benefit that our investment delivers. We are therefore enhancing our approach to investment planning and prioritisation, including moving to a rigorous, dynamic and rolling process. This new approach will allow us to continually incorporate the latest evidence, collaborating with stakeholders to ensure the costs and benefits of competing investment priorities are balanced appropriately.

A joint working group was established with our stakeholders to co-create a new Investment Planning and Prioritisation Framework ("IPPF").

The stakeholders involved were:

- Scottish Government (SG)
- Water Industry Commission for Scotland (WICS)
- Scottish Environment Protection Agency (SEPA)
- Drinking Water Quality Regulator (DWQR)
- Customer Forum (CF)
- Citizens Advice Scotland (CAS)

The IPPF will be governed by the Investment Planning and Prioritisation Group, as set out in its Terms of Reference and Explanatory Note.

This document captures the IPPF at the point of publication. The IPPF will be improved continually, with changes being captured in the IPPG Terms of Reference and Explanatory Note.

b. Objectives of the IPPF

The co-created overall objective of IPPF is to:

“Create a framework that builds trust and engagement in decision making to maximise the benefits of investment”

Scottish Water and its stakeholders determined the aims of the new IPPF to be as follows:

- **Transparency of whole programme** – we will make clear how decisions are made to invest resources in all types of investment, whether studies, enhancement, growth, planned repair and refurbishment, or planned or responsive replacement;

- **Flexible and Dynamic** – we will ensure that through dynamic monitoring we can adjust our investment programme to deal with change, for example cost or demand shocks, or new legislation, or changing financial circumstances;
- **Balanced programme** – we will ensure that our investment programme will deliver the Ministerial Objectives, and be appropriately long term;
- **Shared understanding of risk and opportunities** – we will make clear how risks and opportunities inform our decisions;
- **Customer/ community engagement** – we will engage our customers and communities early in our decision making to maximise value;
- **Increased innovation** – we will monitor and drive up innovation, not just technology and engineering, but how we go about all aspects of our service provision;
- **Supply chain impact** – we will create a lean process that enables efficiency, continuity and flexibility of the supply chain; and
- **Appropriate level of governance** – we will ensure that our governance arrangements are sufficient to maintain control, whilst avoiding unnecessary delay.

c. Needs and Opportunities

‘Business needs and opportunities’ are the drivers for change that will close the gap between an organisation’s current state, and where it wants to be. In Scottish Water, addressing certain needs and opportunities through the investment of its resources will achieve certain desirable service outcomes for its customers. The resources at Scottish Water’s disposal include its employees, its supply chain, and the level of deployable investment (the combination of customers’ bills i.e. revenue and borrowing from government).

As with any organisation, the quantum of needs and opportunities that can be addressed at any point in time is constrained by the resources Scottish Water has at its disposal, which means we have to make difficult trade-offs; we have to prioritise.

Needs and opportunities that are considered in the IPPF are associated with enhancement, flooding, growth, asset replacement and planned refurbishment and repair investment - these are known as “Tier 2”.

Broadly recurring expenditure (operating costs, PFI contract fees, interest costs, responsive repair and refurbishment, and reasonable cost contributions to developers) is not included in this framework - these are known as “Tier 1”.

2. What does the IPPF look like?

A process overview diagram for the IPPF is included in Appendix A.

This section provides an overview of the IPPF and the associated governance structure. It is important to recognise that this section sets out “what” we will do, not “how”. The various techniques that we will be using within the various stages of the IPPF (the “how”) will mature over time.

a. IPPF Overview

The framework has been developed to align with the principles of Ethical Business Regulation (“EBR”). It encourages collaboration, openness, trust and transparency amongst stakeholders¹ and involves them in dynamic cycles of prioritisation.

The Scottish Water investment programme will no longer be fixed at the start of the period, but will build over time.

A summary of the IPPF key steps is included below and a diagram, illustrating the key documents associated with the prioritisation and development of needs and opportunities, is included in Appendix B.

b. “Long List” and “Short List” - Broad Prioritisation

Scottish Water will work with stakeholders to develop the list of needs and opportunities that can be envisaged over the long-term (next 25yrs+) horizon (the ‘Long List’).

Stakeholders carry out an initial categorisation of the needs and opportunities included in this long list, by assessing them against a set of pre-agreed criteria. This is to provide the first coarse screening for alignment with the Ministerial Objectives and Water Sector Vision.

In the first instance this initial categorisation has been undertaken using a prioritisation technique called MoSCoW (Must do, Should do, Could do, Won’t do). Scottish Water will work with stakeholders to develop future prioritisation techniques.

These priority needs and opportunities are reviewed with a nearer term (6 year) rolling context in light of the likely finance available for investment, the capacity and capability of the supply chain and the extent to which further study is required (to clarify the needs). This allows Scottish Water to create an initial view of the type of needs and opportunities they expect to address in the near term 6 year rolling horizon for discussion with stakeholders and forms the ‘Short List’.

