



# STRATEGIC REVIEW OF CHARGES 2027-33: DRAFT DETERMINATION

30 June 2026

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# 1. Introduction

## 1.1. Summary of this chapter

1.1.1. This chapter provides an overview of the water industry in Scotland and background on key stakeholders. It lays out the necessary context on Scottish Water’s operating model and the benefits delivered through the regulatory system in Scotland. This is followed by an introduction to the Strategic Review of Charges 2027-33 process, a multi-stakeholder process in which WICS determines whether Scottish Water’s proposals for charges are justified, efficient, and provide value-for-money.

1.1.2. This chapter is structured as follows:

- Overview of the water industry;
- Overview of Scottish Water and the water industry stakeholders;
- What has economic regulation delivered; and
- Strategic Review of Charges 2027-33.

## 1.2. Overview of the water industry

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 at the turn of a tap, responsibly collect and treat wastewater and surface water, and return it to the environment without detriment – all while ensuring these services remain affordable.

1.2.2. 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. As a result, water charges in Scotland remain among the lowest in the UK (see Figure 3), while Scottish Water has invested the most per person since 2002 (see Figure 2).<sup>1</sup> This investment has enabled Scottish Water to make significant improvements in the levels of service it provides.<sup>2</sup> Scottish Water is among the top-ranking companies in the UK on complaint handling, as measured by the UK Customer Satisfaction Index (UKCSI).<sup>3</sup>

1.2.3. As the economic regulator, we play a key role in ensuring that Scottish Water delivers for the people of Scotland. One of the ways we fulfil this role is by setting caps on Scottish Water’s charges through the Strategic Review of Charges. Through this process, we ensure customers pay no more than necessary for essential water and wastewater services. We

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<sup>1</sup> This is based on comparing Scottish Water to the water and sewerage companies in England and Wales over the same timeframe.

<sup>2</sup> Over the period from 2001-02 to 2022-23, Scottish Water levels of service (as measured by the overall performance assessment metric) has trebled. See Figure 4 in section 2.5 of the WICS Final Methodology.

<sup>3</sup> Scottish Water was ranked top-10 in complaint handling in the latest UKCSI report, ‘ICS UKCSI Main Report Jan 2026’, January 2026, p.65.

carefully monitor and report on Scottish Water’s performance and investment to ensure it is efficient and effective in delivering high-quality services now and for years to come.

1.2.4. This introduction sets out the necessary context of the water industry as we enter the next Strategic Review of Charges covering the 2027-33 regulatory period.

1.2.5. 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.

### 1.3. Overview of Scottish Water and the water industry stakeholders

1.3.1. 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.<sup>4</sup>

1.3.2. The vast majority, over 99%, of household customers pay their water and wastewater charges based on their council tax band, with annual charges ranging from £435 for a Band A customer to £1,305 for a Band H customer in 2026-27.

1.3.3. As a result of Ministers’ charging policy, around half of Scottish Water’s household customers qualify for a discount or exemption, such as the status discount and the Water Charges Reduction Scheme (WCRS). The status discount includes the single-person discount and provides for discounts of 25% and 50%. WCRS provides a discount of up to 35% for eligible households. 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.<sup>5</sup> Table 1 provides a breakdown of the number of households receiving discounts, disaggregated by discount type. Customers eligible for both discounts receive the higher of the two.

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<sup>4</sup> See A tables of Scottish Water’s Annual Return for 2024-2025. The percentage of the population connected to water and wastewater is based on Scottish Water’s reported population in table A4 divided by the latest estimate of the total population of Scotland reported by the National Records of Scotland of 5,546,900 in mid-2024. National Records of Scotland (2025), ‘Mid-2024 Population Estimates’, 14 August 2025.

<sup>5</sup> These figures reflect the latest data from the P tables of the Annual Return, which were restated by Scottish Water after errors were found in an earlier version.

Table 1: Households receiving a discount (excluding vacant exemptions)<sup>6</sup>

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

- 1.3.4. 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. The non-household retail market was a world first in allowing businesses, industrial users, charities, and the public sector to choose their water and wastewater suppliers. Around one quarter of Scottish Water’s revenue comes from non-households through licensed providers in a competitive retail market regulated by WICS.
- 1.3.5. Scottish Water’s infrastructure comprises 50,000km of water mains, 57,000km of sewers, over 220 water treatment works, over 650 sewage treatment works, and multiple other assets such as reservoirs, dams, and pumping stations. In 2024-25, Scottish Water spent £1,961 million to provide water, sewerage and drainage services. This is required to operate and maintain the water mains, sewers and other works, valued at over £120 billion, and to invest in infrastructure improvements and expansions to meet new demand.
- 1.3.6. As Scottish Water is publicly owned, any surpluses it generates are reinvested in maintaining and improving this important infrastructure.
- 1.3.7. The water industry involves several other organisations, each with its own roles and responsibilities. Figure 1 shows these organisations.<sup>7</sup> Good outcomes in the sector depend on clear roles and responsibilities, a shared understanding of the evidence base, and consideration of multiple perspectives.

<sup>6</sup> 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.

<sup>7</sup> Additional information on the roles of the industry stakeholders is available online at: Scottish Government, ‘Water industry governance’.

Figure 1: Water industry stakeholders



1.3.8. Below is a summary of the role each stakeholder has in the Scottish water sector:

- The **Scottish Government** sets the overall policy objectives for the water industry. It also acts as the owner of Scottish Water on behalf of the people of Scotland and as a lender to Scottish Water, enabling additional investment in water and wastewater services.
- The **Water Industry Commission for Scotland (WICS)** is the economic regulator of the Scottish water industry. We are responsible for setting charge caps, monitoring Scottish Water’s performance and overseeing the functioning of the non-household retail market to ensure it delivers good outcomes.
- The **Drinking Water Quality Regulator for Scotland (DWQR)** ensures that Scottish Water complies with its duties in respect of public drinking water supplies in Scotland. It does this by monitoring Scottish Water’s compliance with drinking water quality standards and advising on future investment priorities for public supplies.<sup>8</sup>
- The **Scottish Environment Protection Agency (SEPA)** is the environmental regulator in Scotland with a remit that goes beyond the water sector. Within the water sector, it has a wide-ranging role that involves monitoring, reporting, and enforcement of the quality of the water environment in Scotland, and advising on future investment priorities.
- **Consumer Scotland** is the levy-funded advocacy body for the water sector in Scotland. Established by the Consumer Scotland Act 2020, Consumer Scotland is accountable to the Scottish Parliament. It works to embed positive consumer outcomes and consumer engagement across all aspects of service delivery in the

<sup>8</sup> DWQR also supervises Local Authorities’ enforcement of regulations over private water supplies in Scotland, which serve around 2.5% of the population. DWQR (2026), ‘Private Water Supplies Annual Report 2024’, 12 March 2026.

water industry, in both household and non-household markets. This includes the affordability of services, how water and wastewater services can support a transition to net zero, and how services should be adapted to mitigate the impacts of climate change.<sup>9</sup>

- The **Scottish Public Sector Ombudsman (SPSO)** acts as the final stage for handling customer complaints for public sector bodies and departments.

1.3.9. The clarity of water industry stakeholders' roles and responsibilities is in line with international best practice, as recognised by the Organisation for Economic Cooperation and Development (OECD) in its Principles on Water Governance.<sup>10</sup> Having clarity over these roles helps ensure that the industry works in partnership to understand the challenges and build consensus on the appropriate way forward. One example of this partnership approach is the way in which the industry stakeholders (in Figure 1) above review Scottish Water's progress on delivering its investment programme and meeting the Ministerial Objectives.<sup>11</sup>

1.3.10. Alongside the Scottish Government and regulators, other important organisations in the water industry include licensed providers in the non-household market. This market was introduced in April 2008 under the Water Services etc. (Scotland) Act 2005, allowing businesses, public sector bodies, charities and other non-household customers to choose their water provider. The market includes WICS, Scottish Water and Consumer Scotland and the following organisations:

- Licensed providers, who deliver retail services to non-household customers. They must follow set rules and licence conditions.<sup>12</sup> They bill customers for water, sewerage and drainage services, and pay Scottish Water for supplying these services; and
- The Central Market Agency (CMA), which runs the systems that support the market. It keeps records such as meter readings, customer details, and provider changes, and calculates how much licensed providers need to pay Scottish Water.

1.3.11. Several other organisations are also involved or have an interest in the water industry, including:

- Suppliers and contractors (known collectively as the 'supply chain') that support the efficient delivery of Scottish Water's operations and capital investment across Scotland;

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<sup>9</sup> Consumer Scotland (2025), 'Consumer Scotland Work Programme 2025-26', 27 March 2025.

<sup>10</sup> OECD (2015), 'OECD Principles on Water Governance', 11 May 2015.

<sup>11</sup> Scottish Government (2021), 'Water industry: governance note 2021 to 2027', 23 November 2021.

<sup>12</sup> Retail services are limited to customer-facing activities such as meter reading, managing billing and payment arrangements, bad debt management, and customer enquiries and complaints. Some retailers offer additional value-added services such as advice on water efficiency and management of wastewater discharges.

- Research institutes; and
- The third sector, which includes charities, social enterprises, non-government organisations (NGOs) and voluntary groups.

## 1.4. What has economic regulation delivered

1.4.1. The overall governance of the water industry in Scotland and our approach to economic regulation have helped bring significant customer benefits over the past two decades. For example, the average annual household bill is around £120 lower than it would have been without the efficiencies Scottish Water has achieved.

1.4.2. Since 2002, Scottish Water has delivered among the highest levels of investment in the industry, improving levels of service. Scottish Water, with the support of its regulators, has achieved this while having below-average bills and the lowest borrowing per head in Great Britain. Figure 2, Figure 3 and Figure 4 summarise this journey.

*Figure 2: Average annual investment per head between 2002-03 and 2024-25 (2024-25 prices)*



Figure 3: Average household bill in 2026-27 (outturn prices)<sup>13</sup>

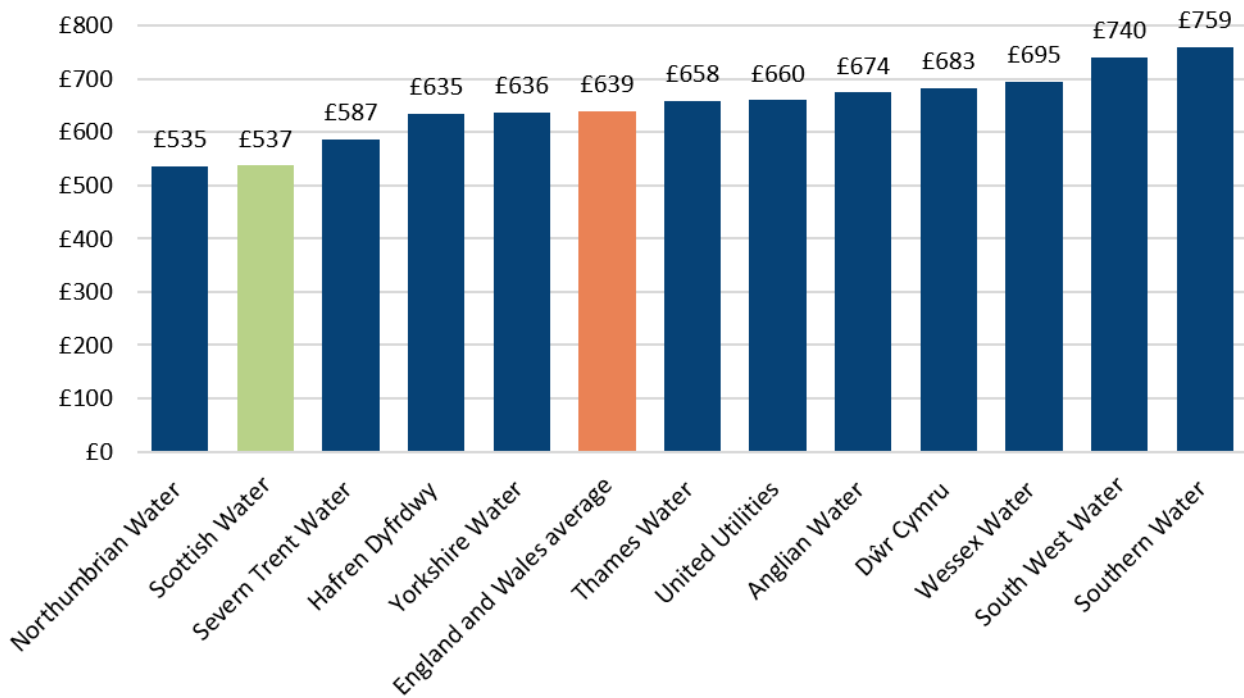
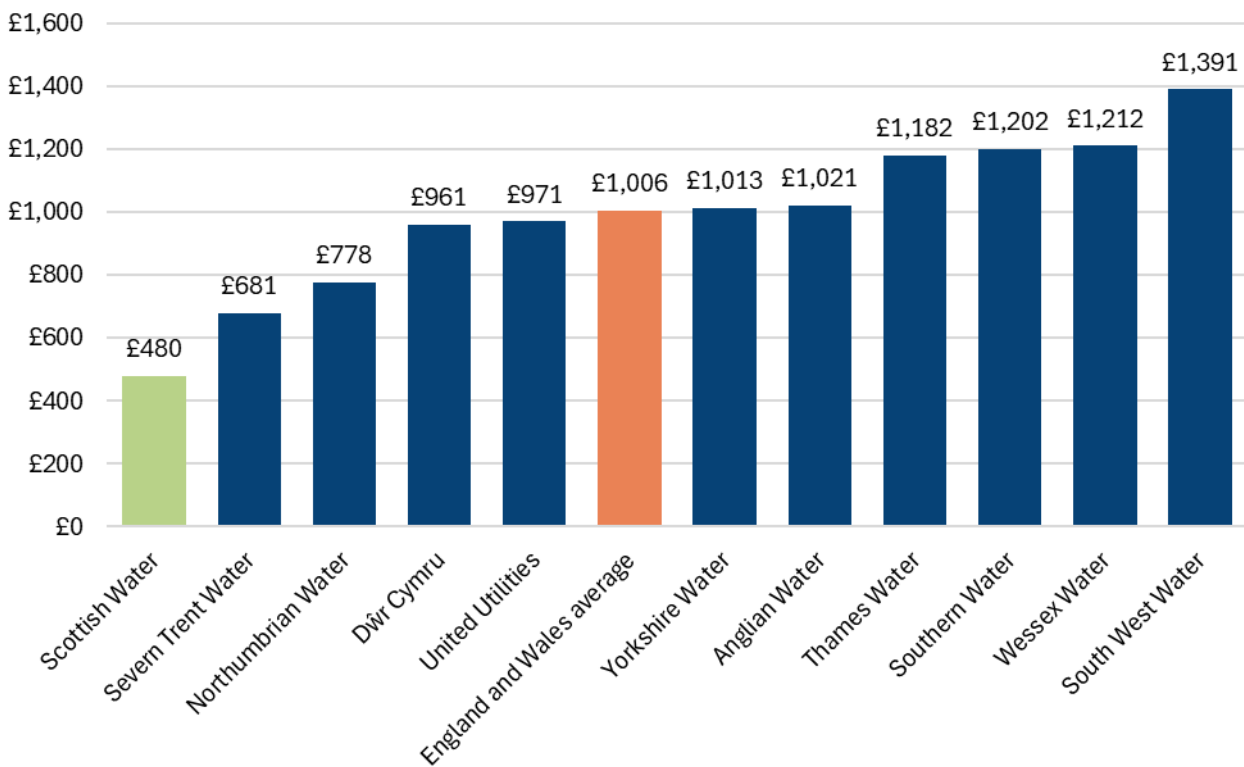


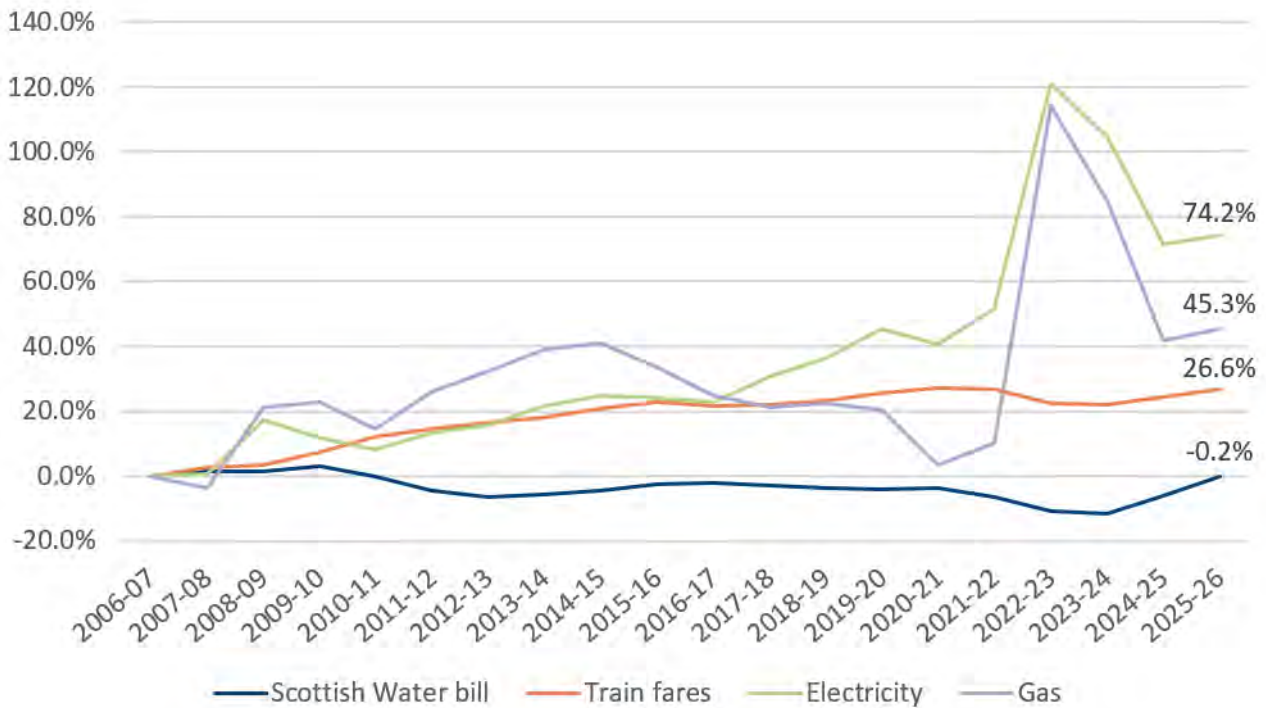
Figure 4: Net new debt per head between 2001-02 and 2024-25 (nominal prices)



<sup>13</sup> Average household bill data for England and Wales companies are sourced from DiscoverWater (2026), 'DiscoverWater: Annual Bill', 2026.

1.4.3. Over the past two decades, charges have remained broadly in line with inflation, as shown in Figure 5. This figure also shows that the average bill has risen much more slowly than the prices for other essential services, indicating great value.

Figure 5: Change in average household costs in selected regulated industries since 2006-07 (inflation adjusted)

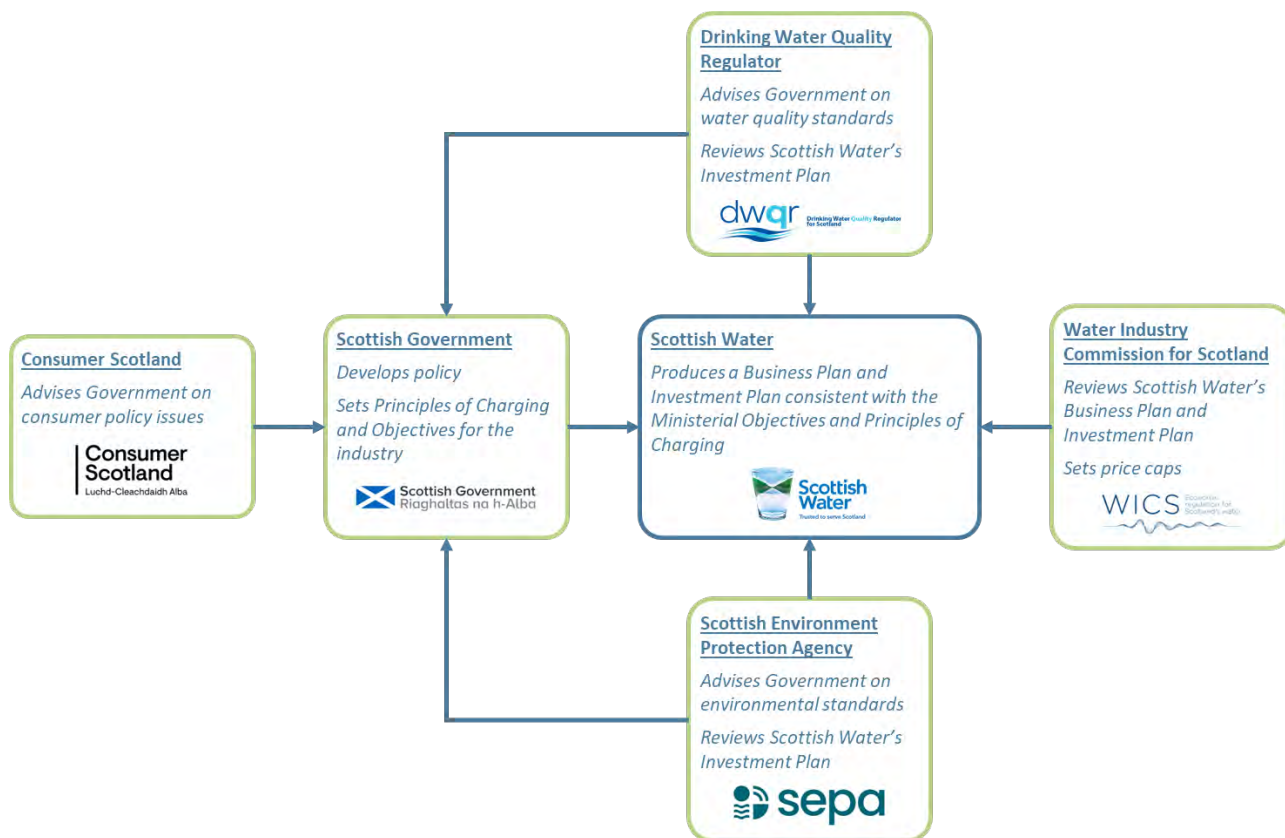


1.4.4. Scottish Water has made significant progress since the introduction of economic regulation and has considerably improved its performance whilst keeping charges low. However, our regulatory approach must continue to evolve to ensure Scottish Water can make further improvements and deliver the best value for Scottish customers.

## 1.5. Strategic Review of Charges 2027-33

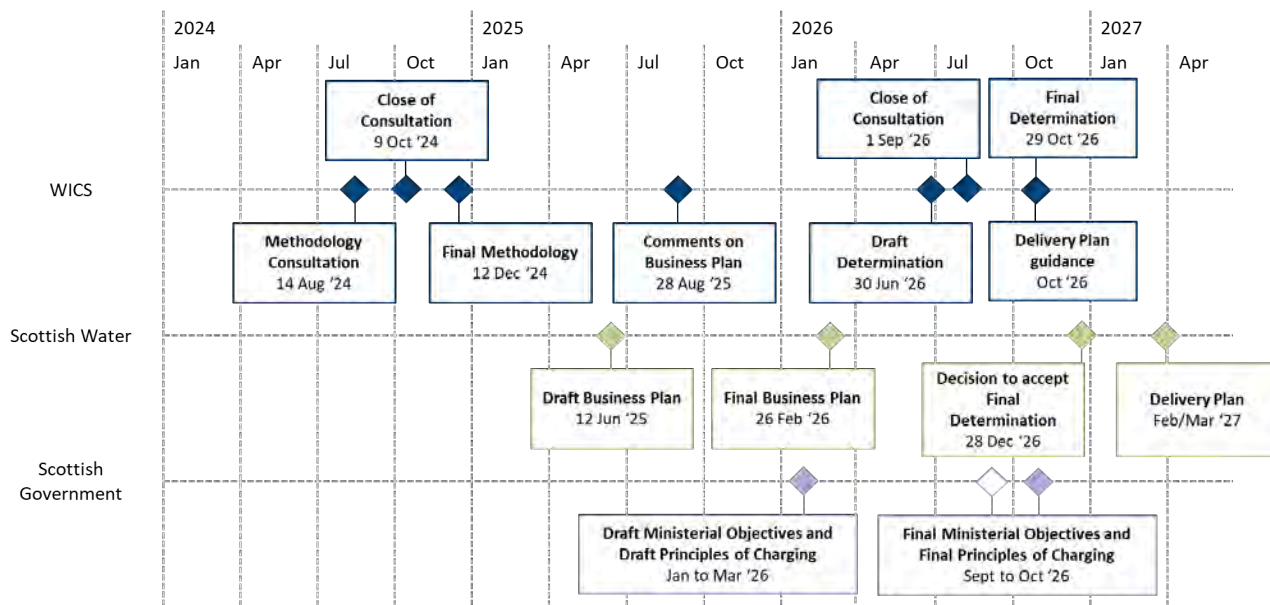
1.5.1. Every six years, we conduct a process known as the Strategic Review of Charges, where we set caps on the charges that Scottish Water raises from its customers. The Strategic Review of Charges serves as a mechanism for WICS to develop the wider policy framework, customer research, and Scottish Water’s business plan into a Draft and then a Final Determination of charges, investments, and outcomes. The Strategic Review of Charges is a multi-stakeholder process, with each of the water industry stakeholders having specific roles and responsibilities, as shown in Figure 6.

Figure 6: Overview of each organisation's role in the SRC process



- 1.5.2. Through this multi-stakeholder process, WICS determines whether Scottish Water's proposals for charges are justified, efficient, and provide value-for-money.
- 1.5.3. Following the Strategic Review of Charges process, Scottish Water then produces a delivery plan outlining how it will meet the requirements of the Final Determination. WICS and other industry regulators monitor Scottish Water's performance against the delivery plan, ensuring it is held to account for delivery over the regulatory period.
- 1.5.4. The next Strategic Review of Charges will set charge caps for the six-year period from 1 April 2027 to 31 March 2033 – we refer to this as the Strategic Review of Charges 2027 (SRC27). The timeline for SRC27 is shown in Figure 7 below.

Figure 7: SRC27 timeline



1.5.5. The current stage of SRC27 involves WICS producing a Draft Determination, which is this publication. The Draft Determination is a public consultation that will remain open until 1 September 2026. We will consider responses on the Draft Determination, as well as any new information available, in producing a Final Determination due on 29 October 2026.

## 2. Our approach for SRC27

### 2.1. Summary of this chapter

2.1.1. This chapter covers our approach for SRC27, including the work that has been undertaken prior to the publication of Scottish Water's business plan, and the key details of the business plan.

2.1.2. SRC27 is a continuation of our regulatory approach introduced for the Strategic Review of Charges 2021-27, underpinned by the principles of Ethical Based Practice and Regulation (EBP&R). This regulatory approach seeks to ensure a deep understanding of the company and its challenges, to set charges that are justified, efficient, and provide value-for-money, and to balance different priorities over the regulatory period and the longer term.

2.1.3. Overall, 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. 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. Based on this analysis, 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.

2.1.4. This chapter is structured as follows:

- Our approach in SRC21;
- Details of the SRC27 process to date;
- Detail of the final business plan;
- Scottish Water’s assurance of the business plan;
- Our overall assessment; and
- Areas for Scottish Water to address in its response to the Draft Determination.

## 2.2. Our approach in SRC21

2.2.1. Our approach for SRC27 started in December 2020 when we set our Final Determination for the 2021-27 regulatory period. For SRC21, we recognised the need to adapt our regulatory approach to ensure that Scottish Water is best placed to address long-term challenges such as maintaining an ageing asset base and adapting to climate change. Our approach was based on the principles of Ethical Business Practice and Regulation (EBP&R), which require candour and transparency in all conversations between the regulator and the regulated company, thereby reducing information asymmetries.<sup>14</sup> We consider candid discussions essential for building a common understanding and consensus about the nature of the challenges and how best to respond to them. The supervisory regulation model proposed for the water industry in England and Wales seeks to achieve the same outcome as EBP&R: enabling a deep understanding of a company and its challenges.<sup>15</sup>

2.2.2. Based on EBP&R, SRC21 put in place several important foundations for our regulation:

- Deep customer engagement to understand the priorities of customers;
- Industry stakeholders co-creating a water sector vision, setting out a direction of travel for the long-term ambitions for the sector; and
- A long-term approach underpinning both Scottish Water’s plans and WICS Final Determination.

2.2.3. For the Final Determination for SRC21, we adopted a long-term approach that involved analysing the sustainable level of investment required for Scottish Water to maintain its assets in the medium to long-term. This analysis highlighted the need to increase charges to transition to this level of investment by 2040 to protect future generations of customers.

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<sup>14</sup> The principles of EBP&R are set out in Hodges and Steinholtz (2017), ‘Ethical Business Practice and Regulation: A Behavioural and Values-Based Approach to Compliance and Enforcement’. Further details on the approach are set out in the WICS Final Methodology. WICS (2024), ‘Strategic Review of Charges 2027-2033: Final Methodology’, 13 December 2024, pp.36-37.

<sup>15</sup> Independent Water Commission (2025), ‘Independent Water Commission: Final Report’, 21 July 2025.

SRC21 served as a starting point for Scotland’s transition towards considering a longer time horizon, which ensures future generations will inherit a flourishing water service.

- 2.2.4. WICS set charges of CPI+2% in 2021-27 as a first step towards ensuring that Scottish Water would make appropriate progress towards maintaining service and achieving net zero emissions by 2040, in line with the sector vision.<sup>16</sup> We also explained that, given the need to continue transitioning to increased investment, charges will need to increase by a similar amount in real terms, 1.5% to 2% per annum (equivalent to 9-13% in total over 2027-33), over the 2027-33 regulatory period.<sup>17</sup> This approach sought to protect current and future customers by avoiding sudden price shocks while ensuring that service levels are not compromised.
- 2.2.5. Since we adopted this approach, there have been major events, including the recovery from the COVID-19 pandemic and international conflicts, both of which have caused inflationary pressures over the last 6 years. While these events have added further pressure on investment in the water industry in Scotland, we consider that the analysis conducted for SRC21, which set out that investment will need to increase over the period to 2040, and the long-term approach endorsed by industry stakeholders still stands. Therefore, the long-term approach adopted in SRC21 remains an important starting point in setting charges for the 2027-33 regulatory period.

## 2.3. Details of the SRC27 process to date

### **The Commissioning letter, Statement of Objectives and Principles of Charging for SRC27**

- 2.3.1. Scottish Ministers set the policy framework for the Strategic Review of Charges (as set out in section 1.5). This separation of policy-setting from price-setting enhances legitimacy and accountability. Ministers set their policy position based on the elected Government’s priorities. Our role as economic regulator is to determine the most efficient cost of meeting those priorities, in line with the lowest reasonable overall cost, rather than making policy judgements. Ministers set their policy priorities through the Commissioning letter, the Statement of Objectives and Principles of Charging.
- 2.3.2. The Scottish Government formally commences the Strategic Review of Charges by issuing a Commissioning letter to WICS.<sup>18</sup> This letter provides WICS with a clear mandate to begin the review and sets the high-level framework for charge setting, including the duration of the regulatory period, the preferred approach for the review, and the overarching timetable. Establishing these parameters at the outset provides clarity and predictability for all stakeholders and ensures that WICS’ review of charges aligns with Ministerial expectations.

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<sup>16</sup> WICS (2020), ‘Strategic Review of Charges 2021-27: Draft Determination’, 8 October 2020, pp.65-69.

<sup>17</sup> WICS (2020), ‘Strategic Review of Charges 2021-27: Draft Determination’, 8 October 2020, p.21.

<sup>18</sup> WICS (2024), ‘Strategic Review of Charges 2027-33: Commissioning letter’, 12 June 2024.

2.3.3. Following the Commissioning letter, Scottish Ministers then set the overall policy priorities for the water industry. This policy is provided in the form of two statements:

- Statement of Objectives of the Scottish Ministers:<sup>19</sup> covering the outcomes the water industry must meet; and
- Ministers' Principles of Charging:<sup>20</sup> covering how services are paid for and by whom, and the charging arrangements to apply. It sets out the principles for determining the tariffs charged to customer groups for specific services, including eligibility for discounts and the levels of those discounts. The Principles of Charging also set out the maximum amount of lending Ministers are prepared to make available to Scottish Water over the period.

2.3.4. Scottish Government consulted on their Statement of Objectives and Principles of Charging between January 2026 and March 2026.<sup>21</sup> Ministers have the opportunity to further prioritise their policy decisions between the Draft and Final Determinations.

### WICS methodology

2.3.5. WICS published its methodology on 12 December 2024, outlining how we will set charge caps in the Strategic Review of Charges.<sup>22</sup> It provides the approach for the Strategic Review of Charges, a detailed timeline based on the Commissioning letter, and clear expectations for Scottish Water to meet.

2.3.6. The methodology for SRC27 built on the foundations established in SRC21, while seeking to enhance several areas in response to lessons learned:<sup>23</sup>

- Setting clearer expectations for Scottish Water's business plan;
- A focus on the quality of the evidence, information, and assurance; and
- The need for timely and comprehensive information covering areas such as financial forecasts, delivery commitments and service targets (referred to as 'a baseline') for the regulatory period to enable stakeholders to hold Scottish Water to account for delivery.

2.3.7. Setting out these elements in the methodology means that it acts as a foundation for the rest of the process. By establishing our expectations early in the process, we give Scottish Water a clear basis on which it must evidence its plan. Therefore, the burden of proof for

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<sup>19</sup> Scottish Government (2020), 'The Scottish Water (Objectives: 2021 to 2027) Directions 2020', 7 December 2020.

<sup>20</sup> Scottish Government (2020), 'Principles of Charging 2021-27', 7 December 2020.

<sup>21</sup> Scottish Government (2026), 'Water services - investing in and paying from 2027: consultation', 6 January 2026.

