



STRATEGIC REVIEW OF CHARGES 2027-33: DRAFT DETERMINATION EXECUTIVE SUMMARY

30 June 2026

Contents

Contents	1
List of figures	1
List of tables	1
1. Executive Summary	2
1.1. Our Draft Determination at a glance.....	2
1.2. Introduction	4
1.3. Our approach to SRC27	5
1.4. Scottish Water’s business plan	5
1.5. Customer feedback on the business plan.....	9
1.6. Our views on the business plan	10
1.7. Summary of key decisions in our Draft Determination	11
1.8. Areas for Scottish Water to address in its response to the Draft Determination.....	25
1.9. What we are consulting on and how to participate.....	26
1.10. Our final decision	28

List of figures

Figure 1: Our Draft Determination at a glance.....	3
Figure 2: Allowed for operating expenditure.....	22
Figure 3: Safeguards.....	23

List of tables

Table 1: Summary of Scottish Water’s business plan and WICS Draft Determination	6
Table 2: Allowed for charge caps (real terms).....	12
Table 3: Average household bill (real terms; 2026-27 prices)	13
Table 4: Average household bill (projected outturn prices)	13
Table 5: Households receiving a discount (excluding vacant exemptions)	14
Table 6: Outcome performance challenge.....	16
Table 7: Allowed for investment.....	18
Table 8: Total allowed investment with allocations	19
Table 9: Consultation questions	27

1. Executive Summary

1.1. Our Draft Determination at a glance

- 1.1.1. Scottish Water is a publicly owned, commercially run organisation responsible for providing water services to around 2.6 million households and wastewater services (covering the removal of foul wastewater and surface water drainage) to around 2.5 million households, which covers 98% and 94% of the population in Scotland respectively. Scottish Water also acts as a wholesaler of water and wastewater services to licensed providers in the non-household retail market, which was introduced in 2008.
- 1.1.2. Every six years, we set caps on the charges that Scottish Water raises from customers through a Final Determination. This Draft Determination sets out our draft decision on charge caps and required investment for the 2027-33 regulatory period for consultation. We will review the feedback we receive on our Draft Determination and take this into account in issuing our Final Determination of charge caps on 29 October 2026.
- 1.1.3. Scotland's water and wastewater services need sustained investment. Scottish Water's business plan sets out a major programme for 2027-33 to maintain and improve services, respond to climate change, meet environmental and drinking water quality requirements, and support future demand.
- 1.1.4. We agree that significant investment is needed. However, our role is to ensure customers pay no more than necessary. We have therefore tested Scottish Water's evidence, challenged costs where we do not consider they are fully justified, strengthened performance expectations, and added safeguards to protect customers from uncertainty and delivery risk.
- 1.1.5. Our Draft Determination allows £7,946 million of investment over 2027-33. It removes £360 million from Scottish Water's proposed operating and capital spending, while requiring stronger performance in areas customers told us matter most, including drinking water quality, supply reliability, leakage and sewer flooding.
- 1.1.6. Scottish Water proposed charges rising by CPI+3.3% each year, equivalent to a cumulative increase of 21.5% above inflation over the six-year period. Our Draft Determination limits charges to CPI+2% in the normal course of events, with further increases applying only if specific conditions are met, or uncertain costs materialise. This reduces the cumulative increase above inflation to 12.6%, or 13.6% if uncertain and uncontrollable costs arise.
- 1.1.7. Figure 1 summarises the key elements of our Draft Determination: lower bills than Scottish Water proposed, significant investment, stronger performance expectations and greater protections for customers.

1.1.8. For reference, figures for investment and expenditure in this document are given in 2024-25 prices unless otherwise stated. Figures for bills and customer savings are given in 2026-27 prices unless otherwise stated.

Figure 1: Our Draft Determination at a glance

<p>Limiting bill increases</p> <ul style="list-style-type: none"> • Limits the annual change in charges to no more than 2% above inflation in the normal course of events, or 2.3% in exceptional circumstances if uncertain and uncontrollable costs arise. • Removing £360 million from Scottish Water’s proposed spending plans of £11,710 million for operating and capital expenditure.¹ • Average bills would rise by around £12 per year, around £7 less than Scottish Water proposed (before inflation). • £1,030 million borrowing in cash terms, which contributes towards the upfront cost of investment, reducing the immediate impact on customer bills. 	<p>Requiring improved performance levels²</p> <p>We have set more ambitious targets for performance across a range of areas resulting in:</p> <ul style="list-style-type: none"> • Reduction in water lost due to leakage from 452 million litres per day forecast in 2026-27 to 385 in 2032-33 – saving 67 million litres of water per day, enough to fill 26 Olympic-sized swimming pools. Leakage is higher in Scotland than in England and Wales; the additional asset renewal and associated leakage reductions will ensure Scottish Water does not fall further behind. • Reduction in serious pollution incidents from 8 forecast in 2026-27 to 4 in 2032-33 – a reduction of 50%. This is higher than the average performance of England and Wales water companies over the past three years, which is 2.7.³ • Reduction in sewer flooding in homes from 421 properties forecast in 2026-27 to 342 in 2032-33 – a reduction of 18.8%.⁴ There are fewer sewer flooding incidents in homes in Scotland than in England and Wales, and the reductions will keep pace with the reductions committed in England and Wales. • Reduction in customer contacts about drinking water quality from 14,263 contacts in 2026-27 to around 9,741 contacts in 2032-33 – a reduction of 31.7%.⁵ Scottish Water receives many more contacts per person served than companies in England and Wales. Our target makes progress towards closing this gap while remaining achievable within one regulatory period.
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¹ Excludes annual fees paid to Private Finance Initiative (PFI) contractors, responsible for operating and maintaining some of Scottish Water’s wastewater treatment works and bioresource facilities.

² In all instances, we use Scottish Water’s forecast performance for 2026-27 as set out in its final business plan.

³ Based on the median average.

⁴ This is based on a reduction in internal sewer flooding incidents from 1.57 per 10,000 connections based on Scottish Water’s forecast for 2026-27 to 1.27 per 10,000 connections in 2032-33. This is based on 2,690,000 connections in 2024-25.

⁵ This is based on a reduction in customer contacts about water quality of 2.62 per 1,000 people based on Scottish Water’s forecast for 2026-27, to 1.79 per 1,000 people in 2032-33. This is based on a population of 5,443,756 in 2024-25.

