



**Scottish
Water**

Trusted to serve Scotland



A SUSTAINABLE FUTURE TOGETHER

DELIVERY PLAN

2021/22 - 2022/23



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Please note: some photographs which appear within the Delivery Plan 2020/21-2022/23 were taken before the Covid-19 pandemic.



OUR 2021 DELIVERY PLAN

At the start of this century Scottish Water was created to transform the industry's performance. Today we are one of the UK's top 50 organisations for customer satisfaction¹, our efficiency has greatly increased, and our water quality and environmental performance are at their best ever levels. We are proud of what we've achieved and the vital services we provide for the people of Scotland.

However over the decades ahead we face three significant challenges – climatic threats to our services, replacing our ageing assets and playing our full part in reducing Scotland's greenhouse gas emissions to beyond net zero.

Our assets are getting older and the rate at which we replace our assets today is well below the long term required replacement rate. This is important as we know that as assets age they are more likely to fail. We have made great progress in how we manage risk to service through our operational practices but now we need to increase our investment – and do so for the next 20 years – to get to sustainable levels of replacement.

On greenhouse gas emissions, the uncomfortable truth is that we are one of the biggest consumers of energy in Scotland. This means we have a huge responsibility in supporting the transition to net zero and in protecting Scotland's and the world's natural environment for future generations.

¹ Institute of Customer Service UK Customer Satisfaction Index, January 2021



We set out these challenges alongside our customers' expectations of us in our long-term Strategic Plan – A Sustainable Future Together – with our three strategic ambitions that are aligned with our role in achieving Scotland's ambitious Water Sector Vision. These ambitions are:



SERVICE EXCELLENCE

Adapting to a changing climate, dealing with our ageing assets and meeting our customers' evolving expectations.



BEYOND NET ZERO EMISSIONS

Showing leadership in mitigating climate change and enhancing Scotland's natural environment.



GREAT VALUE AND FINANCIAL SUSTAINABILITY

Customers will receive great value, now and in the future, and we will be financially sustainable.

The Strategic Plan sets out what we plan to deliver. Our current forecasts are that this will require our investment levels to nearly double by 2040 – with customer charges rising by 2% above inflation each year to finance this. We are determined to keep our customers' trust and confidence as we transition to higher charges.

Transformation Plan

Achieving all three ambitions requires nothing short of a fundamental transformation. Working with world-leading advisors and learning from top companies we are developing a comprehensive Transformation Plan that will set out the required changes over the next 10-20 years to deliver our ambitions.

In the past we have agreed individual projects prior to a regulatory period to meet specific regulatory or customer needs and then focused on delivering them at least cost. We have been successful in doing this but recognise that this approach to investment has impacted on opportunities to embrace innovation and hasn't considered the wider benefits that can come from delivering projects. We are committed to making ever smarter investment choices – not just least cost but decisions that maximise the benefits for customers, communities and the environment.





While we are proud of the high level of customer satisfaction with our service we know we need to go further to truly empower customers and communities. How do we become more customer and community focused throughout the organisation? This is key to generating active understanding and support for all that we do to help Scotland flourish, to maintain trust as we transition to higher charges and to work together to create better places to live and work.

We have a huge and diverse asset base. We need to be able to better predict, prevent and resolve issues reducing the impact we have on our customers. We will embrace how leading organisations across the world leverage partnerships to deliver innovative solutions.

We also need to look closely at our own ways of working and ensure we are delivering efficiently and getting the most from our digital tools. This is key to meeting our demanding efficiency challenge year-on-year that we set out in the Strategic Plan.

Our reporting of our performance and publication of information that is accessible and easy to understand will be key to maintaining and building the trust and confidence of our customers and stakeholders. We will always seek to provide a comprehensive, balanced and rounded view of how we are progressing². Our longer term aspiration is to enable greater understanding of the challenges we face and what we are planning to do so that customers,

communities and stakeholders understand the decisions we make and the importance of their role in investment planning and service use.

We will publish our Transformation Plan in Autumn 2021.

The rest of this Delivery Plan sets out the key initiatives and change programmes we will deliver over the next two years beyond our transformation planning as our first steps towards achieving our Strategic Plan. It is aligned with the 2021-2027 Ministerial Objectives and the WICS³ Final Determination. While we continue to provide high service levels to our customers in the face of the pandemic – despite its personal and business challenges – it has impacted our customer revenue⁴, delayed delivery of our investment programme by around six months and impacted the productivity of ongoing investment activities due to the need for additional safe working practices. As the future course of the pandemic remains uncertain, we will review whether our commitments and expectations need adjusting over the next year.