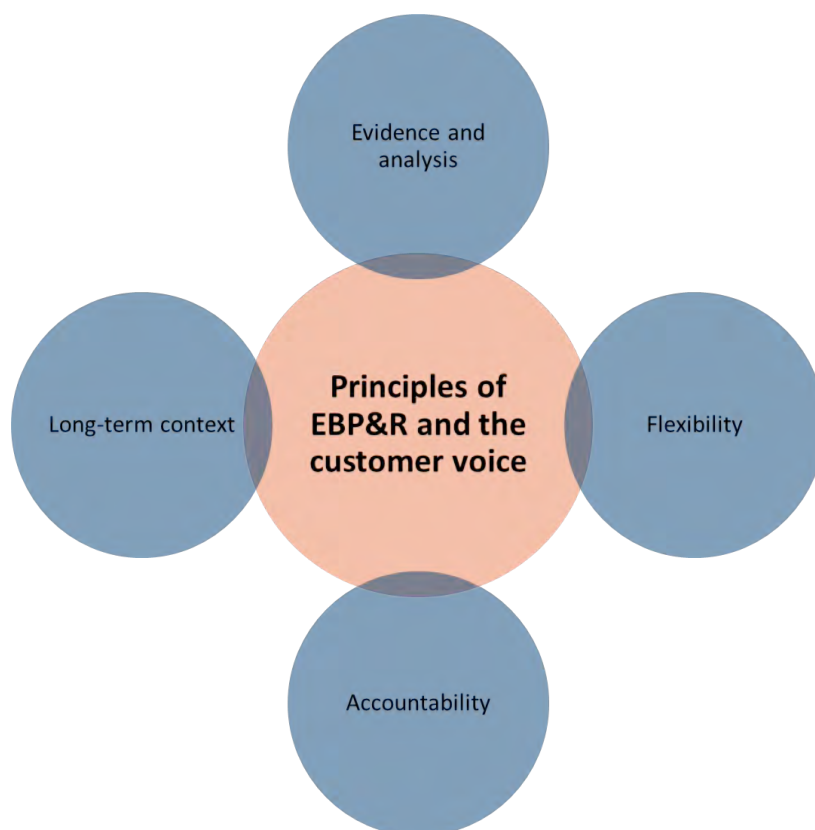
<sup>22</sup> WICS (2024), 'Strategic Review of Charges 2027-33: Final Methodology', 12 December 2024.

<sup>23</sup> These lessons learned and areas for improvement are set out in Chapter 5 of WICS Final Methodology. WICS (2024), 'Strategic Review of Charges 2027-2033: Final Methodology', 13 December 2024, pp.43-50.

evidencing its plan lies with Scottish Water, which is appropriate given the roles and responsibilities.

2.3.8. As set out in our Final Methodology, the foundations from SRC21 and lessons learned have led to the following principles for SRC27, shown in Figure 8.

*Figure 8: Key SRC27 principles*



*Embedding the principles of ethical business practice and regulation (EBP&R)*

2.3.9. Our approach will continue to be underpinned by the principles of EBP&R. We will aim to ensure there is a high level of engagement throughout the Strategic Review of Charges process, consistent with EBP principles and consultation best practice. We will ensure the customer voice is placed at the heart of the decisions taken in SRC27.

*A focus on high-quality evidence and analysis*

2.3.10. Our approach for SRC27 places even greater emphasis on evidence-based decision making, including demonstrating how risk is understood and taken into account. As such, we have focused on the quality of Scottish Water's evidence and analysis underpinning how it plans to meet Scottish Ministers' Objectives in the context of the longer-term water sector vision.

2.3.11. We set out expectations for Scottish Water to demonstrate the links between outcomes, investment need, expenditure and risk. It is then our responsibility to test this evidence,

which we have done using a variety of methods, including quantitative analysis and qualitative assessment, and arrive at a judgement by weighing up these considerations. This approach makes effective use of the broad evidence base whilst avoiding an over-reliance on specific modelling outputs.

### *SRC27 set in the context of the long-term*

2.3.12. SRC21 shifted the balance away from short-term investment requirements over a defined regulatory period towards a longer-term approach. This recognised the importance of looking beyond the regulatory period, given the long-term nature of the water industry. Our 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*

2.3.13. Scottish Water must have full ownership and accountability for its performance during the regulatory control period. This requires defining what Scottish Water is expected to deliver during 2027-33, in the form of financial forecasts and commitments, and then monitoring Scottish Water's progress over this period. If investment priorities change over time, EBP&R places a greater onus on Scottish Water to explain and document the changes it intends to make through the Water Industry Investment Group (WIIG).<sup>24</sup>

### *Building appropriate flexibility*

2.3.14. We recognise that Scottish Water needs sufficient flexibility to respond effectively to its challenges, particularly when changes in risk or additional evidence impact investment priorities.

### **Scottish Water long-term strategy**

2.3.15. Following the methodology, Scottish Water developed a long-term strategy, published in May 2025.<sup>25</sup> Scottish Water highlighted three long-term challenges the water industry is facing:

- Mitigating and adapting to climate change;
- Continuing to invest in the water infrastructure, recognising that the asset base is ageing; and
- Delivering services for the changing population of Scotland.

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<sup>24</sup> The Water Industry Investment Group (WIIG) is the principal forum by which Scottish Water can regularly inform its stakeholders of its progress in delivering the Ministerial Objectives and Final Determination, and provides a change process that gives feedback on proposed adjustments to the programme.

<sup>25</sup> Scottish Water (2025), 'Our Sustainable Future Together: Long term strategy', 25 May 2025.

2.3.16. In its long-term strategy, Scottish Water committed to doing as much as it can through partnership working, transformation, driving efficiency, and reducing demand to reduce the forecast level of investment needed and minimise the funding it requires from customers.<sup>26</sup> Our Draft Determination ensures that this is indeed the case.

### Scottish Water draft business plan and our feedback

2.3.17. Scottish Water prepared proposals for how it planned to meet the Statement of Objectives for the six-year period in a manner consistent with the Principles of Charging for the industry. These proposals covered charge caps, investment, scope for efficiency, and service-level targets.

2.3.18. Scottish Water shared its draft business plan with WICS in June 2025, in which it proposed annual charge increases of 4% above inflation over the 2027-33 regulatory period. This profile was positioned to address the challenges of the water industry. These include those mentioned in the long-term strategy, as well as further challenges such as:

- Meeting expectations for the quality of drinking water;
- The return of multiple PFI sites to Scottish Water over the period; and
- Meeting societal expectations for the quality of the water environment.

2.3.19. WICS and other water industry stakeholders gave feedback on Scottish Water's draft business plan.

2.3.20. Our feedback acknowledged the strengths of the draft plan and Scottish Water's efforts to reach this milestone.<sup>27</sup> Our key comments were that further evidence and ambition were needed throughout, particularly for a business plan proposing a CPI+4.0% charge profile. The needs case underpinning the plan lacked sufficient evidence to justify deviating from the forecast charge profile set out in SRC21 of 1.5% to 2% per annum (equivalent to 9-13% in total over 2027-33) over the 2027-33 regulatory period (see paragraph 2.2.4). We also challenged Scottish Water's ambition in both the forecast outcomes and the efficiency of operating expenditure, which would have helped demonstrate the value customers would receive from such a price rise. We also raised concerns that the deliverability of the investment programme had not been fully evidenced within the plan. We considered that further evidence was required to demonstrate that the plan is affordable.

2.3.21. Scottish Water had the opportunity to consider this feedback in finalising its business plan, which it published on 26 February 2026.

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<sup>26</sup> Scottish Water (2025), 'Our Sustainable Future Together: Long term strategy', 25 May 2025, p.52.

<sup>27</sup> WICS (2025), 'WICS feedback on Scottish Water's draft business plan', 15 October 2025.

## 2.4. Detail of the final business plan

2.4.1. The final business plan (which we will refer to as the business plan except when considering the customer research on the draft and final business plan in the next chapter) provides Scottish Water’s view of the funding it requires over the six years from 2027-33 to meet the Objectives of the Scottish Ministers. It sets out:

- The outcomes customers will receive in line with the Objectives of the Scottish Ministers;
- The investment required to deliver those outcomes;
- The efficient level of expenditure on operating costs;
- The required level of revenue and borrowing;
- Proposed charge caps; and
- The assurance that Scottish Water has conducted on the proposals, including assurance on whether its expenditure forecasts are efficient, the proposed charges are affordable, the investment programme is deliverable, and the plan commands customer support.

2.4.2. The final 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 the water 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.

2.4.3. A summary of Scottish Water’s draft business plan from June 2025 and the final business plan from February 2026 is provided in Table 2.

*Table 2: Summary of Scottish Water's final business plan proposal for 2027-33*

What’s included	Scottish Water’s draft business plan (June 2025)	Scottish Water’s final business plan (February 2026)	What it means for customers
<b>Charges</b>	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).	Bills would rise each year by inflation plus an additional 3.3%. Over the whole period, this is a total rise of 21.5% above inflation.
<b>Borrowing</b>	Net new borrowing of £170 million per annum in outturn	Same as draft plan.	Scottish Water would borrow from Scottish Government to help fund

<b>What's included</b>	<b>Scottish Water's draft business plan (June 2025)</b>	<b>Scottish Water's final business plan (February 2026)</b>	<b>What it means for customers</b>
	prices (equivalent to £1,020 million over 2027-33).		investment over the period, alongside customer charges and other income. Borrowing helps fund the upfront cost of these investments and reduces the immediate impact on customer bills.
<b>Total investment programme</b>	£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.	More investment is proposed than in the previous period, aimed at maintaining services and meeting new requirements.
<b>Maintaining existing assets</b>	£5,078 million for asset maintenance (27% increase compared to 2021-27).	£5,076 million for asset maintenance.	A larger share of spending would go to repairing, renewing and replacing pipes, treatment works and other assets to keep services reliable.
<b>Improving and expanding services</b>	£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).	Additional spending would support upgrades, environmental improvements and capacity for growth (for example, new development and changing standards).
<b>Service and environmental outcomes</b>	A focus on outcomes including improvements in customer experience, a proposed 10% reduction in leakage, and progress towards	Further improvements on outcome measures, including water quality contacts and sewer flooding, but lower performance	Targets include better customer experience, less water lost through leakage, and actions to reduce carbon emissions over time.

<b>What's included</b>	<b>Scottish Water's draft business plan (June 2025)</b>	<b>Scottish Water's final business plan (February 2026)</b>	<b>What it means for customers</b>
	net zero emissions by 2040.	on water interruptions compared to the draft business plan.	
<b>Operating costs (day-to-day running)</b>	Operating expenditure of £3,544 million in total over 2027-33 reflecting returning PFI works, higher energy costs and other changes.	Operating expenditure of £3,617 million, a further increase from the draft business plan.	Some day-to-day costs change over time.
<b>Efficiency challenge</b>	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.	The plan assumes year-on-year efficiencies, meaning Scottish Water would need to find savings and work more efficiently while delivering the programme.

## 2.5. Scottish Water's assurance of the business plan

2.5.1. In our methodology, we required Scottish Water to prepare a Board assurance statement to set out how Scottish Water challenged and assured itself on specific aspects of the business plan. The purpose of Board assurance is to enhance our confidence in the evidence underpinning the business plan. It also highlights areas where assurance is more limited, which we can consider when identifying priority areas for our review of the business plan. We required that the Board's assurance statement cover the following areas as a minimum:

- That the plan commands customer support;
- Consistency with the long-term sector vision;

- That the plan represents value for money through providing challenging proposals for operating and capital expenditure efficiency and levels of service performance;
- That the plan is deliverable, considering factors such as the capacity of the supply chain in Scotland to deliver the proposed investment programme;
- That the plan maintains appropriate levels of financial strength over the 2027-33 period and beyond; and
- That the data underpinning the plan is accurate and complete, and accompanying commentaries are consistent with the expectations set out in the business plan guidance.

2.5.2. Scottish Water provided its Board assurance statement alongside its business plan. It set out the assurance activities and outcomes, the evidence underpinning each area and how the Board assured itself in each area. We welcome that it was signed by the Chair of the Scottish Water Board on behalf of the Board, as this reflects good corporate governance.

2.5.3. Table 3 provides our comments on each area of the Board assurance statement. Our assessment is colour-coded as follows.

- Green: areas of alignment;
- Amber: areas where we have some reservations based on the evidence provided; and
- Red: areas where we have material reservations based on the evidence provided.

*Table 3: Scottish Water Board assurance statement*

Area	WICS comments
<b>The business plan has been developed in alignment with draft Ministerial Objectives</b>	We welcome confirmation from the Scottish Water Board that the business plan has been developed in alignment with draft Ministerial Objectives. However, SEPA has explained to us that performance related to the percentage compliance at wastewater treatment works and the number of total pollution incidents, both of which Scottish Water proposes to maintain, may fall short of the Ministerial Objectives. This requires further engagement between Scottish Water and SEPA ahead of responding to our Draft Determination on 1 September.
<b>The business plan has been developed with ongoing stakeholder engagement</b>	Scottish Water has shared its proposals throughout the development, seeking stakeholders' input at every stage.

<b>The business plan commands customer support</b>	This is confirmed in the Phase 3 research led by Consumer Scotland.
<b>The business plan is consistent with the long-term water sector vision</b>	We welcome confirmation from the Scottish Water Board that the business plan aligns with the water long-term sector vision.
<b>The business plan represents value for money through providing challenging proposals for operating and capital expenditure efficiency and levels of service performance</b>	<p>The Board assurance statement explains that Scottish Water operates at a suitable level of efficiency, and the final business plan proposes a stretching set of performance outcomes.</p> <p>We recognise that efficiency is a specialist area involving advanced modelling and assessment techniques. Notwithstanding this point, we consider that the assurance in this area is not as strong as in other areas of the assurance statement. We also set the expectation that proposals for efficiency should be challenging and consider that the reference to Scottish Water operating at a suitable level of efficiency may not be fully consistent with this, especially recognising Scottish Water’s long-term strategy commitment (see paragraph 2.3.16).</p>
<b>The business plan is deliverable considering factors such as the capacity of the supply chain in Scotland to deliver the proposed investment programme</b>	<p>We welcome the Board's close involvement in the procurement of the new Delivery Vehicle 4 (DV4) Enterprise model for the 2027-33 regulatory period onwards. This provides us with some assurance.</p> <p>However, given the relative immaturity of the DV4 Enterprise model, we still have reservations about the plan’s deliverability.</p>
<b>The business plan maintains appropriate levels of financial strength over the 2027-33 period and beyond</b>	We welcome confirmation from the Scottish Water Board that the plan maintains appropriate levels of financial strength.
<b>The data underpinning the business plan is accurate and complete and accompanying commentaries are consistent with expectations set out in the business plan guidance</b>	<p>Overall, we agree that the business plan data tables were completed to a high standard.</p> <p>The only material gap was that Scottish Water did not provide the requested information to link the outcomes and investment, or the number of inspections, or reactive</p>

	maintenance interventions in Table 5 of the business plan data tables.
<b>The overall scope and scale of investment required during SRC27 has been considered and challenged</b>	We welcome confirmation from the Scottish Water Board that the scope and scale of the investment required had been considered and challenged. We also consider that Scottish Water has engaged with its regulators, DWQR and SEPA, to understand their investment priorities. However, we do have some questions on the data and evidence underpinning some of the investment areas, as highlighted in Scottish Water’s external assurance on the Management Approaches.

2.5.4. We have assessed four areas as green, five areas as amber, highlighting some reservations, and none as red.

2.5.5. In our feedback on the draft business plan submission, we required Scottish Water to provide alongside the final business plan submission any impact assessments or relevant publications on how it is performing its statutory duties as a designated public body.<sup>28</sup>

2.5.6. Scottish Water provided the following impact assessments:

- The Consumer Duty impact assessment, which involves the public body considering the impact their strategic decisions will have on consumers;<sup>29</sup> and
- The pre-screening assessment for the Strategic Environment Assessment (SEA), which is a requirement placed on public bodies and private companies providing essential public services, such as utility companies, to assess, consult on and monitor the impact of their plans and programmes on the environment.<sup>30</sup>

### Scottish Water’s Consumer Duty

2.5.7. Scottish Water completed all elements of the Consumer Duty, highlighting:

- The impact of its business plan on customers;
- How it has engaged customers throughout the development of its business plan;
- How it has balanced the feedback from customers with other objectives;
- How it has met the consumer duty; and
- The information it will publish about the steps it has taken to meet the duty.

<sup>28</sup> WICS (2025), ‘Feedback on Scottish Water’s draft business plan for SRC 2027-2033’, August, p.30.

<sup>29</sup> The Consumer Duty is a requirement from the Consumer Scotland Act 2020 (Consumer Duty).

<sup>30</sup> The SEA is a requirement from Environmental Assessment (Scotland) Act 2005.

2.5.8. In its assessment, Scottish Water highlights the significant programme of research undertaken covering both qualitative research, including through the confirmation pillar of the Memorandum of Understanding (MoU) discussed in Chapter 3, and the quantitative research on the draft business plan. Scottish Water explains that it was not possible to quantitatively test the affordability of the final business plan proposals due to time constraints.

## The SEA

2.5.9. The SEA is a means to judge the likely impact of a public plan on the environment and to seek ways to minimise that effect, if it is likely to be significant.<sup>31</sup>

2.5.10. The SEA process involves a number of stages:<sup>32</sup>

- Pre-screening;
- Screening (preparation of a screening report);
- Scoping (preparation of a scoping report);
- Environmental assessment (preparation of an environmental report);
- Main consultation on the environmental report and draft environment strategy;
- Preparation of a post-adoption SEA statement; and
- Monitoring the significant effects of implementing the environment strategy.

2.5.11. Scottish Water completed the pre-screening stage of the SEA. The pre-screening stage involves Scottish Water considering whether its plan has environmental effects. In its pre-screening submission, Scottish Water's assessment is that the business plan will be supported by a detailed delivery plan, which will be considered against the SEA requirements.<sup>33</sup>

2.5.12. WICS requires Scottish Water to provide further information on when it will complete the full SEA.

## 2.6. Our overall assessment

2.6.1. 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.

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<sup>31</sup> Scottish Government (2013), 'Strategic Environmental Assessment Guidance', August 2013, p.4.

<sup>32</sup> Scottish Government (2013), 'Strategic Environmental Assessment Guidance', August 2013, p.14.

<sup>33</sup> Scottish Government (2013), 'Strategic Environmental Assessment Guidance', August 2013, p.15.

2.6.2. We welcome that Scottish Water sought to address all areas of our feedback on the draft business plan. However, we consider that it did not fully evidence the following areas:

- That the plan is affordable;<sup>34</sup>
- Performance on the outcome measures, especially the proposed level of ambition and the linkage between the outcomes, investment, expenditure and ultimately charges (i.e. the ‘needs case’ underpinning the business plan); and
- Cost efficiency for some areas of the business plan (e.g. expenditure from returning PFI assets and some investment areas in the business plan).

2.6.3. We also require Scottish Water to provide further information on when and how it will meet its SEA obligations.

2.6.4. We welcome that Scottish Water met our methodology requirements for Board assurance. We consider the Board assurance statement to be a step forward in strengthening governance and propose to utilise Board assurance as a regulatory safeguard for future decisions. Overall, the Board assurance statement was completed to a high standard. Together with the external assurance Scottish Water provided, it has helped us identify priority areas for review, including:

- The level of ambition in the forecast performance on the outcome measures and the linkage between investment and outcomes; and
- Cost efficiency, including in some investment areas (e.g. the investment covered by management approaches).

2.6.5. SEPA’s feedback on Scottish Water’s business plan explained that Scottish Water’s proposed performance on the compliance at wastewater treatment works and total pollution incidents outcome measures may fall short of the Ministerial Objectives. We have challenged Scottish Water further on total pollution incidents, taking into account of the performance of comparator companies, investment levels and SEPA’s feedback. However, we request that Scottish Water and SEPA engage further on the compliance at wastewater treatment works outcome measure to resolve this difference. Scottish Water and SEPA should provide the outcome of that engagement in their responses to the Draft Determination consultation.

2.6.6. We also recognise that Scottish Water submitted its business plan on 26 February 2026 before the recent geopolitical instability, which has economic impacts, affecting Scottish Water and the cost of living in Scotland. We also have more recent information in certain

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<sup>34</sup> The plan and accompanying evidence refer to keeping bills ‘as affordable as possible’ and the plan being ‘more affordable’ compared with the draft business plan, rather than the plan being affordable in absolute terms. See Scottish Water (2026), ‘Final Business Plan 2027-2033: investing in Scotland’s future’, 26 February 2026, p.8, p.29 and p.96.

areas (e.g. past performance on outcomes in England and Wales), which we also take into account in our Draft Determination.

- 2.6.7. 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.
- 2.6.8. 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, especially recognising its long-term strategy commitment on efficiency (see paragraph 2.3.16).
- 2.6.9. 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.
- 2.6.10. 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.

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

- 2.7.1. As part of its response to the Draft Determination consultation, we require Scottish Water to address the following areas:
- Seeking to resolve the misalignment with SEPA on the discharge permit compliance outcome measure as a matter of priority and include the outcome in their representations on the Draft Determination (see paragraph 2.6.5); and
  - Providing further information on when it will complete the full Strategic Environmental Assessment (see paragraph 2.5.12).

## 3. Customer support

### 3.1. Summary of this chapter

- 3.1.1. This chapter sets out the customer research undertaken to inform SRC27 and explains how that research is embedded at the heart of the SRC27 process. The results from the various strands of research are then analysed to assess whether Scottish Water has appropriately reflected customer priorities in its business plan and whether the business plan has customer support.
- 3.1.2. The key messages from this chapter are that customer research has been carried out to the high standard required in the Memorandum of Understanding (MoU). It was also carried out at pace with a significant volume of research undertaken over a short timeframe. This is in large part due to the commitment of the parties to the (MoU) and to the Chair and members of the Independent Customer Group (ICG).
- 3.1.3. Based on pillar 1 (the evidence phase of the MoU), we consider that Scottish Water could have provided more evidence that its business plan is affordable.
- 3.1.4. We also note that customers identified the following four priority areas for customers:
- Drinking water quality;
  - Reliability of supply;
  - Reduction in leakage; and
  - Protection from internal sewer flooding.
- 3.1.5. We also note from pillar 1 (the evidence phase of the MoU) that customers' views indicate that internal sewer flooding may be under-represented in the business plan. We will take this into account when examining the outcome measures for internal sewer flooding.
- 3.1.6. Following pillar 2 (the challenge phase of the MoU), the ICG has provided assurance that the business plan reflects the outcome of the customer research and that customer priorities are reflected in the business plan.
- 3.1.7. The outcome of pillar 3 (the confirmation phase of the MoU) found support for and acceptance of Scottish Water's final business plan. 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.
- 3.1.8. The chapter is structured as follows:
- Background;
  - Pillars 1 and 2: Evidence and challenge;

- Pillar 3: Confirmation; and
- Implications for our Draft Determination.

## 3.2. Background

3.2.1. As set out in paragraph 2.3.3, the Ministerial Objectives decide the outcomes that Scottish Water must deliver over the 2027-33 regulatory period, and the type of investment activity Scottish Water should be undertaking. These Objectives are informed by other Scottish Government policies and strategies and also by the views of Scottish Water, Consumer Scotland, DWQR, SEPA and WICS.

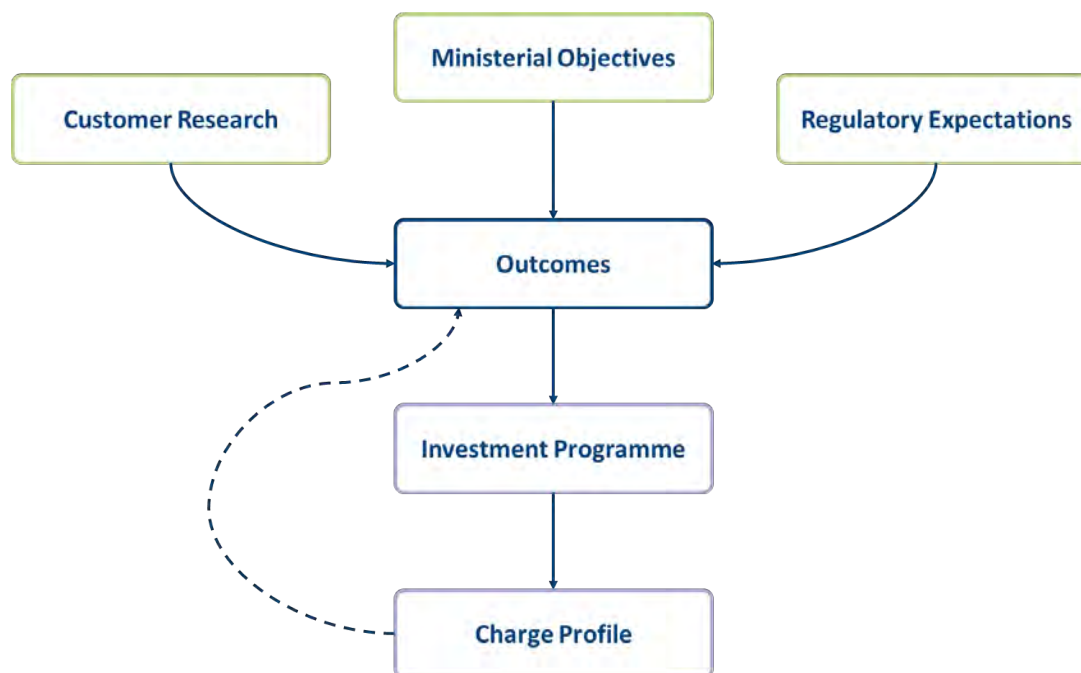
3.2.2. Scottish Water has translated the Ministerial Objectives into more detailed outcome measures. These detailed outcome measures have also been informed by customer priorities identified through customer research and by improvements needed to comply with drinking water quality and environmental regulations.

3.2.3. The detailed outcome measures and the desired performance levels for those measures will impact the investment required over the 2027-33 regulatory period. In developing a business plan, Scottish Water will iterate a range of factors, including:

- The performance levels for the detailed outcome measures;
- The required investment; and
- The charge profile.

3.2.4. Scottish Water will iterate among these factors to develop a business plan that achieves an appropriate balance between charges and service levels, taking account of different considerations such as affordability and deliverability. This process is illustrated in Figure 9.

Figure 9: Process for developing outcomes



3.2.5. Customer research plays a key role in identifying the priority outcome measures as well as the desired performance levels for these measures. Customer research is also important for testing whether customers consider the business plan to achieve an appropriate balance between price and service levels.

3.2.6. To ensure that customers are at the heart of SRC27, Consumer Scotland, Scottish Water and WICS signed a Memorandum of Understanding (MoU)<sup>35</sup> on 11 November 2024 that sets out the principles and programme of joint work on customer engagement. The agreed four Principles are:

- **Empowerment:** Customers and communities will be empowered by setting a clear expectation on Scottish Water to take ownership of its business plan and charges and demonstrate that both command the support of customers and communities;
- **Legitimacy:** Customer research is credible, well-designed, comprehensive, robust, unbiased, inclusive and independent and follows best practice. Scottish Water’s business plan clearly reflects customer views, including how they have been incorporated;
- **Collaboration:** Effective coordination and co-design of customer research, building on the principles of Evidence-Based Research; and
- **Independent Challenge:** Scottish Water will be challenged robustly to demonstrate that plans are reflective of customer expectations through an independent group.

<sup>35</sup> WICS (2024), ‘Placing customers at the heart of the Strategic Review of Charges’, November 2024

- 3.2.7. These principles are built into the three pillars of work: Evidence, Challenge, and Confirmation.
- 3.2.8. The evidence pillar establishes customers' views on issues relating to the business plan and has been core to the development of the plan. Scottish Water has undertaken research to identify customer priorities and incorporate these into the business plan. This research has been conducted with input from the multi-stakeholder Customer Research Co-ordination Group (CRCG), whose membership includes Scottish Water, Consumer Scotland, the Independent Customer Group (ICG), and WICS.
- 3.2.9. The challenge pillar ensures that the business plan benefits from independent evidence-based challenge. The ICG was established to address this by challenging Scottish Water's understanding and incorporation of customers' needs and expectations into its business plan. This work has been delivered through the ICG's involvement in Scottish Water's customer research programmes, its challenge log, and its assurance report.<sup>36, 37</sup>
- 3.2.10. 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, covered in section 3.4.<sup>38</sup>

### 3.3. Pillars 1 and 2: Evidence and challenge

- 3.3.1. The main research studies that fulfil the evidence pillar have been delivered by Scottish Water, with input from water industry stakeholders through the CRCG. A smaller taskforce, the Research Advisory Group (RAG), was established to deliver the research at pace whilst also ensuring stakeholders' views were heard.
- 3.3.2. Scottish Water's research was delivered through four studies, the first three of which were qualitative and conducted with customers who had first been given extensive inductions on Scottish Water. The fourth assessed the draft business plan's broad acceptability through a quantitative study, as advocated by the ICG.
- **Study one**<sup>39</sup> sought household and non-household customer views and preferences on three charging scenarios: CPI+2%, CPI+4% and CPI+6.5% and their corresponding investment programmes.
  - **Study two**<sup>40</sup> gathered expectations of licensed providers to inform business plan development.

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<sup>36</sup> ICG (2026), 'ICG Challenge Log', 26 February 2026.

<sup>37</sup> ICG (2026), 'ICG Final Assurance Report', 26 February 2026.

<sup>38</sup> WICS (2024), '2027-33 Commissioning letter', 12 June 2024.

<sup>39</sup> Scottish Water (2025), 'SR27 Customer Expectations Final Report', 14 May 2025.

<sup>40</sup> Scottish Water (2025), 'SR27 Licensed Providers Research', 24 June 2025.

- **Study three**<sup>41</sup> focused on charge trajectories to understand customers' preferences between a front-loaded increase and steady charge rises.
- **Study four**<sup>42</sup> was a quantitative study with a nationally representative sample to test customer views on a CPI+4% scenario.

### Study one: Customer Expectations

3.3.3. The first study provided initial views from customers and their thoughts on the Scottish water industry. Feedback showed that tap water in Scotland is a source of national pride.<sup>43</sup> It was also shown that there were opportunities for further customer outreach and education in areas such as the challenges facing the water industry and the structure of Scottish Water.

3.3.4. There was no conclusive answer on a charging profile preference between the three options provided of CPI+2%, CPI+4% and CPI+6.5%. A common sentiment was that the proposed scenarios did not provide sufficient value for the projected price rises.

### Study two: Licensed Providers research

3.3.5. The second study was conducted with licensed providers, whose roles are defined in section 1.3. This study gathered initial views and expectations from participants, followed by a presentation of three high-level investment scenarios: CPI+2%, CPI+4%, and CPI+6.5%. A summary of the feedback from non-household customers was also provided.

3.3.6. Licensed providers expressed positive views of the service they received from Scottish Water for reasons such as accurate billing, responsive account managers, and quick resolution of problems.<sup>44</sup> Their expectations for SRC27 aligned with these reasons, and they expected that water conservation would be a higher priority in the coming period.<sup>45</sup>

3.3.7. In general, licensed providers were not surprised by the feedback that non-household customers had given on each of these three scenarios. They were particularly concerned about the proposed costs. The CPI+4% scenario was viewed as relatively high, and there was a strong feeling that the CPI+6.5% scenario would be a struggle for many businesses to absorb. Across the three scenarios, the outcomes were considered underwhelming, corroborating the sentiments of household and non-household customers in study one.<sup>46</sup>

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<sup>41</sup> Scottish Water (2025), 'SR27 Reconvened Groups', 6 June 2025.

<sup>42</sup> Scottish Water (2025), 'SR27 Quantitative Research Final Report', December 2025.

<sup>43</sup> Scottish Water (2025), 'SR27 Customer Expectations Final Report', 14 May 2025, p.64.

<sup>44</sup> Scottish Water (2025), 'SR27 Licensed Providers Research', 24 June 2025, p.8.

<sup>45</sup> Scottish Water (2025), 'SR27 Licensed Providers Research', 24 June 2025, p.10.

<sup>46</sup> Scottish Water (2025), 'SR27 Licensed Providers Research', 24 June 2025, p.15.

### Study three: Reconvened groups

- 3.3.8. The third study was conducted with participants who had previously taken part in Scottish Water's first study. Scottish Water had rebalanced its CPI+4% investment scenario in light of customer feedback. This scenario was presented to participants to gather their views on choice areas of expenditure and to determine whether their feedback had been incorporated into the plan.
- 3.3.9. After exploring the non-mandatory areas of expenditure, it was found that participants did not have strong challenges to the proposed balance of expenditure in these areas. Most participants agreed that Scottish Water had listened to their feedback from the original research when rebalancing this investment scenario.<sup>47</sup>
- 3.3.10. This study also explored customer views on a reprofiled charging trajectory. Two bill impact scenarios were presented: the first was a steady increase of CPI+4% each year, and the other was a front-loaded increase of CPI+11% in the first year, followed by CPI+1.47% in subsequent years. During the discussion, the steady increase was seen as a more acceptable trajectory, whereas in the post-task session, the preferences between the two trajectories were more balanced. It was acknowledged that a front-loaded increase could cause affordability concerns and may be challenging for Scottish Water to communicate effectively with less well-informed customers.

### Study four: Quantitative research

- 3.3.11. Scottish Water's quantitative study was conducted on a sample of 1,065 households and 200 non-household customers. This sample was chosen to be representative of the Scottish population. Face-to-face interviews were arranged with 100 of these household customers to ensure that hard-to-reach customers were included in the research. The purpose of utilising a large uninformed audience was to ensure that the results could be used to infer perceptions across all Scottish Water customers.
- 3.3.12. This study was conducted between the draft and final business plans, so the charging scenario being presented was CPI+4%, as detailed in Scottish Water's draft business plan. Participants were asked questions on affordability, their priority outcome and investment areas, and their views on the overall plan.
- 3.3.13. The key affordability findings for household customers are summarised below:
- 61% of household customers struggle to pay their bills at least occasionally (this refers to all bills incurred by the customer, not limited to Scottish Water bills). For 25% of household customers, paying bills is a constant struggle or worse.