<p>More investment than current levels at £7,946 million over 2027-33</p> <ul style="list-style-type: none"> • £2,867 million to deliver excellent water quality, protect our natural environment and improve the services customers receive. • £4,926 million to maintain and renew our pipes, water mains and treatment works. • £168 million targeted to improve outcomes for customers and the environment. • Increasing the efficiency challenge on operating and capital expenditure from 0.8% per annum to 1% per annum, to benefit customers. 	<p>Greater protections for customers</p> <ul style="list-style-type: none"> • Conditional charge cap and provisions for uncertainty so that charges will only reflect uncertain costs where the relevant conditions are met and the costs are evidenced. • Enhanced performance monitoring and reporting of Scottish Water’s performance. • Greater representation from customers in decision making.
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1.2. Introduction

- 1.2.1. Water is a precious resource, essential for both life and our economy. As a society, we rely on Scottish Water to deliver clean, high-quality drinking water, responsibly collect and treat wastewater, and return it to the environment without detriment. This is while ensuring these services remain affordable.
- 1.2.2. Every six years, we set caps on Scottish Water’s charges through the Strategic Review of Charges (SRC) process. This ensures that customers pay no more than necessary and that services provide value for money, now and in the future.
- 1.2.3. As the economic regulator, we protect the interests of current and future customers by setting charge caps for the services Scottish Water provides and requirements for investment and service levels. We then monitor delivery and performance against these requirements. This builds on the long-term regulatory framework established in the Strategic Review of Charges 2021 (SRC21), strengthening our focus on evidence and outcomes.
- 1.2.4. Scottish Water’s 2027-33 business plan proposes a major programme of investment and operational activity to enable it to respond to the climate emergency, population change and the need to continue investing in infrastructure. Scottish Water explained that it sought to achieve an appropriate balance between this need for investment and customers’ affordability concerns, recognising the ongoing cost-of-living pressures they face.
- 1.2.5. We recognise these challenges and pressures. We agree that substantial investment is needed and that much of the plan is broadly efficient. However, we have identified areas where the evidence does not support the full costs requested, where stronger performance commitments are required, and where additional safeguards are needed to protect customers.
- 1.2.6. Our Draft Determination therefore allows a significant investment programme for 2027-33, while setting lower charge caps than Scottish Water proposed, strengthening outcomes in

areas customers value most, and introducing safeguards to manage uncertainty and delivery risk.

1.2.7. This document provides a summary of our Draft Determination for the Strategic Review of Charges 2027 (SRC27), which covers the regulatory period from 2027-28 to 2032-33.

1.3. Our approach to SRC27

1.3.1. The SRC process involves setting charge caps, levels of investment and requirements for levels of service. Ministers provide policy direction through the Ministerial Objectives and Principles of Charging, and Scottish Water develops its business plan to meet those Objectives and Principles.

1.3.2. SRC27 continues the long-term regulatory approach introduced at SRC21, underpinned by Ethical Business Practice and Regulation (EBP&R). This approach supports a deep understanding of Scottish Water and its challenges, ensuring that charges are justified, efficient and provide long-term value, while balancing short- and long-term priorities. This framework is consistent with the recommendations of the Independent Water Commission's review of the sector in England and Wales, which recommends a supervisory regulatory approach aligned with long-term planning.

1.3.3. For SRC27, we have strengthened our expectations on evidence, the linkage between investment and outcomes, and the demonstration of efficiency and deliverability.

1.4. Scottish Water's business plan

1.4.1. Scottish Water's business plan for the 2027-33 regulatory period sets out a substantial programme of investment and operational activity to maintain and improve services and meet the Ministerial Objectives.

1.4.2. It reflects wide-ranging engagement with customers and industry stakeholders to balance priorities such as service improvements, affordability, and long-term sustainability, and includes a range of outcome measures intended to demonstrate benefits delivered to customers and the environment. This engagement involved extensive discussions and challenge on an earlier draft, including proposals for a 4% per annum charge increase and an investment programme of £8,501 million. Scottish Water took on board the feedback from this engagement in finalising its business plan (see Table 1).

1.4.3. The business plan published in February 2026 proposes charges of 3.3% per annum, £8,093 million of investment, with a strong focus on asset maintenance, environmental compliance, improving resilience to climate change, and progressing towards net zero emissions and £4,056 million of operating and PFI expenditure.

1.4.4. Our Draft Determination separates the charge cap into three components.

- 1.4.5. The first is the core charge cap, which allows charges to rise by CPI+2% in each of the first three years of the period. This reflects the need to continue the transition towards higher investment while avoiding unnecessary volatility in charges.
- 1.4.6. The second is a conditional allowance for West Central Bioresources (WCB), which is a significant project with a forecast cost of around £560 million. The conditional allowance would apply only in the final three years of the period and only if Scottish Water provides the evidence required for the project to proceed. Customers would therefore not pay the WCB element unless the project is sufficiently evidenced and taken forward.
- 1.4.7. The third is an uncertainty mechanism for costs outside Scottish Water’s control. This would allow a further CPI+0.3% in the final three years only if those uncertain costs materialise and are evidenced.
- 1.4.8. Taken together, these components reduce the cumulative real terms increase from Scottish Water’s proposed 21.5% over 2027-33 to 12.6% if WCB proceeds, or 13.6% if WCB proceeds and uncertain costs materialise.
- 1.4.9. A summary of Scottish Water’s draft business plan from June 2025, the final business plan from February 2026 and our Draft Determination is provided in Table 1. This shows the results of the engagement and our challenge over the SRC27 process.

Table 1: Summary of Scottish Water’s business plan and WICS Draft Determination

What’s included	Scottish Water’s draft business plan (June 2025)	Scottish Water’s final business plan (February 2026)	Our Draft Determination	What it means for customers
Charges	Charges increasing in line with CPI+4% per annum (equivalent to 26.5% above inflation over 2027-33).	Charges increasing in line with CPI+3.3% per annum (equivalent to 21.5% above inflation over 2027-33).	Charges increasing in line with CPI+2% per annum in the normal course of events, rising to 2.3% in 2030-33, only if uncertain and uncontrollable costs arise.	Bills would rise each year by inflation plus an additional 2% over 2027-28 to 2029-30, potentially increasing to 2.3% in the final three years of the period. Over the whole period, this is a total rise of 12.6% above inflation or 13.6% if uncertain and uncontrollable costs arise.
Borrowing	Net new borrowing of £170 million per annum in outturn prices	Same as draft plan.	Net new borrowing of around £172 million per annum in outturn prices	£1,030 million of borrowing, linked to specific investment requirements including