² Every six months we will publish a performance report setting out all aspects of our current performance and key areas of learning and future improvement, building on the open and transparent approach we took for 2019/20. We will work with stakeholders to integrate our future Delivery Plans into these reports, so they set out the key strategic initiatives and the service levels we expect to deliver, together with the financial implications.

³ Water Industry Commission for Scotland.

⁴ We will continue to work with the Licensed Providers and Citizens Advice Scotland to support the development of measures within the non-household market to ensure that those impacted by Covid-19 can access the help they need.

PROGRESSING TOWARDS **SERVICE EXCELLENCE** 2021/22 TO 2022/23



Investment to maintain and improve the reliability of our assets is critical to maintaining our services to customers and communities. We are committed to completing our outstanding investment from the 2015-21 regulatory period and delivering increased overall investment as the first steps towards a sustainable level of asset replacement. To drive consistency of decision making we are setting out policies for inspections and the interventions we will promote for all our asset types. Nonetheless, we expect our services will be challenged by the impacts of our changing climate and environment.

Progressing towards Delivering Consistently Excellent Water Supply

Our overall water quality compliance is generally high, and we are committed to building on this strong foundation to increase the reliability and resilience of our water service. Over the next two years we will focus on complying with our drinking water quality duties, replacing assets at the end of their lives and targeting improvements in the capability of our assets.

The key water quality regulations are evolving, and we will work with the Scottish Government to understand the implications of the recast Drinking Water Directive⁵ and how any new standards will be adopted into Scots Law. Also the revised Water Supplies Regulations require us to carry out risk assessments for each of our supply systems to understand the risks and opportunities they face now and into the future. We have developed and agreed an improvement plan with the DWQR⁶ and are seeking to achieve accreditation for our risk management in 2023.

There are a number of treatment works where we need to improve the capability of our assets. With the DWQR we have identified water supply systems where there is a priority need to appraise options including improving disinfection and enabling auto-shutdowns. We have commenced appraising 45 systems with interrelated needs where drinking water quality is an immediate priority or a longer-term consideration alongside asset replacement, economic growth or supply resilience. We have committed to DWQR to progress delivery of four⁷ priority system needs and to bring forward appraisals for a minimum of a further three⁸ in 2021/22.

⁵ Adopted by the European Union on 12th January 2021

⁶ Drinking Water Quality Regulator

⁷ Bonnyrigg, Herricks, Glenfarg, Rosebery

⁸ Carron Valley, Black Esk, Winterhope

To maximise the capabilities of our existing treatment works we will put in place Water Operational System Plans by 2023 that set out the responsibilities and activities to operate, maintain and manage these assets. We will also maintain our focus on our “Competent Operator” approach to further develop the capabilities and learning of our operators to ensure best practice operation. We will continue to remove lead pipes when encountered or when customers ask us to and, as soon as we are able to safely, we will restart sampling for lead in properties and progress our pro-active lead pipe removal pilots.

Progressing towards Transforming Waste Water Services

As our climate changes we are already seeing how intense rainfall will increasingly overwhelm many of our sewers. This will only get worse over the coming decades and we recognise our approach needs to change. We will work with government agencies, communities and developers to begin to change Scotland’s approach so that it plans for the removal of surface water from sewer systems at every opportunity. We will develop three further drainage partnerships across the Aberdeen, Dundee and Perth areas focused on jointly planning the management of surface water.

We will develop long-term plans⁹ for all of our waste water catchments by 2023 to improve our understanding of the risks and opportunities. We will work with SEPA¹⁰ to focus our investment on the highest impact

intermittent discharges from our networks and we expect to undertake appraisals in 23 catchments over the next two years so they can be considered as part of our investment prioritisation.

Today, much of our waste water is treated at assets operated by PFI¹¹ partners. The Highland PFI contract expires in 2022 and after analysis we have concluded the best value is to take responsibility for ownership and operation rather than extend the contract. By 2023 we will finalise the evaluation of options for the Daldowie PFI and commence planning for the maturing of the Dalmuir waste water treatment PFI, both of which are scheduled to expire in 2026.

Progressing towards Enabling Sustainable and Inclusive Economic Growth

Across Scotland we have water and waste water assets that have capacity for future development and many that are already at or beyond capacity. We want to encourage development where we have available capacity and will continue to provide decision makers in government, local authorities and the developer community visibility of where capacity is available. Where it is not we will invest to support development and from April 2021 we will take the lead in increasing capacity in our existing network infrastructure¹² to support widespread growth.