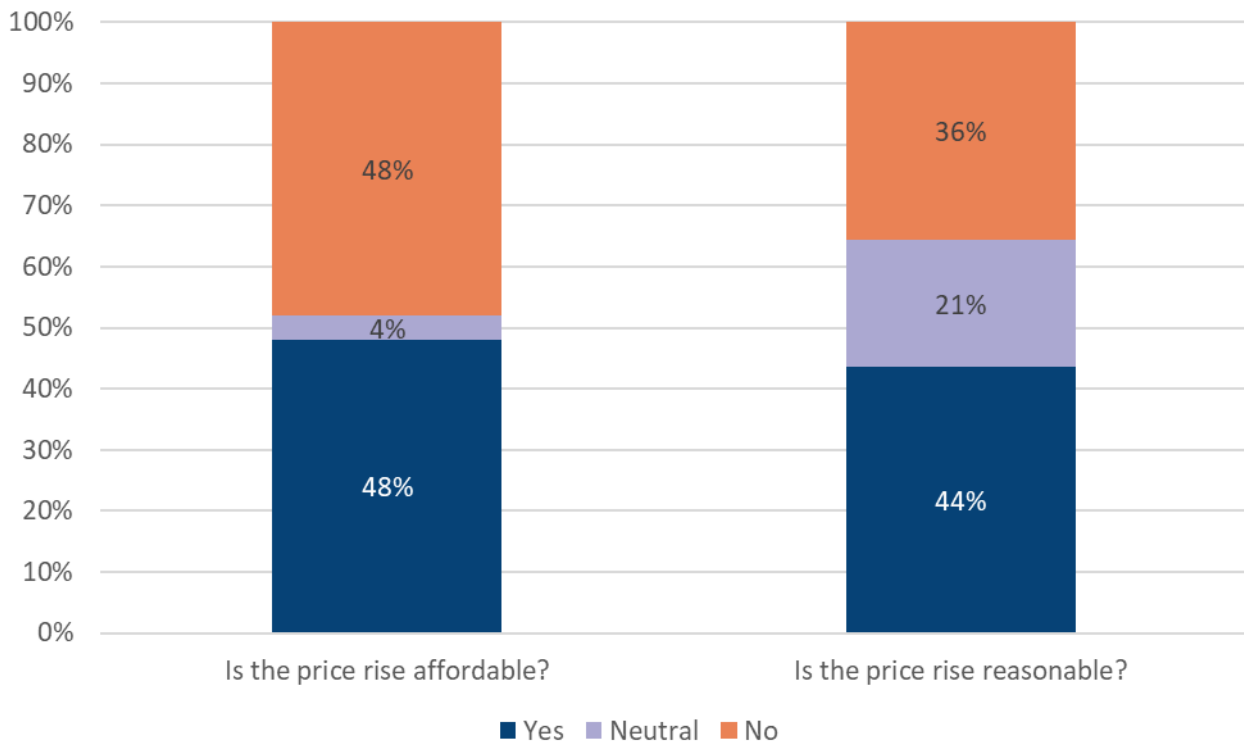
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<sup>47</sup> Scottish Water (2025), 'SR27 Reconvened Groups', 6 June 2025, p.30.

- Participants were asked their views on the affordability of the CPI+4% scenario, the reasonability of the price rise, and whether the plan offered value for money.

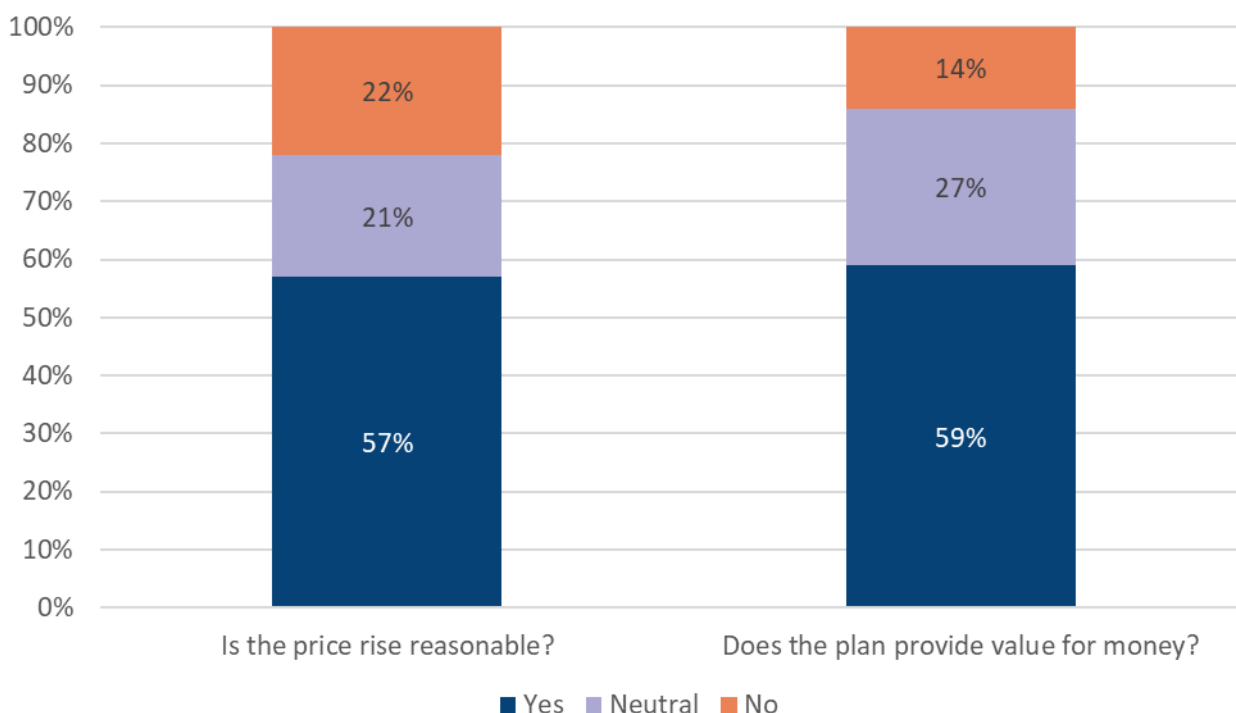
3.3.14. Figure 10 and Figure 11 show the responses from household customers before and after seeing the draft business plan. The price rise was seen as more reasonable once the draft business plan was presented, and there was a positive sentiment that it provided value for money. However, participants were split on whether this price rise would be affordable.

*Figure 10: Responses from household customers prior to seeing the draft business plan<sup>48</sup>*



<sup>48</sup> Figures may not sum to 100% due to rounding.

Figure 11: Responses from household customers after the draft business plan was presented



3.3.15. This research was based on the draft business plan, and we note that Scottish Water did not test the affordability of the final business plan.

3.3.16. Participants were shown seven investment areas and asked to rank these by importance and assign a score to each area based on their perception of Scottish Water’s current performance. Scottish Water then presented detailed proposals for each investment area in SRC27, and invited customers to provide their views on each.

3.3.17. Customers prioritised drinking water quality and a reliable supply of water as the most important investment areas, as shown in Table 4.

Table 4: Investment areas ranked in first place by household customers

Investment area	Percentage of participants ranking each area as the most important area
Drinking Water Quality	40%
Reliable Supply of Water	33%
Internal Sewer Flooding	7%
Reducing Leakage	7%
Reducing Environmental pollution and spills	7%
External Sewer Flooding	3%
Carbon Footprint	3%

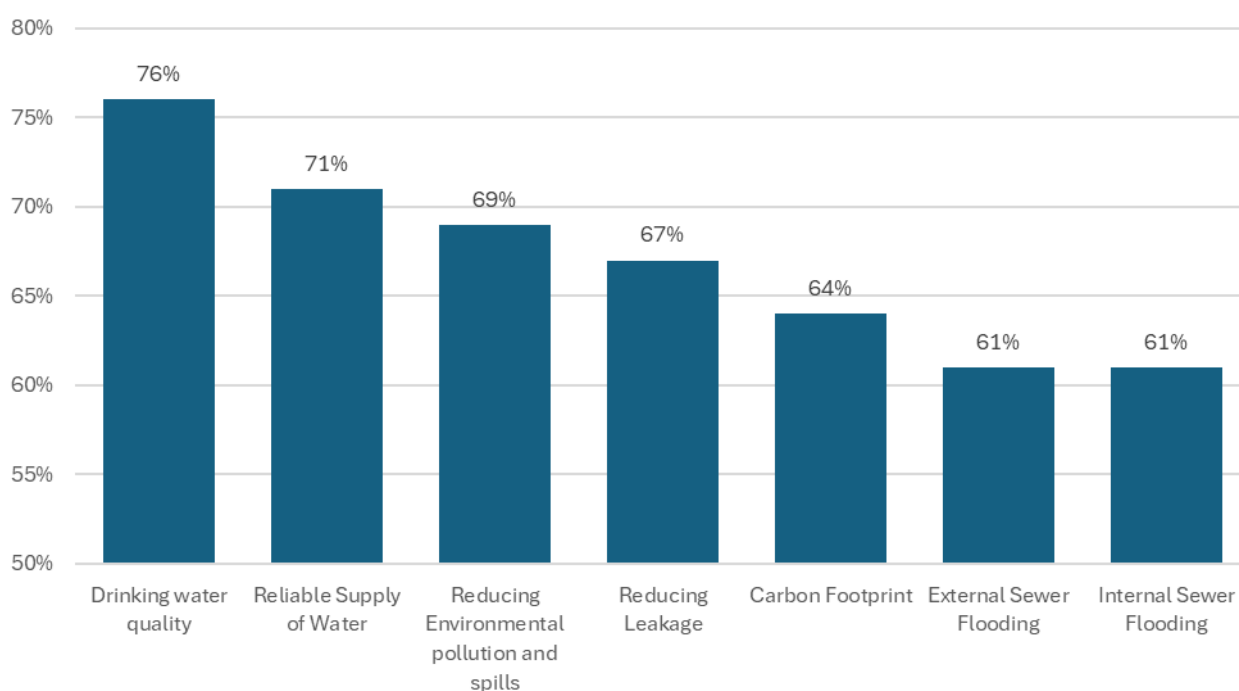
3.3.18. When we expand our view to include the top three investment areas, we see that customers prioritise four areas: drinking water quality, a reliable water supply, internal sewer flooding, and reducing leakage. These results are shown in Table 5.

*Table 5: Investment areas ranked in the top three places by household customers*

Investment area	Percentage of participants ranking each area within the top three most important areas
Drinking Water Quality	81%
Reliable Supply of Water	77%
Internal Sewer Flooding	40%
Reducing Leakage	40%
Reducing Environmental pollution and spills	26%
External Sewer Flooding	23%
Carbon Footprint	13%

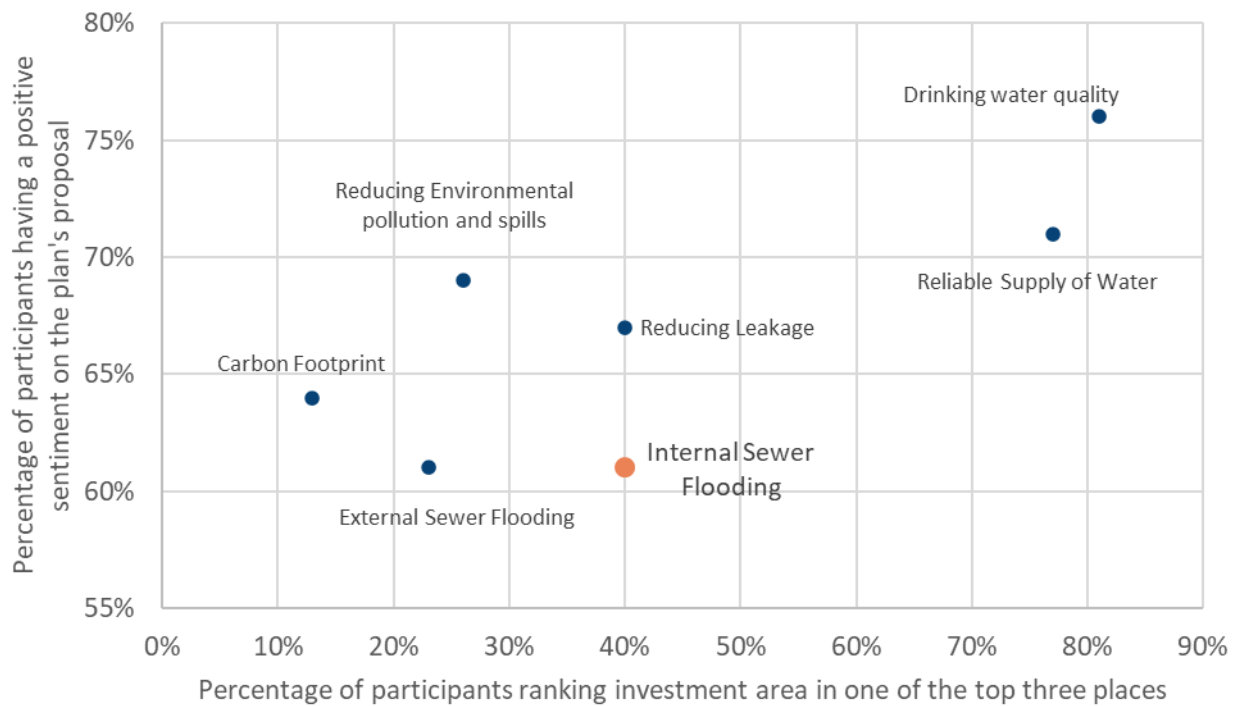
3.3.19. After Scottish Water presented its proposals for each of the seven investment areas, participants were asked to rate each proposal on a 5-point scale from very negative to very positive. The proportion of household customers answering “very positive” or “fairly positive” for each investment area is shown in Figure 12.

*Figure 12: Positive sentiment on Scottish Water’s draft business plan by investment area*



3.3.20. Figure 13 shows a scatterplot combining the results of Table 5 and Figure 12.

Figure 13: Household customer views on Scottish Water’s proposal and prioritisation of investment area



3.3.21. Based on this research, WICS concludes that customers have shown their top four priority areas are:

- Drinking water quality;
- Reliable water supply;
- Reducing leakage; and
- Internal sewer flooding.

3.3.22. However, Figure 13 suggests that internal sewer flooding (highlighted in orange) is underrepresented in the business plan relative to the other three customer priorities. It scores highly among customers’ top three areas, with the same percentage of participants placing it in the top three as for leakage (40%). However, internal sewer flooding scored among the lowest in terms of customer sentiment of the business plan in that area (around 60%).

### ICG’s role in challenging Scottish Water

3.3.23. As detailed in section 3.2.9, the ICG was established as part of the challenge pillar of the memorandum of understanding. It was given the formal role of providing an assurance report on the quality of the customer research undertaken to inform Scottish Water’s business plan, and the extent to which customer views were reflected in the plan.

3.3.24. The ICG also actively contributed to the design and oversight of customer research through the RAG, and it has concluded that it was satisfied that the research was well-designed and credible.

3.3.25. In its assurance report, the ICG confirms that the customer voice has demonstrably influenced the final business plan. Part of the evidence for this is how customers' top priorities have been accommodated between the draft and final plans, including in the following investment areas:

- Restoration of investment for internal sewer flooding;
- Improvements in drinking water quality and aesthetics; and
- Targets to reduce leakage.

3.3.26. Other key examples of customer influence on the final plan are:

- Reduction of proposed charges from CPI+4% to CPI+3.3% while retaining outcomes;
- Adoption of a smooth charging path;
- Reorientation of net zero expenditure toward projects with direct business and environmental benefit; and
- Protection of resources for customer engagement, research, and awareness campaigns.

3.3.27. The ICG has highlighted that the CPI+3.3% charge profile has not been tested with a nationally representative sample, and therefore, it is not in a position to say whether that charge profile would be affordable. We consider that this is an area where Scottish Water could have provided more evidence to support its business plan proposals (see paragraph 2.6.2).

3.3.28. In addition to affordability, the assurance report highlighted some remaining issues:

- The management of residual risks;
- Mechanisms for ensuring customer voice in any future reprioritisation of investment; and
- Whether the scale of investment in the SRC27 period places an undue burden on current bill-payers.

3.3.29. To alleviate the first two concerns, the ICG notes its expectations for:

- Clear processes for involving customers in decisions if risks materialise; and
- Transparent mechanisms for tracking delivery against the plan to reassure customers that their priorities continue to be met.

3.3.30. We cover these two points in relation to investment prioritisation in Chapter 10.

3.3.31. In its overall statement of assurance, the ICG notes that it is satisfied with the quality and rigour of the research. It concludes that customer views have been reflected in and shaped the business plan, and that the plan is reasonable in light of customer priorities.

## 3.4. Pillar 3: Confirmation

3.4.1. The final pillar seeks to provide confirmation that the final business plan commands customer support. Consumer Scotland has achieved this pillar through its longitudinal deliberative research programme, which was delivered with input from the RAG. A longitudinal research study involves repeatedly interviewing the same participants over an extended period of time, which allows participants to gain a deeper understanding of Scottish Water's role and plan.

3.4.2. There were 105 households and 40 non-household customers consulted in the study. The household customers were further split into two cohorts: cohort 1 comprised 63 customers, representing a broadly representative sample of the Scottish population, and cohort 2 consisted of 42 customers from backgrounds that are often underrepresented in research. A brief summary of each phase is provided below:

- Phase one focused on household customers, exploring initial views and awareness of water and wastewater services in Scotland. It gathered customer feedback on the key issues facing Scottish Water for its draft business plan.<sup>49</sup>
- Phase two engaged both household and non-household customers, and explored Scottish Water's draft business plan and proposed charges in more detail.<sup>50</sup>
- Phase three provided an opportunity for household and non-household customers to review Scottish Water's final business plan and to form conclusions.<sup>51</sup>

3.4.3. The confirmation pillar led by Consumer Scotland is an innovative approach. It is the only example we are aware of involving the same group of customers, whose views have been sought from the early stages of the business plan through to testing whether that plan commands their support.

### Phase one

3.4.4. Consumer Scotland organised a workshop to gather initial views from customers, followed by three presentations by Scottish Water and opportunities for discussion.

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<sup>49</sup> Consumer Scotland (2025), 'SRC27 longitudinal deliberative research: Findings from phase 1', April 2025

<sup>50</sup> Consumer Scotland (2025), 'SRC27 longitudinal deliberative research: Findings from phase 2', December 2025

<sup>51</sup> Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Summary findings from phase three of deliberative research', 21 April 2026.

- 3.4.5. Phase one provided the opportunity to collect customers' unprompted sentiments on the water industry and Scottish Water, prior to the induction that these participants would undergo through the study. A common theme was positive views of drinking water quality in Scotland. There was an acknowledgement of the value of water and the perception that Scotland had an abundance of it.<sup>52</sup>
- 3.4.6. Phase one also covered Scottish Water's current performance and the key challenges it is facing, namely climate change, population change, and ageing assets. There was surprise at the extent of some of these challenges, particularly the effects of droughts and heavy rainfall, and at the age of some of the infrastructure. Participants were unaware of the extent of water loss due to leakage, though they appreciated the efforts Scottish Water was making to address these challenges.<sup>53</sup> Participants also wanted to better understand the impact of these challenges on future prices.
- 3.4.7. After Scottish Water's presentations, customers acknowledged the scale of the challenges faced by the water industry, but raised concerns about the impacts of potential price rises on bill-payers.

## Phase two

- 3.4.8. Phase two reconvened the household customers from phase one, and also involved engagement with the 40 non-household customers to gather their initial views. There was generally a good understanding of Scottish Water's role and some awareness that Scottish Water acts as the wholesaler in the market. Sentiments towards Scottish Water were positive, and responses were similar to those of household customers in phase one.
- 3.4.9. All participants, household and non-household, were provided a summary of Scottish Water's draft business plan, and views were sought on investment areas and the overall plan.
- 3.4.10. In general, participants were broadly positive about the investment areas set out in the draft business plan. There was an appreciation of the level of ambition and the long-term approach. However, there was some scepticism about the achievability of the outcomes and concern that actual costs could be higher than forecast.
- 3.4.11. Participants did not provide conclusive support for the CPI+4% charge profile. There was concern about the impact of this price rise alongside rising other bills, and about what would happen if inflation ran higher than anticipated.

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<sup>52</sup> Consumer Scotland (2025), 'SRC27 longitudinal deliberative research: Findings from phase 1', April 2025, p.6.

<sup>53</sup> Consumer Scotland (2025), 'SRC27 longitudinal deliberative research: Findings from phase 1', April 2025, pp.14-17.

3.4.12. Customers highlighted some important areas which should be addressed in the final business plan:

- More information on costs and return of connecting new homes;
- A clearer explanation of how investments in drinking water quality are necessitated by tightening regulations;
- Reframing of some net-zero projects to better demonstrate the multiple benefits they will deliver;
- Explaining the impact water conservation could have on reducing bills;
- More information on the processes around discounts and exemptions. We note this area is outside of the remit of Scottish Water and WICS;
- More information on Scottish Water's ability to absorb economic shocks and minimise burden on customers; and
- More focus on customer awareness raising, such as education around reducing water usage.

3.4.13. Participants wanted to better understand the context in which Scottish Water is developing its plan, including:

- How will customers be assured that Scottish Water's plans are as cost-effective as possible?
- How will Scottish Water be held to account over the plan?
- How does Scottish Water compare to the water sector in England and Wales in terms of budgeting and performance measures such as leakage?

### Phase three

3.4.14. Phase three took place after the final business plan had been published. It sought to review the changes Scottish Water made between the draft and final business plan and gather participants' views. The fieldwork consisted of a public dialogue workshop with 50 household customers, supplemented by further engagement with household customers from underrepresented groups and individual interviews with non-household participants.

3.4.15. Findings from this phase were presented to WICS and the industry stakeholders on 23 April 2026. Consumer Scotland also wrote to WICS to provide the high-level findings to inform the WICS Draft Determination.<sup>54</sup>

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<sup>54</sup> Consumer Scotland (2026), 'Strategic Review of Charges (SRC) 2027-33: Phase 3 Confirmation Pillar Outcomes', 21 April 2026.

- 3.4.16. The research concluded that it found support for and acceptance of Scottish Water’s final business plan, which was broadly considered balanced and sensible by participant household and non-household consumers.
- 3.4.17. The research found that the proposed investments in the final business plan are broadly aligned with customer priorities and that the changes made between the draft and final versions reflected customer views. For example, drinking water quality outcomes improved after customer feedback identified it as a key area. Customers appreciated the transparency of the process and the incorporation of their views into the final business plan.
- 3.4.18. The reprofiled charges were considered more affordable than the profile outlined in the draft business plan. There were still concerns about inflation uncertainty and its impact on charge increases, as well as the cumulative impact of rising bills. Participants also had concerns about the risks of postponing investment, including delaying the removal of high-priority UIDs to allow Scottish Water to remove more medium-priority UIDs. There was also some disappointment with the lower investment in carbon reduction and in maintaining water supply performance, and a view that the business plan might have missed opportunities (e.g., for more ambitious investment).
- 3.4.19. The findings highlighted that support for the business plan was based on the assumption that WICS would test whether the costs and investment in the final business plan are efficient, that outcomes would be met, and that WICS would hold Scottish Water to account for delivery.

## 3.5. Implications for our Draft Determination

- 3.5.1. Having reviewed the ICG’s report, we are assured that Scottish Water has conducted a comprehensive programme of customer research and that this research was undertaken in line with best practice. We are also assured that the business plan reflects the outcome of this research.
- 3.5.2. The confirmation found support for and acceptance of Scottish Water’s final business plan. 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.
- 3.5.3. Chapter 4 provides our assessment of Scottish Water’s proposed performance on the detailed outcome measures. We consider the ambition of the outcome measures and whether Scottish Water has scope to deliver further improvements, especially in the four priority areas identified from the customer research, as highlighted in paragraph 3.3.21:
- Drinking water quality;
  - Reliability of supply;

- Reduction in leakage; and
- Protection from internal sewer flooding.

3.5.4. We also examine whether further progress is required on the outcomes related to internal sewer flooding, recognising that customers considered that it is underrepresented in the business plan.

## 4. Levels of service

### 4.1. Summary of chapter

4.1.1. This chapter covers the outcomes that Scottish Water will deliver over the 2027-33 regulatory period. In its business plan, Scottish Water proposed 49 outcome measures showing the benefits that customers and society will receive from the proposed investment. These are the measures that industry stakeholders will use to hold Scottish Water to account for its performance and delivery during the regulatory period.

4.1.2. We consider that Scottish Water has not yet fully 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 think Scottish Water should be able to demonstrate this link in areas such as leakage, sewer flooding and water quality, where investment should translate directly into forecast performance.

4.1.3. In our feedback on the draft business plan, we challenged Scottish Water's level of ambition for the outcome measures. This is also consistent with the feedback other stakeholders gave Scottish Water. Based on our discussions with DWQR and SEPA, we consider that there remains scope for further ambition for some of the outcome measures.

4.1.4. Overall, we have accepted Scottish Water's proposals in 21 outcomes and updated the targets for 21 of the outcome measures. Of the 21 updated targets, we require better performance on 16, and the remaining 5 are treated differently because they depend on the West Central Bioresources project proceeding. In many cases when we have strengthened the targets, this is simply due to setting a better starting position in 2027-28, as we did not consider that Scottish Water had fully evidenced its forecast deterioration in performance between reported actuals in 2024-25 and the forecast for the remaining years of the 2021-27 regulatory period.

4.1.5. We have strengthened the targets in the four priority areas identified from the customer research, as highlighted in paragraph 3.5.3:

- Drinking water quality;
- Reliability of supply;

- Reduction in leakage; and
- Protection from internal sewer flooding.

4.1.6. On this latter area, the customer research identified that sewer flooding is underrepresented in the business plan. As such, we also intervene to make £50 million of additional investment available to Scottish Water to further reduce the number of properties or areas at risk of sewer flooding.

4.1.7. The chapter is structured as follows:

- Our approach to outcomes;
- Scottish Water’s draft and final business plan;
- Detailed assessment of the proposals by area;
- Managing changes during the regulatory period; and
- Our draft decision.

## 4.2. Our approach to outcomes

4.2.1. As set out in section 3.2, Scottish Water has translated the Ministerial Objectives into more detailed outcome measures. These detailed outcome measures have also been informed by customer priorities identified through customer research and by improvements needed to comply with drinking water quality and environmental regulations. The detailed outcome measures and the desired performance levels for those measures will impact the investment required over the 2027-33 regulatory period. As such, there should be a strong linkage between the proposed outcomes and the proposed expenditure.

4.2.2. To assist Scottish Water in translating the Ministerial Objectives into outcome measures, we worked with Scottish Water and the industry stakeholders over the past two years to develop an initial list of around 40 candidate measures. These candidate measures draw on Scottish Water’s existing measures, standard industry measures used by other economic regulators and best practice in asset management. In our Final Methodology, we explained that Scottish Water can decide on the final composition of these outcome measures, taking account of the priorities identified from customer research and the composition of its investment programme.

4.2.3. Our Final Methodology also required Scottish Water to commit to several principles in developing the outcome measures for the draft business plan.<sup>55</sup> These principles included:

- Annual targets should be stretching while maintaining the incentive for outperformance;

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<sup>55</sup> WICS (2024), ‘Strategic Review of Charges 2027-2033: Final Methodology’, 12 December 2024, p.133.

- Scottish Water should engage with stakeholders to ensure that they have confidence in the measures and targets; and
- WICS and Scottish Water should assess performance against the measures set out in the Final Determination, with any management or employee incentives aligning with these measures, notwithstanding that Scottish Water may track other measures (e.g. health and safety).

4.2.4. These principles highlighted refer to performance-related pay, which is covered in more detail in Chapter 10 in relation to monitoring and reporting safeguards.

4.2.5. We will use these outcome measures and will work with stakeholders to monitor Scottish Water's progress towards meeting the Ministerial Objectives. The draft Ministerial Objectives and specifically the standards of service Objective (Objective 1) require that Scottish Water's performance is monitored via these measures. The standard of service Objective also requires Scottish Water to maintain or improve levels of service in the 2027-33 period using these measures.<sup>56</sup>

4.2.6. We review each of Scottish Water's proposed outcome measures and forecast performance on these measures, taking account of:

- Scottish Water's past performance;
- Feedback from water quality and environmental regulators;
- Scottish Water's proposed expenditure in that area; and
- Comparisons to other water and sewerage companies in Great Britain.

4.2.7. When deciding whether to accept or amend a proposal for the level of service in the outcomes, we used our judgement to consider whether the proposed levels were:

- Evidence-based;
- Consistent with levels of expenditure; and
- Stretching.

4.2.8. We recognise that outcomes, performance, investment, and costs are all linked and influence each other. With this in mind, after reviewing the investment programme and costs, we also conducted an additional check to determine whether our feedback on these areas might affect the expected performance against the outcome measures. This cross-check is set out in section 5.5.

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<sup>56</sup> Scottish Government (2026), 'Water services: investing in and paying from 2027', 6 January 2026, p.28.

### 4.3. Scottish Water's draft and final business plan

- 4.3.1. In the draft business plan, Scottish Water included 39 of the 44 outcome measures from the WICS methodology and provided initial proposals for two additional measures.
- 4.3.2. In our feedback on the draft business plan, WICS considered that Scottish Water had not fully demonstrated it had met several of the principles, including that the forecasts are stretching.<sup>57</sup> This was a common theme raised by the industry stakeholders and one which Scottish Water highlights in the final business plan.
- 4.3.3. We asked for clarity on how Scottish Water has taken account of the customer research in identifying the priority outcome measures for improvements. For example, we sought further explanation that the outcomes with the most significant improvements are consistent with those that customers value most.
- 4.3.4. In its final business plan, Scottish Water adopted and included forecasts for 40 outcome measures from the WICS methodology and proposed the remaining four<sup>58</sup> require further development before being adopted in SRC27. In addition, Scottish Water proposed five further measures, bringing the total to 49 outcome measures.
- 4.3.5. Our overall observation is that Scottish Water has not yet evidenced the link between the proposed outcome measures and the investment programme, and has not provided more evidence to support its proposed forecasts. We acknowledge that this is a difficult task, given that investment can deliver multiple outcomes. However, we think Scottish Water should be able to demonstrate this link in areas such as leakage, sewer flooding and water quality, where investment should translate directly into forecast performance.
- 4.3.6. In particular:
- Scottish Water could have provided more evidence of past performance and how the proposed investment is driving service level improvements in order to demonstrate stretching but achievable SRC27 targets;
  - Scottish Water could have provided a fuller explanation of the deterioration in performance forecasts for the remaining years of the 2021-27 regulatory period (2025-26 and 2026-27). In some cases, the deterioration is significant, resulting in a worse starting point in 2027-28 than in the recent past;
  - The business plan requests a significant increase in the size of the investment programme, but the proposed levels of service do not appear to reflect that in their ambition; and

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<sup>57</sup> WICS (2025), 'WICS feedback on Scottish Water's draft business plan', 15 October 2025.

<sup>58</sup> These are: communities experience measure (1.06), river water quality (1.33), biodiversity and nature based solutions (final measure) (1.42), and resource recovery (1.43).

- We note there is a material risk that Scottish Water’s level of service will fall behind comparator companies in England and Wales on some measures.

4.3.7. We have also considered feedback from other industry stakeholders, such as DWQR and SEPA, who have also commented on the scope for more ambition on some of the outcome measures, recognising the levels of investment requested by Scottish Water.

4.3.8. Furthermore, Scottish Water could improve the levels of service without the need for capital investment through two additional operational factors:

- Scottish Water has recently restructured its operating model: “bringing together planning, maintenance and operations into two new Water and Waste Water Directorates and creating a new Customer Service Directorate. Holding accountabilities across the entire end-to-end process for water and waste water will help us to deliver faster, at lower cost and unlock innovation. And, by bringing together our core external and internal customer service functions into a new Customer Service Directorate, we can continue to champion the customer voice and aim to further improve the quality of service whilst also ensuring value for money.”<sup>59</sup>
- DWQR has identified that there is a scope to improve some levels of service and avoid incidents through better operating practices.<sup>60</sup>

4.3.9. We now cover each of the outcome areas in turn.

## 4.4. Customer service (1.01 to 1.06)

### Scottish Water’s proposed performance

4.4.1. There are six outcomes related to customer service included in the business plan, one of which is still under development. Four of these relate to customer expenditure measures (CEMs), which are measures of Scottish Water’s service that combine a qualitative survey-based component with a quantitative component that measures the volume of events and issues impacting customers. This is measured separately for Scottish Water’s household, non-household (i.e. wholesale), and developer services.

4.4.2. The table below shows Scottish Water’s proposed performance by the end the period.

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<sup>59</sup> Scottish Water (2026), ‘Final Business Plan 2027-2033 – investing in Scotland’s future’, 26 February 2026, p.112.

<sup>60</sup> DWQR (2025), ‘Public Supplies Annual Report 2024’, 10 September 2025, p.38.

Table 6: Scottish Water final business plan proposal – customer service

Line ref	Level of Service	2026-27 (SW forecast)	Year 6 2032- 33	% Change from forecast year to year 6
1.01	dCEM Developer Customer Experience Measure	83.25	84.23	1.2%
1.02	nhCEM Non Household Customer Experience Measure	89.56	90.17	0.7%
1.03	R-MeX Retailer Experience Measure	9.0	9.0	0.0%
1.04	hCEM Household Customer Experience Measure	87.62	88.35	0.8%
1.05	UKCSI UK customer Satisfaction Index	77.9	77.9	0.0%
1.06	Communities experience measure (Not available)			

### Scottish Water’s past performance on these measures

4.4.3. Table 7 shows historical performance in the three years to 2024-25 and a three-year average (where available). There was a change in methodology for outcome 1.01 in 2024-25, resulting in a step increase in the measure.