	(equivalent to £1,020 million over 2027-33).		(equivalent to £1,030 million over 2027-33).	growth, West Central Bioresources and defined water quality and environmental enhancements. Borrowing helps fund the upfront costs of these investments and reduces the immediate impact on customer bills.
Total investment programme	£8,501 million, a 41% increase compared to the planned 2021-27 programme.	£8,093 million, a 35% increase compared to the planned 2021-27 programme.	£7,946 million, based on: <ul style="list-style-type: none"> • a cost challenge of around £260 million relating to labour cost inflation and specific projects and programmes; • a further efficiency challenge of £55 million to account for general productivity improvements; and • £168 million of additional investment to achieve improved outcomes in water quality and continuity, environment and customer levels of service. 	More investment is proposed than in the previous period to maintain services and meet new requirements. A reduction of around £150 million from Scottish Water's proposal, but more investment than the previous period, aimed at improving water quality and the quality of the water environment.
Maintaining existing assets	£5,078 million for asset maintenance (27% increase compared to 2021-27).	£5,076 million for asset maintenance.	£4,926 million for asset maintenance.	More spending would go towards repairing, renewing and replacing pipes, treatment works and other assets to keep services reliable. Scottish Water will need to improve its asset information to demonstrate where this investment is needed most, what risks it

				reduces and what the consequences would be of deferring work.
Improving and expanding services	£3,423 million for enhancement and growth (70% increase compared to 2021-27)	£2,957 million for enhancement and growth (c.45% increase compared to 2021-27).	£2,867 million for enhancement and growth.	Additional spending would support upgrades, environmental improvements and capacity for growth (for example, new development and changing standards).
Service and environmental outcomes	A focus on outcomes, including improvements in customer experience, a proposed 10% reduction in leakage, and progress towards net zero emissions by 2040.	Further improvements on outcome measures, including water quality contacts and sewer flooding, but lower performance on water interruptions compared to the draft business plan.	Further improvements in outcomes, including: <ul style="list-style-type: none"> • 15.7% reduction in leakage from current levels,⁶ saving 70 million litres of water per day; • 50% reduction in serious pollution incidents, reducing the overall number by 4;⁷ • 18.8% reduction in sewer flooding in homes, reducing the total number of incidents by around 80.⁸ 	Targets include fewer service failures that cause disruption and distress for customers, a better natural environment, an improved customer experience, less water lost to leakage, and further actions to reduce carbon emissions.
Operating costs (day-to-day running)	Operating expenditure of £3,544 million in total over 2027-33, reflecting returning PFI works, higher	Operating expenditure of £3,617 million in total over 2027-33, reflecting a further increase from the draft business plan.	Operating expenditure of £3,401 million, reflecting: <ul style="list-style-type: none"> • a cost challenge of around £100 million on increases to operating expenditure; 	Some day-to-day costs are expected to rise over time, particularly where energy and chemicals are more expensive.

⁶ 15.7% reduction from Scottish Water's last reported outturn performance in 2024-25 for comparing to Scottish Water's business plan proposals. Our proposed reduction is 14.6% when compared to Scottish Water's 2026-27 forecast.

⁷ Expressed as a reduction from Scottish Water's forecast position in 2026-27.

⁸ Expressed as a reduction from Scottish Water's forecast position in 2026-27.

energy costs and other changes.

- a cost challenge of £100 million on operating returning PFI works; and
- a further efficiency challenge of over £10 million to account for general productivity improvements in the economy.

Efficiency challenge	0.8% per annum applied to both operating and capital expenditure. For operating expenditure, this is an effective 0.66%, as the challenge is not applied to items outside Scottish Water's control (e.g., business rates).	Same as the draft business plan.	1% per annum applied to both operating and capital expenditure. For operating expenditure this is an effective 0.8%, as the challenge is not applied to items outside Scottish Water's control (e.g., business rates).	The plans and Draft Determination assumes year-on-year efficiencies, meaning Scottish Water would need to find savings and work more efficiently while delivering the programme.
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1.5. Customer feedback on the business plan

- 1.5.1. To ensure that customers are at the heart of SRC27, Consumer Scotland, Scottish Water and WICS signed a Memorandum of Understanding (MoU) on 11th November 2024 that sets out the principles and programme of joint work on customer engagement.⁹
- 1.5.2. Customers have been involved throughout the Strategic Review of Charges process as part of three pillars of work: Evidence, Challenge, and Confirmation.
- 1.5.3. Through the evidence pillar, Scottish Water conducted customer research to identify customer priorities and reflect these in its business plan. Through the challenge pillar, the Independent Customer Group (ICG), comprising a chair and members, was involved in the research and had a formal assurance role in SRC27 to test whether:
- Scottish Water had effectively engaged with customers on its business plans; and

⁹ WICS (2024), 'Placing customers at the heart of the Strategic Review of Charges', November 2024

- The research was reflected in Scottish Water’s plans.

1.5.4. The ICG found that the customer voice has demonstrably influenced the final business plan.

1.5.5. The confirmation pillar was developed to meet the request from Ministers in the Commissioning letter for the Final Determination to command customer support. This work has been delivered through Consumer Scotland’s long-term deliberative research.¹⁰ This research found support for and acceptance of Scottish Water’s final business plan. However, there were some outstanding concerns over risk, inflation and the possibility of missed opportunities.

1.5.6. As our Draft Determination delivers better outcomes for lower charges, we consider such a package consistent with the basis on which customers supported the business plan, and we are testing this through consultation.

1.6. Our views on the business plan

1.6.1. Scottish Water has produced a comprehensive and substantial business plan. It has engaged constructively throughout the process, shared early proposals and draft plans, and provided a Board assurance statement. This has given us a strong basis for scrutiny. Our role, however, is not simply to accept the plan, but to test the evidence, challenge costs, and decide what customers should fund.

1.6.2. In reviewing the business plan, we have sought the views of Scottish Water’s other regulators, the Drinking Water Quality Regulator (DWQR), which regulates drinking water quality and Scottish Environment Protection Agency (SEPA), which regulates the impact of Scottish Water’s activities on the water environment. We have also sought the views of Consumer Scotland.

1.6.3. Our engagement with DWQR and SEPA highlighted that there is little discretion over investment need in relation to Scottish Water’s proposed investment in improving water quality and water environment. In the latter area, SEPA requested additional investment beyond that proposed by Scottish Water. Both also considered that there remains scope for Scottish Water to show greater ambition in its proposed performance on the outcome measures, given the proposed levels of investment. SEPA also explained that Scottish Water’s proposed performance on two of its outcomes (total pollution incidents and discharge permit compliance at wastewater treatment works) may not be consistent with the Ministerial Objectives. We have challenged Scottish Water further on total pollution incidents, taking into account the performance of comparator companies, investment levels and SEPA’s feedback. However, we request that Scottish Water and SEPA resolve the

¹⁰ WICS (2024), ‘2027-33 Commissioning letter’, 12 June 2024.

misalignment on discharge permit compliance as a matter of priority and include the outcome in their representations on the Draft Determination.

- 1.6.4. We have reviewed the business plan against the evidence provided by Scottish Water, Scottish Water's past performance, comparator company performance and wider market information. We have also considered uncertainty in areas such as energy costs, where external factors may affect both customers and Scottish Water. Where appropriate, we have proposed mechanisms to manage that uncertainty rather than asking customers to pay upfront for costs that may not arise. We will continue to test the evidence before the Final Determination.
- 1.6.5. Taking this evidence in the round, we consider Scottish Water's plan to be broadly efficient overall. However, broadly efficient does not mean accepted without challenge. We have identified areas where the evidence does not support the full costs requested, where the link between investment and outcomes needs to be stronger, and where performance expectations should be more stretching. We also consider that Scottish Water could have done more to evidence affordability and cost efficiency in some investment areas.
- 1.6.6. We have introduced an ambitious but achievable efficiency challenge of 1% per annum, reflecting our assessment of Scottish Water's underlying efficiency and consistent with our long-term approach. We have also made some targeted cost challenges where the evidence is not sufficiently robust.
- 1.6.7. In some areas, the evidence could have supported a greater challenge to Scottish Water's proposed costs. However, we do not consider that applying the maximum possible challenge would be in the interests of current or future customers. The water industry faces increasing pressure from ageing assets, climate change, environmental requirements and changing demand. Our judgement is that customers are better protected by allowing efficient investment, strengthening the outcomes Scottish Water must deliver, and putting stronger safeguards in place, rather than reducing allowances to a level that could increase delivery risk or defer costs into the future.
- 1.6.8. Our approach also strengthens the performance Scottish Water must deliver in return for customer charges. This protects current customers by requiring measurable service improvements and reducing risk. It protects future customers by avoiding the false economy of deferring necessary investment and passing higher costs to those who follow.