The ‘Long List’ and ‘Short List’ remain under stakeholder review to take account of emerging needs and changing priorities. A well-defined change mechanism will therefore be maintained, so as to provide a transparent audit trail that records the development of the documents over time.

c. “Development List” - Detailed Prioritisation

To facilitate the creation of a rolling investment programme, Scottish Water will review the latest version of the ‘Short List’ throughout the period, in order to select priority needs and opportunities for development.

The needs and opportunities Scottish Water is proposing to bring forward from the ‘Short

¹Though the Customer Forum is not a member of the IPPG, and the arrangements for a future customer role have yet to be decided, Scottish Water is committed to ensuring there is a continuing, active, independent, customer perspective that will input into decisions on the investment programme as appropriate. The term stakeholders is used in this context.

List' on to the 'Development List' will be included on a list known as a 'Proposed Needs List', which will be shared with stakeholders.

At the quarterly Investment Planning and Prioritisation Group meeting stakeholders will be invited to review the 'Proposed Needs Lists' as they are brought forward by Scottish Water. In proposing needs, Scottish Water will provide the group with assurance that developing the needs it includes will start to create a balanced investment programme, that will help to achieve the Objectives set out by Ministers for the regulatory period. At the end of the meeting, members will be asked if they are content to endorse that the conclusion (Proposed Needs List) is reasonable in light of the process that has been followed.

Informed by these discussions, Scottish Water will decide which needs and opportunities it will submit to the Scottish Government for Ministerial approval. In making this submission, Scottish Water will indicate whether the Proposed Needs List has been endorsed by stakeholders and, where there is not unanimous endorsement, will confirm why it judges it should still be taken forward.

Once approved by Ministers', the needs and opportunities in each 'Proposed Needs List' will be added to the 'Development List'. This will be a "living" document that will be shared with stakeholders and built upon throughout the period. The 'Development List' will form the basis for reviewing the SRC21 development activities.

Needs or opportunities included in the 'Development List' will be progressed by Scottish Water. As part of this we will increase stakeholder and community engagement, trialing beginning conversations earlier so communities can influence the selection of the solution by incorporating their thoughts, concerns and ideas into our decision making.

Scottish Water will schedule the needs and opportunities on the 'Development List' and keep stakeholders updated on progress.

A well-defined control mechanism will be maintained for making additions and holding, or removing, needs and opportunities on the 'Development List', so as to provide a transparent audit trail that records its development over time.

Before moving from the 'Development List' to the 'Committed List' Scottish Water will prepare project or sub-programme appraisals. Where an appraisal is deemed to be particularly strategic, novel, or contentious, and Scottish Water believes it would benefit from independent comment or review, stakeholder input will be sought at the appropriate stage of development.

Appraisals will be subject to a review process the detail of which is currently being developed. The purpose of the review of appraisals is two-fold:

- as an assurance function to keep a focus and build stakeholder confidence in the cost effectiveness of investment; and
- as an opportunity to learn and create a platform for continuous improvements in all aspects of the future appraisals.

d. "Committed List"

The detailed process of developing needs and defining the outputs to be added to the 'Committed List' is currently being designed and agreed by stakeholders.

The 'Committed List' will form the basis for reviewing the SRC21 delivery programme and will be a "living" document that will be built upon throughout the period.

A well-defined control mechanism will be maintained for making additions and holding, or removing, outputs on the 'Committed List', so as to provide a transparent audit trail that records its development over time.

At the start of the 2021-27 period Scottish Water will publish a Delivery Plan. This will set out the needs that are currently on the 'Development List', those for which outputs have been defined and added to the 'Committed List', and a forecast of the type of needs and opportunities Scottish Water expects to address across the rest of the regulatory period.

e. Portfolio Review

Under current proposals, Scottish Water plans to conduct an annual portfolio review, engaging with stakeholders to ensure the programme is maximising progress towards the Ministerial Objectives, Strategic Plan and Water Sector Vision, and remains financeable (by reviewing the available finance and latest estimate of emerging programme cost).

This review will consider any needs or opportunities that have emerged throughout the past year and could result in changes to the 'Short List', which will be updated to maintain a rolling forecast of the needs Scottish Water expects to address in the next 6 years.

Informed by this review, Scottish Water will present an annual Delivery Plan update for Ministers' approval. This will summarise any additions and/or changes that have been made to the 'Development List' and 'Committed List' throughout the year, and will provide a revised forecast of the types of activities Scottish Water expects to address over the period.

Scottish Water will implement the necessary feedback loops to ensure that learning from the delivery of outputs is considered in the

annual Portfolio Review. This will include an assessment of whether the intended benefits have been achieved or not.

f. Governance Structure

The introduction of the IPPF means the governance structure needs to evolve to ensure it can continue to manage in-period delivery, whilst also meeting the requirements of the new prioritisation process.