Table 7: Customer service outcomes historical performance

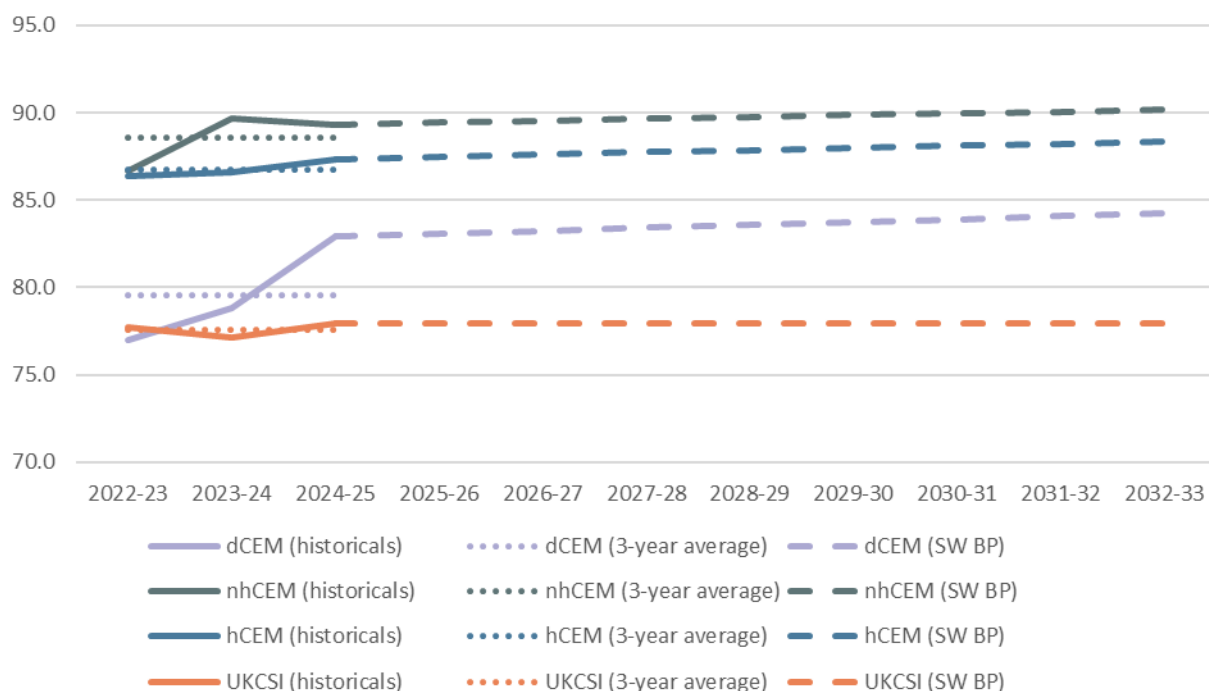
Line ref	Level of Service	2022-23	2023-24	2024-25	3-year average
1.01	dCEM Developer Customer Experience Measure	77.0	78.8	82.9	79.6
1.02	nhCEM Non Household Customer Experience Measure	86.7	89.7	89.3	88.6
1.04	hCEM Household Customer Experience Measure	86.4	86.6	87.3	86.8
1.05	UKCSI UK customer Satisfaction Index	77.7	77.1	77.9	77.6

### Household, non-household, developer customer experience measures, and UK customer satisfaction index outcomes

#### Scottish Water’s proposal

4.4.4. Scottish Water is forecasting ongoing improvements in outcomes 1.01, 1.02, 1.04 and 1.05 during the remainder of the 2021-27 regulatory period and proposes further improvements during the 2027-33 regulatory period. Figure 14 shows the actual and forecast performance in CEMs and UKCSI.

Figure 14: Customer Experience Measures and UKCSI actual and forecast performance



#### WICS assessment

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.01</b> dCEM Developer Customer Experience Measure	Yes	Yes	Yes
<b>1.02</b> nhCEM Non Household Customer Experience Measure	Yes	Yes	Yes
<b>1.04</b> hCEM Household Customer Experience Measure	Yes	Yes	Yes
<b>1.05</b> UKCSI UK Customer Satisfaction Index	Yes	Yes	Yes

4.4.5. Given past performance and proposed levels of service, WICS considers the targets are credible and sufficiently stretching. WICS accepts the profile for the outcomes 1.01, 1.02, 1.04, and 1.05 proposed by Scottish Water.

#### Retailer experience measure

##### Scottish Water's proposal

4.4.6. Scottish Water is proposing to maintain the position of upper quartile of England and Wales water sector wholesalers.

## WICS assessment

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.03</b> R-MeX Retailer Experience Measure	Yes	Yes	Yes

4.4.7. Given past performance and proposed levels of service, WICS accepts the profile for the outcome 1.03 proposed by Scottish Water. This is consistent with a score of 9.0 on a scale of 0-10.

### Communities experience measure

4.4.8. Scottish Water has not proposed an outcome to measure communities' experience.

4.4.9. WICS expects Scottish Water to develop and agree on a suitable community experience measure with stakeholders in the first year of the 2027-33 regulatory period for inclusion in the delivery plan for the second year of the period, 2028-29.

### WICS draft proposals

4.4.10. WICS' draft proposals for customer service outcome measures in SRC27 are summarised in Table 8.

Table 8: WICS draft proposals – customer service

Line ref	Level of Service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
<b>1.01</b>	dCEM Developer Customer Experience Measure	82.90	83.25	84.23	1.6%	1.2%
<b>1.02</b>	nhCEM Non Household Customer Experience Measure	89.3	89.56	90.17	1.0%	0.7%
<b>1.03</b>	R-MeX Retailer Experience Measure	9.0	9.0	9.0	0.0%	0.0%
<b>1.04</b>	hCEM Household Customer Experience Measure	87.30	87.62	88.35	1.2%	0.8%
<b>1.05</b>	UKCSI UK customer Satisfaction Index	77.9	77.9	77.9	0.0%	0.0%
<b>1.06</b>	Communities experience measure (Not available)					

## 4.5. Water service (1.07 to 1.23 and 1.45)

### Scottish Water's proposed performance

4.5.1. There are 18 measures, including one new measure proposed by Scottish Water, which relate to the provision of water services. Scottish Water's proposed performance on these measures is summarised in Table 9.

*Table 9: Scottish Water final business plan proposal – water service*

Line ref	Level of Service	2026-27 (SW forecast)	Year 6 2032-33	% Change from forecast year to year 6
1.07	Percentage reduction of three-year average leakage <sup>61</sup>	1.1%	9.9%	
1.08	Leakage reduction in areas with supply-demand balance deficit	1.5%	12.9%	
1.09	Percentage reduction of consumption at non-household premises	3.3%	14.9%	
1.10	Three-year average per capita consumption (litres/person/day)	178	174	-2.2%
1.11	Number of properties on the low pressure register	30	26	-13.3%
1.12	Unplanned interruptions greater than 6 hours, excluding 3rd party	7,000	7,000	0.0%
1.13	Average minutes lost due to water supply interruptions (over 3 hours)	15.0	15.0	0.0%
1.14	Repeat interruptions to water supply	240	240	0.0%
1.15	Customers supplied by systems not capable of meeting demand during a worst historic drought	2,805,000	2,564,000	-8.6%
1.16	Customers supplied by systems not capable of meeting peak demand	876,000	876,753	0.1%
1.17	Taste and odour contacts per 1,000 population <sup>62</sup>	0.51	0.51	0.0%
1.18	Discolouration and aeration contacts per 1,000 population	2.11	1.90	-10.0%
1.19	Estimated number of lead pipes remaining in public network	43,154	25,154	-41.7%
1.20	Indicator of lead in customers supply pipes	98.01%	98.15%	0.1%
1.21	Total drinking water compliance	99.93%	99.95%	0.0%
1.22	Drinking water quality risks across all systems above long-term tolerable threshold.	5,201	4,568	-12.2%
1.23	Number of DWQR declared incidents	30	25	-16.7%
1.45	Scottish Water lead pipes in the public network removed in SRC27	0	18,000	

<sup>61</sup> The leakage outcome throughout this document is expressed as a reduction from the 2024-25 level of leakage of 456 megalitres per day (ML/d).

<sup>62</sup> Forecast performance in 2026-27 and 2032-33 for all water quality contact outcomes in this document is calculated based on a population of 5,443,756 reported in 2024-25.

## Scottish Water's past performance on these measures

4.5.2. Table 10 sets out Scottish Water's actual performance on these measures in the most recent three years for which data is available.

*Table 10: Water service historical performance*

Line ref	Level of Service	2022-23	2023-24	2024-25	3-year average
1.07	Percentage reduction of three-year average leakage	-0.8%	-0.1%	-0.4%	-0.4%
1.08	Leakage reduction in areas with supply-demand balance deficit	-0.5%	-0.8%	-1.1%	-0.8%
1.09	Percentage reduction of consumption at non-household premises	0.1%	1.9%	-1.0%	0.3%
1.10	Three-year average per capita consumption (litres/person/day)	2.6%	-2.0%	-1.5%	-0.3%
1.11	Number of properties on the low pressure register	47	39	22	36
1.12	Unplanned interruptions greater than 6 hours, excluding 3rd party	5,700	6,400	5,000	5,700
1.13	Average minutes lost due to water supply interruptions (over 3 hours)	14.1	14.8	10.4	13.1
1.14	Repeat interruptions to water supply	210	260	220	230
1.15	Customers supplied by systems not capable of meeting demand during a worst historic drought (000s)	3,000	2,750	2,700	2,817
1.16	Customers supplied by systems not capable of meeting peak demand (000s)	675	1,250	475	800
1.17	Taste and odour contacts per 1,000 population	0.37	0.50	0.50	0.46
1.18	Discolouration and aeration contacts per 1,000 population	2.67	2.49	2.49	2.55
1.19	Estimated number of lead pipes remaining in public network	51,970	48,675	47,154	49,266
1.20	Indicator of lead in customers supply pipes	98.09%	98.46%	97.99%	98.18%
1.21	Total drinking water compliance	99.93%	99.92%	99.93%	99.93%
1.22	Drinking water quality risks across all systems above long-term tolerable threshold			5,625	
1.23	Number of DWQR declared incidents	26	29	34	30

## Leakage

### *Scottish Water's proposal*

4.5.3. Leakage is one of the priority areas identified from the customer research (see paragraph 3.3.21). Scottish Water proposed to reduce the three-year average leakage from the 2024-25 level by 9.9% by 2032-33, as measured by outcome 1.07.

4.5.4. For areas with a supply-demand balance deficit, Scottish Water proposed to reduce the three-year average by 12.9% over the same period, as measured by outcome 1.08.

*WICS assessment*

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.07</b> Percentage reduction of three-year average leakage	Partial	Partial	No
<b>1.08</b> Leakage reduction in areas with supply-demand balance deficit	Partial	Partial	No

4.5.5. WICS considers that the leakage targets are partially evidenced, as the level of expenditure proposed across water distribution should deliver greater reductions. WICS is setting targets for a 15.7% reduction in outcome 1.07 and a 20.4% reduction in outcome 1.08.

4.5.6. Since achieving sizeable leakage reductions of approximately 5% per annum in the 2010s, leakage performance has plateaued, averaging a 0.4% reduction between 2022-23 and 2024-25 (as shown in Table 10).

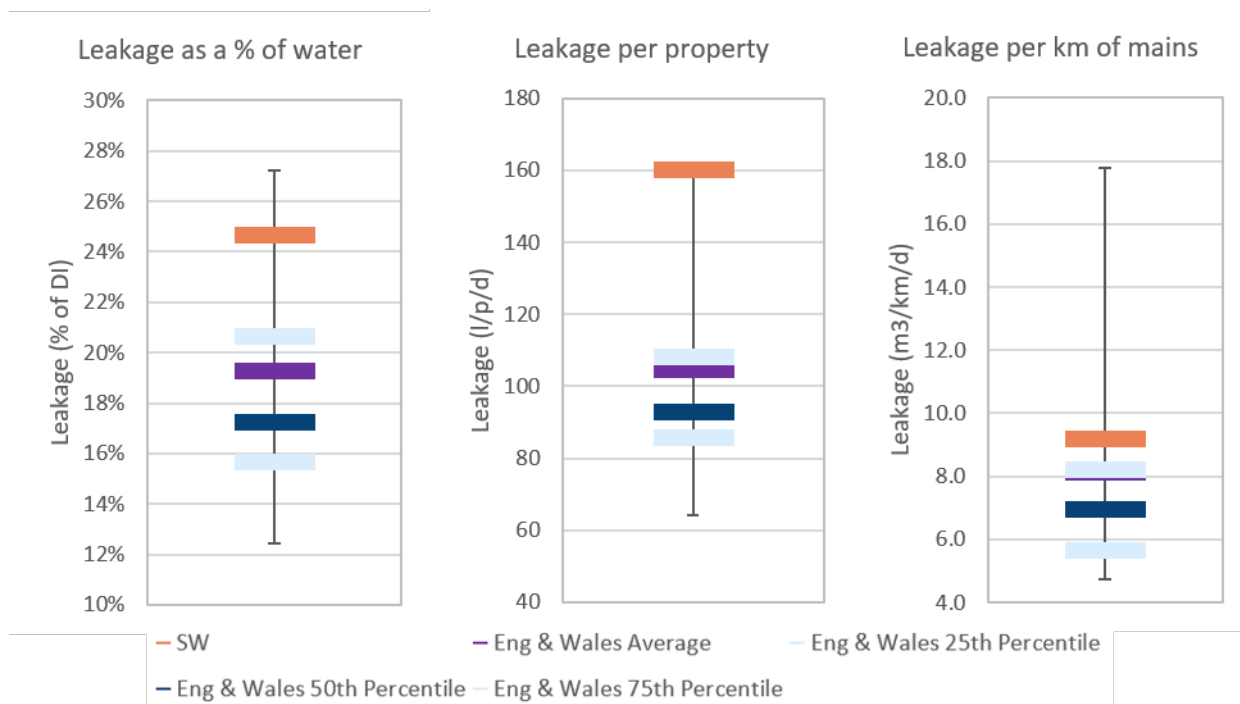
4.5.7. Furthermore, Scottish Water’s current level of leakage in 2024-25 remains higher than most companies in England and Wales on a range of metrics:

- Approximately 25% of input into the system, which compares to 17% in England and Wales;
- 160 litres per property per day (l/p/d), which compares to 93 l/p/d in England and Wales; and
- 9.2 m<sup>3</sup> per km per day (m<sup>3</sup>/km/d) of water mains, which compares to 7.0 m<sup>3</sup>/km/d in England and Wales.<sup>63</sup>

4.5.8. Figure 15 below shows the distribution of performance in England and Wales in 2024-25, with Scottish Water’s performance (SW) against the England and Wales average performance, 25<sup>th</sup> percentile, 50<sup>th</sup> percentile, and 75<sup>th</sup> percentile. Scottish Water is among the companies with the highest levels of leakage based on leakage as a percentage of water put into the supply system, per property per day, and per kilometre of mains.

<sup>63</sup> An m<sup>3</sup> is equivalent to 1,000 litres.

Figure 15: Scottish Water Leakage compared to England and Wales performance



4.5.9. We therefore hold the view that there is scope for Scottish Water to significantly reduce its leakage:

- Scottish Water’s current leakage is higher compared to almost all companies in England and Wales, so there is scope for reductions;
- It has the funding to do this, given its proposed SRC27 water distribution investment programme; and
- It is a priority for customers.

4.5.10. The following paragraphs set out how we have assessed an appropriate target for leakage.

4.5.11. Scottish Water’s target of 400 megalitres per day (MI/d) in 2032-33 represents a 48 MI/d reduction from the forecast 2026-27 position.<sup>64</sup> We have sought to understand the components that make up the 48MI/d reduction. Technical appendix 2 provides limited information on how this target is to be achieved. From the supporting evidence provided in the Water Availability, Demand and Resilience evidence pack, our understanding of how Scottish Water plans to achieve the forecast leakage reduction is as follows:<sup>65</sup>

- 25 MI/d from the installation of business smart meters;
- 20 MI/d from direct leakage management (Active Leakage Control and pressure management); and

<sup>64</sup> A megalitre is 1 million litres.

<sup>65</sup> Scottish Water (2026), ‘SR27 evidence base evidence pack water availability, demand and resilience’, 26 February 2026.

- 3 MI/d from mains rehabilitation.

4.5.12. Scottish Water proposes £785 million of investment in water distribution and demand management activities (£686 million) and trunk mains (£99 million).<sup>66</sup> However, it is unclear how the proposed investment relates to Scottish Water’s proposed 48 MI/d reduction in leakage from the forecast 2026-27 position.

4.5.13. Of the £785 million, the only investment that appears to have a leakage benefit assigned is the £19 million for “Reduce leakage (380Mld) and customer consumption (140 lpd)”, which is forecast to deliver a 20 MI/d reduction in leakage by 2032-33.<sup>67</sup> We also assume that:

- The £130 million of investment in maintenance activities on sections of water mains with recurring interruptions to supply relates to the 3 MI/d of leakage reduction associated with mains rehabilitation; and
- The £20 million of investment associated with managing and reducing losses from the transmission and distribution networks relates to offsetting the natural rate of rise.<sup>68</sup>

4.5.14. These leakage benefits would account for all the leakage benefits associated with distribution mains (23 MI/d of the 48 MI/d in paragraph 4.5.11). However, that leaves investment in mains distribution that appears to deliver no further leakage benefit.

4.5.15. As a conservative estimate, we assume there is at least an additional £473 million of investment that will yield a leakage benefit. Table 11 shows those activities.

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<sup>66</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Technical Appendix 002 – Water Continuity’, 26 February 2026, pp.42-43.

<sup>67</sup> The cost per MI/d of leakage reduction is below Ofwat’s PR24 allowance of £1.1m per MI/d. See Ofwat (2024), ‘PR24 Final Determinations - Expenditure allowances’, 19 December 2024, p.194.

<sup>68</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Technical Appendix 002 – Water Continuity’, 26 February 2026, p.15.

Table 11: Water distribution investment

Service area	Intervention	Investment (£m)
<b>Distribution mains</b>	AC mains replacement	143
	Maintenance activities to reduce loss of service	261
	Manage and reduce CSPL	4
	Pressure management	1
<b>Trunk mains</b>	Trunk mains supply interruptions maintenance	5
	Liberton trunk mains	7
	Maintain trunk mains	52
<b>Total</b>		<b>473</b>

4.5.16. To make a high-level assessment of the likely reduction in leakage from this activity, we use the following approach, based on data from Ofwat’s price review in 2024 (known as PR24) for the England and Wales water industry.

- We used information from Ofwat’s PR24 leakage enhancement expenditure model, allocating company expenditure purely for asset renewal;
- From this dataset, comprising 8 companies, we calculate the total benefit (65.9 MI/d) and cost (£853.4 million) from these companies;
- We then estimate the leakage benefit for £1 million of asset renewal investment, which was 0.08 MI/d per £m; and
- We conservatively apply the unit benefit to Scottish Water’s renewal proposals, comprising £404 million for AC mains renewal and loss of service reduction investment (assuming the investment to reduce recurring interruptions to supply is covered by the 3 MI/d leakage benefit), resulting in a total leakage renewal benefit of 31.2 MI/d additional leakage reduction.

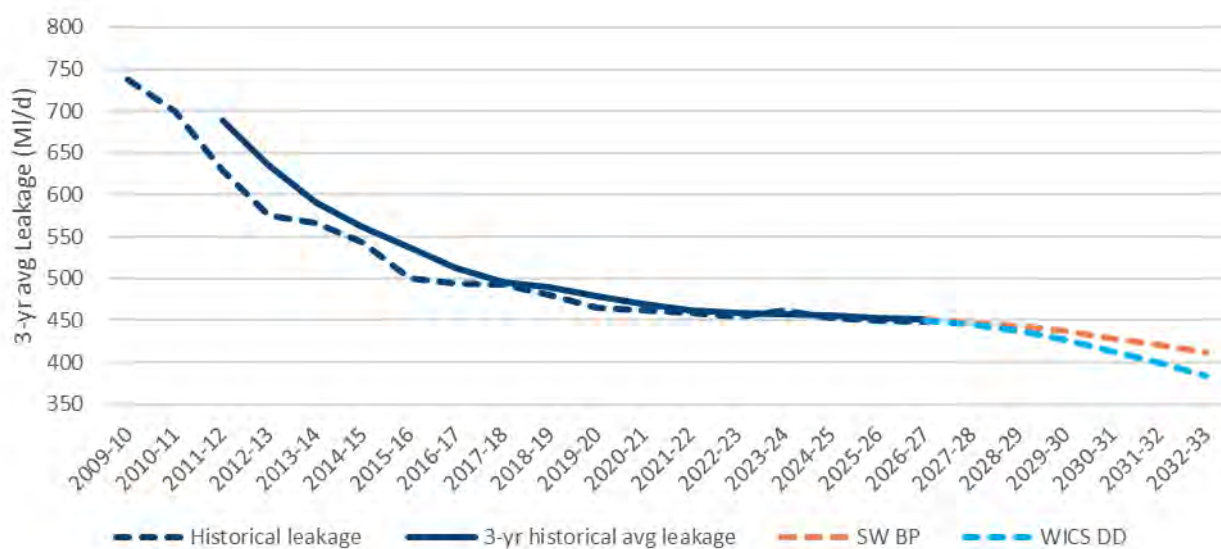
4.5.17. We provide the calculation in Table 12 below.

Table 12: Leakage benefit

Calculation step	Source / Calculation	Unit	Value
<b>Sum of PR24 mains renewal expenditure proposals</b>	PR24 Leakage Enhancement Expenditure Model	£m	853.43
<b>Sum of mains renewal benefit</b>	PR24 Leakage Enhancement Expenditure Model	MI/d	65.91
<b>Unit leakage renewal benefit</b>	Calc: Renewal benefit / Renewal expenditure	MI/d per £m	0.08
<b>Scottish Water AC mains + supply interruption renewal</b>	Scottish Water’s final business plan	£m	404
<b>Leakage benefit</b>	Calc: Unit renewal benefit * SW mains renewal £m	MI/d	31.2

4.5.18. Applying this additional reduction as a glide path results in final leakage targets of 369 MI/d in 2032-33 (Scottish Water’s final business plan target of 400 MI/d less an additional 31 MI/d) and 385 MI/d, based on the 3-year rolling average over 2030-31 to 2032-33. This target still leaves leakage above the industry average in England and Wales in 2024-25 (leakage as a percentage of distribution input). Figure 16 shows the level of leakage from 2009-10 to 2024-25 and the forecast over the 2027-33 regulatory period.

Figure 16: 3-year average leakage



4.5.19. For zonal leakage, Scottish Water proposes a similar metric to its total leakage outcome, using a three-year average for zones which are currently in deficit. It proposes a target reduction at the end of the SRC27 period of 12.9%, reducing in absolute terms from 233 MI/d in 2024-25 to 203 MI/d in 2032-33.

4.5.20. To apply a comparable outcome level for zonal leakage, we apply the same percentage challenge calculated for the total leakage target. This results in a leakage target at the end of the SRC period of 186 MI/d, a reduction compared to 2024-25 of 20.4% as shown in Table 13.

Table 13: Zonal leakage target

Item	Ref	Leakage reduction	% increase
BP total leakage reduction target	A	9.9%	
WICS DD total leakage reduction target	B	15.7%	
Increase in total leakage reduction target	$C=B/A - 1$		58%
BP zonal leakage reduction target	D	12.9%	
Increase in zonal leakage reduction target	C		58%
WICS DD zonal leakage reduction target	$D*(1+C)$	20.4%	

## Business Demand

### Scottish Water's proposal

4.5.21. Scottish Water proposes a 14.9% reduction of three-year average measured business demand from a 2024-25 baseline.

### WICS assessment

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.09</b> Percentage reduction of consumption at non-household premises	Partial	Yes	Yes

4.5.22. WICS accepts the proposal, given the uncertainty around business demand.

4.5.23. Business demand has been falling in recent years; however, there has not been a consistent trend since 2016-17 due to the consumption volatility resulting from reporting changes and the impact of the Covid-19 pandemic affecting working patterns.

4.5.24. The trend prior to 2016-17 was an annual reduction in demand of 1.8% per annum, whereas the forecast "base" reduction in demand between 2024-25 and 2032-33, as forecast by Scottish Water, is 1.1%. In our feedback to Scottish Water's draft business plan, we explained that its analysis suggested that a 1% annual reduction over the 2027-33 regulatory period, before considering any other initiatives that may further reduce business demand, was appropriate.<sup>69</sup>

4.5.25. The increase in the roll-out of smart meters over the period may also drive further efficiencies than Scottish Water currently predicts, as it will improve the demand-reduction services offered by licensed providers in the non-household retail market.

4.5.26. Scottish Water has not provided the assumptions it used to estimate the benefits of its smart metering programme. We have estimated 150 litres of consumption saved per meter per day, based on the volumes saved and the number of meters installed. Information from PR24 in England and Wales suggests a similar saving per meter. As a result, we consider this a reasonable assumption for Scottish Water to make.

### Areas for further development

4.5.27. The detailed wording of the outcome must exclude any step changes in demand resulting from major users closing operations, such as ExxonMobil Mossmorran. The outcome should

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<sup>69</sup> WICS (2025) 'Feedback on Scottish Water's Draft Business Plan for SRC 2027-2033', 28 August 2025, p.82

also exclude any potential step changes in demand arising from major new users, such as those in emerging industries like data centres.

## Per Capita Consumption

### *Scottish Water's proposal*

4.5.28. Scottish Water proposes a metric based on the three-year average domestic per-capita consumption (PCC), as measured by its small-area monitor. It estimates that per capita consumption was around 150 litres per person per day (l/p/d) between 2012-13 and 2016-17, rising to 165 l/p/d in 2018-19 due to a change in Scottish Water's methodology. It then increased again to 190 l/p/d in 2020-21 as home working increased over the Covid-19 pandemic. Since then, it has fallen to 179 l/p/d in 2024-25, a 1.5% annual decline.

4.5.29. Scottish Water proposes a reduction in PCC to:

- 177 l/p/d in 2027-28, a fall of 0.2% per year over the remaining years of SRC21 and
- 174 l/p/d by the end of SRC27 in 2032-33, a fall of 0.4% per year.

### *WICS assessment*

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.10</b> Three-year average per capita consumption	No	N/A	No

4.5.30. We set a target to reduce the PCC to 165 l/p/d by 2032-33.

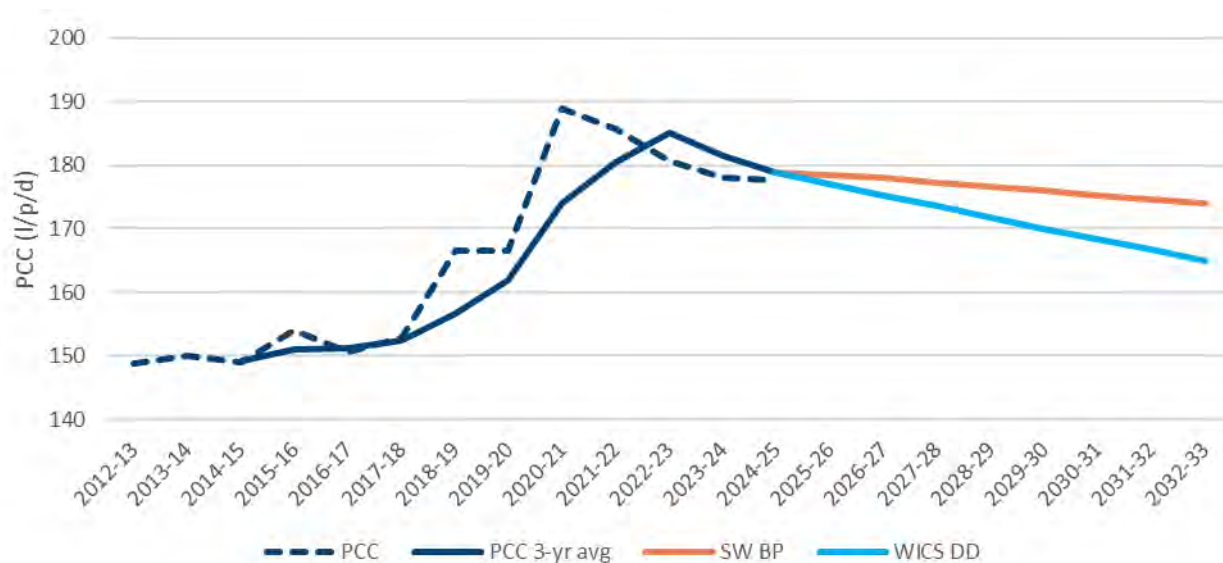
4.5.31. Scottish Water explains that its projections are based on a gradual return to work following the Covid pandemic, as well as the possibility of some small increase in customer awareness of dry weather spells.<sup>70</sup>

4.5.32. Since the end of the Covid pandemic (2021-22), there has been an average reduction in PCC of 1.5% per year, compared to Scottish Water's forecast average reduction in PCC of 0.3% per year. Scottish Water's proposals, therefore, are not fully evidenced.

4.5.33. We therefore think a reasonable assumption is a 1% annual decline in consumption up to 2032-33. This results in a 3-year average PCC target for 2032-33 of 165 l/p/d. Figure 17 shows historical and proposed PCC. We remain open to further evidence in this area. Scottish Water is welcome to provide a robust model of future consumption based on external parameters, such as changes in working patterns, increased use of water-saving devices in the home, and changes in household behaviour, to inform an evidence-based forecast.

<sup>70</sup> Scottish Water (2026), 'SR27 Final Business Plan: Table 1 Commentary', 26 February 2026, p.53.

Figure 17: Per capita consumption



## Low Pressure

### Scottish Water's proposal

4.5.34. Scottish Water has overseen a reduction in the number of low-pressure properties from 47 in 2022-23 to 22 in 2024-25. It then proposes to allow the number of properties on the low pressure register to increase to 39 up to 2028-29, before bringing that down to 26 in 2032-33. Scottish Water states that it bases its forecasts on the historical trend of an additional 6 properties per year, with £12 million investment activity profiled over SRC27 to remove properties from the register.<sup>71</sup>

### WICS assessment

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.11</b> Number of properties on the low pressure register	Partial	No	No

4.5.35. Scottish Water has not provided:

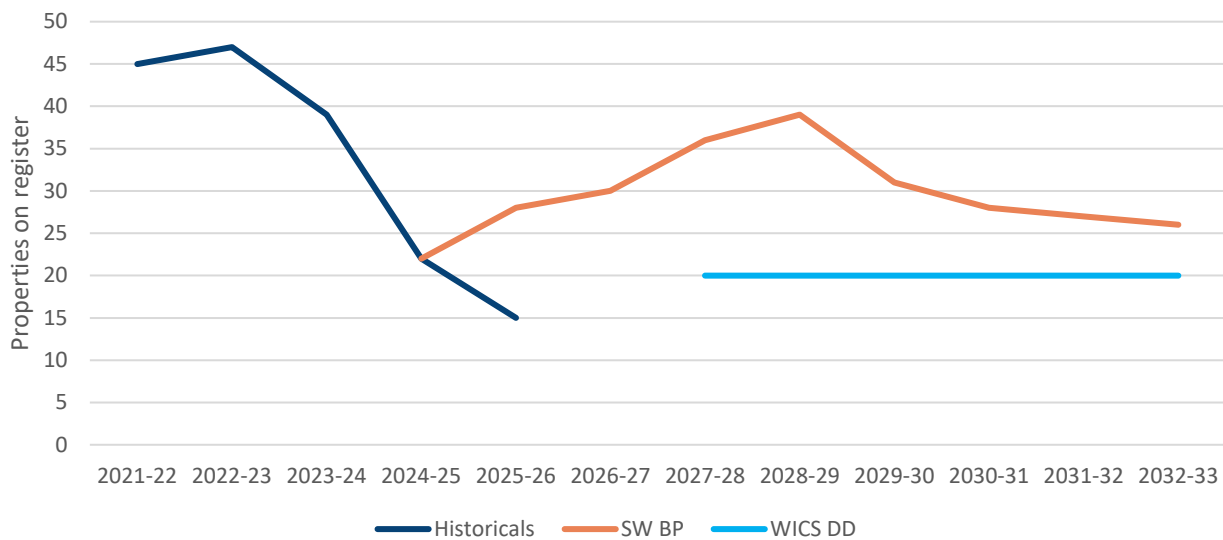
- Evidence for the level of increase over the period (based on historical trends); and
- The rationale for allowing the performance level to deteriorate in the period.

4.5.36. Scottish Water has not yet evidenced why it forecasts performance to deteriorate in the final years of the 2021-27 regulatory period. Its performance in 2025-26 improved compared to its forecast. In the interests of ensuring customers receive a consistent level of service, we propose setting this outcome to a level consistent with recent performance. This is 20

<sup>71</sup> Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 002 – Water Continuity', 26 February 2026, p.43.

properties per year for the 2027-33 regulatory period. Figure 18 shows the historical and proposed number of properties on the low-pressure register.

Figure 18: Properties on low pressure register



4.5.37. We may decide to require further improvements in the Final Determination, following Scottish Water’s Annual Return submission for 2025-26 in June, recognising that Scottish Water’s performance in 2025-26 continues the recent improving trend.<sup>72</sup>

**Unplanned interruptions**

*Scottish Water’s proposal*

4.5.38. Reliability of supply is one of the priority areas identified from customer research (see paragraph 4.1.5).

4.5.39. Scottish Water proposes a flat target for SRC27 of 7,000 weighted properties experiencing unplanned interruptions lasting more than 6 hours, citing rising burst frequencies as justification. It has not yet shared further evidence for the target.

*WICS assessment*

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.12</b> Unplanned interruptions greater than 6 hours, excluding 3rd party	No	No	No

<sup>72</sup> The 2025-26 value is from the WICS review of the performance measures that feed into the Scottish Water Annual Outperformance Incentive Plan (AOIP), received in April 2026 ahead of the full Annual Return submission in June.