9 Drainage and waste water management plans

10 Scottish Environment Protection Agency

11 Private finance initiative

12 Previously this was the responsibility of the developer



Whilst our service to developers is at highest ever levels, we know we can serve them better. We will introduce a new Developer Experience Measure to focus on driving down unwanted service contacts and complaints and increasing developers' satisfaction.

Progressing towards Empowering Customers and Communities

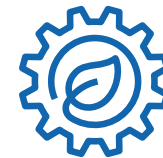
We are committed to further transforming the relationship we have with our customers and communities, putting them at the heart of all that we do. To provide strategic challenge and insight on behalf of customers and communities we will establish a new Independent Customer Group in Spring 2021. We will set out how we aim to define empowerment of customers and communities, to build appreciation, empowerment and engagement with our customers and communities through a national engagement strategy.

Over the next two years we will transform our wholesale service to Licensed Providers through self-service and automation capabilities to enable service tracking, delivering "right first time" resolutions, increasing our collaboration to strengthen service provision and reviewing our business metering strategy.

We will introduce tailored service packages to boost our support for customers in vulnerable circumstances and those most impacted by recurring issues. To further build our relationships with communities and strengthen awareness of our services and how they should be used. We will extend our engagement programmes such as Learn to Swim, Top Up Taps and customer behaviour campaigns (water efficiency and preventing sewer blockages). We will introduce a new performance measure of how we are perceived and trusted by our key stakeholders including MSPs and community representatives. We will work with the Interim Customer Group to explore how we might measure customer and community empowerment and public perception to inform our methods of engagement.



We will extend our engagement programmes such as Learn to Swim, Top Up Taps and customer behaviour campaigns



Over the next two years we expect to see a reduction in our operational emissions of up to 30%

PROGRESSING TOWARDS **BEYOND NET ZERO EMISSIONS** 2021/22 TO 2022/23

Progressing towards Transforming Our Emissions

We have set out the steps to transforming our greenhouse gas emissions in our Net Zero Emissions Routemap¹³.

Over the next two years we expect to see a reduction in our operational emissions of up to 30% with the majority of this due to the continuing greening of the grid. We will develop, appraise and deliver opportunities particularly in energy efficiency, renewable energy and our vehicle fleet so that we can build momentum in reducing our operational emissions in future years. To support the greening of the grid we will continue to work with a partner to develop a 260GWh opportunity for new renewables in south-west Scotland on our land.

¹³ Published in September 2020 at www.scottishwater.co.uk/netzero

We continue to build our understanding of the emissions driven by our investment and plan to start reporting on these from 2021/22 onwards, an industry first. We are integrating emissions into our project appraisals and engaging with our supply chain partners to target opportunities such as low carbon cement.

There are some emissions we will not be able to fully eliminate such as the breakdown products from waste water treatment and some emissions driven by our investment. We aim to balance these by improving the ability of our land to store carbon and over the next year we will commence projects including reforesting a former tenant farm and restoring degraded peatland.

Progressing towards Embracing the Circular Economy and Enhancing the Natural Environment

Scotland's natural environment is central to our identity as a nation. We will play a significant role in supporting the Environment Strategy¹⁴ outcomes through protecting and restoring water, seas and soils, supporting biodiversity and embracing circular economy thinking.

In the next two years we will establish the biodiversity status of our land to enable us to track progress and we will identify projects that will support Scotland's biodiversity. We will work with SEPA in the development of Scotland's 3rd Cycle River Basin Management Plan to

identify opportunities for net environmental improvements that are proportionate. Where these are confirmed as the highest priorities, and subject to appraisal, we will progress these to delivery.

To develop our circular economy approach we will undertake a range of research and pilots including upcycling aluminium sludge from the water treatment process for use in construction, the generation of hydrogen from our waste water treatment process as a potential fuel and further projects to generate heat from sewers.

To connect communities to their local environment, encourage outdoor recreation and support tourism we will enable responsible access to our assets. Over the next two years we will conduct a pilot at six popular Scottish Water reservoirs, engaging with users of the sites and communities of interest to develop our plans.



¹⁴ www.gov.scot/publications/environment-strategy-scotland-vision-outcomes/pages/1/

PROGRESSING TOWARDS **GREAT VALUE AND FINANCIAL SUSTAINABILITY** 2021/22 TO 2022/23



Progressing towards Making Smarter Investment Choices

To achieve our strategic ambitions we need to transform our understanding of our assets and systems, strengthen our investment decision making and develop new capabilities and skills. We have set out our plans in our Asset Management Transformation Routemap. Professor Bryan Adey¹⁵ has played a key role in the development of this Routemap, will continue to guide the delivery of it and provide independent reporting on our progress.

