

Wendy Kimpton
Director of Strategy and Regulation

21 March 2025

Your Ref:
20250321-SW-Long-term Strategy

Dear Wendy,

RESPONSE TO SCOTTISH WATER'S DRAFT LONG-TERM STRATEGY

WICS welcomes the opportunity to provide feedback on Scottish Water's Draft Long-term Strategy, as outlined in the response appended to this letter.

We acknowledge the significant work that has gone into developing the draft strategy and congratulate the organisation on how it is using this strategy to engage with customers in Scotland about the long-term challenges the industry faces.

We have consistently highlighted ahead of the draft strategy's publication that WICS requires detailed and robust supporting evidence to form a definitive view of Scottish Water's investment projections. Our role in this process is to provide assurance to stakeholders that the underpinning analysis is substantiated, with clear and comprehensive documentation of estimates and assumptions. We look forward to reviewing this material and the draft Business Plan submission in June.

For completeness, we have also answered the consultation questions on the online consultation form. The response appended to this letter, and the responses in the online consultation form should be read together.

Thank you for your continued open and constructive engagement to date. We look forward to engaging further as we approach the next key milestones of the Strategic Review of Charges 2027-33.

Please do not hesitate to contact me with any questions about the response.

Yours sincerely,



David Satti
Interim Chief Executive Officer

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APPENDIX – DETAILED RESPONSE

Background

The people of Scotland have benefitted considerably from a model where Scottish Water is publicly owned, commercially run and subject to rigorous independent economic regulation. The average annual household bill is around £130 lower than it would have been without the efficiencies Scottish Water has achieved.

Water charges in Scotland remain among the lowest in the UK, while Scottish Water has delivered among the highest levels of investment in the industry since 2002. This investment has enabled Scottish Water to make significant improvements in the levels of service it provides - for example, 67% of surface waters qualify as 'good' in Scotland compared to around 16% in England.¹ Over the period 2002-03 to 2023-24, customers have seen Scottish Water's levels of service (as measured by the Overall Performance Assessment metric) increase threefold.

However, WICS recognises that Scottish Water and the broader industry face several challenges, including mitigating and adapting to the impacts of a changing climate, managing the risks associated with an ageing asset base, and meeting stakeholder and societal expectations for drinking water quality and environmental protection. There are also opportunities, such as enhancing natural and social capital.

SRC21 marked a turning point in our regulatory approach. We recognised the need to adapt our regulatory framework to ensure that Scottish Water is best placed to address these challenges. Our approach was based on the principles of Ethical Business Practice and Regulation (EBP&R), which requires candour and transparency in all conversations between regulator and regulated company, therefore reducing asymmetries of information. An early success of this co-creation process was the development of a water sector vision.

Noting the long-term challenges and underpinned by the water sector vision, SRC21 recognised that investment would have to increase over time and, working closely with stakeholders, we decided to adopt a multi-period regulatory strategy of a gradual and smooth transition to much higher levels of investment. This aimed to strike an appropriate balance of cost between current and future customers.

Our Final Determination set charge caps for Scottish Water of CPI + 2% on average for each year of the SRC21 period. By ensuring such a transition in revenue, Scottish Water would be looking

¹ 16.1% of water bodies in England achieved 'high' and 'good' status in 2019 based on Defra (2025), 'Surface water status', March, available at [Surface water status - GOV.UK](https://www.gov.uk/government/statistics/surface-water-status), last accessed 18 March 2025. 67.1% of the water environment in Scotland was assessed as being in good or better overall condition in 2022 based on SEPA (2023), 'State of Scotland's Water Environment: Summary Report 2022', September, p.3.

after its future customers and ensuring that levels of service to current customers are not compromised.² Our analysis also indicated that charges would have to increase by a similar amount in real terms over the 2027-33 regulatory control period.³

As a result of this approach during SRC21, we started transitioning to an increased level of investment earlier than the other companies in Great Britain, who are now increasing charges at a higher rate to bring investment into line with the levels in Scotland. For example, the companies in England and Wales have increased investment from £120 per head per year (2023-24 prices) on average in 2020-24 to around £200 over 2025-30, which is around the level of Scottish Water in the current regulatory period (£190 per head per year).

Looking back, the multi-period regulatory strategy of gradual and smooth changes in charges in SRC21 is the correct approach. It will be important that Scottish Water places its Business Plan submission in this context and recognises that the companies in England and Wales have a lower starting point in terms of annual levels of investment.