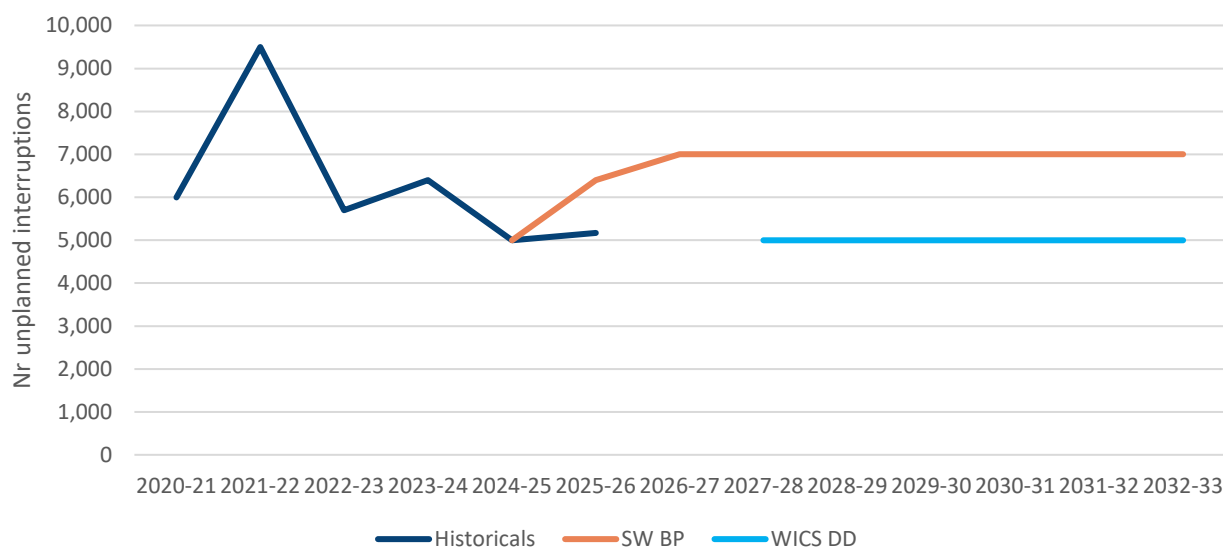
- 4.5.40. We are strengthening the targets for this outcome, given the priority assigned to this area by customers, the limited evidence explaining the deterioration in performance, and the significant investment levels in water mains renewal over the 2027-33 regulatory period.
- 4.5.41. Scottish Water has provided five years of data from 2020-21 to 2024-25 to inform the forecast. We consider a longer time series, additional data on burst frequency, and the linkage between investment and performance over the 2027-33 regulatory period would provide significantly stronger evidence. It has achieved around 6,000 weighted properties in three of the five years, with a large increase in 2021-22 at least in part due to adverse weather. It achieved its best performance to date in 2024-25, with 5,000 weighted properties, partly due to benign weather conditions. It also achieved 5,000 properties in its draft 2025-26 performance. A target of 7,000 weighted properties over the period is therefore not suitably stretching.
- 4.5.42. Over the last 5 years, Scottish Water has seen a decline in unplanned interruptions. It is also increasing its mains renewal programme. After replacing 0.11% of its water mains annually over the 2021-27 regulatory period,<sup>73</sup> Scottish Water proposes to increase its rate of water mains asset renewal over the SRC27 period to 0.41%.<sup>74</sup> This includes accelerating the replacement of asbestos cement mains. The target does not reflect the high level of expenditure in this area.
- 4.5.43. We propose setting an initial target of 5,000 weighted properties, consistent with current performance.
- 4.5.44. Improvements in asset condition resulting from the mains renewal programme over SRC27 will deliver better service levels for customers and allow Scottish Water the opportunity to outperform our performance measure. Figure 19 shows the historical and proposed number of unplanned interruptions.

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<sup>73</sup> Annual Returns 2020-21 to 2024-25, Table D5.

<sup>74</sup> Final Business Plan Tables, line 2.42, and lines 3a.17-3a.22.

Figure 19: Number of unplanned interruptions (weighted number of affected properties)



4.5.45. We may decide to set a more stretching target in the Final Determination, following Scottish Water’s Annual Return submission for 2025-26 in June, recognising that Scottish Water’s performance in 2025-26 maintains the recent trend.<sup>75</sup>

### Minutes Lost

#### Scottish Water’s proposal

4.5.46. Scottish Water proposes measuring the average number of minutes lost from planned and unplanned interruptions to the water supply over 3 hours. Scottish Water proposes setting its target for the 2027-33 regulatory period at 15 minutes per year. It uses the three-year average of 2021-22 to 2023-24 as the basis for this, excluding 2024-25, citing it as an atypical year due to mild weather conditions. It also explains that the target is appropriate given the increasing burst rate and the difficulty of responding in rural areas.

#### WICS assessment

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.13</b> Average minutes lost due to water supply interruptions (over 3 hours)	No	No	No

4.5.47. WICS is strengthening the targets for this outcome based on recent performance. The expected level of investment in mains replacement and benchmarking against other water

<sup>75</sup> The 2025-26 value is from the WICS review of the performance measures that feed into the Scottish Water Annual Outperformance Incentive Plan (AOIP), received in April 2026 ahead of the full Annual Return submission in June.

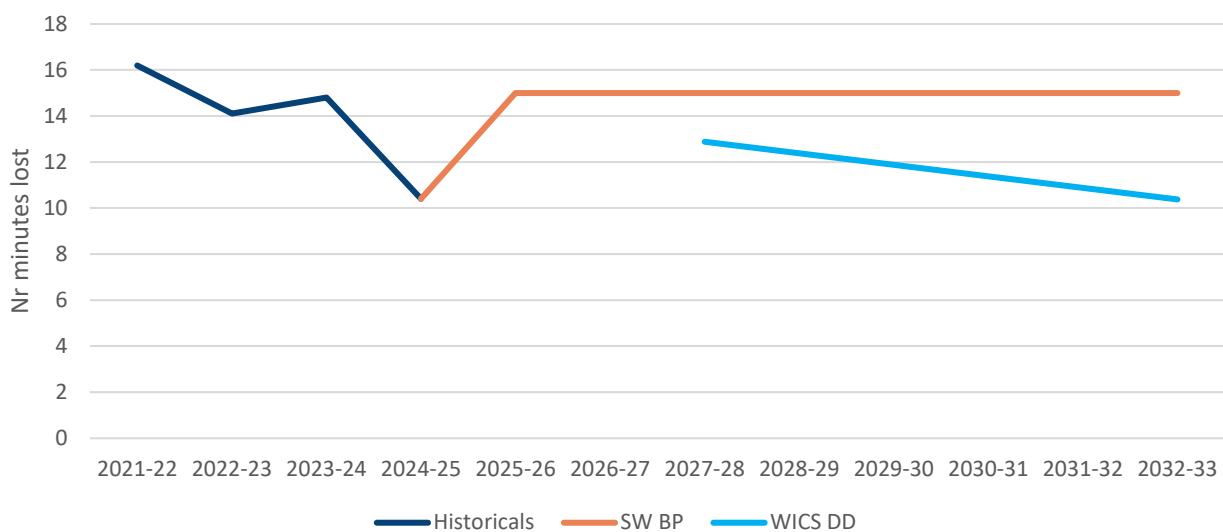
companies also support the proposed target. We set a 2032-33 target of 10.4 minutes (10 minutes 24 seconds).

4.5.48. Scottish Water has provided 4 years of historical evidence for the metric. Over the period, the average minutes lost has fallen from 16.2 in 2021-22 to 10.4 in 2024-25. Its proposed target of 15 minutes over the SRC27 period is not fully evidenced.

4.5.49. The comparison of mains replacement activities over the 2021-27 and 2027-33 regulatory periods in paragraph 4.5.42 also applies to the minutes lost outcome measures. As such, even if performance worsens over the remainder of the 2021-27 regulatory period, we expect the number of minutes lost to revert to a downward trend, given the level of mains replacement over the 2027-33 regulatory period.

4.5.50. We propose setting the starting point for the outcome in 2025-26 at 13.9 minutes, which is the four-year average. We consider a straight line glide path reduction from 2025-26 of 0.5 minutes per year to achieve its best performance in recent years in 2032-33 of 10.4 minutes (10 minutes 24 seconds). Figure 20 shows historical and proposed average minutes lost.

Figure 20: Average minutes lost due to water supply interruptions



4.5.51. We will consider further information including 2025-26 performance and views from stakeholders. As a result, we may set a more stretching target at the Final Determination.

### Repeat interruptions

#### Scottish Water's proposal

4.5.52. Scottish Water proposes using the metric of the total number of postcodes with either 6 or more contacts in a single year, or 10 or more contacts within 3 years, for repeat interruptions to supply. It proposes a 2032-33 target of 240 postcodes.

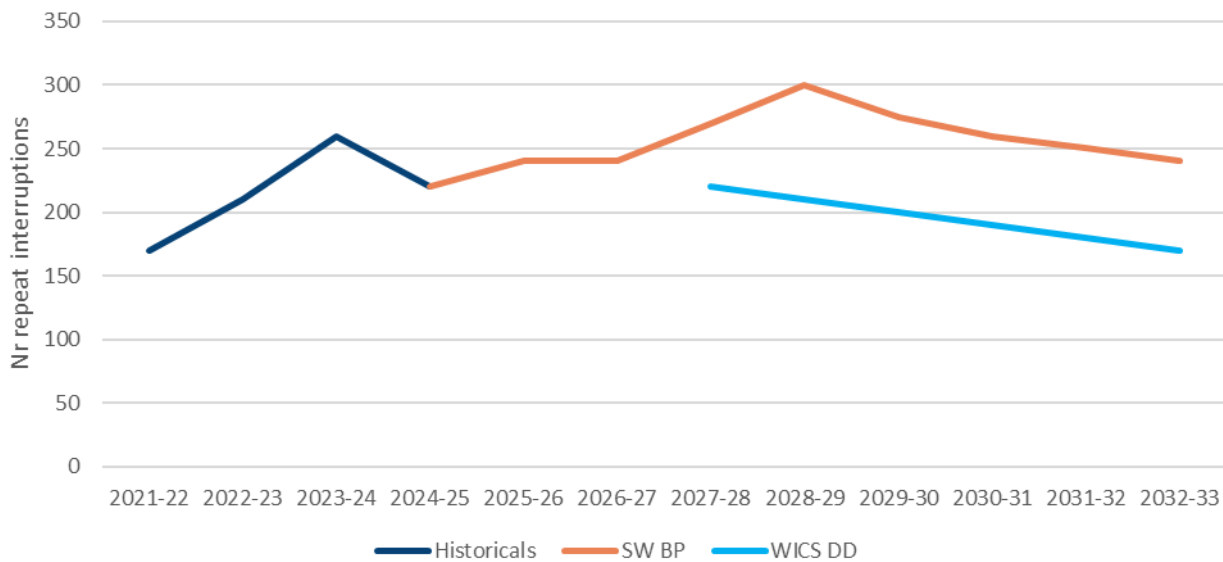
Outcome	Evidenced	Consistent with expenditure	Stretching
1.14 Repeat interruptions to water supply	No	No	No

4.5.53. WICS is strengthening the target due to the level of ambition and the expected impact of investment in mains replacement. We set a 2032-33 target of 170 postcodes.

4.5.54. The historical trend increases from 170 in 2021-22 to 220 in 2024-25. Scottish Water suggests that the trend is forecast to increase to 300 in 2028-29 before the mains renewal programmes begin to deliver benefits. Scottish Water proposes a 2032-33 target of 240 postcodes, which is higher than recent performance levels in 3 of the last 4 years. There is insufficient evidence to justify these higher levels, particularly given the investment in this area.

4.5.55. We therefore propose to set the SRC27 starting point for the outcome at 220 postcodes, which is around the median of the four years’ historical data supplied by Scottish Water. Given the mains renewal programme, we propose reducing the number of postcodes by 10 per year to reach 170 by the end of the SRC27 period, which is in line with the best recorded performance over the last four years (2021-22). The annual reduction is consistent with Scottish Water’s proposed glide path between 2028-29 and 2032-33. Figure 21 shows the historical and proposed number of repeat interruptions.

Figure 21: Repeat interruptions



4.5.56. We will consider further information, including 2025-26 performance and views from stakeholders. As a result, we may set a more stretching target at the Final Determination.

## Water availability

### Scottish Water's proposal

4.5.57. Scottish Water included two outcomes in the water availability area measured by the number of customers supplied by systems not capable of meeting demand during a worst historic drought and peak demand.

### WICS assessment

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.15</b> Customers supplied by systems not capable of meeting demand during a worst historic drought	No	Yes	Unclear
<b>1.16</b> Customers supplied by systems not capable of meeting peak demand	No	Yes	Unclear

4.5.58. WICS accepts Scottish Water's proposals in this area.

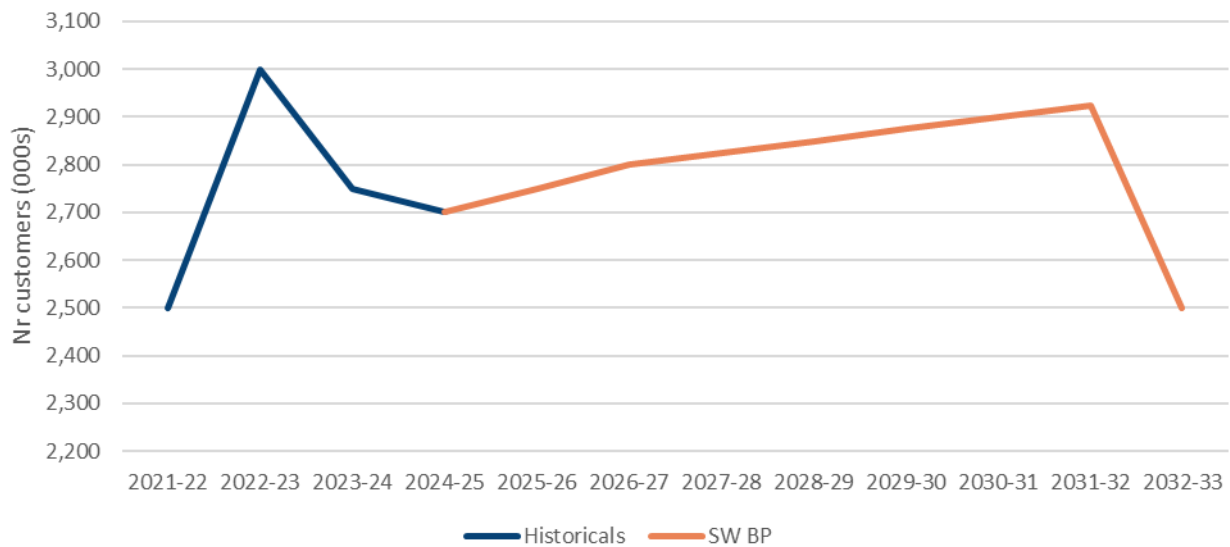
4.5.59. The metric proposed by Scottish Water is the population of customers supplied by systems not capable of meeting demand during a worst historic drought, assuming a 1 in 150 occurrence, the impact of climate change, and the use of drought measures.

4.5.60. The historical information provided by Scottish Water on population supplied by systems not capable of meeting demand varies between 2.5 million and 3.0 million for the four years between 2021-22 and 2024-25.

4.5.61. Scottish Water uses the output of a model under Dry Year Critical Scenario to identify deficits in its supply area. Over the 2027-33 regulatory period, the population increases from 2.8 million in 2026-27 to over 2.9 million in 2031-32, before falling back to 2.5 million in 2032-33 as several investments deliver benefits. The model is not provided, nor is there evidence that past and future performance is an acceptable risk tolerance for customers. On the evidence available to date we conclude that the anticipated level of service is commensurate with the proposed performance commitment.

4.5.62. We therefore propose to adopt Scottish Water's forecast for the Draft Determination, subject to further discussion. We suggest further refinement of this outcome measure to deliver a more robust and justifiable target.

Figure 22: Customers supplied by systems not capable of meeting demand during a worst historic drought



### Scottish Water's proposal

4.5.63. The metric proposed by Scottish Water is the population of customers supplied by systems not capable of meeting peak demand, calculated by comparing the peak period with available capacity and accounting for Scottish Water's tankering policy. The historical information provided by Scottish Water suggests that the population supplied by such systems ranged from 500,000 to 1.2 million between 2021-22 and 2024-25.

### WICS Assessment

4.5.64. Scottish Water applies peak demand volumes to a model to evaluate treatment works and distribution network capacity under stress conditions. Scottish Water proposes a target of around 900,000 over the 2027-33 regulatory period, reducing to just over 800,000 in 2032-33 as several investments are completed, including Dundee drought resilience, and others.<sup>76</sup> Scottish Water has not yet provided the model or a full explanation of the underlying assumptions that drive performance levels.

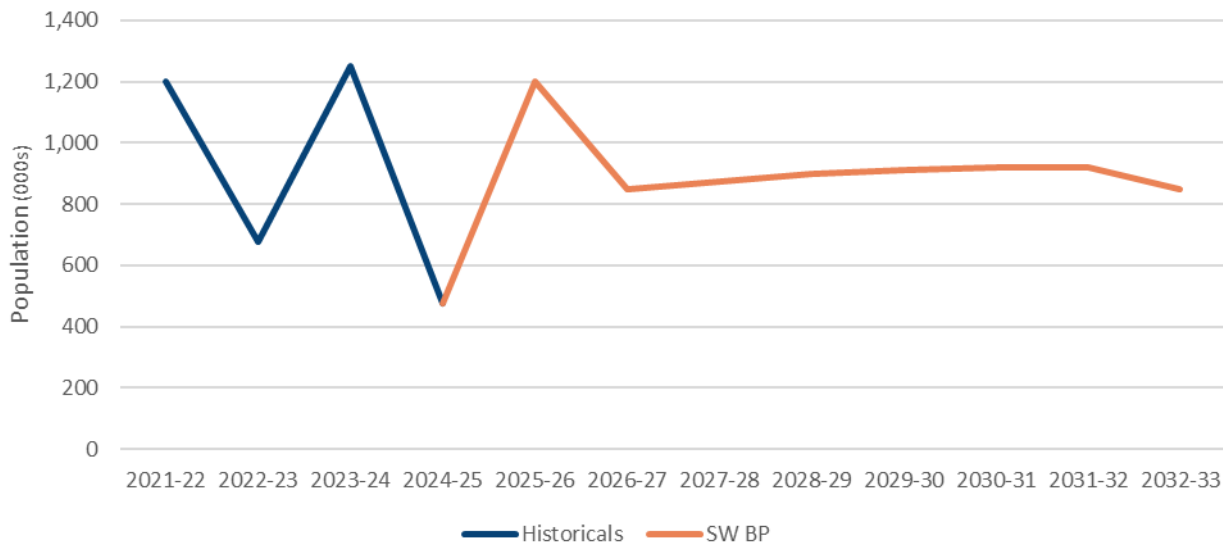
4.5.65. Scottish Water could have provided fuller commentary in the final business plan on what this means for its risk position and whether this is acceptable. We also note that Scottish Water does not consider its chosen target appropriate for a target outcome, as its modelling was not originally intended for target setting.<sup>77</sup> As above, investments are planned, but they are not of sufficient magnitude to achieve a different performance level. With the limited evidence available to date, the proposed performance level is commensurate with the

<sup>76</sup> Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 002 – Water Continuity', 26 February 2026, p.43.

<sup>77</sup> Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 014 – Performance Monitoring', 26 February 2026, p.69.

planned investment. Recognising that it is a new measure, we propose adopting Scottish Water’s performance profile. Figure 23 shows the proposed performance in this outcome.

*Figure 23: Customers supplied by systems not capable of meeting peak demand*



#### *Areas for further development*

4.5.66. We therefore propose to adopt Scottish Water’s forecast for the Draft Determination, subject to further discussion. We suggest further refinement of this outcome measure to deliver a more robust and justifiable target.

#### **Water aesthetics**

4.5.67. Measures 1.17 to 1.23 relate to the quality of the drinking water customers receive, which is one of the priority areas identified from the customer research (see paragraph 3.3.17). This encompasses several areas, including water aesthetics, sample quality parameters, and drinking water risks and incidents. We have grouped these measures into water aesthetics (measures 1.17 and 1.18), lead (measures 1.19 and 1.20) and water quality (measures 1.21, 1.22 and 1.23). This first section relates to water aesthetics.

#### *Scottish Water’s proposal*

4.5.68. As shown in Table 9, Scottish Water proposes that taste and odour contacts are maintained through the 2027-33 regulatory period at the most recent outturn figure, 0.51 contacts per 1,000 population. For discolouration and aeration contacts, it proposes a 10% reduction to 1.90 contacts per 1,000 population by the end of SRC27.

#### *DWQR views*

4.5.69. DWQR explained that further assurance is required to ensure that Scottish Water’s business plan addresses emerging issues that could impact taste and odour contacts. DWQR also

notes that recent data on contacts may be affected by Scottish Water's pre-warning customers of incidents and by issues with Scottish Water's customer contact data processing procedures.

4.5.70. Regarding discolouration and aeration, DWQR highlighted the relatively limited investment and improvement proposed in SRC27, given its disruption to customers and its impact on other outcome measures. DWQR also notes that its recent audit highlighted the potential for underestimation of the number of discolouration contacts recorded during large events.

*WICS assessment*

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.17</b> Taste and odour contacts per 1,000 population	Yes	No	No
<b>1.18</b> Discolouration and aeration contacts per 1,000 population	Yes	No	No

4.5.71. We are proposing more ambitious profiles for both of these measures. For taste and odour contacts, we propose maintaining 0.46 contacts per 1,000 population throughout SRC27, which is lower than the level Scottish Water proposes to maintain. For discolouration and aeration, we propose a 36.9% reduction to 1.33 contacts per 1,000 population in 2032-33. Figure 24 and Figure 25 show our proposed profiles in comparison to Scottish Water's. Our reasoning is set out in the following paragraphs.

*Figure 24: Taste and odour contacts per 1,000 population*

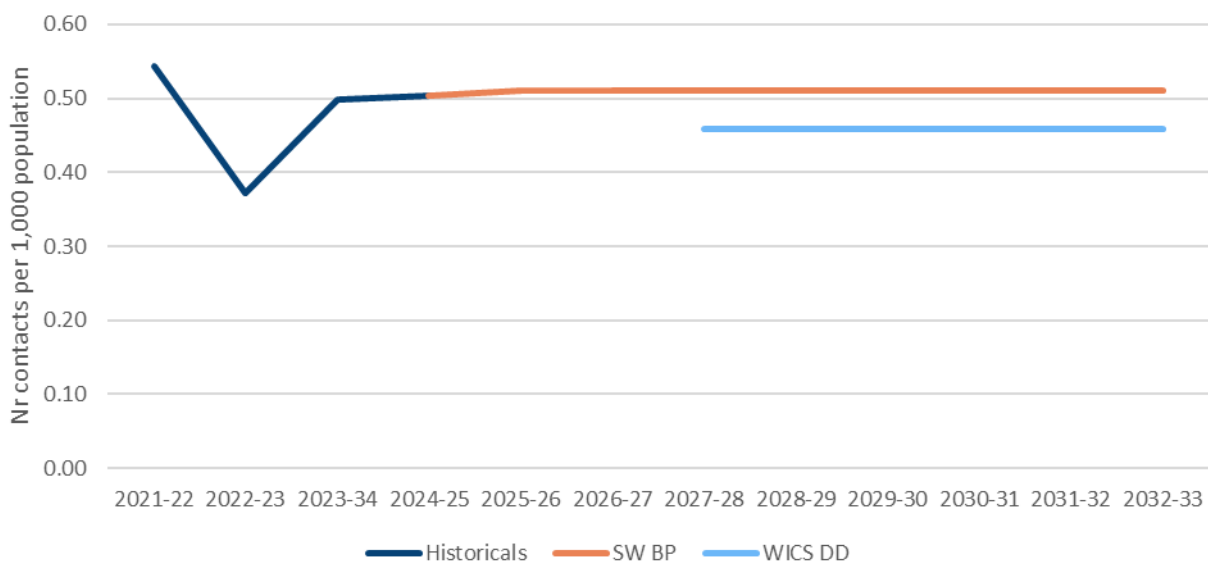
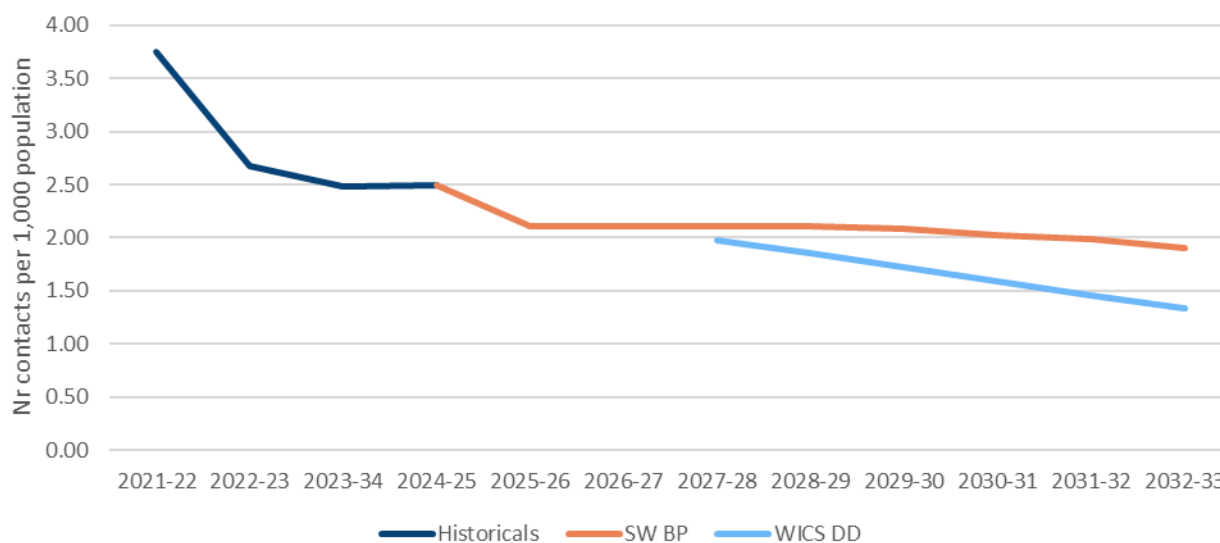


Figure 25: Discolouration and aeration contacts per 1,000 population



4.5.72. Firstly, given historical year-on-year variation in these measures, we consider that the most recent 3-year average should be taken into account. For taste and odour, we have used the most recent 3-year average of 0.46 contacts per 1,000 population as a starting position, which is lower than that proposed by Scottish Water. For discolouration and aeration, because Scottish Water forecasts its performance to be better than the most recent 3-year average, we are accepting the proposed starting point.

4.5.73. Secondly, we note that Scottish Water’s performance in this area is behind that of the companies in England and Wales. The most relevant comparator for these measures in England and Wales is customer contacts about water quality, which includes both taste and odour contacts and discolouration and aeration contacts. When combining all customer contacts about water aesthetics, Scottish Water has considerably more contacts than the median performance in England and Wales, and more than the worst-performing company in 2024-25. The majority of these contacts relate to discolouration and aeration. The median water quality contact challenge in England and Wales for PR24 was a 26% reduction. Scottish Water’s proposed challenge amounts to a 10% reduction in total contacts, which is equal to the smallest challenge set for PR24 – lower, when adjusting for the length of the regulatory period.<sup>78</sup>

4.5.74. Finally, we consider that the level of investment proposed in the business plan justifies greater ambition. WICS has identified £84 million of investment relating to water aesthetics, including:

- £31 million for distribution infrastructure maintenance targeting discolouration;

<sup>78</sup> Ofwat (2025), ‘Key Dataset 1: Outcomes data’, 19 June 2025.

- £29 million for developing plans for distribution infrastructure discolouration interventions;
- £19 million for taste and odour improvements at Carron Valley WTW; and
- £5 million for maintenance of granular activated carbon filters, which help to improve taste and odour.

4.5.75. However, we consider that a large proportion of other water quality related investment will also improve aesthetics – for example, both WICS and DWQR consider that the proposed level of investment in both water quality and water continuity is likely to yield secondary benefits and therefore justifies greater ambition in this area. Similarly, we expect mains replacement investment to have a positive impact. In our view, our more ambitious challenge is more commensurate with the proposed investment.

4.5.76. Considering the factors discussed above, we have chosen to match the median PR24 challenge for England and Wales, adjusting for the length of the regulatory period to give a 30% reduction in total contacts. Our challenge focuses on discolouration and aeration to address the higher proportion of actual contacts and the concerns highlighted by DWQR in this area. We propose maintaining taste and odour contacts at the most recent 3-year average of 0.46 contacts per 1,000 population, recognising emerging challenges as noted by DWQR.

#### *Areas for further development*

4.5.77. We will consider further information, including 2025-26 performance, and views from stakeholders and may set a more stretching target at the Final Determination. We note DWQR's comments that contact measures may underestimate the actual number of contacts received. We will work with Scottish Water and DWQR to ensure the methodologies for these measures are robust.

#### **Lead**

##### *Scottish Water's proposal*

4.5.78. Scottish Water proposes to remove 3,000 lead communication pipes per annum from the network in SRC27, reducing the estimated number of lead pipes by 42% between 2027 and 2033. It proposes that the forecast removal of lead communication pipes will drive a 0.1% improvement in the indicator of lead in customer supply pipes in SRC27.

4.5.79. Scottish Water has also proposed an additional measure to track the number of lead communication pipes removed in SRC27 – 3,000 per annum, for a total of 18,000 over the 2027-33 regulatory period.

*DWQR views*

4.5.80. DWQR notes that removing lead is required to achieve a lead-free Scotland, which is a Ministerial Objective. It also notes that a significant portion of lead removal will be completed opportunistically through other investment programmes and, as such, the achievement of lead outcomes is linked to those programmes.

*WICS assessment*

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.19</b> Estimated number of lead pipes remaining in the public network	Yes	Yes	Yes
<b>1.20</b> Indicator of lead in customers supply pipes	Partial	Yes	Yes

4.5.81. We propose to adopt Scottish Water’s performance profile on both the number of lead pipes remaining and the indicator of lead in customer supply pipes, as shown in Figure 26 and Figure 27.

*Figure 26: Estimated number of lead pipes remaining in the public network*

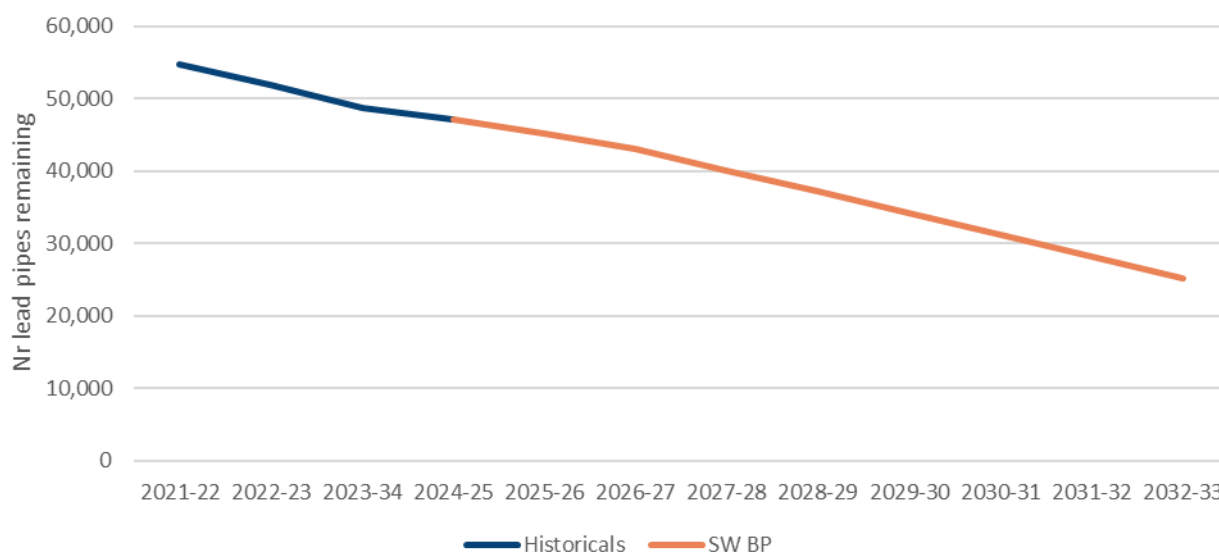
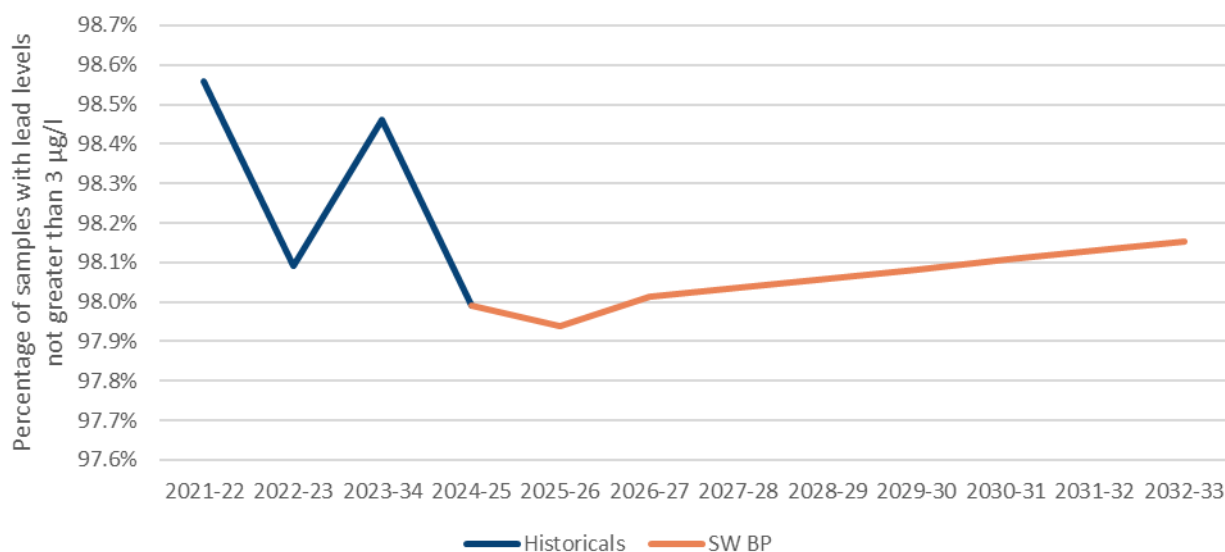


Figure 27: Indicator of lead in customer supply pipes (percentage compliance)



4.5.82. We propose to adopt Scottish Water’s performance profile because it plans to remove lead pipes faster than its historical average annual removal rate, putting it on track to meet its commitment to remove all lead piping from the public network by 2045. We note that Scottish Water plans to re-baseline the total number of lead communication pipes before the start of the period.<sup>79</sup> We will consider the results of this work when they become available and re-evaluate Scottish Water’s position against its 2045 target. In the event that this indicates Scottish Water needs to increase lead removal investment to meet the profile, this would be dealt with through the investment change process, discussed in Chapter 10.