Over the 2021-27 period we will deliver Ministers' Objectives and maximise value to customers within the available financial resources. In the next two years we will invest in line with the policies we have set out, progressing larger projects through investment appraisals and learning from these experiences. To prioritise our investment decision making, we will monitor business performance, risk to service, actual levels of demand and costs. This will allow us to adjust our investment policies to manage service levels and risk. We will engage with stakeholders to develop 'portfolio reviews' with a view to implementing the first full portfolio review in Summer 2022.

To strengthen our decision making we will mature our project investment appraisals ensuring assessments of net present cost, carbon and qualitative benefits are consistent and transparent¹⁶. We are developing our approach to ensure customer, community and wider stakeholder needs and expectations are understood, promoted and addressed throughout our investment decision making.

To enable our investment delivery, we are undertaking a significant procurement for contractor partners in the area of refurbishment and repair work. Additional procurements for the wider supply chain requirements, including a Regional Contractor Services Framework that will support the engagement of small and medium enterprises are also a critical part of our plans.

¹⁵ Head of the Institute for Construction and Infrastructure Management at the Swiss Federal Institute of Technology in Zürich (ETHZ), Switzerland

¹⁶ This will enable us to demonstrate where we have selected an option that has a higher cost but which provides greater carbon, natural and social capital benefits than the lowest financial cost. We will propose and seek agreement of stakeholders for how the £132 million ring-fenced fund for such options set out in the Final Determination could operate.

Progressing towards Transforming How We Work

To maintain and build the trust of our stakeholders, customers and communities we will continually demonstrate evidence of our commitment to Ethical Business Practice. To support a culture of openness, transparency and learning and the wider behavioural characteristics required to continue our success as an organisation we will roll out, embed and evolve our Scottish Water 'character' with its four core characteristics¹⁷.

We remain committed to leading our industry on a journey to zero harm, creating safe, healthy and productive workplaces where our people can thrive. We will continue to champion the development of Scotland's young people and will strive to increase our proportion of employees from under-represented groups at all levels in the business.

We have developed a long-term research and innovation Routemap aligned to our strategic ambitions. We will pilot new approaches through demonstrators, learn lessons and then scale these where there is value in doing so. Over the next two years we will further develop the scope of demonstrators for a resource and energy factory, sustainable homes and sustainable rural communities, leveraging investment from research councils, Innovate UK and other collaborative partners as appropriate.

We have formed a partnership with the University of Stirling to host the Scotland Hydro Nation Chair, to make Scotland a global leader in water research.

Our cyber and data security focus will continue over the next two years with planned investment moving more services to the cloud and ensuring we have modern and supported technology. We will invest to proactively address digital, data and analytic requirements while providing a transformation opportunity to automate business activities¹⁸.

Financing Our Services

We are committed to taking all possible steps to drive for further efficiency to reduce our expenditure and our target is to achieve, at least, a 1% year-on-year real reduction (CPI-1%) in line with the challenging target set in the WICS Final Determination. We are also committed to driving further productivity and efficiency from our investment and are developing a framework to assess and report each year on our investment delivery value for money.

Any large infrastructure organisation that provides an essential service requires significant access to cash to maintain its activities¹⁹ and to respond to unforeseen events. Our cash balances each year are largely a function of when we borrow relative to when we invest. Our cash balance at the start of 2021/22 is forecast to be between £400 million to £450 million as a result of outperforming

expectations over the 2015-21 period and a reduction in our investment activity over the last year to minimise the risk of spreading Covid-19 to the communities we serve. Around £300 million of this is already committed to complete outstanding investment.



17 These four characteristics are: Bold, Responsible, Inspiring and Caring. They will be used to reinforce our customer principles that we have created with feedback from customers, our people and Citizens Advice Scotland.

18 These improvements will support the implementation of the Network and Information Systems Directive that is designed to boost security for network and information systems that support the delivery of our essential services.

19 Our investment and expenditure averages c. £250 million every two months.

As set out earlier, our current forecasts are that our investment will have to nearly double by 2040 with customer charges rising by an average of 2% above inflation each year to finance this. The WICS Final Determination provided flexibility as to how to phase these increases over the 2021-27 period. Having engaged directly with customers on their preferences in light of the pandemic and in light of the decision of the Scottish Government to increase support to low income households, we decided on a 2.5% increase for 2021/22 for those that pay full charges. This is just below current inflation levels plus 2%. The Bank of England targets inflation to be 2% so in future years charge increases are likely to be around 4%.