1.7. Summary of key decisions in our Draft Determination

- 1.7.1. Our Draft Determination provides a balanced package across charge caps, outcomes, investment, operating expenditure and safeguards. Taken together, these proposals continue the SRC21 approach while strengthening the focus on customer value and delivery.

1.7.2. We summarise the following key decisions:

- Charge caps;
- Outcomes;
- Allowed for investment;
- Allowed for expenditure; and
- Safeguards.

Charge caps

1.7.3. We set out allowed charge caps for the regulatory period, including a conditional element for the West Central Bioresources (WCB) project, which, at a cost of £560 million, would be the largest project Scottish Water will deliver since it was established in 2002. Customers would only pay the additional West Central Bioresources element if the project proceeds and the relevant evidence requirements are met.

1.7.4. We also include a mechanism for uncertain and uncontrollable costs. This protects customers from paying upfront for costs that may not arise, while allowing Scottish Water to recover efficient costs where these are outside its control and properly evidenced.

1.7.5. Table 2 show our Draft Determination of the allowed charge caps for households and non-households.

Table 2: Allowed for charge caps (real terms)

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Charge cap not subject to conditions	2%	2%	2%	0%	0%	0%
Conditional charge cap for WCB	0%	0%	0%	2%	2%	2%
Conditional charge cap for uncertain and uncontrollable costs	0%	0%	0%	0.3%	0.3%	0.3%
Maximum allowed for charge cap	2%	2%	2%	2.3%	2.3%	2.3%

1.7.6. These charge caps provide alternative charge paths depending on whether the WCB project proceeds. We consider that this best meets the Commissioning letter's request for alternative charge paths, given the information available, recognising that WCB represents a key strategic project and risk for Scottish Water. We recognise that Scottish Water's business plan included alternative charge paths above the CPI+3.3% charge path. However, after reviewed the outcomes associated with those charge paths, we do not consider that they offer sufficient value to customers to justify the additional charges.

1.7.7. These charge caps result in the following household charges based on limiting charges to no more than:

- 2% above inflation in the normal course of events; or
- 2.3% in exceptional circumstances if uncertain and uncontrollable costs arise.

1.7.8. This results in the following average household bills before inflation (Table 3) and after inflation (Table 4) assuming that WCB proceeds.¹¹

Table 3: Average household bill (real terms; 2026-27 prices)

Before inflation	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
If uncertain costs do not materialise	£537	£548	£559	£570	£581	£593	£605
If uncertain costs materialise	£537	£548	£559	£570	£583	£596	£610

Table 4: Average household bill (projected outturn prices)

After inflation	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
If uncertain costs do not materialise	£537	£558	£580	£603	£627	£653	£679
If uncertain costs materialise	£537	£558	£580	£603	£629	£656	£685

1.7.9. As a result of Ministers' Principles of Charging, many household customers will pay less than the publicised bill by council tax band. These include discounts through the water charges reduction scheme (WCRS), which provides a maximum discount of 35% to eligible customers and the status discount, which provides discounts of 25% and 50%.¹² Around half of households benefit from some form of discount, representing the most wide-ranging support scheme in Great Britain. These discounts are worth a combined total of over £200 million, with the average discount for an eligible household around one-third of their bill, or £160 per year.

1.7.10. Table 5 provides a breakdown of the number of households receiving discounts, disaggregated by discount type.

¹¹ The average household bill is expressed after the discounts that eligible customers receive.

¹² The status discount includes the single person discount.

Table 5: Households receiving a discount (excluding vacant exemptions)¹³

Customers	Water	Wastewater
Customers in receipt of WCRS discount only	143,294 (5.5%)	141,243 (5.6%)
Customers in receipt of the status discount only	831,289 (31.7%)	803,686 (31.9%)
Customers in receipt of both WCRS and status discount ¹⁴	317,069 (12.1%)	313,984 (12.5%)
Customers in receipt of a discount	1,291,651 (49.2%)	1,258,914 (50.0%)
Customers not in receipt of a discount	1,331,354 (50.8%)	1,256,839 (50.0%)

1.7.11. For non-households, Scottish Water proposed a revenue cap, which would transfer the risk of reduced consumption onto non-household customers on the basis that charges would increase to offset the fall in volumes to achieve the forecast level of revenue. We do not consider this to be in the customer’s interest at this stage, recognising that we will undertake a comprehensive review of non-household tariffs over the 2027-33 regulatory period, which may reduce charges for some but increase them for others (rebalancing charges). We have concerns that a revenue cap approach could further increase some customers’ charges, especially those unable to reduce consumption.

1.7.12. The Principles of Charging require that non-household drainage charges are calculated by reference to Rateable Value. Additionally, non-households without a meter are charged for water and wastewater services based on Rateable Value. The Rateable Value of non-household properties is updated every three years and, as a result, the revaluations will impact customer charges. Without further adjustment, Scottish Water would generate additional revenue if there were to be a net increase in Rateable Values across the customer base. The opposite would be true if there were to be a net decrease in Rateable Values. While we do not consider it to be in customer’s interest to implement a non-household revenue cap at this stage, in the 2027-33 regulatory period, we will require changes in non-household Rateable Values to be revenue-neutral to Scottish Water. This will ensure that Scottish Water does not over- or under-recover revenues due to changes in Rateable Values over the regulatory period.

Outcomes

1.7.13. In return for these charges, Scottish Water proposed 49 outcome measures showing the benefits that customers and society will receive from the proposed investment. These are

¹³ Based on Scottish Water’s Annual Return submission for 2024-25. The percentages shown in brackets represent the proportion of customers in receipt of the specified discount.

¹⁴ Customers eligible for both discounts receive the higher of the two.

the measures that industry stakeholders will use to hold Scottish Water to account for delivery during the regulatory period.

1.7.14. We consider that Scottish Water has not yet evidenced the link between the investment programme and forecast performance on the outcome measures. We acknowledge that this is a difficult task, given that investment can deliver multiple outcomes. However, we consider that Scottish Water should be able to do this in a number of areas, such as leakage, sewer flooding and water quality, where there should be a direct linkage between investment and forecast performance.

1.7.15. A related point is that Scottish Water has not fully evidenced that the forecast performance over the 2027-33 regulatory period is sufficiently ambitious. Other stakeholders have also shared this view with us in their feedback on the business plan.