4.5.83. Regarding Scottish Water’s proposed additional measure, we consider the number of lead communication pipes removed to be an investment output rather than an outcome, and as such, we examine this further in Chapter 5. As set out in Chapter 5, we propose adopting Scottish Water’s profile for this measure.

4.5.84. The indicator of lead in customer supply pipes is affected not only by lead communication pipes, but also by lead pipes within property boundaries, which are the responsibility of the property owner and therefore outside Scottish Water’s direct control. For this reason, we propose to accept Scottish Water’s performance profile.

## Water quality

### Scottish Water’s proposal

4.5.85. Scottish Water has proposed a 0.02% improvement in total drinking water compliance, rising to 99.95% by 2032-33.

<sup>79</sup> WICS (2025), ‘2024-25 Annual Return – B tables commentary’, 27 November 2025, p.151.

4.5.86. On the drinking water quality risks measure, Scottish Water has forecast an overall reduction of 12% over SRC27, with a slight increase from 2027-28 to 2028-29.

4.5.87. Scottish Water forecasts that the number of DWQR-declared incidents will fall by 1 per annum in SRC27, to 25 in 2032-33.

#### *DWQR views*

4.5.88. DWQR considers that the forecast improvement in total drinking water compliance is achievable and should be assisted by operational improvements. DWQR also explained that the £300 million investment in treated water storage should lead to improved overall compliance by reducing failures at service reservoirs. Additionally, we note that this measure is not aligned with the regulatory measure used by DWQR, as it includes non-regulatory cryptosporidium samples.

4.5.89. DWQR notes that the risk measure is immature and that the current methodology has not been confirmed as reliable. It also highlights that its priority is significant risks, which has a higher threshold than the one used by Scottish Water for this measure.

4.5.90. We also note comments from DWQR that water quality failures and incidents can be avoided not only by investing in assets but also by making operational and procedural improvements, as noted in paragraph 4.3.8. Scottish Water acknowledges that 33% of DWQR-declared incidents are due to people or procedural factors.<sup>80</sup>

4.5.91. While DWQR welcomed the forecast improvement in incidents, it also noted a lack of evidence that it can be achieved, given emerging challenges such as climate change.

#### *WICS assessment*

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.21</b> Total drinking water compliance	Partial	No	No
<b>1.22</b> Drinking water quality risks across all systems above long-term tolerable threshold	No	Unknown	Unknown
<b>1.23</b> Number of DWQR declared incidents	Partial	Yes	Yes

4.5.92. We are proposing to accept Scottish Water’s profiles for drinking water quality risks and the number of DWQR incidents, as shown in Figure 28 and Figure 29. However, as shown in Figure 30, we propose a more ambitious profile for total drinking water compliance. Our reasons are explained below.

<sup>80</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Technical Appendix 001 – Water Quality’, 26 February 2026, p.12.

Figure 28: Drinking water quality risks across all systems above long-term tolerable threshold

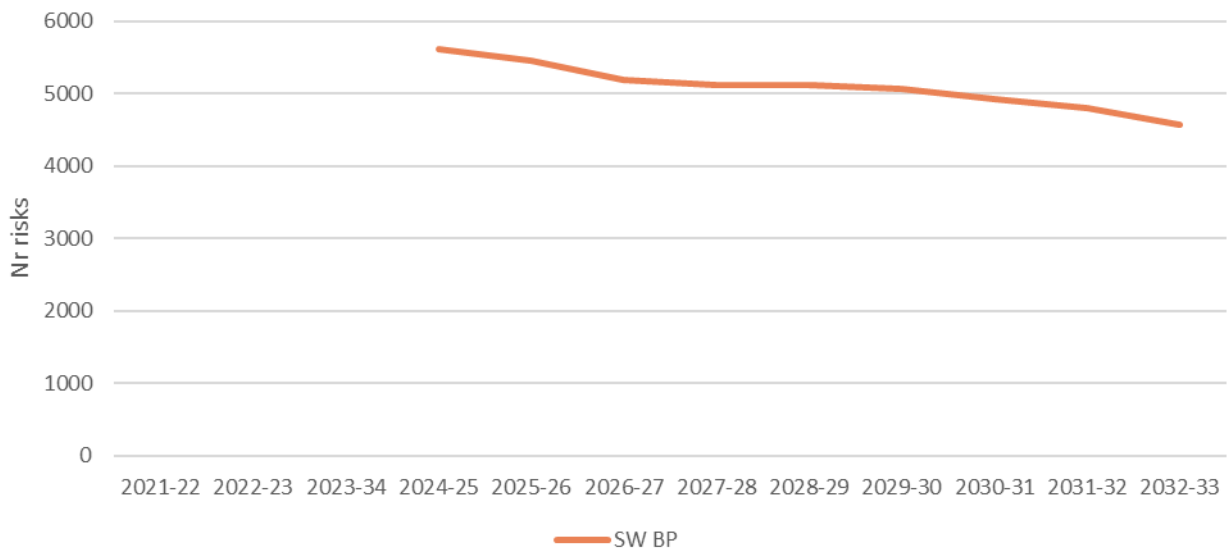


Figure 29: Number of DWQR declared incidents

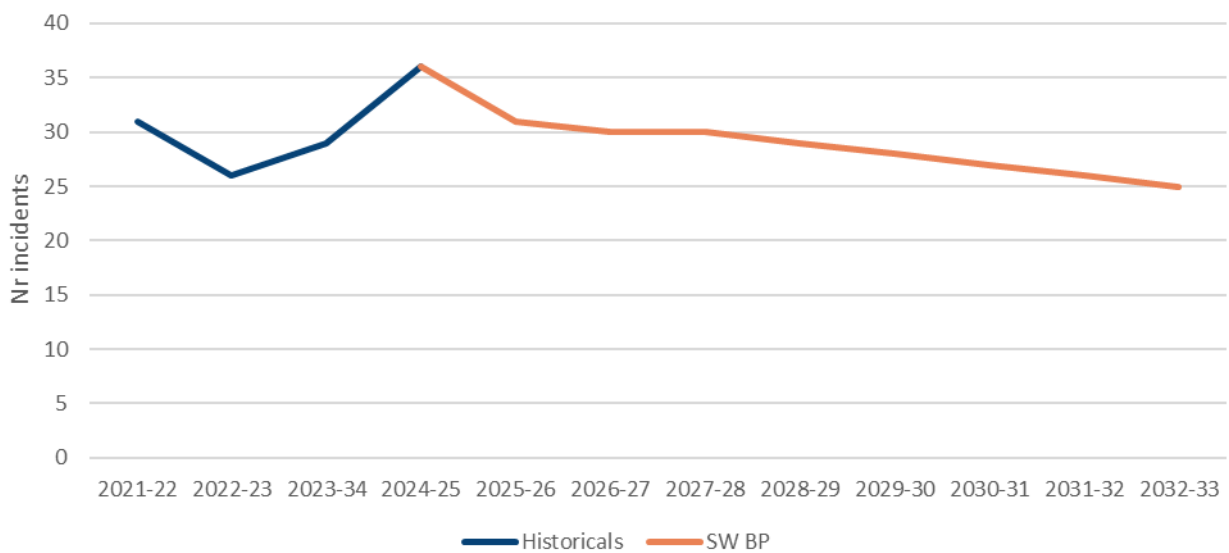
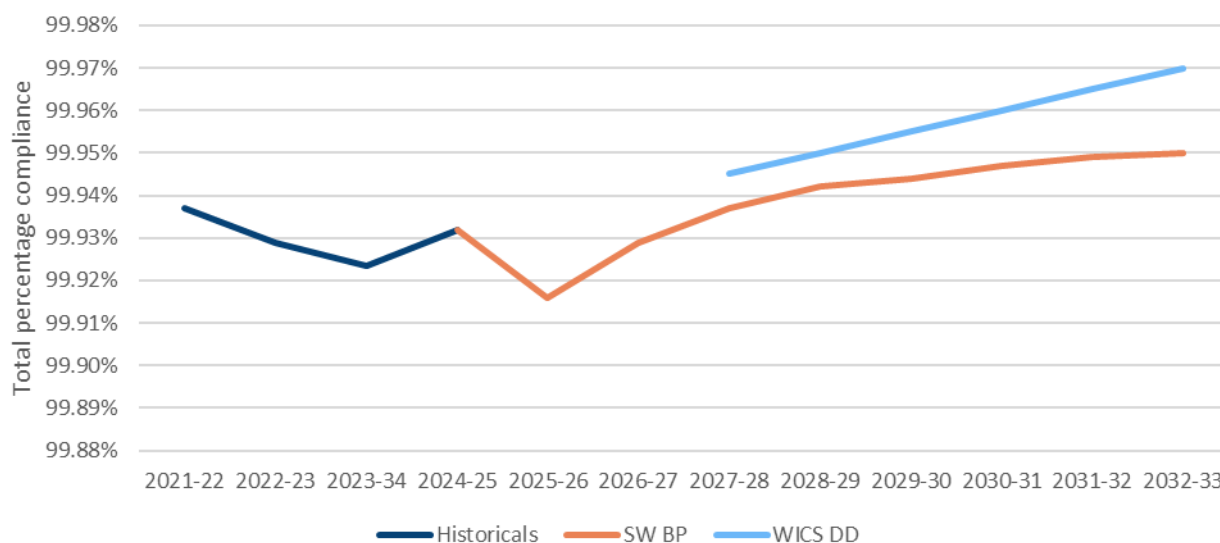


Figure 30: Total drinking water compliance



4.5.93. The water quality risks metric is new and lacks historical data. As such, we are accepting Scottish Water’s profile at this stage. This is discussed further in the section below on areas for further development.

4.5.94. The annual number of DWQR-declared incidents has ranged from 23 to 36 over the last 10 years, with the most recent 3-year average at 30. This matches Scottish Water’s suggested starting point for 2027-28 and, as such, our draft decision is to accept Scottish Water’s profile on this measure, shown in Figure 29. Considering recent performance, we recognise the effort required to achieve this reduction, but also the potential impact of operational improvements as discussed in paragraph 4.3.8.

4.5.95. As noted above, DWQR has highlighted to us that the total drinking water compliance metric is not the same as the measure it uses internally. We consider misalignment in this measure to pose a risk of confusion among stakeholders and customers. Therefore, we propose using the DWQR measure for water quality compliance, which includes regulatory samples only. To reflect this, we have used the compliance figure from the latest DWQR annual report – 99.94%<sup>81</sup> – as a baseline going into SRC27.

4.5.96. Water quality improvements account for £1.7 billion of Scottish Water’s proposed capital investment. Of this, around £1.3 billion relates to water quality compliance and risk, which we expect will drive improvements in outcomes 1.21-1.23. Table 14 shows the investment in improving water treatment works and the volume of water treated at these sites as a percentage of the total water supplied by Scottish Water.

<sup>81</sup> Drinking Water Quality Regulator (2025), ‘Drinking water Quality in Scotland 2024 – DWQR Annual Report – Public Supplies’, September 2025, p.6.

Table 14: Water quality improvements and water impacted

Investment output	Proposed investment (£m)	Percentage of treated water impacted
<b>WTWs made compliant with standards</b>	801	44%
<b>WTWs with improved treatment processes</b>	40	9%
<b>WTWs with new auto-shutdown controls</b>	29	9%

4.5.97. Scottish Water acknowledges that its drinking water compliance is below the overall compliance in England and Wales. The Drinking Water Inspectorate publishes annual drinking water reports for England and Wales, which include its national-level assessment of overall drinking water compliance in public supplies.<sup>82</sup> Overall compliance between 2021 and 2024 has averaged 99.97% for both England and Wales, compared to Scottish Water’s average total compliance of 99.93% over a similar period. Scottish Water expects that, as a result of the proposed improvement, its performance in 2032-33 will be similar to that of the leading companies in England and Wales in 2022. Given performance in England and Wales will likely improve further over the PR24 and PR29 regulatory periods, we expect that Scottish Water will continue to have lower compliance than the English and Welsh companies by the end of SRC27.

4.5.98. In addition, this measure is forecast to deteriorate in 2026-27 before increasing through SRC27. Scottish Water has not yet explained the forecast deterioration in performance for 2026-27.

4.5.99. Overall, given the magnitude of the investment proposed for water quality, the proportion of treated water capacity proposed to be improved, and Scottish Water’s performance relative to companies in England and Wales, we believe Scottish Water could demonstrate greater ambition in the total water quality compliance measure. As such, we are minded to set a 0.03% performance improvement target (from our new DWQR-aligned baseline of 99.94% at the end of 2026/27), which aligns Scottish Water’s 2032-33 performance with that in England and Wales between 2021 and 2024. This takes into account both Scottish Water’s new operating model and the potential for improvements in operating practices, as noted in paragraph 4.3.8.

4.5.100. We will evaluate any evidence Scottish Water provides to justify a lower performance profile between our Draft and Final Determinations.

#### *Areas for further development*

4.5.101. Considering the drinking water risks metric is new and will be further developed, and that it has no historical data, WICS proposes to adopt the proposed profile at Draft

<sup>82</sup> Drinking Water Inspectorate (2025), ‘Annual Report – The Chief Inspector’s Report’, 16 July 2025.

Determination and will continue to monitor and engage further with Scottish Water and DWQR on the measure's development to ensure it is fit for purpose.

## WICS draft proposals

4.5.102. WICS' draft proposals for water service outcome measures in SRC27 are summarised in Table 15.

Table 15: WICS draft proposals – water service

Line ref	Level of Service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.07	Percentage reduction of three-year average leakage		1.1%	15.7%		
1.08	Leakage reduction in areas with supply-demand balance deficit		1.5%	20.4%		
1.09	Percentage reduction of consumption at non-household premises		3.3%	14.9%		
1.10	Three-year average per capita consumption (litres/person/day)	179	178	165	-7.6%	-7.3%
1.11	Number of properties on the low pressure register	22	30	20	-9.1%	-33.3%
1.12	Unplanned interruptions greater than 6 hours, excluding 3rd party	5,047	7,000	5,000	-0.9%	-28.6%
1.13	Average minutes lost due to water supply interruptions (over 3 hours)	10.6	15.0	10.4	-0.0%	-30.7%
1.14	Repeat interruptions to water supply		240	170		-29.2%
1.15	Customers supplied by systems not capable of meeting demand during a worst historic drought		2,805,000	2,564,000		-8.6%
1.16	Customers supplied by systems not capable of meeting peak demand		876,000	876,753		0.1%
1.17	Taste and odour contacts per 1,000 population	0.50	0.51	0.46	-9.2%	-10.2%
1.18	Discolouration and aeration contacts per 1,000 population	2.49	2.11	1.33	-46.6%	-36.9%
1.19	Estimated number of lead pipes remaining in public network	47,154	43,154	25,154	-46.7%	-41.7%
1.20	Indicator of lead in customers supply pipes	97.99%	98.01%	98.15%	0.17%	0.14%
1.21	Total drinking water compliance <sup>83</sup>	99.93%	99.93%	99.97%		

<sup>83</sup> Because WICS is proposing a different methodology for this measure to that used by Scottish Water, the percentage changes between Scottish Water's figures and our 2032-33 target are not fair comparisons and have been omitted.

Line ref	Level of Service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.22	Drinking water quality risks across all systems above long-term tolerable threshold.	5,625	5,201	4,568	-18.8%	-12.2%
1.23	Number of DWQR declared incidents	34	30	25	-26.5%	-16.7%
1.45	Scottish Water lead pipes in the public network removed in SRC27			18,000		

## 4.6. Wastewater and the environment (1.24 to 1.33 and 1.46)

### Scottish Water's proposed performance

4.6.1. There are 11 outcomes related to wastewater flows and environment included in the business plan, one of which (river water quality) is under development. Table 16 sets out Scottish Water's business plan proposal for them.

Table 16: Scottish Water final business plan proposal – wastewater and environment

Line ref	Level of Service	2026-27 (forecast)	Year 6 2032-33	% Change from forecast year to year 6
1.24	Number of internal sewer flooding incidents per 10,000 sewer connections <sup>84</sup>	1.57	1.48	-5.7%
1.25	Number of properties at risk of internal sewer flooding per 10,000 sewer connections	1.47	1.47	0.0%
1.26	Number of external sewer flooding incidents per 10,000 sewer connections	10.43	11.16	7.0%
1.27	Number of areas at risk of external sewer flooding per 10,000 sewer connections	11.35	11.88	4.7%
1.28	Percentage compliance with SEPA discharge permits	96.37%	96.37%	0.0%
1.29	Number of serious pollution incidents	8	5	-37.5%
1.30	The total number of pollution incidents from a sewerage asset affecting the water environment per 10,000km of sewer <sup>85</sup>	34.8	34.8	0.0%
1.31	Percentage unsatisfactory sludge disposal	0%	0%	0%
1.32	Unsatisfactory intermittent discharges	862	712	-17.4%
1.33	River water quality (Not available)			
1.46	Unsatisfactory intermittent discharges removal	0	150	

<sup>84</sup> Forecast performance in 2026-27 and 2032-33 on the sewer flooding outcomes in this document is calculated per 2,690,000 connections reported in 2024-25.

<sup>85</sup> Forecast performance in 2026-27 and 2032-33 on the pollution incidents measure in this document is calculated per 55,203 km of sewers reported in 2024-25.

## Scottish Water's past performance on these measures

4.6.2. Table 17 shows historical performance in the three years to 2024-25 and a three-year average (where available).

*Table 17: Wastewater and environment historical performance*

Line ref	Level of Service	2022-23	2023-24	2024-25	3-year average
1.24	Number of internal sewer flooding incidents per 10,000 sewer connections	1.42	1.57	1.05	1.35
1.25	Number of properties at risk of internal sewer flooding per 10,000 sewer connections	1.23	1.23	1.17	1.21
1.26	Number of external sewer flooding incidents per 10,000 sewer connections	13.21	9.24	6.12	9.52
1.27	Number of areas at risk of external sewer flooding per 10,000 sewer connections	10.03	10.38	10.82	10.41
1.28	Percentage compliance with SEPA discharge permits	95.17%	96.39%	97.25%	96.27%
1.29	Number of serious pollution incidents	10	10	5	8
1.30	The total number of pollution incidents from a sewerage asset affecting the water environment per 10,000km of sewer	38.9	31.5	34.4	34.9
1.31	Percentage unsatisfactory sludge disposal	0%	0%	0%	0%
1.32	Unsatisfactory intermittent discharges		907	892	

## Internal and external sewer flooding

### *Scottish Water's proposal*

4.6.3. Internal sewer flooding is one of the priority areas identified from the customer research (see paragraph 3.3.18). The customer research also identified that it was underrepresented in the business plan, given customer preferences (see paragraphs 3.3.22 and 3.5.4).

4.6.4. Scottish Water proposed a small improvement in internal sewer flooding incidents, no change in the number of properties at risk of internal sewer flooding, and deterioration of performance in external sewer flooding and the number of areas at risk of external sewer flooding. At the same time, Scottish Water included £970 million of capital expenditure for managing the quantity of flows, of which £367 million is for enhancement.

4.6.5. Scottish Water has not explained the forecast deterioration in performance from actual performance to the end of the 2021-27 and early years of the 2027-33 regulatory period in internal and external sewer flooding incidents and properties at risk.

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.24</b> Number of internal sewer flooding incidents per 10,000 sewer connections	No	No	No
<b>1.25</b> Number of properties at risk of internal sewer flooding per 10,000 sewer connections	No	No	No
<b>1.26</b> Number of external sewer flooding incidents per 10,000 sewer connections	No	No	No
<b>1.27</b> Number of areas at risk of external sewer flooding per 10,000 sewer connections	No	No	No

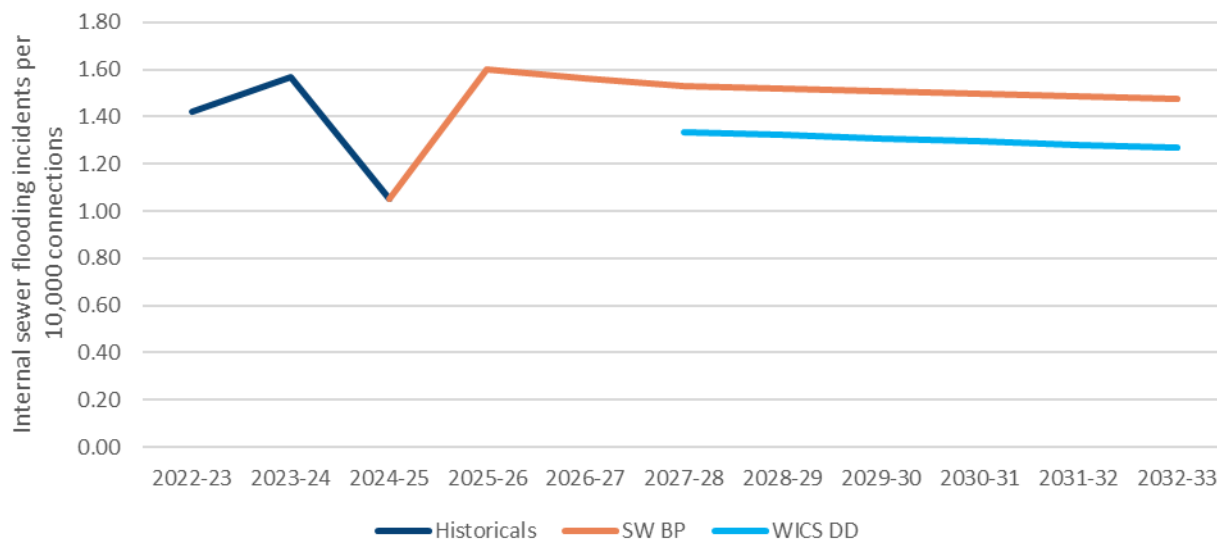
4.6.6. WICS is strengthening the targets for the four sewer flooding measures, primarily due to Scottish Water not evidencing the deterioration in recent historical performance.

4.6.7. For the number of internal sewer flooding incidents per 10,000 connections (outcome 1.24), WICS sets the starting point at 1.35 internal sewer flooding incidents per 10,000 connections, which is around the 3-year average of actual historical performance between 2022-23 and 2024-25. The performance during the period is then set to reduce by 5.7%, as proposed by Scottish Water. This results in 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, equivalent to 342 properties by 2032-33.<sup>86</sup> Figure 31 shows the historical and proposed number of internal sewer flooding incidents.

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<sup>86</sup> This is based on 2,690,000 sewer connections reported in 2024-25.

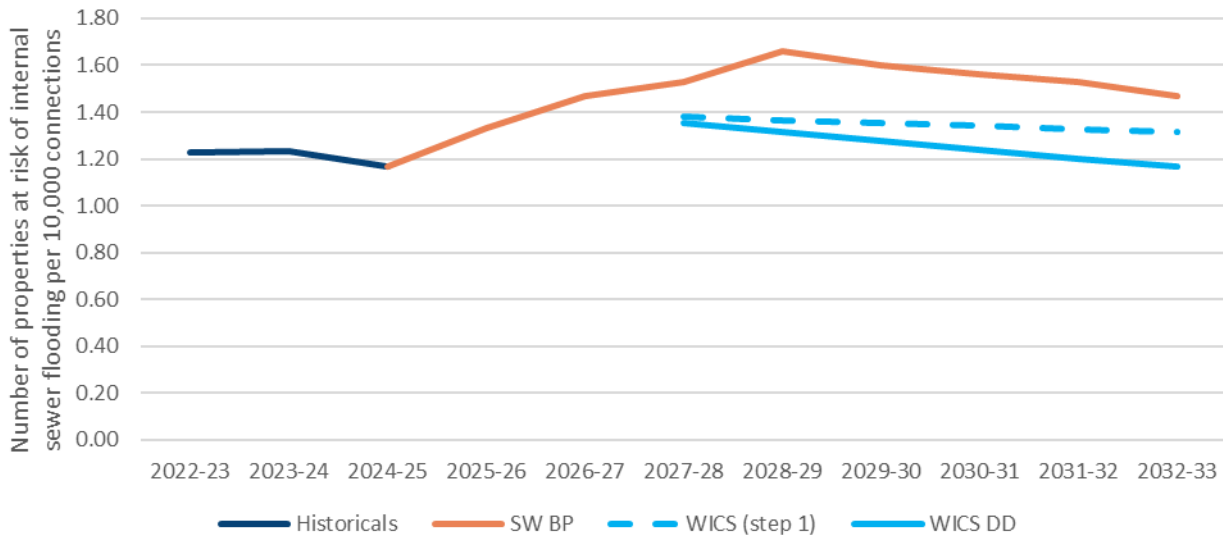
Figure 31: Number of internal sewer flooding incidents outcome



4.6.8. For the number of properties at risk of internal sewer flooding per 10,000 connections (outcome 1.25), WICS sets the starting point in line with the 2024-25 position rolled forward by the 10-year average additions of 50 properties per annum, and 39 reduction included in the SRC21 programme, resulting in a starting point of 1.39 properties. We then applied two adjustments: the performance during the period is set to reduce by 5.7%, in line with the forecast performance for internal sewer flooding incidents per 10,000 connections (outcome 1.24). We then applied a further adjustment to reflect customer views that this area is under-represented in the business plan. This adjustment moves Scottish Water back to the 2024-25 position. We have made an additional £40 million of investment available to Scottish Water to enable it to reach this position.

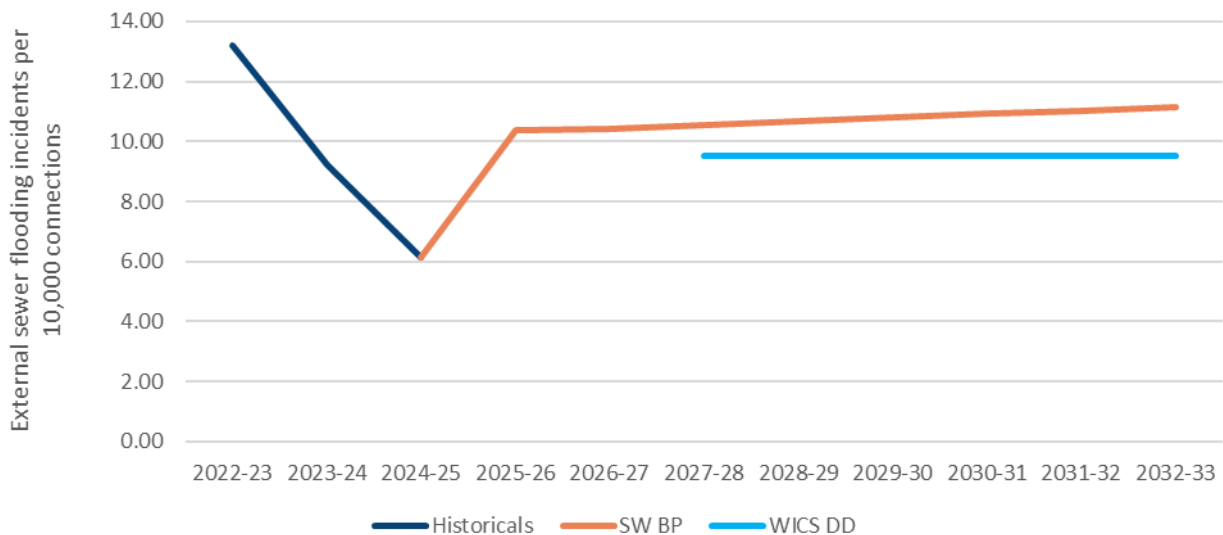
4.6.9. Figure 32 shows the historical and proposed number of properties at risk of internal sewer flooding.

Figure 32: Number of properties at risk of internal sewer flooding outcome



4.6.10. For external sewer flooding incidents per 10,000 connections (outcome 1.26), WICS propose setting the starting point at 9.52 external sewer flooding incidents per 10,000 connections, which is around the 3-year average between 2022-23 and 2024-25. We used the 3-year average instead of the proposed 10-year average, as it better reflects recent levels of service to customers. The performance during the period is set to maintain this position. Figure 33 shows the historical and proposed number of external sewer flooding incidents.

Figure 33: Number of external sewer flooding incidents outcome

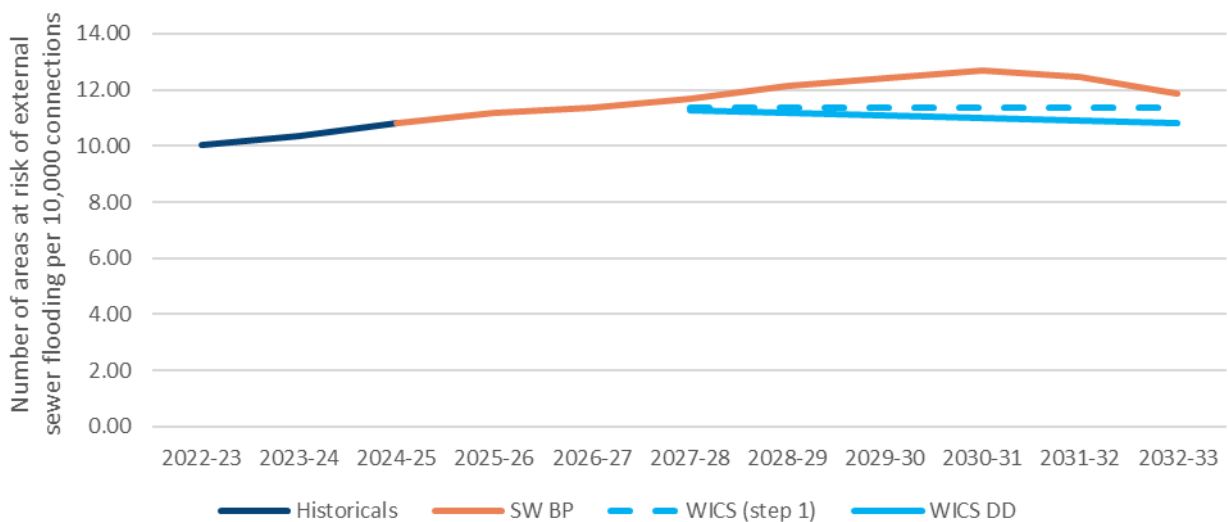


4.6.11. For the number of areas at risk of external sewer flooding per 10,000 connections (outcome 1.27), WICS proposes to set the starting point at the 2024-25 position rolled forward by the 10-year average additions of 108 areas per annum, and the reduction of 70 areas included in the SRC21 programme, as proposed by Scottish Water, resulting in a starting point of

11.37. We then applied two adjustments: the performance during the period is set to maintain this position in line with forecast performance on the outcome of external sewer flooding incidents (outcome 1.26). We then applied a further adjustment to move Scottish Water back to the 2024-25 position, in line with the approach for the number of properties at risk of internal sewer flooding measure (see paragraph 4.6.8). We have made £10 million of investment available to Scottish Water to enable it to reach this position.

4.6.12. Figure 34 shows the historical and proposed number of areas at risk of external sewer flooding.

*Figure 34: Number of areas at risk of external sewer flooding outcome*



4.6.13. We will consider further information, including 2025-26 performance and views from stakeholders on all performance commitments relating to internal and external sewer flooding. We may set a more stretching target at the Final Determination.

### Discharge permit compliance

#### *Scottish Water's proposal*

4.6.14. Discharge permit compliance is proposed to remain at a flat performance of 96.4%, which equals 21 non-compliant wastewater treatment works. This is consistent with the average performance over 2022-23 to 2024-25.

#### *SEPA views*

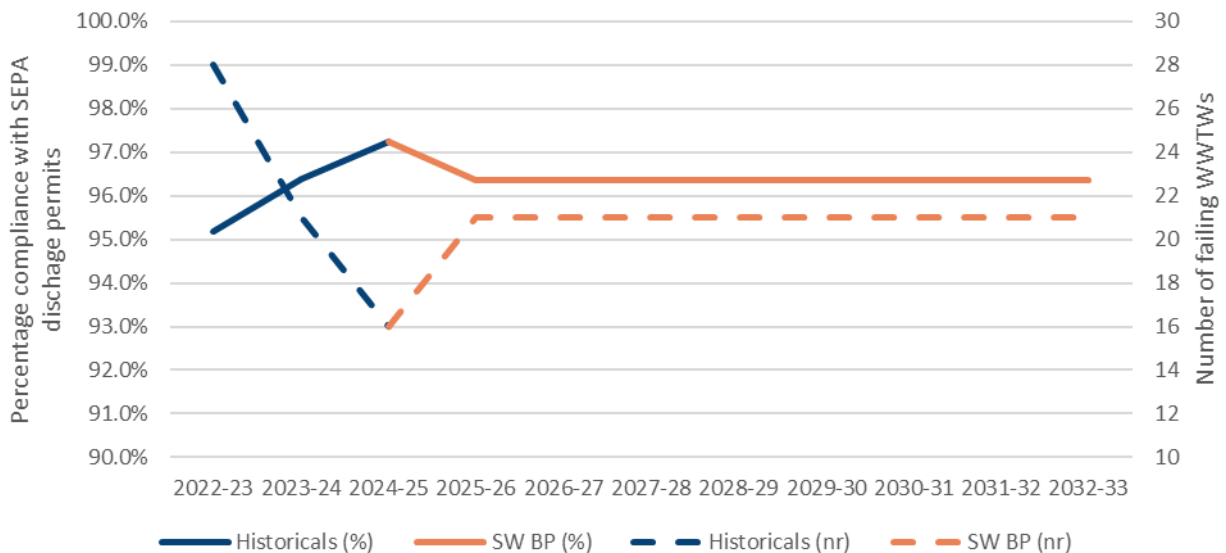
4.6.15. SEPA considers that this proposal may fall short of the Ministerial Objectives. It also noted that the definition should specify whether it refers to final effluent compliance or licence compliance.

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.28</b> Percentage compliance with SEPA discharge permits	No	Partial	No

4.6.16. For the percentage compliance with SEPA discharge permits (outcome 1.28), WICS has concerns that Scottish Water does not appear to have engaged with SEPA on this measure. Furthermore, Scottish Water’s Board assurance statement explained that the business plan is consistent with the Ministerial Objectives, which SEPA does not appear to agree with (see paragraph 2.5.3).