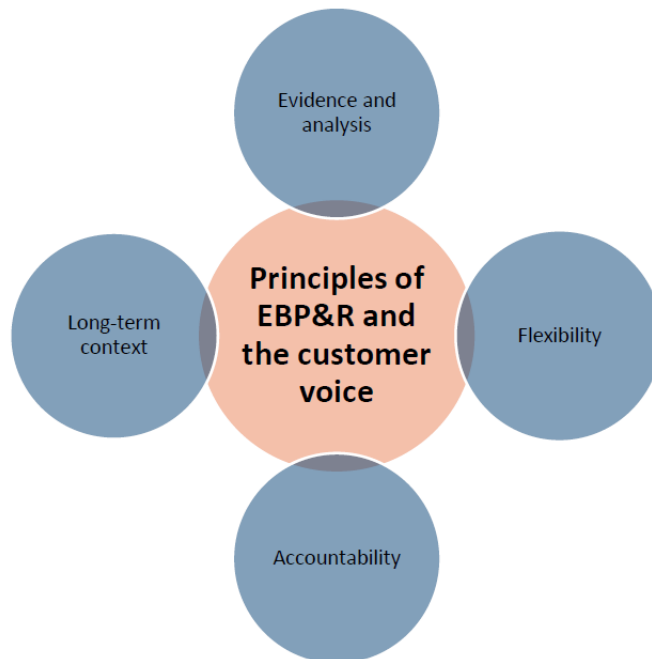
Preparing for SRC27

In December 2024, WICS published the final methodology,⁴ which sets out the approach to setting charge caps over the SRC27 regulatory period. The approach in the methodology provides a clear framework for Scottish Water to progress towards delivering the sector vision and an industry that is sustainable for generations of customers to come and is guided by several key principles:

² WICS (2020), 'Strategic Review of Charges 2021-27: Final Determination', December.

³ WICS (2020), 'Strategic Review of Charges 2021-2027: Draft Determination', October.

⁴ WICS (2024), 'Strategic Review of Charges 2027-33', December.



- **Embedding ethical business practice and regulation (EBP&R):** As in 2021-27, WICS approach is underpinned by the principles of EBP&R which will continue to support open and frank conversations about the challenges the industry faces and the best ways to address them.
- **A focus on high-quality evidence and analysis:** WICS will focus on the quality of evidence and analysis underpinning how Scottish Water plans to meet Scottish Ministers' Objectives in the context of the longer-term water sector vision.
- **SRC27 set in the context of the long-term:** It is important to look beyond the regulatory control period, given the long-term nature of the water industry. WICS approach for SRC27 maintains this focus, requiring Scottish Water to set out what it plans to deliver over the 2027-33 regulatory period as a step towards achieving the longer-term sector vision.
- **Ensuring clear accountability:** It is important that Scottish Water has full ownership and accountability for its performance during the regulatory period. This requires defining what Scottish Water is expected to deliver during 2027-33 and then monitoring Scottish Water's progress over this period.

- **Building appropriate flexibility:** WICS recognises that Scottish Water needs sufficient flexibility to respond effectively to the challenges it faces, particularly where changes in risk or additional evidence impact investment priorities.

WICS methodology also requires Scottish Water to submit a business plan set in the context of the long-term water sector vision. This includes explaining what the water sector vision means in detail, covering:

- Scottish Water's contribution to the sector vision;
- how Scottish Water's contribution to the sector vision could be measured in terms of commitments and targets;
- the timeframe for achieving the individual elements of the sector vision;
- the options for the specific investment required to achieve its contribution to the sector vision;
- the different options for the profile of delivering the investment and nature-based solutions required to achieve the vision;
- when the full sector vision will be met; and
- how Scottish Water will measure and report on progress.

WICS considers that success will involve Scottish Water developing a robust evidence base that underpins the sector vision and effectively communicating this to customers, communities, and key stakeholders. WICS considers it important that Scottish Water takes ownership of its business plan and charges and that both command the support of its customers and communities. This will be foundational in ensuring that Scottish Water is best placed to deliver its contribution to the sector vision in the longer term.