1.7.16. We have therefore strengthened outcome expectations, placing greater emphasis on measurable improvements, especially in the four areas identified in customer research as most important to customers:

- Drinking water quality;
- Reliability of supply;
- Reduction in leakage; and
- Protection from internal sewer flooding.

1.7.17. The quantitative research also found that customers considered sewer flooding to be under-represented in the business plan. As such, we have allowed an additional £50 million of investment to reduce the risk of sewer flooding.

1.7.18. This ensures that increased investment translates into tangible benefits for customers and the environment.

1.7.19. Table 6 shows how we have challenged Scottish Water's performance targets compared to its proposals in its Draft and Final Business Plans for a subset of outcome measures aligned with the priority areas identified by customers.¹⁵

¹⁵ The table does not include outcome measures that remain in development.

Table 6: Outcome performance challenge

Outcome level in Year 6 2032-33	Draft business plan	Final business plan	Draft Determination
Leakage in megalitres per day (MI/d) ¹⁶ (Percentage reduction of three-year average leakage from 2024-25 of 456 MI/d) ¹⁷	411 MI/d (9.9%)	411 MI/d (9.9%)	385 MI/d (15.7%)
Leakage in areas with supply-demand balance deficit (Percentage reduction in areas with supply-demand balance deficit from 2024-25 of 233 MI/d)	203 MI/d (12.9%)	203 MI/d (12.9%)	186 MI/d (20.4%)
Number of internal sewer flooding incidents per 10,000 sewer connections	1.48	1.48	1.27
Number of properties at risk of internal sewer flooding per 10,000 sewer connections	1.51	1.47	1.17
Number of external sewer flooding incidents per 10,000 sewer connections	11.24	11.16	9.52
Number of areas at risk of external sewer flooding per 10,000 sewer connections	11.88	11.88	10.83
Unplanned interruptions greater than 6 hours, excluding 3rd party	6,750	7,000	5,000
Average minutes lost due to water supply interruptions (over 3 hours)	15.0	15.0	10.4
Repeat interruptions to water supply	200	240	170
Taste and odour contacts per 1,000 population	0.53	0.51	0.46
Discolouration and aeration contacts per 1,000 population	2.08	1.90	1.33

Allowed for investment

1.7.20. In SRC21, we began a transition to increase investment levels to maintain the existing infrastructure, build new infrastructure to meet new demand for water and wastewater services, and improve performance. This investment is essential to prevent deterioration in the services customers receive and to avoid future costs associated with a more reactive

¹⁶ A megalitre is 1 million litres.

¹⁷ 15.7% reduction from Scottish Water's last reported outturn performance in 2024-25 for comparing to Scottish Water's business plan proposals. Our proposed reduction is 14.6% when compared to Scottish Water's 2026-27 forecast.

approach to service maintenance. It also enhances service resilience, recognising the challenges posed by a changing climate that is driving more extreme weather patterns.

1.7.21. Our Draft Determination for the 2027-33 regulatory period continues this smooth transition towards increased investment, avoiding the volatile changes in charges observed in other jurisdictions and sectors, and ensuring Scottish Water has sufficient funding for efficient levels of investment, both now and in the future.

1.7.22. We have reviewed Scottish Water's proposed investment for the 2027-33 regulatory period based on several approaches:

- Reviewing project investment appraisals and evidence (examining £1,426 million of investment);
- Reviewing Scottish Water's asset management policies, known as management approaches, which drive the volume of maintenance activities over 2027-33, and provide the unit costs of maintenance activities with a total value of £2,257 million;
- External review of projects and programmes worth £2,905 million of investment; and
- Benchmarking analysis of £1,610 million of the investment programme.

1.7.23. A central part of this transition is Scottish Water's continued development of its asset data and asset management practices. Customers are being asked to support increased investment in existing infrastructure. It is therefore essential that Scottish Water can continue to improve the evidence on asset condition, asset risk, replacement need and the consequences of deferring investment. Better asset information will help Scottish Water demonstrate why investment is needed, target that investment where it delivers the most value, and explain more clearly to customers the risks of doing too little. Scottish Water has provided improvement plans with milestones and deliverables covering several areas of asset management, including:¹⁸

- Updating its management approaches by Quarter 2 2026-27;
- Improving data used in its target asset health measure by Quarter 4 2027-28; and
- Putting in place its target asset health measure by 2028-29.

1.7.24. Scottish Water also has a Routemap to 2030 to improve the management approach process and underlying asset data, which its external assurance refers to.¹⁹ There are, therefore, several initiatives underway to improve asset management processes and information. We require Scottish Water to consolidate the list of actions from its various asset management improvement plans to allow WICS to monitor progress and provide this consolidated list as

¹⁸ Scottish Water (2026), 'Business Plan 2027-2033 Technical Appendices – Investment Planning', Annex D, 26 February 2026.

¹⁹ Scottish Water (2020), 'Asset Management Transformation Routemap', July 2020; and AtkinsRealis (2025), 'Management approach assurance', April 2025.

part of its response to our Draft Determination consultation by 1 September 2026. This will ensure we can measure Scottish Water's progress, as we will need to see these improvements before the Strategic Review of Charges 2033 (SRC33).

1.7.25. Based on our review, we have made some interventions where the investment is not well evidenced or where there is scope for further efficiency. Table 7 shows Scottish Water's proposed investment from the draft and final business plan, and our draft decision for the allowed investment.

Table 7: Allowed for investment

Investment	Draft business plan investment (£ million)	Final business plan investment (£ million)	Draft Determination allowed for investment (£ million)	Difference between final business plan and Draft Determination (£ million)
Asset maintenance	5,078	5,076	4,926	-150
Enhancement and Growth	3,423	2,957	2,867	-90
Real price effects	0	60	-15	-75
Total	8,501	8,093	7,778	-315

1.7.26. The allowance for investment of £7,778 million includes the following adjustments:

- The removal of an additional allowance for assumed labour cost inflation above CPI inflation, which is not supported by wider evidence;
- Increasing the challenge for productivity improvements from 0.8% to 1% based on our judgement from a number of observations; and
- Targeted cost challenges to specific investment areas.

1.7.27. We consider there was evidence that could have supported further challenges to Scottish Water's proposed investment. However, we judge that doing so would not necessarily be in the interests of current or future customers. Further reductions could have unintended consequences in areas where Scottish Water needs to improve, including disinfection monitoring, understanding significant risks to water quality, and strengthening its evidence base on asset condition and risk. We therefore consider that the better approach is to allow efficient investment, strengthen performance expectations, and require clearer evidence over time that investment in existing infrastructure is being targeted effectively and delivering value.

1.7.28. We have carefully reviewed the West Central Bioresources project and commissioned an external review. Our review has assessed the projects against the requirements set out in the Scottish Ministers’ policy statement on West Central Bioresources. Overall, WICS considers that Scottish Water has met the majority of requirements. However, several areas require further evidence from Scottish Water between the Draft and Final Determinations. We will provide our final assurance statement as part of the Final Determination.