The SRC21 governance structure has therefore been designed to build on the success of the SRC15 structure, whilst acknowledging three distinct activities for the next period:

- Seeking assurance on the delivery of committed outputs;
- near-term planning (6 year rolling horizon); and
- strategic/long term planning (25 year + horizon).

Based on stakeholder feedback, and recognising these three activities, four high-level groups have been put in place to govern the development and delivery of the investment programme (see diagram at Appendix C). These groups were formed in August 2019 and September 2019, in order to receive the first 'Proposed Needs List' (also known as the 'First Tranche'), as it was proposed by Scottish Water, and to begin the process of implementing the IPPF.

The new structure retains the Delivery Assurance Group (DAG), which is the successor to the Output Monitoring Group formed in 2006, which continues to monitor the delivery of committed outputs.

A new Investment Planning and Prioritisation Group (IPPG) was formed in September 2019 to govern the development of the future investment programme, monitor progress towards Ministers' Objectives, the Scottish

Water Strategic Plan and the Water Sector Vision, and consider the strategies that are needed to support the water industry of the future.

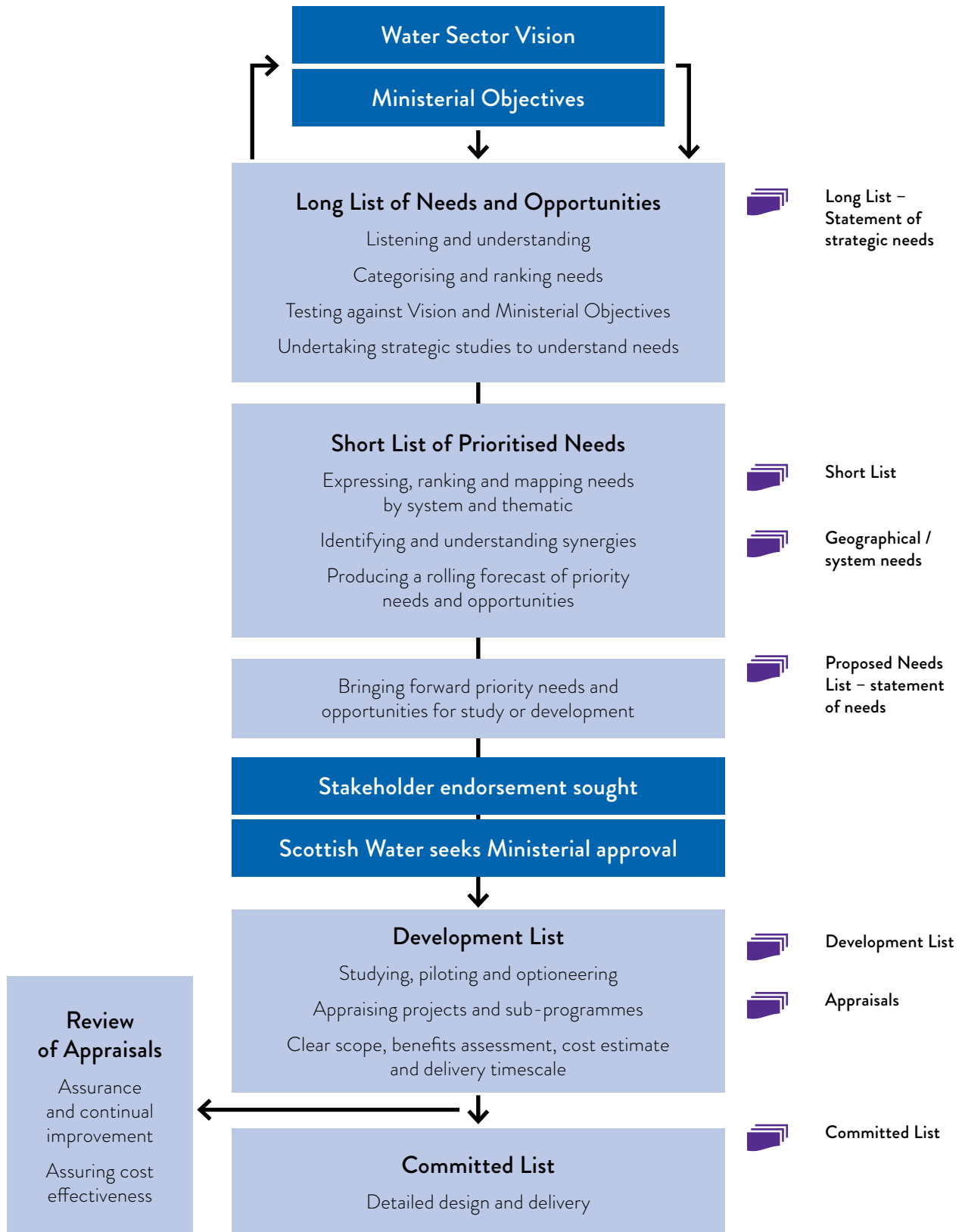
The DAG and IPPG are each supported by a working group. Formed in 2019, these groups will provide analysis and reports as directed and required.