4.6.17. At this stage, we have adopted Scottish Water’s proposal to maintain performance at 96.4% in the absence of Scottish Water and SEPA agreeing on an alternative forecast. However, we expect Scottish Water and SEPA to agree on a target that is consistent with the Ministerial Objectives and to provide it to us by 1 September 2026. In the absence of further information, we will set a target informed by either Scottish Water’s maximum performance on this measure of 97.2% in 2024-25, or observed performance in England and Wales. On this latter point, in England and Wales, the 3-year median outturn compliance is 98.8%, with a minimum 3-year average performance of 97.9%.

Figure 35: Percentage compliance with SEPA discharge permits outcome



4.6.18. We require that Scottish Water engage further with SEPA on the compliance at wastewater treatment works outcome measure to resolve this difference. Scottish Water and SEPA should provide the outcome of that engagement in their responses to the Draft Determination consultation.

## Pollution incidents

### Scottish Water's proposal

4.6.19. Serious pollution incidents were proposed to be at a 3-year average level and gradually decrease to 5 by the end of the period. The performance in 2024-25 was 5 serious pollution incidents. Scottish Water's proposal for total pollution incidents does not include any reduction in the metric and proposes keeping performance stable at 34.8 total pollution incidents per 10,000km of sewers.

### SEPA views

4.6.20. SEPA welcomed the ambition to reduce serious pollution incidents; however, it noted that maintaining performance on total pollution incidents performance may fall short of the Ministerial Objectives.

### WICS assessment

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.29</b> Number of serious pollution incidents	No	No	No
<b>1.30</b> The total number of pollution incidents from a sewerage asset affecting the water environment per 10,000km of sewer	No	No	No

4.6.21. Given the level of expenditure on asset maintenance and enhancement, WICS considers that Scottish Water should make improvements in reducing pollution incidents. The proposed levels in 2032-33 would be worse than those of most companies in England and Wales in 2024-25.

4.6.22. For example, in England and Wales, the 3-year median outturn number of serious pollution incidents by water companies is 2.7. A 3-year average to 2024-25 for 8 out of 11 companies is below 8 serious pollution incidents.<sup>87</sup> Ofwat set an expectation of 0 serious pollution incidents for all English and Welsh companies, with penalties applied for more than 1 incident.

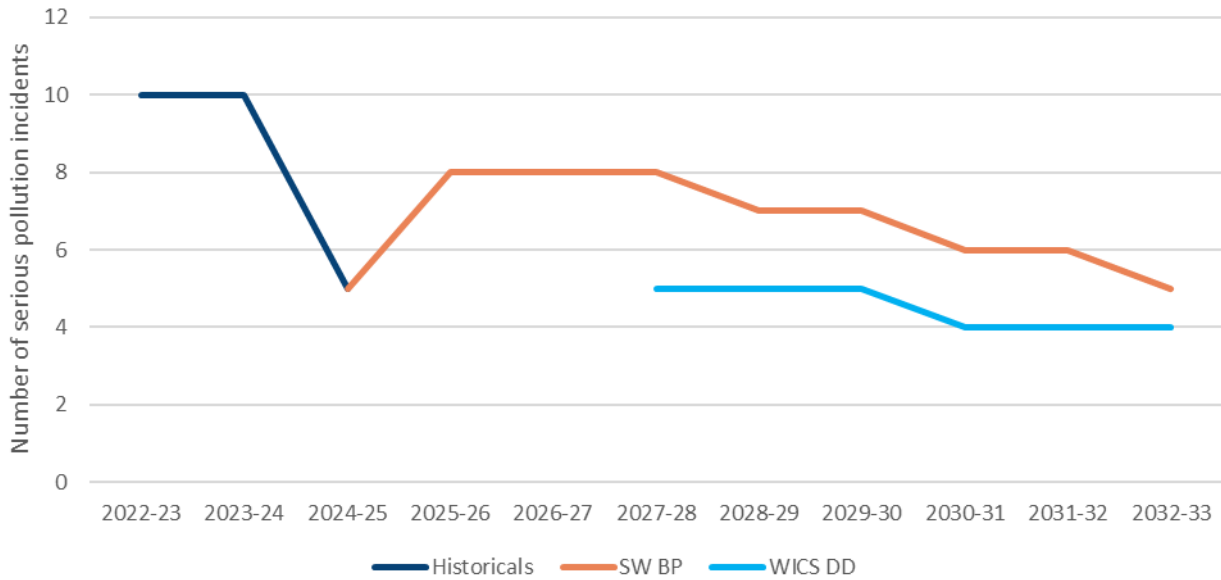
4.6.23. For serious pollution incidents (outcome 1.29), WICS decided to set the level of service for 2027-28 at 5 serious pollution incidents, in line with the reported performance for 2024-25. We then expect Scottish Water to maintain a maximum of 5 serious pollution incidents per year until 2029-30, before reducing to no more than 4 serious pollution incidents between 2030-31 and 2032-33. It broadly follows Scottish Water's proposed profile and is based on

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<sup>87</sup> Ofwat (2026), 'Historical performance trends for PR24 V6.0', 15 January 2026.

WICS judgement drawing on Scottish Water’s past performance and actual performance in England and Wales. Figure 36 shows historical and proposed number of serious pollution incidents.

Figure 36: Number of serious pollution incidents outcome



4.6.24. For total pollution incidents per 10,000km of sewers (outcome 1.30), WICS proposes to set performance in line with Scottish Water’s best performance in recent years of 31.5 total pollution incidents.<sup>88</sup> Ofwat set an expectation for English and Welsh water companies to improve in a comparable total pollution incidents measure. It set a common performance commitment level (PCL) in 2029-30 of 18.63. This is a decrease of 30% and 44% compared to PCL in 2024-25 and outturn 3-year average performance to 2024-25, respectively.<sup>89</sup> Furthermore, the companies in England and Wales have to fund these improvements from operating and maintenance investment and we are allowing Scottish Water higher maintenance investment than the companies in England and Wales.<sup>90</sup> As such, we consider that Scottish Water should be able to significantly outperform these estimates.

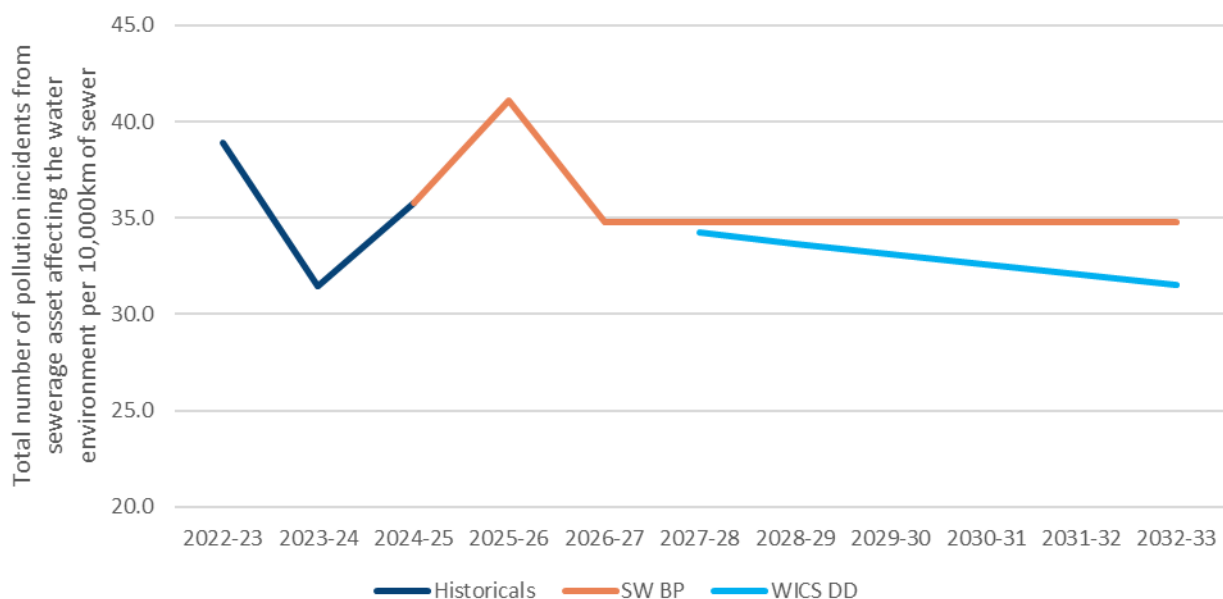
4.6.25. Figure 37 shows historical and proposed total number of pollution incidents from sewerage assets.

<sup>88</sup> Environment Agency and Natural England (2022), ‘Water industry strategic environmental requirements (WISER)’, 11 May 2022.

<sup>89</sup> Ofwat (2025), ‘Key Dataset 1: Outcomes data’, 19 June 2025.

<sup>90</sup> Ofwat (2025), ‘PR24 Final Determinations: Expenditure allowances’, p.276.

Figure 37: Total number of pollution incidents outcome



4.6.26. We would welcome SEPA’s views on the performance of this outcome measure, given its feedback that Scottish Water’s proposals may fall short of the Ministerial Objectives.

### Sludge disposal

#### Scottish Water’s proposal

4.6.27. Percentage unsatisfactory sludge disposal is proposed to remain at 0%, consistent with historical performance in this area.

#### WICS assessment

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.31</b> Percentage unsatisfactory sludge disposal	Yes	Yes	Yes

4.6.28. WICS expects the performance in this outcome to remain at 0% unsatisfactory disposal over the 2027-33 regulatory period consistent with Scottish Water’s proposal.

4.6.29. A PFI contract for a sludge treatment works treating around 34% of Scotland's sludge expired in 2026. Scottish Water has taken over the operation of the site and is proposing the West Central Bioresource project to replace the works (see section 5.6 for more details).

## UIDs

### *Scottish Water's proposal*

4.6.30. Scottish Water proposed to remove 150 unsatisfactory intermittent discharges (UIDs) during the period. This will result in 712 UIDs remaining at the end of the period out of a total of over 4,200 intermittent discharges.<sup>91</sup>

### *SEPA views*

4.6.31. SEPA's view was that addressing 150 UIDs falls short of the expectation to resolve approximately 25% of the current total. SEPA was clear that, during the SRC27 period, the expectation is for the greater of either 25% of the remaining UIDs or 150 UIDs to be resolved. It further highlighted that the UIDs removed during SRC27 should be in addition to 108 UIDs committed to during SRC21 and that any removals of UIDs resolved solely through data cleansing should not be counted towards the performance.

### *WICS assessment*

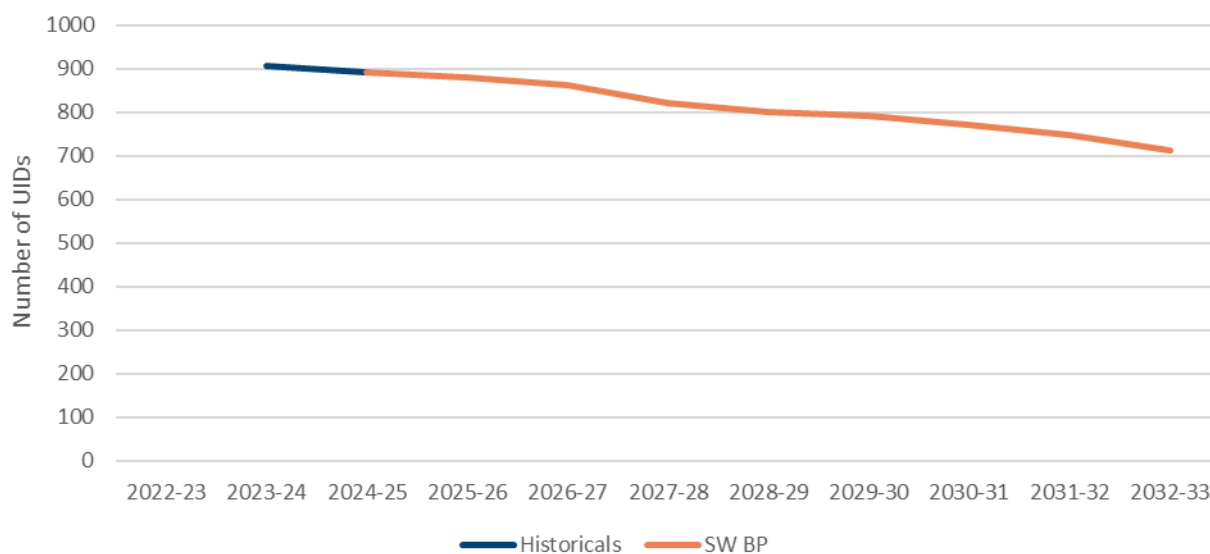
Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.32</b> Unsatisfactory intermittent discharges	Yes	Yes	No

4.6.32. For outcome 1.32 WICS decided to accept Scottish Water's proposal. Figure 38 shows the proposed number of UIDs.

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<sup>91</sup> Total intermittent discharges figure includes combined sewer overflows that operate in the event of an overloaded sewer, emergency overflows at pumping stations that operate in the event of mechanical or electrical failure, storm overflows at inlets to works, and storm tank discharges that operate in the event that a works has reached capacity.

Figure 38: Number of UIDs



4.6.33. As explained in section 5.5, we have allowed Scottish Water additional water quality, water continuity and water environment investment of £118 million, which is not attached to particular projects or programmes. Scottish Water may decide to use some of this unallocated investment for UIDs to address SEPAs concerns, which would enhance performance further than set out in Figure 38.

4.6.34. We also agree with SEPA that any removals solely due to better information should not count towards proposals, and, if such removals are identified, the baseline will be updated to reflect them.

#### Areas for further development

4.6.35. Scottish Water also proposed adding a new outcome showing UIDs removed (business plan line 46). WICS considers that this is best reported as an output of the investment programme.

#### River water quality

4.6.36. Scottish Water has not put forward a developed outcome to measure river water quality.

4.6.37. WICS expects Scottish Water to develop and agree a river water quality measure with SEPA and WICS ahead of the start of the 2027-33 regulatory period.

#### WICS draft proposals

4.6.38. Table 18 sets out WICS draft decisions for wastewater and environment outcomes levels of service in year 6 of the period. For comparison, it includes actual performance in 2024-25,

Scottish Water’s forecast performance in 2026-27, and changes from these to the year 6 draft proposal.

*Table 18: WICS draft proposals – wastewater and environment*

Line ref	Level of service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.24	Number of internal sewer flooding incidents per 10,000 sewer connections	1.05	1.57	1.27	20.8%	-18.8%
1.25	Number of properties at risk of internal sewer flooding per 10,000 sewer connections	1.17	1.47	1.17	0%	-20.5%
1.26	Number of external sewer flooding incidents per 10,000 sewer connections	6.12	10.43	9.52	55.7%	-8.7%
1.27	Number of areas at risk of external sewer flooding per 10,000 sewer connections	10.82	11.35	10.83	0.0%	-4.6%
1.28	Percentage compliance with SEPA discharge permits	97.2%	96.4%	96.4%	-0.9%	0.0%
1.29	Number of serious pollution incidents	5	8	4	-20.0%	-50.0%
1.30	The total number of pollution incidents from a sewerage asset affecting the water environment per 10,000km of sewer	34.4	34.8	31.5	-8.5%	-9.5%
1.31	Percentage unsatisfactory sludge disposal	0%	0%	0%	0%	0%
1.32	Unsatisfactory intermittent discharges	892	862	712	-20.2%	-17.4%
1.33	River water quality (Not available)					

## 4.7. Carbon emissions (1.34 to 1.43 and 1.46 to 1.47)

### Scottish Water’s proposed performance

4.7.1. There are 10 measures relating to carbon emissions, biodiversity and resource recovery. In addition, Scottish Water has proposed two related measures in its final business plan. Table 19 shows Scottish Water’s proposed performance on these measures. Scottish Water has not proposed performance profiles for measures 1.42 and 1.43 as they are not yet sufficiently developed.

Table 19: Scottish Water final business plan proposal – carbon emissions

Line ref	Level of Service	2026-27 (SW forecast)	Year 6 2032-33	% Change from forecast year to year 6
<b>1.34</b>	Net Zero Emissions (tCO <sub>2</sub> e) <sup>92</sup>	319,416	198,126	-38.0%
<b>1.35</b>	Operational emissions (water) (tCO <sub>2</sub> e)	37,267	9,688	-74.0%
<b>1.36</b>	Operational emissions (wastewater) (tCO <sub>2</sub> e)	140,224	71,291	-49.2%
<b>1.37</b>	Percentage reduction in operational emissions compared to 2006-07 baseline	61.58%	82.47%	33.9%
<b>1.38</b>	Operational emissions (net emissions) (tCO <sub>2</sub> e)	168,782	54,529	-67.7%
<b>1.39</b>	Investment emissions (tCO <sub>2</sub> e)	150,634	143,597	-4.7%
<b>1.40</b>	Carbon capture/sequestration (tCO <sub>2</sub> e)	-8,708	-26,450	203.7%
<b>1.41</b>	Biodiversity and Nature Based Solutions (interim measure) (m <sup>2</sup> of land)	0	4,500	
<b>1.42</b>	Biodiversity and Nature Based Solutions (final measure)			
<b>1.43</b>	Resource recovery			
<b>1.46</b> <sup>93</sup>	Scottish Water Net Operational emissions with preset conversion factors similar to Ofwat (tCO <sub>2</sub> e)	215,750	92,816	-57.0%
<b>1.47</b> <sup>94</sup>	Scottish Water investment intensity carbon factor	83%	51%	-38.6%

4.7.2. During the determination process for SRC21, Scottish Water committed to reach net zero emissions across both operational and capital emissions by 2040, and to generate 300% of the energy it uses through hosted wind and renewables by 2030.<sup>95</sup> Scottish Water created a Net Zero Emissions Routemap outlining its plans to meet these and other emissions commitments.<sup>96</sup>

4.7.3. We note from the customer research testing whether the plan commands customer support that there was some disappointment among participants with lower investment in carbon reduction (see paragraph 3.4.18). Therefore, we take this into account in our assessment of Scottish Water's performance in this area.

4.7.4. Scottish Water's proposed reductions in operational emissions assume the implementation of its preferred option for future operation of the Daldowie Sludge Treatment Centre from 2031-32 onwards. WICS' views on the conclusion of the Daldowie PFI contract and the future operation of the site are set out in section 5.6.

<sup>92</sup> Emissions are expressed in tonnes of carbon dioxide equivalents (tCO<sub>2</sub>e).

<sup>93</sup> Referenced in Scottish Water's Final Business Plan as 1.47.

<sup>94</sup> Referenced in Scottish Water's Final Business Plan as 1.48.

<sup>95</sup> Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 007 – Climate Change Mitigation', 26 February 2026, p.18.

<sup>96</sup> Scottish Water (2020), 'Net Zero Emissions Routemap', 13 September 2020.

- 4.7.5. Because operational emissions are included in net zero emissions, there is a material difference in net zero emissions based on whether or not Scottish Water’s proposed upgrade at Daldowie, which Scottish Water refers to as West Central Bioresource (WCB), is progressed. Without the forecast emissions reduction from WCB, operational emissions would reduce by 52% during SRC27, rather than 68%.
- 4.7.6. For those measures impacted by wastewater operational emissions – 1.34, 1.36, 1.37 and 1.38 – the figures in the discussion of each measure below include profiles both including and excluding WCB. We calculated the profiles excluding WCB by adding 27,000 tCO<sub>2</sub>e to the impacted measures from 2031-32 onwards, in line with the emissions Scottish Water expects the upgrade to eliminate.<sup>97</sup>
- 4.7.7. As set out in section 9.4, our charge cap places specific conditions around the progression of WCB. This means that the status of WCB also impacts investment emissions. We have calculated a profile excluding WCB using the proposed profile of WCB investment and annual investment emissions factors derived from Scottish Water’s and WICS’ proposals for investment and investment emissions.
- 4.7.8. The combined effects of the expected operational and capital emissions from WCB mean that net zero emissions would reduce by 30% instead of Scottish Water’s proposed 38% if it did not proceed.
- 4.7.9. The figures below show profiles both with and without WCB, our selected target profiles in Table 25 exclude the impact of WCB. If WCB proceeds, we expect Scottish Water to account for the benefit in carbon emissions measures in the delivery plans for the relevant years, and we will review them on that basis.

#### **Scottish Water’s past performance on these measures**

- 4.7.10. Table 20 shows Scottish Water’s performance on carbon emissions measures over the last three years, where data is available. It should be noted that Scottish Water is developing its methodologies and information-gathering for investment emissions and carbon capture/sequestration, which creates uncertainty around the historical figures for these measures. This uncertainty further impacts historical data for measure 1.34. Historical data is not available for measures 1.41, 1.42, 1.43, 1.46 and 1.47. For measures 1.35 and 1.36, separate data on emissions from water and wastewater were not reported until 2024-25.

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<sup>97</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Technical Appendix 010 – West Central Bioresource’, 26 February 2026, p.8.

Table 20: Carbon emissions historical performance

Line ref	Level of Service	2022-23	2023-24	2024-25	3-year average
1.34	Net Zero Emissions (tCO2e)	422,794	437,828	325,480	395,367
1.35	Operational emissions (water) (tCO2e)			52,390	
1.36	Operational emissions (wastewater) (tCO2e)			168,044	
1.37	Percentage reduction in operational emissions compared to 2006-07 baseline	52%	51%	52%	52%
1.38	Operational emissions (net emissions) (tCO2e)	223,515	219,135	220,084	220,912
1.39	Investment emissions (tCO2e)	199,278	218,692	105,395	174,455
1.40	Carbon capture/sequestration (tCO2e)	2517	-5844	-350	-1,226
1.41	Biodiversity and Nature Based Solutions (interim measure) (m <sup>2</sup> of land)				
1.42	Biodiversity and Nature Based Solutions (final measure)				
1.43	Resource recovery				
1.46 <sup>98</sup>	Scottish Water Net Operational emissions with preset conversion factors similar to Ofwat (tCO2e)				
1.47 <sup>99</sup>	Scottish Water investment intensity carbon factor				

## Net Zero Emissions

### Scottish Water's proposal

4.7.11. Net zero emissions is the sum of Scottish Water's operational and investment emissions, net of the emissions captured and stored on Scottish Water's land. Scottish Water forecasts a 38% reduction in net zero emissions during SRC27.

### WICS assessment

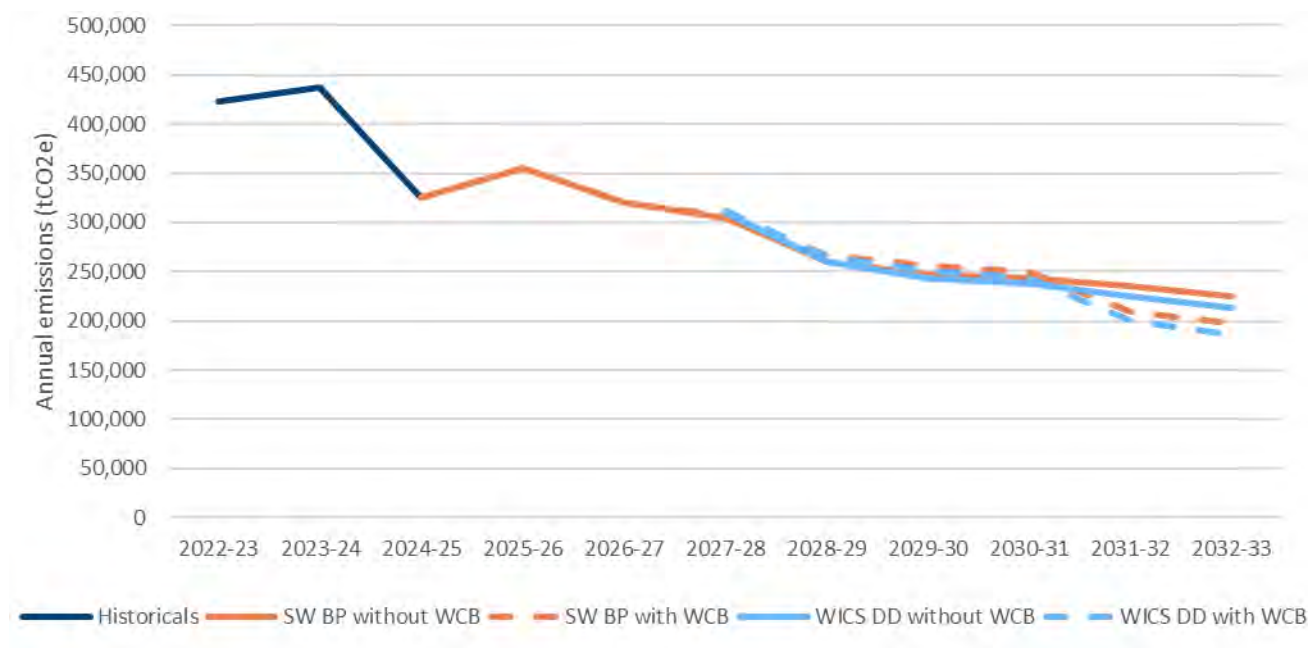
Outcome	Evidenced	Consistent with expenditure	Stretching
1.34 Net Zero Emissions (tCO2e)	Yes	Yes	Yes

4.7.12. WICS is proposing a smaller reduction in net zero emissions in SRC27, as shown in Figure 39.

<sup>98</sup> Referenced in Scottish Water's Final Business Plan as 1.47

<sup>99</sup> Referenced in Scottish Water's Final Business Plan as 1.48

Figure 39: Net Zero Emissions



4.7.13. This is the sum of our decisions for operational emissions, investment emissions and carbon capture. The smaller reduction is due to the exclusion of WCB. If WCB proceeds, our profile will be more challenging than Scottish Water’s proposal, due to a more ambitious profile for investment emissions, which is discussed in the relevant section below.

## Operational emissions

### Scottish Water’s proposal

4.7.14. Scottish Water proposes reductions in operational emissions of 74% for water and 49% for wastewater. This would represent a 68% reduction in net operational emissions over the period. By 2032-33, this would lead to an 82% reduction in operational emissions compared to the 2006-07 baseline.

### WICS assessment

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.35</b> Operational emissions (water) (tCO2e)	Yes	Yes	Yes
<b>1.36</b> Operational emissions (wastewater) (tCO2e)	Partial	Yes	Yes
<b>1.37</b> Percentage reduction in operational emissions compared to 2006-07 baseline	Yes	Yes	Yes
<b>1.38</b> Operational emissions (net emissions) (tCO2e)	Yes	Yes	Yes

4.7.15. WICS proposes to accept Scottish Water’s profiles for operational emissions measures, excluding the impact of WCB. These profiles are shown in Figure 40, Figure 41, Figure 42, and Figure 43.

Figure 40: Operational emissions (water)

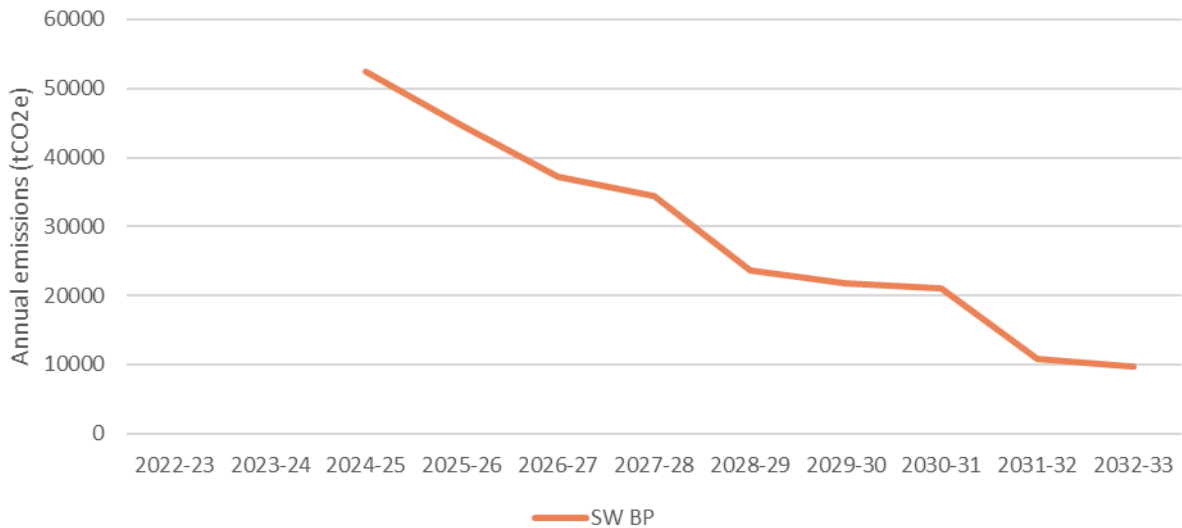


Figure 41: Operational emissions (wastewater)

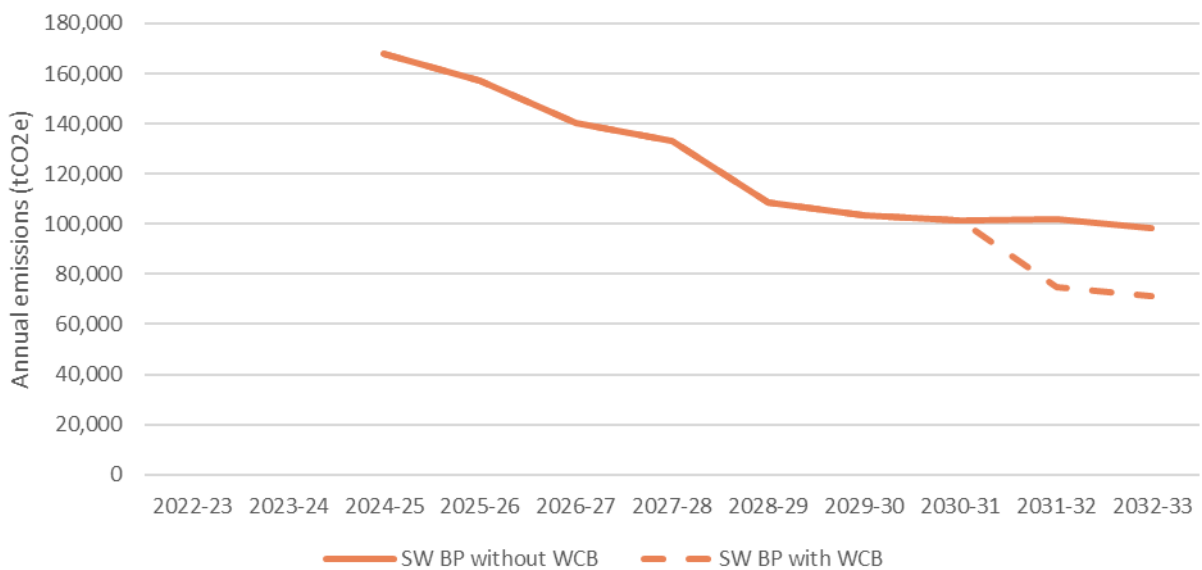
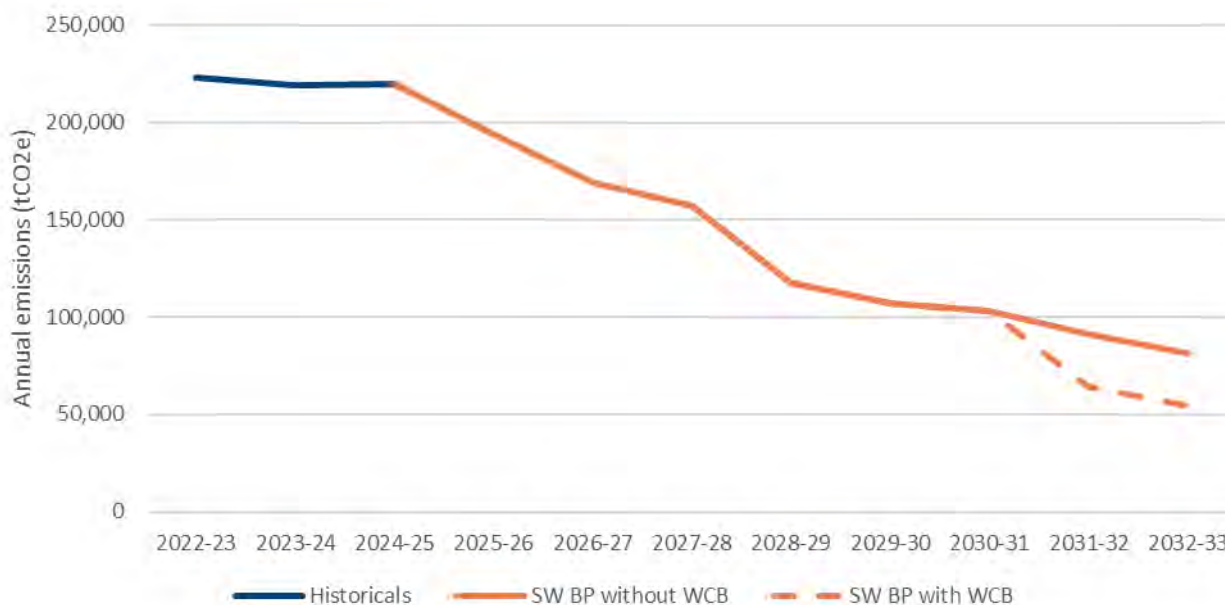


Figure 42: Percentage reduction in operational emissions compared to 2006-07 baseline



Figure 43: Operational emissions (net emissions)



4.7.16. Scottish Water’s forecast 68% reduction in operational emissions is more ambitious than the improvements proposed in England and Wales for PR24, where the largest target reductions are 15% for water and 21% for wastewater.<sup>100</sup> This is true whether or not WCB is included. If the effect of WCB is excluded, the reduction in wastewater operational emissions changes from 49% to 30%, resulting in a net operational emissions reduction of 52% rather than 68%.

<sup>100</sup> Ofwat (2025), ‘Key Dataset 1: Outcomes data’, 19 June 2025.

4.7.17. Recognising this, we consider the proposed profiles sufficiently ambitious and therefore do not propose further performance challenges for operational emissions. Our proposed reductions are smaller than Scottish Water’s due to the exclusion of WCB.

### Investment emissions

#### Scottish Water’s proposal

4.7.18. Scottish Water has proposed a 5% reduction in its investment emissions in SRC27.

#### WICS assessment

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.39</b> Investment emissions (tCO <sub>2</sub> e)	No	Yes	No

4.7.19. WICS is proposing a 13% reduction in investment emissions over the period instead of the proposed 4.7%, as shown in Figure 44. Our reasoning is set out below.