1.7.29. The investment allowed for in Table 7, therefore, includes West Central Bioresources at a cost of around £560 million. However, recognising that such a project of this size and complexity carries a risk of cost escalation and potential delivery delays, our Draft Determination includes a conditional charge cap as set out in Table 2.

1.7.30. In addition to the investment above, we have made an additional allocation for investment, covering the following areas:

- Sewer flooding, following the customer feedback on internal sewer flooding being under-represented in the business plan (£50 million); and
- The water quality, water continuity and water environment programmes (£118 million).

1.7.31. We require Scottish Water to allocate the £118 million in consultation with its regulators. Scottish Water must reflect the investment to be delivered from these allocations in its first delivery plan for 2027-33.

1.7.32. Table 8 sets out the total allowed investment with these allocations.

Table 8: Total allowed investment with allocations

	Draft Determination allowed for investment (£ million)
Draft determination allowed for investment	7,778
Additional allocation to reduce the risk of sewer flooding	50
Additional allocation for water quality, water continuity and environmental investment	118
Draft determination allowed for investment, including allocations	7,946

1.7.33. We have therefore allowed for £7,946 million of investment. We consider this investment to be at the upper end of the range of investments that Scottish Water could deliver efficiently, given the supply chain’s capacity and Scottish Water’s internal capability. Scottish Water has engaged with its supply chain at an early stage and has sought to establish its delivery partners in place for its investment programme for the 2027-33 regulatory period

before the period begins. Furthermore, the rolling investment programme maintains continuity, resulting in a pipeline of projects ready to commence construction (i.e., shovel-ready). The reduction in investment funding in the 2021-27 period, due to Scottish Water's decision to rephase charges in response to the cost-of-living challenges, also adds to this pipeline of projects.

1.7.34. However, we consider that some delivery risks remain. For example, there is significant demand for construction services due to large investment programmes across the rest of the water industry in Great Britain and the energy sector, which may impact Scottish Water's access to specialist contractors or employees. The investment programmes in the water industry are also becoming more complex, with a greater mix of sustainable solutions, such as 'blue-green infrastructure', for surface water management.²⁰ As such, we require Scottish Water to share its internal capacity and supply chain readiness assessment with us on 1 September 2026, so we can take it into account in our Final Determination. We also require a further assurance statement from Scottish Water's Board that it has both the internal capacity and supply chain capacity to deliver the level of investment proposed in the Draft Determination as part of its response to the Draft Determination consultation.

1.7.35. To help pay for this investment, our Draft Determination assumes £1,030 million of net new borrowing over 2027-33 (in cash terms). This borrowing is not a general addition to Scottish Water's funding. It plays a critical role in spreading the cost of long-lived infrastructure fairly between current and future customers who benefit from those assets. It is therefore central in balancing intergenerational equity and affordability.

1.7.36. The draft Principles of Charging for the 2027-33 regulatory period explain that the Government will continue to make borrowing available and wishes to ensure that this borrowing is at the lowest practicable level, consistent with the principle of stable charges.

1.7.37. We consider that the borrowing levels available in the 2021-27 regulatory period represent the lowest practicable level of borrowing over 2027-33, recognising that:

- The scale of proposed investment over the 2027-33 regulatory period is significantly higher;
- Scottish Water's net new borrowing as a percentage of investment is lower than that of other prudently financed utility companies; and
- Scottish Water maintains financial strength that is stronger than that of other prudently financed utility companies.

²⁰ Blue-green infrastructure relates to integrating natural elements such as waterways, wetlands and green spaces with engineered water management systems in order to mitigate flood risks and help communities adapt to climate change.

1.7.38. Scottish Water should use borrowing to finance long-lived, high-value investments that deliver benefits across both current and future customers. As such, we consider that there should be a hierarchy for the types of projects that have borrowing attached to them:

- Investments in increasing capacity at water resources, water treatment works and wastewater treatment works (known as Part 4 assets);
- High-value one-off investments, such as investment at former PFI sites that have recently returned to Scottish Water and require significant investment (e.g., West Central Bioresources); and
- Enhancement and resilience investment that delivers benefits across current and future customers (e.g., investment in water treatment works to meet higher standards of treatment, or investment in blue-green infrastructure to improve resilience to the changing climate).

1.7.39. The Draft Determination assigns this borrowing to support specific elements of the investment programme, growth-related investment, West Central Bioresources and defined water quality and environmental enhancements. These are long-term investments where borrowing helps spread costs more fairly across current and future customers.

1.7.40. If this borrowing were reduced or unavailable, the investment programme would need to be revisited. The consequences would not disappear. They would need to be managed through a combination of higher charges, reduced or deferred investment, or increased risk to delivery, resilience and Ministerial Objectives.

Allowed for expenditure

1.7.41. Scottish Water has day-to-day running costs associated with providing water and wastewater services. We call this operating expenditure, which includes employment costs, electricity, and chemicals required to treat water and wastewater to the required standards. Scottish Water also makes regular payments to third-party organisations that provide wastewater services on its behalf under private finance initiative (PFI) arrangements.

1.7.42. Four PFI contracts (covering 12 facilities) are due to expire during the 2027-33 regulatory period, which means that Scottish Water's PFI fees will reduce; however, this reduction will be partly offset by additional operating and maintenance expenditure associated with running these sites. However, there will be overall savings when comparing the previous PFI fees with the operating and maintenance expenditure.

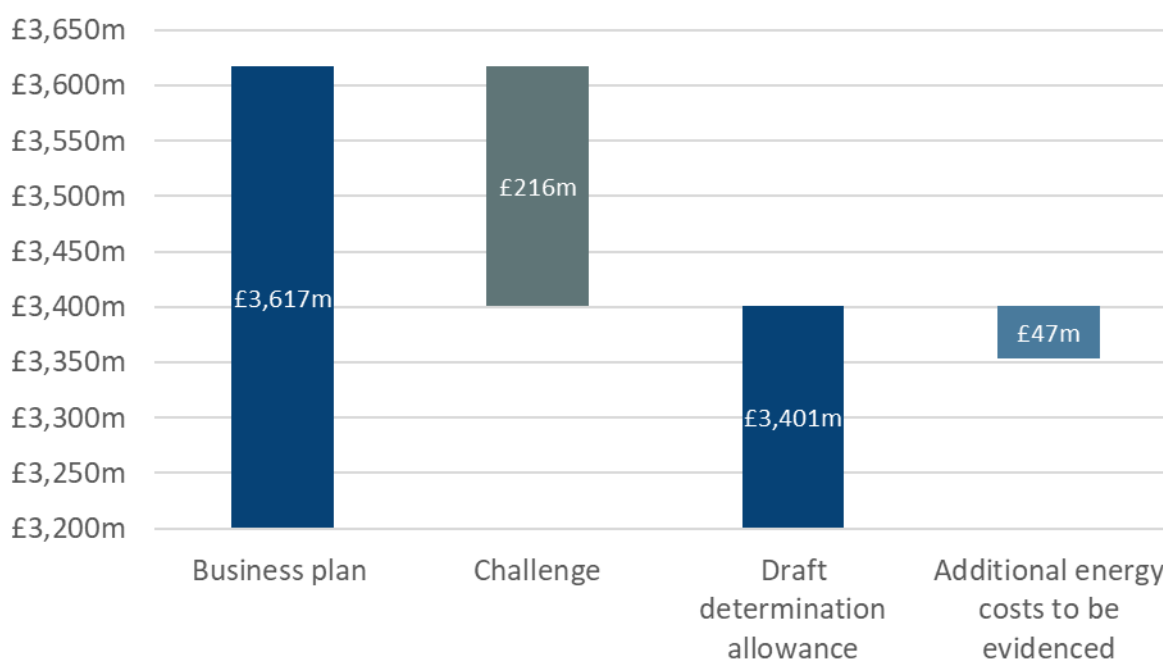
1.7.43. Scottish Water considers itself an efficient company overall, operating among the leading companies in England and Wales. As such, it proposes no catch-up in efficiency relative to operating expenditure for the 2027-33 period. Overall, our assessment aligns with Scottish Water's. However, we consider that Scottish Water's efficiency position appears better than its underlying efficiency due to its lower electricity costs under pre-purchase agreements,