The table to the right sets out our forecast income and expenditure over the next two years.

²⁰ Responsive repair and refurbishment (R&R) expenditure is difficult to predict over a 1-year time horizon as there can be significant variability in the annual level of expenditure. We will therefore recognise an annual normative charge in line with the Final Determination expectation (£170 million 2017/18 prices pre-efficiency) but will report clearly our actual expenditure incurred relative to the normative charge. Over the 2021-27 period we expect the normative charge to balance with expenditure incurred. Developer contributions and taxation may also experience significant annual variability and we propose to adopt a similar normative charge approach in these areas for the same reason, which for taxation is based on current tax rates.

Table 1 – Forecast Income & Expenditure in outturn prices

Forecast Income & Expenditure (excl. investment)	2021/22 £m	2022/23 £m
Household revenue	930 - 940	965 - 980
Wholesale revenue	310 - 340	320 - 355
Other revenue (incl. Infrastructure charges)	25 - 35	25 - 35
Total revenue	1,265 - 1,315	1,310 - 1,370
Operating and PFI costs	575 - 605	580 - 610
Interest costs	140 - 145	135 - 145
Responsive repair and refurbishment expenditure (including normative charge) ²⁰	185	185
Reasonable cost contributions	30	30
Taxation	25	25
Total expenditure (excl. investment)	955 - 990	955 - 995
Total available to support investment	275 - 360	315 - 415

The key uncertainties in our forecasts are the levels of new household connections, the timing and extent to which business consumption recovers to pre-pandemic levels, weather related incidents and the impact of Covid-19 on bad debt related costs.

As the first steps towards increasing our investment levels while balancing our and our partners capacity to promote and deliver effectively and efficiently, we are planning to invest between £570 million to £650 million and £610 million to £680 million in each of 2021/22 and 2022/23 respectively, an increase of over 25%²¹ on our average investment levels in the 2015-21 period. This will be supported by net new borrowing from the Scottish Government of £180²² million in 2021/22 and £170 million in 2022/23. Our forecast closing cash position is set out in the table to the right²³.

Table 2 – Forecast Cash Balances

Forecast cash balances	2021/22 £m	2022/23 £m
Cash balances	305 - 525	265 - 440

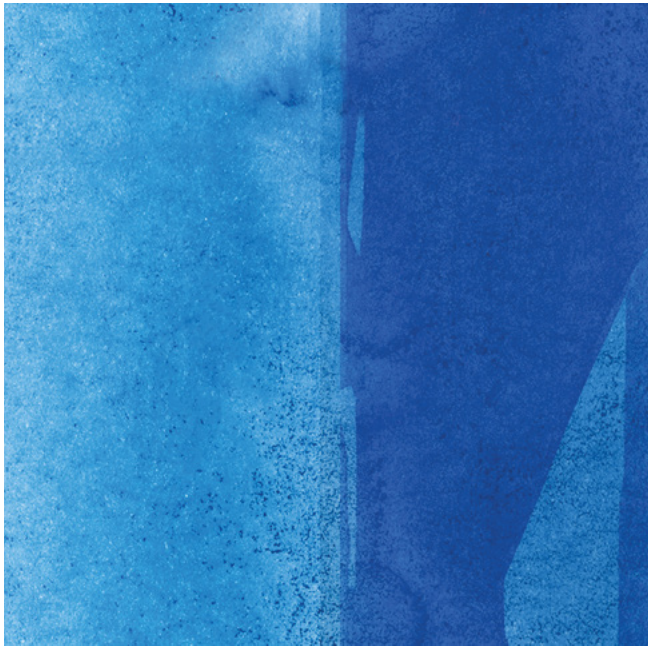
In addition, there may be a requirement to lend up to £85 million to enable Business Stream to support its customers through and beyond the Covid-19 pandemic. Any such lending to Business Stream would be fully repayable within the 2021-27 period. For completeness, the detailed central projection is contained in an annex²⁴.

21 Once our forecast actual responsive repair and refurbishment expenditure of around £120 million and £130 million respectively is included to make it a like for like historic comparison.

22 Excluding short term PFI adjustments.

23 Forecast closing cash reflects forecast actual responsive repair and refurbishment expenditure rather than the normative charge.