The structure includes an additional layer of governance, in the form of short life task groups, intended to support the work of the four high level groups. The process associated with establishing these short life groups was developed with input from stakeholders and is the subject of a separate document.

As a result of the introduction of the IPPF, the SRC21 Governance Explanatory Note and Terms of Reference for each of the governance groups will be subject to ongoing review.

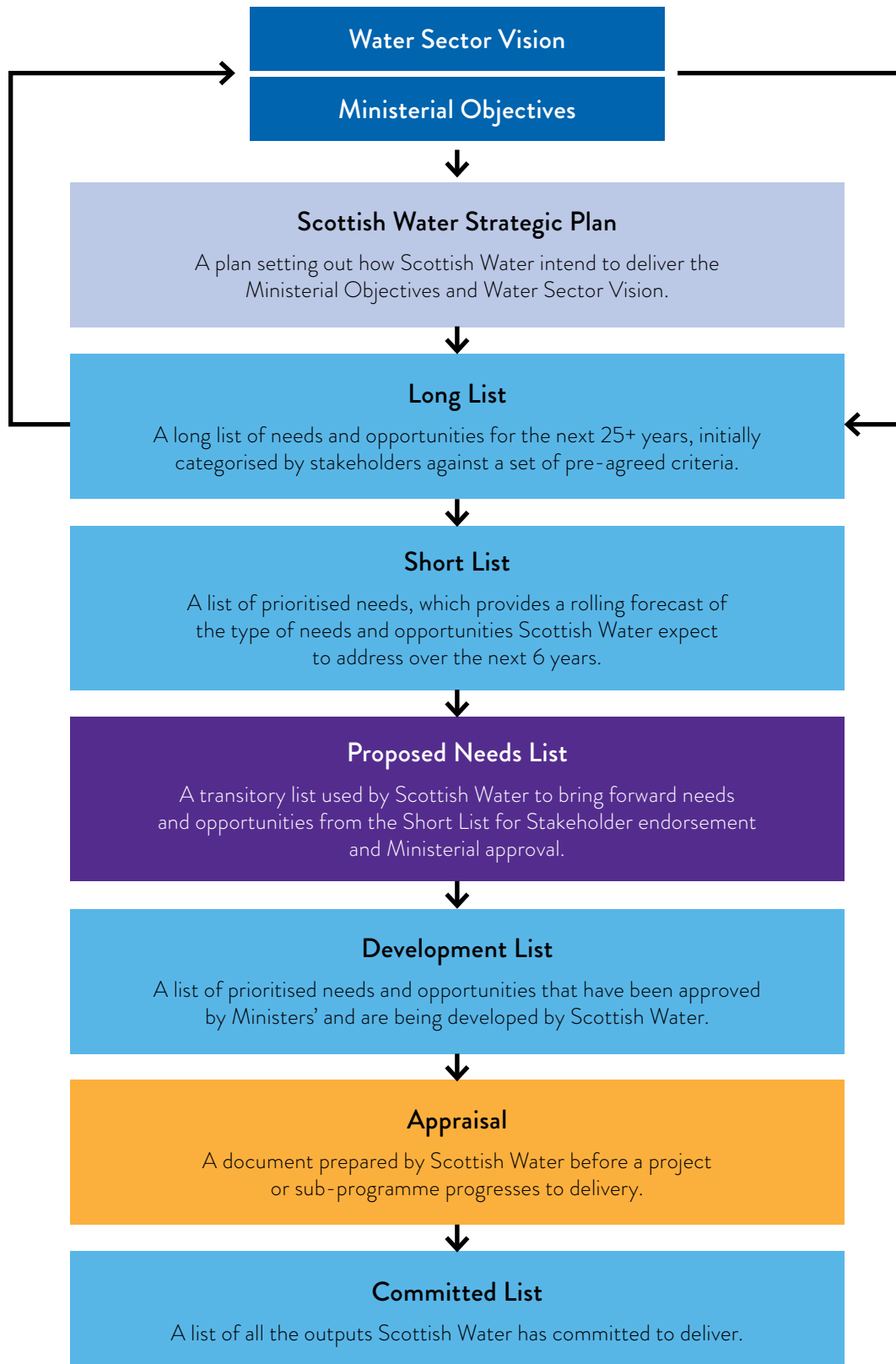
Appendix A

- Investment Planning & Prioritisation Framework



Appendix B

- IPPF Document



Appendix C

- SRC21 Governance Structure