which have effectively fixed its electricity prices for around half of its electricity consumption. For example, once we exclude electricity costs, Scottish Water’s efficiency position moves from being among the leading to between the average and leading companies.

1.7.44. We have not set a separate catch-up efficiency challenge; however, we have taken this into account as part of our wider evidence base supporting our decision to increase Scottish Water’s productivity improvement assumption from 0.8% to 1%, which is also aligned with the productivity assumption for SRC21.

1.7.45. Scottish Water’s final business plan assumes total operating expenditure of £3,617 million over the 2027-33 regulatory period. Based on our review, we have made some interventions to address requests for additional operating expenditure that lack sufficient evidence. Figure 2 shows our draft decision for the allowed for operating expenditure.

Figure 2: Allowed for operating expenditure



1.7.46. The allowance of £3,401 million includes the following adjustments:

- The removal of an additional allowance for assumed labour cost inflation above CPI inflation, which is not supported by wider evidence;
- Increasing the challenge for productivity improvements from 0.8% to 1% per annum based on our judgement from a number of observations;
- Allowing only some of the additional operating expenditure proposed by Scottish Water; and
- Lower forecast operating expenditure associated with the return of PFI assets.

1.7.47. Scottish Water also explained that it would face higher electricity charges of around £50 million over the 2027-33 regulatory period following Ofgem’s recent price control on transmission charges. We requested further evidence of the calculation of this increase as part of our query process; however, Scottish Water did not provide it. We require this evidence between the Draft and Final Determination and have therefore included a provisional allowance for this expenditure, which we would confirm in our Final Determination. However, if Scottish Water does not provide the evidence, or if we are not satisfied with it, we will remove this provision from our Determination.

1.7.48. As set out in paragraph 1.7.4, we also include a provision in our charge caps to enable Scottish Water to recover additional costs that would fall outside of its control as an uncertainty mechanism, which is worth up to 0.3% per annum over 2030-31 to 2032-33.

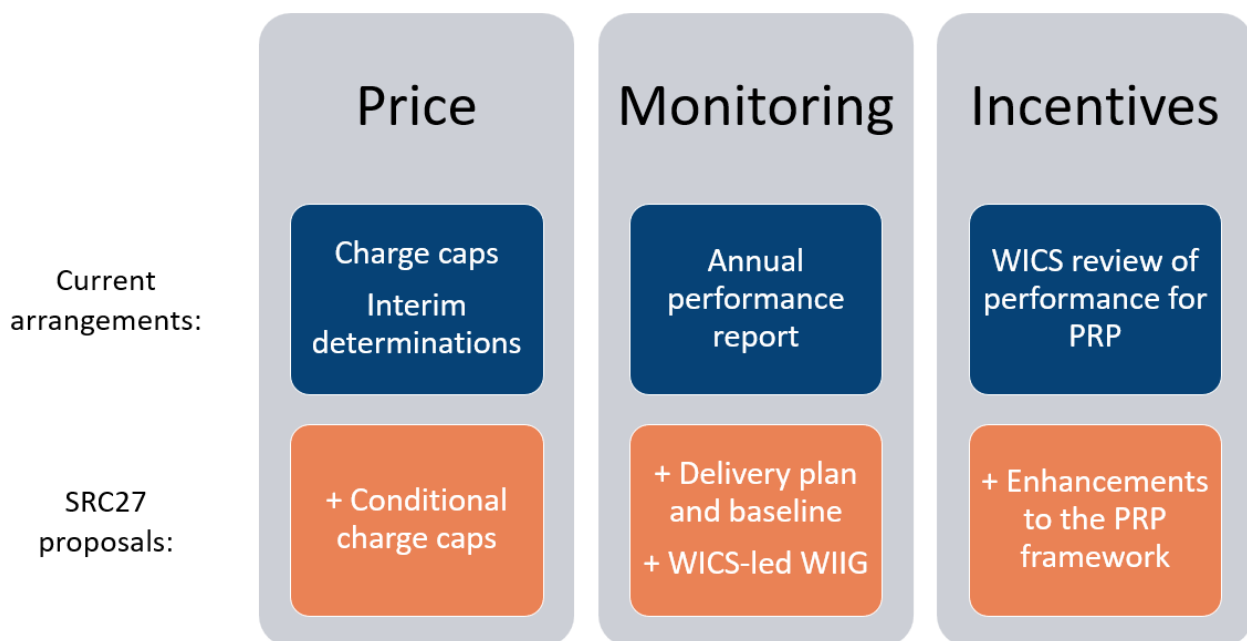
Safeguards

1.7.49. We are also enhancing our safeguards in SRC27, recognising:

- The size of the investment programme;
- Uncertainty over West Central Bioresources; and
- Uncertain cost items.

1.7.50. The conditional price caps set out in paragraph 1.7.3 and 1.7.4 form part of a suite of safeguards. We consider that there are three broad categories of safeguards, as set out in Figure 3.