WICS comments on Scottish Water's Draft Long-term Strategy

WICS welcomes Scottish Water's draft Long-term Strategy and recognises the significant work that has been undertaken since Scottish Water published the Strategic Plan for the 2021-27 Strategic Review of Charges. WICS also sees this strategy as a step towards Scottish Water engaging more with customers and wider society. We welcome that Scottish Water is building greater public awareness of the sector's challenges and the potential funding implications.

WICS recognises several of the challenges that Scottish Water identifies in its long-term strategy, including the challenge of adapting to a changing climate. At the time of SRC21, stakeholders did not know as much as they do now about the impact of a changing climate on the water industry. Furthermore, WICS welcomes the linkage back to the sector vision, which the sector stakeholders

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developed jointly in SRC21 and have recently updated to ensure that it remains fit for purpose. Whilst WICS does not have a specific role in determining the long-term industry priorities and water industry policy choices, we note the importance of stakeholders and customers understanding what progress is being made in each regulatory period against the long-term objectives.

WICS notes that Scottish Water is forecasting that the funding needed to deliver sustainable services over the next 25 years could be approximately double what it is today. WICS also notes that Scottish Water estimates it could invest around £50 billion in water and wastewater services over the next 25 years, of which around half relates to investment in maintaining the existing asset base.

WICS recognises the “directional” nature of these long-term cost estimates. However, stakeholders will seek confidence in the process followed to develop the strategy, the underlying assumptions underpinning cost forecasts and the key building blocks of Scottish Water’s Long-term Strategy. This is why WICS was actively involved in the work to support the development of the industry strategy in the early years of the 2021-27 regulatory period. At that time, WICS outlined a list of critical issues and questions that, if addressed, would have helped Scottish Water demonstrate an analytically robust and logically consistent approach. These questions are set out below:

- How will Scottish Water evidence the options for moving towards the sustainable funding of the industry?
- How will Scottish Water evidence that its proposals for operating expenditure are efficient and effective for Strategic Review of Charges 2027-33?
- What is the average annual replacement cost that Scottish Water should charge its customers such that it can maintain its assets appropriately?
- How will Scottish Water evidence the projections for asset replacement, repair and refurbishment expenditure over time?
- How will Scottish Water evidence that costings for the enhancement expenditure are truly incremental?
- How will it evidence that these resources will be used efficiently and effectively?
- What is the ‘universe of needs’ - a list of all known needs and potential aspirations (even things that may never actually happen) that Scottish Water might, at some point, be expected to deliver? Such a list should form the backbone of any strategy and its evidence for the Strategic Review of Charges 2027-33.

- How will Scottish Water evidence full transparency of the incidence of costs and the funding and financing of core and non-core activities through the regulatory accounting rules and ex-post reporting?
- What are the implications of currently (and to be) planned investment on levels of service and compliance over 2027-33?

Though WICS recognises the engagement on the development of the Draft Long-term Strategy to date and welcomes that we have been able to provide feedback through various “deep dives”, WICS does not consider these questions to have been adequately addressed in the Draft Long-term Strategy. WICS looks forward to continuing this engagement as we review the evidence and analysis that will support Scottish Water’s estimates in the detailed investment strategies and the draft Business Plan submission in June. However, at this stage, WICS cannot comment further on the detail of Scottish Water’s forecasts.

Implications of the Long-term strategy for SRC27

If Scottish Water considers that investment needs to increase in SRC27 to meet the Ministerial Objectives in the wider context of the challenges set out in the draft Long-term Strategy, then Scottish Water will need to demonstrate:

- how it has taken account of affordability of proposed charge increases, particularly if it seeks to deviate from the indicative charge profile for SRC27 provided in SRC21;
- that it has explained the importance of the outcomes that customers will receive from the proposed investment, including the investment in asset maintenance; and
- that the proposed investment programme is deliverable, taking account of Scottish Water’s internal capacity and external factors such as capacity of the supply chain recognising the large investment programmes underway in England and Wales as part of the Asset Management Period 8 (AMP8).

WICS is actively assessing the efficient size of Scottish Water’s investment programme, taking account of these factors. WICS looks forward to engaging with Scottish Water on this work and reviewing its evidence on these areas as part of its draft Business Plan submission in June.

Next Steps

WICS welcomes the constructive and open approach that Scottish Water has taken to engaging with WICS to date as part of SRC27, as underpinned by the principles of Ethical Business Practice

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and Regulation (EBP&R). WICS looks forward to continuing this engagement as we approach the next milestones of the Strategic Review of Charges.