24 The annex can be found at www.scottishwater.co.uk/Help-and-Resources/Document-Hub/Key-Publications/Delivery-and-Business-Plans



APPENDIX A

– SUMMARY OF KEY INITIATIVES AND CHANGE PROGRAMMES

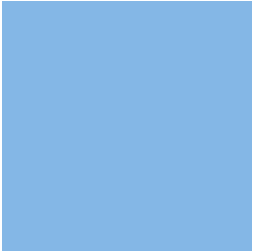
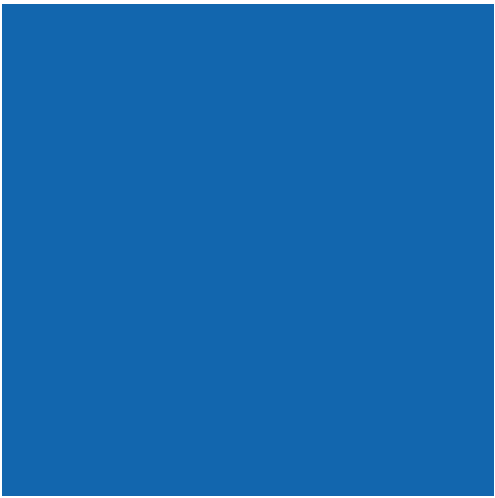
Delivery Plan 2021/22 – 2022/23

We are developing a comprehensive Transformation Plan that will set out the changes required over the next 10-20 years to deliver our ambitions. The key initiatives and change programmes we will deliver over the next two years beyond our transformation planning are set out in the table below.



Ambition	Service Excellence				Beyond Net Zero Emissions		Great Value and Financial Stability		
	Strategic Objective	Strategic Objective	Strategic Objective	Strategic Objective	Strategic Objective	Strategic Objective	Strategic Objective	Strategic Objective	Strategic Objective
What we are planning to deliver in 2021/22 - 2022/23	Delivering Consistently Excellent Water Supply	Transforming Waste Water Services	Enabling Sustainable and Inclusive Economic Growth	Empowering Customers and Communities	Transforming Our Emissions	Embracing the Circular Economy & Enhancing the Natural Environment	Making Smarter Investment Choices	Transforming How We Work	Financing Our Services
	<ul style="list-style-type: none"> Deliver SR15 & IR18 investment milestones. Achieve accreditation for our water supply risk management system in 2023. Progress delivery of 4 priority system needs and bring forward appraisals for a minimum of a further 3 in 2021/22. Water Operational Systems Plans for all water treatment works. 	<ul style="list-style-type: none"> Deliver SR15 & IR18 investment milestones. Develop a further 3 drainage partnerships. Develop long-term plans for all waste water catchments by 2023. Expect to appraise UIDs in 23 catchments. Take ownership of Highland PFI assets in 2022 and finalise options for Daldowie PFI. 	<ul style="list-style-type: none"> Take the lead in delivering increased capacity in our existing network infrastructure. Improve our service to developers. 	<ul style="list-style-type: none"> Establish Independent Customer Group by Spring 2021 and develop a national engagement strategy. Transform wholesale service to Licensed Providers. Boost support to vulnerable customers and those most impacted by recurring issues. 	<ul style="list-style-type: none"> Appraise opportunities so we can continue the momentum in reducing our operational emissions in future years. Work with a partner to develop a 260GWh opportunity for new renewables in south-west Scotland on our land. Report on emissions driven by our investment and target opportunities. Commence pilots to improve our land to store carbon. 	<ul style="list-style-type: none"> Establish the biodiversity status of our land and identify projects to support. Pilot improving the community access to 6 popular Scottish Water reservoirs. 	<ul style="list-style-type: none"> Deliver our Asset Management Transformation Routemap. Implement (Summer 2022) portfolio reviews. Implement improvements to our project appraisals including community engagement. Procure contractor partners for a new delivery vehicle in the area of refurbishment and repair work. 	<ul style="list-style-type: none"> Roll out and embed our Scottish Water 'character'. Deliver research and innovation Routemap. Digital investment to continue cyber security focus while providing transformation opportunity. 	<ul style="list-style-type: none"> Target is to achieve, at least, a 1% year-on-year real reduction. Plan to invest between £570m to £650m and £610m to £680m in each of 2021/22 and 2022/23 respectively. Implement a framework to assess, drive improvements, and enable us to report on the delivery value for money achieved for customers.

We will invest in line with the policies we have set out, progressing larger projects through investment appraisals and learning from these experiences.



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