Figure 3: Safeguards



- 1.7.51. We are also enhancing our monitoring safeguards by requiring Scottish Water to prepare a delivery plan detailing how it will meet the requirements of the Final Determination. Scottish Water will update the delivery plan annually to reflect changes to the baseline resulting from the change control process. WICS will review each successive delivery plan for consistency.
- 1.7.52. The delivery plan should also show how Scottish Water would manage any change to the availability of borrowing, including the implications for charges, delivery timescales, investment prioritisation and risk.
- 1.7.53. From June 2026 onwards, WICS will also chair the stakeholder group, the Water Industry Investment Group (WIIG), focusing on ensuring Scottish Water is:
- delivering investment in line with WICS' Final Determination and approved delivery plans;
 - delivering the outcomes and outputs for customers it has committed to deliver; and
 - ultimately, delivering on the Ministerial Objectives.
- 1.7.54. Following the group meetings, WICS will produce a short report summarising the outcomes and setting out any highlights or concerns raised regarding the delivery of the investment programme and, ultimately, Ministerial Objectives. This will ensure that Scottish Water is held to account for delivery over the 2027-33 regulatory period.
- 1.7.55. Scottish Water currently has performance-related-pay (PRP) arrangements in place, which it uses to drive improvements in customers' interests across the organisation. We consider that there is scope to enhance the PRP framework to ensure it operates as effectively as possible.
- 1.7.56. Our proposed option is to enhance the existing approach within our current powers and consists of four elements:
- Establishing principles for PRP in the WICS Final Determination – for example, measures and targets for PRP should be aligned with those from WICS' Final Determination, and PRP should be funded from financial outperformance;
 - Scottish Government reviewing the Scottish Water PRP framework and seeking advice from WICS;
 - WICS commenting on the proposed annual targets for PRP payments, to ensure that these are sufficiently stretching and align with the regulatory contract; and
 - WICS reviewing performance and confirming whether targets are met as part of the WICS Annual Return and performance reporting cycle.
- 1.7.57. We consider that this approach retains the clear roles and responsibilities of Scottish Water, WICS, and the Scottish Government. Ultimately, the Scottish Water Board and Remuneration Committee would retain responsibility for setting the targets and approving payments.

However, if we do not consider that Scottish Water has taken our feedback on board, we would comment on this in our performance report. We will also then seek further powers, if necessary.

1.7.58. We will engage further with Scottish Water and the Scottish Government on these proposals to ensure we maintain clear roles and responsibilities for governance among WICS, Scottish Water, and the Scottish Government.

1.8. Areas for Scottish Water to address in its response to the Draft Determination

1.8.1. Our Draft Determination identifies five areas for Scottish Water to address in its response to our consultation, which closes on 1 September 2026:

- Outcomes;
- Capital investment;
- Deliverability of the investment programme;
- Operating expenditure;
- Non-household revenue; and
- Strategic Environmental Assessment (SEA).

1.8.2. On outcomes, we request that Scottish Water and SEPA resolve the misalignment on discharge permit compliance outcome measure as a matter of priority and include the outcome in their representations on the Draft Determination (see paragraph 1.6.3).

1.8.3. Our requirements for the capital investment programme cover seven areas:

- Addressing the discrepancy between the number of maintenance interventions proposed in the asset class policies, known as Management Approaches, and business plan data tables (including 'Table X', which is a more detailed version of Table 5). In particular, we require Scottish Water to provide forecasts of the number of inspections and responsive maintenance interventions, in line with the WICS methodology, as these were not included in the business plan data tables (see section 5.4 of the main Draft Determination document);
- Consolidating the list of actions from its various asset management improvement plans to allow WICS to monitor progress (see section 5.4 of the main Draft Determination document);
- Confirmation of the project needs and scope for the investment at Carron Valley and Glendevon Water Treatment works, given the gaps in evidence for these projects (see section 5.5 of the main Draft Determination document);
- Confirmation of the project outputs for the investment for resilience and growth in Edinburgh, Lothians, Castle Moffat, and Hopes, for strategic replacement at Daer water

treatment works, and for increasing wastewater treatment capacity in Seafield, Nigg and Persley, given the strategic importance of these projects and the need for robust monitoring of progress (see section 5.5 of the main Draft Determination document);

- Confirmation of missing project outputs identified in Appendix 1 of the Draft Determination (see sections 1.3 and 1.4 of Appendix 1);
- Further information on specific wastewater treatment works programmes (e.g., the pass forward flow (PFF) compliance programme) (see section 5.5 of the main Draft Determination document); and
- Confirmation that the West Central Bioresources project roles, responsibilities, and delegated authorities are clearly identified, agreed, and documented, with roles set out in the investment case and providing a more in-depth assessment of how the project will integrate with existing policies and plans at the national, regional and local level (see section 5.6 of the main Draft Determination document).

1.8.4. Our requirements for the deliverability of the investment programme cover two areas:

- Scottish Water providing its internal capacity and supply chain readiness assessment with us on 1 September 2026, so we can take it into account in our Final Determination; and
- A further assurance statement from Scottish Water’s Board that it has both the internal capacity and supply chain capacity to deliver the proposed investment in the Draft Determination.

1.8.5. Our requirements for operating expenditure are for Scottish Water to provide the requested evidence on its forecast increase in electricity costs of around £50 million over the 2027-33 regulatory period following Ofgem’s recent price control on transmission charges.

1.8.6. Our requirements for non-household revenue are for Scottish Water to provide an updated forecast of non-household revenue for 2026-27 with underlying assumptions and supporting evidence, showing the impact of both the reported actuals for 2025-26 and the Live Rateable Value update as of 1 April 2026.

1.8.7. We require Scottish Water to provide further information on when it will complete the full SEA (see section 2.5 of the main Draft Determination document).

1.9. What we are consulting on and how to participate

1.9.1. To help us assess and analyse your feedback, we have developed an online consultation form that invites views on a range of key topics that will most impact our final decision on charges.

1.9.2. Table 9 sets out the consultation questions.

Table 9: Consultation questions

Question	
1	To what extent do you agree that the Draft Determination strikes the right balance between outcomes, investment and charges?
2	To what extent do you agree that our proposals provide sufficient customer protection in SRC27?
3	To what extent do you consider that our proposed targets for outcomes are appropriate?
4	To what extent do you agree with our proposal for capital investment?
5	To what extent do you agree with our proposal for operating expenditure?
6	To what extent do you agree with our proposal to introduce a conditional charge cap?
7	To what extent do you agree with our proposals for monitoring Scottish Water's performance over SRC27?
8	To what extent do you agree with our proposals for monitoring delivery of Scottish Water's investment programme?
9	Please use this space to share any additional comments on our draft decision.

1.9.3. You may respond to all questions or only those most relevant to you.

1.9.4. Your feedback is key to ensuring our regulatory framework enables Scottish Water to provide high-quality services at a fair price. Please take a few moments to share your views and contribute to the future of Scotland's water industry.

1.9.5. Please submit your response via our online [consultation form](#). If you are unable to respond using our online form, you can complete the respondent form and send via email to enquiries@wics.scot or by post to:

Water Industry Commission for Scotland (WICS)
 First Floor
 Moray House
 Forthside Way
 Stirling
 FK8 1QZ

1.9.6. We will publish a summary of responses alongside our final decision.

1.9.7. Information about how we handle the personal data you share as part of this consultation is available in our consultation privacy notice on our [website](#).

1.10. Our final decision

1.10.1. After considering all consultation responses, we will publish our final decision on 29 October 2026. This decision will take effect from 1 April 2027 and will be reflected in customer bills.

1.10.2. If Scottish Water does not wish to accept our final decision, it may ask us to refer the decision to the Competition and Markets Authority (CMA) for reconsideration.



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WICS Economic
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