Figure 44: Investment emissions



4.7.20. WICS recognises the developing nature of the investment emissions measure, Scottish Water’s data collection in this area, and low-carbon industrial construction materials in general. However, we note that the profile for this measure projects a 4.7% improvement between 2026-27 and 2032-33, the smallest improvement among the carbon emissions measures. In addition, there is a forecast increase in investment emissions in 2025-26 arising

from the movement to a more accurate carbon measurement system within Scottish Water, which carries over to the overall forecast.<sup>101</sup>

- 4.7.21. Scottish Water proposes no investment specifically targeting investment emissions, as it expects that carbon taxes and other penalties for high-carbon products will make low-carbon materials cheaper than higher-carbon equivalents.
- 4.7.22. For PR24, four companies in England and Wales have bespoke performance commitments relating to investment emissions, with targets set at a 5% reduction over the 2025-30 period.<sup>102</sup> An equivalent reduction for Scottish Water would be 6%, given that SRC27 is one year longer than PR24.
- 4.7.23. As set out in section 5.11, WICS' cost challenges on the capital investment programme result in an allowance of £147 million less than Scottish Water's business plan proposed. Because investment emissions are calculated based on emissions per £m spent, this results in a lower baseline profile for investment emissions, increasing the challenge to 10%.
- 4.7.24. Further to this, we are adopting the equivalent of the target used in England and Wales, as set out in paragraph 4.7.22. We make this adjustment using the ratio of the equivalent challenge in England and Wales (6.0%) to Scottish Water's proposed challenge (4.7%). When combined with the effect of the reduction in investment outlined above, the challenge becomes 12.7%.
- 4.7.25. Finally, our exclusion of WCB results in lower investment, further increasing the size of our reduction. Our final challenge for investment emissions is a 13% reduction over SRC27. In absolute terms, this would reduce Scottish Water's investment emissions by 19,525 tCO<sub>2</sub>e over the period. If WCB is included, investment emissions would reach a similar level by 2032-33 (a 12.7% reduction as noted above), but the profile of WCB investment means that its inclusion leads to a total of around 25,000 tCO<sub>2</sub>e more emissions primarily between 2027-28 and 2031-32.
- 4.7.26. Our challenge reflects the necessity of further progress in this area, given the small forecast reduction relative to operational emissions and the expectation that capital investment will become Scottish Water's most significant source of carbon emissions during the 2027-33 regulatory period. Additionally, our profile recognises opportunities for innovation in the sector. Considering these factors, our position is that Scottish Water should target a reduction in investment emissions at least as large as that of companies in England and Wales.

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<sup>101</sup> Scottish Water (2026), 'SR27 Final Business Plan: Table 1 – Performance Commentary', 26 February 2026, p.129.

<sup>102</sup> Ofwat (2025), 'Key Dataset 1: Outcomes data', 19 June 2025.

4.7.27. WICS will continue to engage with Scottish Water as it develops the investment emissions measure.

### Carbon capture/sequestration

#### Scottish Water’s proposal

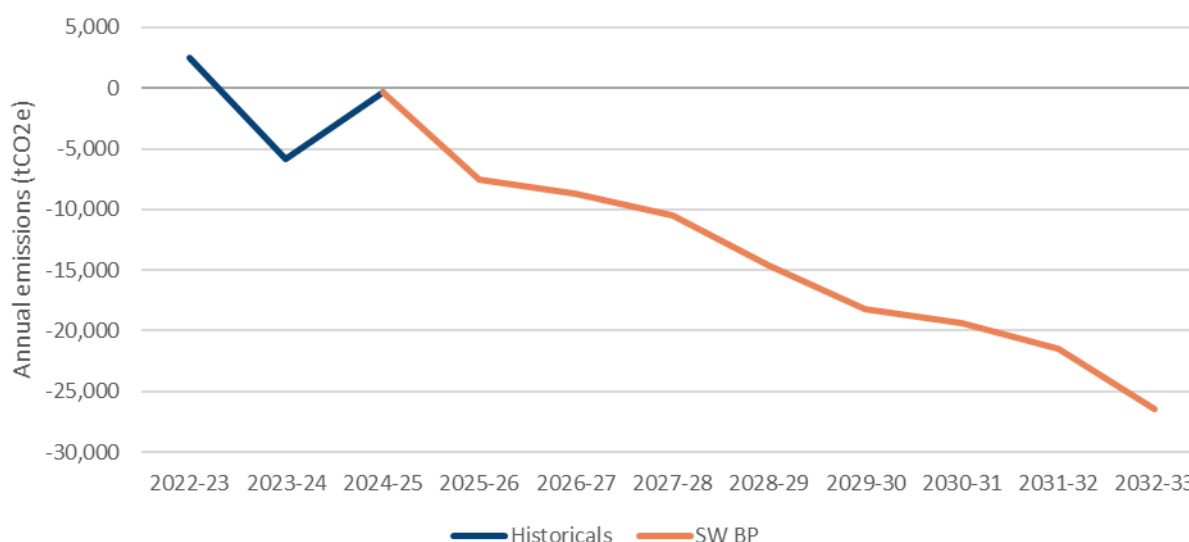
4.7.28. Scottish Water proposes to increase its carbon capture capacity by over 200% to 26,450 tCO<sub>2</sub>e in SRC27.

#### WICS assessment

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.40</b> Carbon capture/sequestration (tCO <sub>2</sub> e)	Partial	No	Yes

4.7.29. We propose to adopt Scottish Water’s profile for carbon capture, shown in Figure 45.

Figure 45: Carbon capture/sequestration



4.7.30. We welcome the ambition proposed in the carbon capture measure, recognising that Scottish Water has prioritised investment which delivers multiple benefits for customers and the environment, and that it is cost-effective to deliver carbon capture investment early to allow time for peatland and woodland to mature to their full carbon capture capacity.

4.7.31. We note that Scottish Water proposes to spend £14,510 per hectare on carbon capture in SRC27, which is significantly higher than both Scottish Water’s historical expenditure (£4,610/ha) and similar projects in England and Wales (£10,570/ha). As such, we are proposing a cost challenge on this expenditure. This is discussed further in Appendix 1.

4.7.32. We will continue to monitor the development of Scottish Water’s understanding of its land emissions.

### Biodiversity and nature-based solutions

#### *Scottish Water’s proposal*

4.7.33. On the interim biodiversity measure, Scottish Water proposes to increase its area of land positively managed for nature by 4,500 m<sup>2</sup> during the 2027-33 regulatory period. It has not proposed a performance profile on the final measure as it is still in development. WICS understands that Scottish Water plans to include pilot figures and an outline of the methodology for its final biodiversity measure in the 2025-26 Annual Return submission, before publishing it in December 2026 and adopting the measure for the start of the 2027-33 regulatory period.

#### *SEPA views*

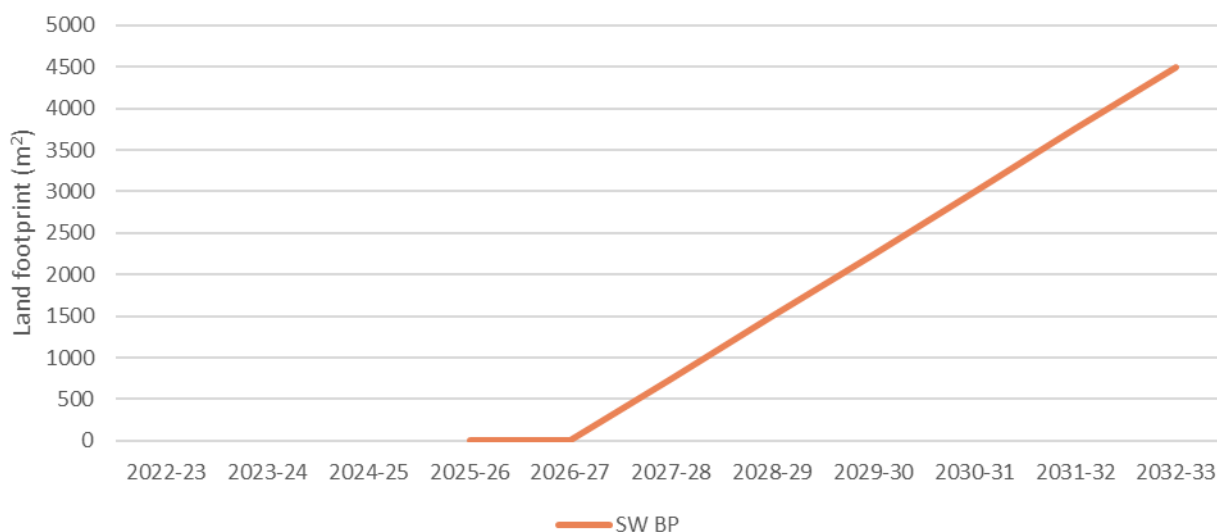
4.7.34. SEPA commented that it welcomes Scottish Water’s commitment to nature-based solutions but would like to see greater ambition in implementing blue-green infrastructure, which it considers should be the preferred option.

#### *WICS assessment*

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.41</b> Biodiversity and nature-based solutions (interim measure) (m <sup>2</sup> of land)	No	Unknown	Unknown
<b>1.42</b> Biodiversity and nature-based solutions (final measure)	N/A	N/A	N/A

4.7.35. Considering the novelty of the interim measure, the absence of historical data, and the expectation that the final measure will be the greater focus for SRC27, we are accepting Scottish Water’s proposed performance on the interim measure at Draft Determination. This profile is shown in Figure 46.

Figure 46: Biodiversity and nature-based solutions (interim measure)



*Areas for further development*

4.7.36. The final biodiversity measure is still being developed by Scottish Water in partnership with NatureScot.<sup>103</sup> As such, there is not yet sufficient evidence to challenge this measure. We will continue to monitor the development of the measure with a view to setting a profile in the Final Determination based on the information available at that time.

**Resource recovery**

*Scottish Water’s proposal*

4.7.37. Scottish Water has not proposed a profile for this resource recovery measure, as it expects to develop it as part of the West Central Bioresource project.

*WICS assessment*

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.43</b> Resource recovery	N/A	N/A	N/A

*Areas for further development*

4.7.38. Considering this metric has not yet been developed, we have not set a performance profile. We will continue to monitor and engage with Scottish Water’s development of the measure.

<sup>103</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Table 1 – Performance’, 26 February 2026, p.135.

## WICS draft proposals

4.7.39. Table 21 and Table 22 show WICS' proposals for carbon emissions, biodiversity, and resource recovery measures in SRC27, both without and with the impact of West Central Bioresource.

Table 21: WICS draft proposals for carbon emissions if West Central Bioresource does not proceed

Line ref	Level of service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
<b>1.34</b>	Net Zero Emissions (tCO <sub>2</sub> e)	325,480	319,416	212,637	-34.7%	-33.4%
<b>1.35</b>	Operational emissions (water) (tCO <sub>2</sub> e)	52,390	37,267	9,688	-81.5%	-74.0%
<b>1.36</b>	Operational emissions (wastewater) (tCO <sub>2</sub> e)	168,044	140,224	98,291	-41.5%	-29.9%
<b>1.37</b>	Percentage reduction in operational emissions compared to 2006-07 baseline	52%	62%	77%	46.6%	24.4%
<b>1.38</b>	Operational emissions (net emissions) (tCO <sub>2</sub> e)	220,084	168,782	81,529	-63.0%	-51.7%
<b>1.39</b>	Investment emissions (tCO <sub>2</sub> e)	105,395	150,634	131,108	24.4%	-13.0%
<b>1.40</b>	Carbon capture/sequestration (tCO <sub>2</sub> e)	-350	-8,708	-26,450	7457.1%	203.7%
<b>1.41</b>	Biodiversity and Nature Based Solutions (interim measure) (m <sup>2</sup> of land)			4,500		
<b>1.42</b>	Biodiversity and Nature Based Solutions (final measure)					
<b>1.43</b>	Resource recovery					
<b>1.46<sup>104</sup></b>	Scottish Water Net Operational emissions with preset conversion factors similar to Ofwat (tCO <sub>2</sub> e)		215,750			
<b>1.47<sup>105</sup></b>	Scottish Water investment intensity carbon factor		83%	51%		-38.6%

<sup>104</sup> Referenced in Scottish Water's Final Business Plan as 1.47

<sup>105</sup> Referenced in Scottish Water's Final Business Plan as 1.48

Table 22: WICS draft proposals for carbon emissions if West Central Bioresource proceeds

Line ref	Level of service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.34	Net Zero Emissions (tCO <sub>2</sub> e)	325,480	319,416	185,980	-42.9%	-41.8%
1.35	Operational emissions (water) (tCO <sub>2</sub> e)	52,390	37,267	9,688	-81.5%	-74.0%
1.36	Operational emissions (wastewater) (tCO <sub>2</sub> e)	168,044	140,224	71,291	-57.6%	-49.2%
1.37	Percentage reduction in operational emissions compared to 2006-07 baseline	52%	62%	82%	57.7%	33.9%
1.38	Operational emissions (net emissions) (tCO <sub>2</sub> e)	220,084	168,782	54,529	-75.2%	-67.7%
1.39	Investment emissions (tCO <sub>2</sub> e)	105,395	150,634	131,451	24.7%	-12.7%
1.40	Carbon capture/sequestration (tCO <sub>2</sub> e)	-350	-8,708	-26,450	7457.1%	203.7%
1.41	Biodiversity and Nature Based Solutions (interim measure) (m <sup>2</sup> of land)			4,500		
1.42	Biodiversity and Nature Based Solutions (final measure)					
1.43	Resource recovery					
1.46 <sup>106</sup>	Scottish Water Net Operational emissions with preset conversion factors similar to Ofwat (tCO <sub>2</sub> e)		215,750	92,816		-57.0%
1.47 <sup>107</sup>	Scottish Water investment intensity carbon factor		83%	51%		-38.6%

## 4.8. Asset health (1.44)

### Scottish Water's proposed performance

4.8.1. Scottish Water proposes a new metric, the Asset Health Tracker (AHT), based on its Equipment Health Index measure (EHI; developed in 2025).

Table 23: Scottish Water final business plan proposal – asset health

Line ref	Level of Service	2026-27 (SW forecast)	Year 6 2032-33	% Change from forecast year to year 6
1.44	Equipment/asset health index	29.26	29.59	1.1%

4.8.2. The proposed definition for AHT is: The proportion of assets within EHI (Calendar Age) bands EHI1 to EHI4, multiplied by a loading of A:B:C:D across EHI1 to EHI4 respectively for each of

<sup>106</sup> Referenced in Scottish Water's Final Business Plan as 1.47

<sup>107</sup> Referenced in Scottish Water's Final Business Plan as 1.48

four asset categories (Civils, MEICA, infrastructure (Asbestos Cement mains) and Infrastructure non-Asbestos Cement mains) and summed across the four asset categories by the respective percentage of long-term asset repair, refurbishment and replacement expenditure (as for the Long-Term Plan 2025) across the four asset categories where A:B:C:D is 1/3:1/3:1/6:1/6 for each of the four asset categories.<sup>108</sup>

4.8.3. The constituent EHI measure categorises assets into bands EHI1 to EHI4 based on their actual age as a percentage of their expected asset lifetime. There is a fifth band, EHIx, for assets with unknown age; however, these assets are excluded from the AHT.<sup>109</sup>

#### *Scottish Water's proposal*

4.8.4. Scottish Water proposes the Asset Health Tracker score to increase by 1.1% over the SRC27 period. The metric is forecast to peak in 2029-30 at 29.81 points, then steadily decline to 29.59 in 2032-33, with a more rapid decline over the next 3 regulatory periods. Scottish Water has explained, through the query process, that the maximum possible score is 33.33 (representing a case where all assets are in band EHI1 or EHI2), and the minimum score is 16.67 (representing a case where all assets are in band EHI3 or EHI4). A score above 25 means that more than half of the assets are in bands EHI1 or EHI2.

#### *WICS assessment*

Outcome	Evidenced	Consistent with expenditure	Stretching
<b>1.44</b> Equipment/asset health index	No	Unknown	Unknown

4.8.5. WICS does not consider that the Asset Health Tracker, as currently evidenced in the final business plan, provides sufficient and meaningful insight into the health of Scottish Water's asset base or how that is affected by asset maintenance expenditure. However, we recognise that this is a new and immature measure, based on incomplete data, and that it would require significant further development. We welcome Scottish Water's efforts to include a proposal in its final business plan; however, we do not accept the AHT measure and its forecast as proposed. We will work with Scottish Water to develop a more comprehensive asset health measure over the 2027-33 regulatory period.

4.8.6. WICS considers that the AHT measure does not yet provide adequate coverage of the whole asset base. It covers about 25% of the asset base, based on Modern Equivalent Asset Value

<sup>108</sup> Scottish Water (2026), 'SR27 Final Business Plan: Table 1 – Performance Commentary', 26 February 2026, p.138.

<sup>109</sup> Scottish Water (2026), 'SR27 Final Business Plan: Table 3b – Asset Health Commentary', 26 February 2026, p.5.

(MEAV), across the four asset categories included in AHT.<sup>110, 111</sup> Scottish Water has explained through the query process that it has been developing an EHI for its sewers, which cover about 65% of the asset base MEAV.<sup>112</sup> However, due to their very long asset lives, there is little movement in the EHI scores over a 6-year period, as shown in the business plan data table 4, and Scottish Water explains that including them would distort the AHT score. The AHT measure and its forecasts are primarily based on replacement expenditure and actual asset age (or inferred age where data gaps exist) – they do not account for assessed asset condition, the direct impact of repair and refurbishment on that condition, or other factors. Scottish Water recognises these limitations, has assigned a low confidence grade of D4<sup>113</sup> to the measure, and explains that it will aim to address these issues in future iterations of the constituent Equipment Health Index.<sup>114</sup>

4.8.7. WICS considers that the AHT measure is not yet well evidenced in terms of its proposed structure. The measure uses a weighting based on asset maintenance expenditure in Scottish Water's Long Term Strategy to combine the constituent scores for Civils, MEICA, Asbestos Cement water infrastructure, and non-Asbestos Cement water infrastructure into a single AHT score. Scottish Water explains this is to reduce any short-term reliance that might be more subject to change and to place greater focus (using expenditure) of the AHT on the categories with greater replacement and movement. Since WICS has not yet been able to review the strategy in sufficient detail, we do not agree with this structural feature of the proposed AHT measure. We are willing to consider having several AHT metrics for each asset category instead. Scottish Water has also explained a different weighting could easily be used but it will have different implications for the score. We consider further work is required to explore the potential structure, to identify and document all value judgements, and to better understand how they would influence the metric and consequently behaviour within Scottish Water.

4.8.8. Based on the available information in the final business plan, WICS cannot determine to what extent the AHT measure is consistent with the proposed expenditure for asset maintenance and to what extent the proposed profile is stretching. Regarding the former, Scottish Water explained that the change in the AHT score if asset maintenance changes would depend on the movement in the asset category and the availability of assets in EHI3&4 to replace them.

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<sup>110</sup> MEAV stands for Modern Equivalent Asset Value. It represents the equivalent replacement cost of the asset and should reflect both the most technically up-to-date new asset and the most technically up-to-date method of constructing that asset.

<sup>111</sup> Calculated based on Scottish Water's final business plan data tables 3a and 3b: MEAV of 'Modelled Assets' as a percentage of total MEAV for the asset base.

<sup>112</sup> Calculated based on Scottish Water's final business plan data tables 3a and 3b: MEAV of wastewater network infinite-life assets as a percentage of total MEAV for the asset base. Excludes sewer pumping mains which are 'Unmodelled Assets'.

<sup>113</sup> This represents the lowest reliability band (D) for data sources and an accuracy band (4) with high uncertainty with a range of +/-25% to +/-10%.

<sup>114</sup> Scottish Water (2026), 'SR27 Business Plan: Technical Appendix 008 – Investment Planning', 26 February 2026, Annex D on p.104.

Therefore, the link between AHT and asset maintenance expenditure not straightforward to evaluate.

4.8.9. Due to the immaturity of the measure, WICS does not consider it suitable to set a target for AHT as proposed, as it is unclear what incentives this would present for management behaviour within Scottish Water.

### WICS draft proposals

4.8.10. We consider that Scottish Water’s proposed AHT measure is not yet mature, sufficiently useful or meaningful in assessing the condition of the asset base and how that is impacted by asset maintenance investment. As such, we have not set a performance profile. We will work with Scottish Water to develop a more comprehensive asset health measure over the 2027-33 regulatory period.

## 4.9. Strategic tracker (1.49)

### Scottish Water’s proposed performance

4.9.1. Scottish Water’s proposed introducing a strategic tracker outcome, as shown in Table 24.

*Table 24: Scottish Water final business plan proposal – strategic tracker*

Line ref	Level of Service	2026-27 (SW forecast)	Year 6 2032-33
1.49	Strategic Tracker	0.01	22.7

4.9.2. Scottish Water defined the Strategic Tracker as “a summary statistic of the progress of outcomes of the 25 Year Investment Strategy. It uses Table 1 metrics to set movements for sub-outcomes in the 25 Year Investment Strategy, weighted by benefits from the Strategic Cost Benefit Analysis (SCBA), to form a single statistic. Progress for each sub-outcome then involves:

- Some direct equivalent metrics in Table 1 and to sub-outcomes in the 25 Year Investment Strategy;
- Some metrics in Table 1 are being used as proxies for the progress of sub-outcomes in the 25 Year Investment Strategy; and
- Expenditures of some metrics are being used as proxies for the progress of sub-outcomes in the 25 Year Investment Strategy.

4.9.3. Hence, this links Table 1 and the 25 Year Investment Strategy into a single statistic through the societal benefits weights.”<sup>115</sup>

### WICS draft proposals

4.9.4. WICS does not consider that this measure provides sufficient insight into Scottish Water’s performance to customers or stakeholders.

4.9.5. WICS has decided to exclude the Strategic Tracker in the outcomes Draft Determination.

## 4.10. Managing changes during the regulatory period

4.10.1. Some of the outcome measures may change during the regulatory period. For example, a number of measures related to the water environment and wastewater compliance are based on the current assessment rules. SEPA plans to introduce a new Environmental Performance Assessment Scheme (EPAS) to assess compliance. The Investment Planning and Prioritisation Framework (IPPF) will provide a mechanism to update certain outcome measures where appropriate. This will then be reflected in the delivery plan and/or the annual updates to the delivery plan. Section 10.2 provides further detail on IPPF.

## 4.11. Our draft decision

4.11.1. Based on the cost allowances covered in the following chapters, we expect Scottish Water to achieve the targets across the outcome measures as discussed above and summarised in Table 25.

4.11.2. We have accepted Scottish Water’s proposals for 21 outcomes and have updated the targets for 21 outcomes, requiring enhanced performance for 16 of them.

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<sup>115</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Technical Appendix 014 – Performance Monitoring’, 26 February 2026, p.31.

Table 25: Draft Determination of performance levels of outcomes

Line ref	Level of Service	2024-25 (actual)	2026-27 (SW forecast)	Year 1 2027-28	Year 2 2028-29	Year 3 2029-30	Year 4 2030-31	Year 5 2031-32	Year 6 2032-33	SW's proposal accepted
1.01	dCEM Developer Customer Experience Measure	82.9	83.3	83.4	83.6	83.8	83.9	84.1	84.2	Yes
1.02	nhCEM Non Household Customer Experience Measure	89.3	89.6	89.7	89.8	89.9	90.0	90.1	90.2	Yes
1.03	R-MeX Retailer Experience Measure		9.0	9.0	9.0	9.0	9.0	9.0	9.0	Yes
1.04	hCEM Household Customer Experience Measure	87.3	87.6	87.8	87.9	88.0	88.1	88.2	88.4	Yes
1.05	UKCSI UK customer Satisfaction Index	77.9	77.9	77.9	77.9	77.9	77.9	77.9	77.9	Yes
1.06	Communities experience measure (Not available)									
1.07	Percentage reduction of three-year average leakage		1.1%	2.5%	4.1%	6.6%	9.3%	12.4%	15.7%	No
1.08	Leakage reduction in areas with supply-demand balance deficit		1.5%	3.5%	5.2%	8.1%	11.4%	15.5%	20.4%	No
1.09	Percentage reduction of consumption at non-household premises		3.3%	4.0%	4.9%	6.7%	9.1%	12.1%	14.9%	Yes
1.10	Three-year average per capita consumption (litres/person/day)	179	178	174	172	170	168	167	165	No
1.11	Number of properties on the low pressure register	22	30	20	20	20	20	20	20	No
1.12	Unplanned interruptions greater than 6 hours, excluding 3rd party	5,047	7,000	5,000	5,000	5,000	5,000	5,000	5,000	No
1.13	Average minutes lost due to water supply interruptions (over 3 hours)	10.6	15.0	12.9	12.4	11.9	11.4	10.9	10.4	No
1.14	Repeat interruptions to water supply		240	220	210	200	190	180	170	No

Line ref	Level of Service	2024-25 (actual)	2026-27 (SW forecast)	Year 1 2027-28	Year 2 2028-29	Year 3 2029-30	Year 4 2030-31	Year 5 2031-32	Year 6 2032-33	SW's proposal accepted
1.15	Customers supplied by systems not capable of meeting demand during a worst historic drought		2,805,000	2,830,000	2,852,000	2,876,000	2,896,000	2,914,000	2,564,000	Yes
1.16	Customers supplied by systems not capable of meeting peak demand		876,000	883,000	891,000	913,000	921,000	926,000	876,753	Yes
1.17	Taste and odour contacts per 1,000 population	0.50	0.51	0.46	0.46	0.46	0.46	0.46	0.46	No
1.18	Discolouration and aeration contacts per 1,000 population	2.49	2.11	1.98	1.85	1.72	1.59	1.46	1.33	No
1.19	Estimated number of lead pipes remaining in public network		43,154	40,154	37,154	34,154	31,154	28,154	25,154	Yes
1.20	Indicator of lead in customers supply pipes		98.01%	98.04%	98.06%	98.08%	98.11%	98.13%	98.15%	Yes
1.21	Total drinking water compliance	99.93%	99.93%	99.95%	99.95%	99.96%	99.96%	99.97%	99.97%	No
1.22	Drinking water quality risks across all systems above long-term tolerable threshold.		5,201	5,116	5,125	5,064	4,933	4,801	4,568	Yes
1.23	Number of DWQR declared incidents	34	30	30	29	28	27	26	25	Yes
1.24	Number of internal sewer flooding incidents per 10,000 sewer connections	1.05	1.57	1.33	1.32	1.31	1.30	1.28	1.27	No
1.25	Number of properties at risk of internal sewer flooding per 10,000 sewer connections	1.17	1.47	1.35	1.31	1.28	1.24	1.20	1.17	No
1.26	Number of external sewer flooding incidents per 10,000 sewer connections	6.12	10.43	9.52	9.52	9.52	9.52	9.52	9.52	No
1.27	Number of areas at risk of external sewer flooding per 10,000 sewer connections	10.82	11.35	11.28	11.18	11.09	11.00	10.91	10.83	No

Line ref	Level of Service	2024-25 (actual)	2026-27 (SW forecast)	Year 1 2027-28	Year 2 2028-29	Year 3 2029-30	Year 4 2030-31	Year 5 2031-32	Year 6 2032-33	SW's proposal accepted
1.28	Percentage compliance with SEPA discharge permits	97.2%	96.4%	96.4%	96.4%	96.4%	96.4%	96.4%	96.4%	Yes <sup>116</sup>
1.29	Number of serious pollution incidents	5	8	5	5	5	4	4	4	No
1.30	The total number of pollution incidents from a sewerage asset affecting the water environment per 10,000km of sewer	34.4	34.8	34.2	33.7	33.1	32.6	32.0	31.5	No
1.31	Percentage unsatisfactory sludge disposal	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Yes
1.32	Unsatisfactory intermittent discharges	892	862	823	800	793	773	747	712	Yes
1.33	River water quality									
1.34	Net Zero Emissions (tCO <sub>2</sub> e) <sup>117</sup>	325,480	319,416	309,037	259,485	243,337	237,550	225,431	212,637	No
1.35	Operational emissions (water) (tCO <sub>2</sub> e)	52,390	37,267	34,335	23,698	21,760	20,985	10,774	9,688	Yes
1.36	Operational emissions (wastewater) (tCO <sub>2</sub> e) <sup>117</sup>	168,044	140,224	133,278	108,350	103,722	101,322	101,735	98,291	No
1.37	Percentage reduction in operational emissions compared to 2006-07 baseline <sup>117</sup>	52.3%	61.6%	63.7%	71.4%	72.8%	73.5%	75.6%	76.6%	No
1.38	Operational emissions (net emissions) (tCO <sub>2</sub> e) <sup>117</sup>	220,084	168,782	157,082	117,460	107,282	102,968	91,001	81,529	No
1.39	Investment emissions (tCO <sub>2</sub> e) <sup>117</sup>	105,395	150,634	151,955	142,025	136,055	134,581	134,429	131,108	No
1.40	Carbon capture/sequestration (tCO <sub>2</sub> e)	-350	-8,708	-10,531	-14,587	-18,200	-19,339	-21,508	-26,450	Yes
1.41	Biodiversity and Nature Based Solutions (interim measure) (m <sup>2</sup> of land)		0	750	1,500	2,250	3,000	3,750	4,500	Yes
1.42	Biodiversity and Nature Based Solutions (final measure)									

<sup>116</sup> We have adopted Scottish Water's proposal to maintain performance at 96.4% in the absence of Scottish Water and SEPA agreeing on an alternative forecast. However, we request that Scottish Water and SEPA resolve the misalignment on the proposed performance on this measure.

<sup>117</sup> The profiles for these measures do not include the effects of West Central Bioresource. If West Central Bioresource proceeds, WICS expects the resulting change to these measures to be reflected in the relevant delivery plans.

Line ref	Level of Service	2024-25 (actual)	2026-27 (SW forecast)	Year 1 2027-28	Year 2 2028-29	Year 3 2029-30	Year 4 2030-31	Year 5 2031-32	Year 6 2032-33	SW's proposal accepted
1.43	Resource recovery									
1.44	Equipment/asset health index									
1.45	Estimated number of lead pipes removed from public network		0	3,000	6,000	9,000	12,000	15,000	18,000	Yes
1.46 <sup>118</sup>	New net operational metric		215,750	213,241	159,675	154,009	148,884	99,523	92,816	Yes
1.47 <sup>119</sup>	Capital Measure		83%	80%	73%	67%	62%	56%	51%	Yes

<sup>118</sup> Referenced in Scottish Water's Final Business Plan as 1.47

<sup>119</sup> Referenced in Scottish Water's Final Business Plan as 1.48

# 5. Capital investment

## 5.1. Summary of chapter

- 5.1.1. This chapter sets out our assessment of Scottish Water's proposed capital investment programme for the 2027-33 regulatory period, including the evidence underpinning the business plan, our review of costs and deliverability, and our Draft Determination allowances.
- 5.1.2. Scottish Water proposed a £8,093 million investment programme (2024-25 prices), representing a material increase (around 35%) compared with the 2021-27 regulatory period. The programme spans multiple areas including water quality, water continuity, the water environment, growth and strategic projects such as West Central Bioresources.
- 5.1.3. We assess whether investment is well-justified, efficient and deliverable, supported by detailed evidence, benchmarking and external assurance. While we consider that the overall needs case for investment is generally robust and aligned with Ministerial Objectives, we identified gaps in the linkage between proposed outcomes and investment, as well as limitations in cost data and supporting evidence in some areas.
- 5.1.4. We have applied targeted cost challenges across a number of programmes where evidence is weaker or costs appear high relative to benchmarks (e.g. smart metering, asset maintenance activities, and specific enhancement programmes), while in other areas we require Scottish Water to deliver improved outputs for the same level of investment in line with the targets set in Chapter 4. We also include additional unallocated allowances to address regulatory priorities and enable Scottish Water to make further progress in customer priority areas, as highlighted in Chapter 3.
- 5.1.5. We consider there was evidence that could have supported further challenges to Scottish Water's proposed investment, especially recognising some gaps in Scottish Water's asset data. 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. We also require improvements in asset data in line with Scottish Water's programme for improvements by 2030.
- 5.1.6. We have undertaken a detailed assessment of major projects, including West Central Bioresources, concluding that the project need is established and aligned with policy

objectives, but that further evidence is required. The project is therefore included but subject to conditions.

5.1.7. Deliverability is a key consideration. We have assessed Scottish Water's proposed programme alongside external analysis, which indicates increasing risk at higher investment levels due to internal capacity and supply chain constraints. Our allowance balances ambition and deliverability, with ongoing monitoring required. However, we require an 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 on 1 September 2026.

5.1.8. Overall, we allow £7,946 million of capital investment (including additional allocations), based on a 1% annual productivity challenge. We consider that this achieves an appropriate balance between meeting long-term service and environmental objectives, the impact on charges, and the need to ensure the programme can be delivered efficiently (subject to Scottish Water's additional assurances).

5.1.9. This chapter is structured as follows:

- Our approach to investment;
- Scottish Water's proposed investment programme and evidence;
- Our review and common themes;
- Adjustments to specific investment areas;
- West Central Bioresources;
- Asset maintenance investment allowance;
- Assumptions across the programme;
- Additional investment allowances;
- Deliverability;
- Our draft decision; and
- Areas for Scottish Water to address in its response to the Draft Determination.

## 5.2. Our approach to investment

5.2.1. As set out in section 3.2, Scottish Water has translated the Ministerial Objectives into more detailed outcome measures. These detailed outcome measures have also been informed by customer priorities identified through customer research and by improvements needed to comply with drinking water quality and environmental regulations. The detailed outcome measures and the desired performance levels for those measures will impact the investment required over the 2027-33 regulatory period. This section sets out our proposals for investment expenditure to meet the outcomes set out in section 4.11.

5.2.2. Our Draft Determination considers investment in three categories:

- Asset maintenance: repairs, refurbishment, and replacement of existing assets to maintain current service levels. Scottish Water refers to maintenance investment as AR3 (asset repair, refurbishment and replacement);
- Growth: increasing water supply and wastewater capacity to support new homes, businesses and population movement; and
- Enhancement: delivering improvements in levels of service, the quality of drinking water, the quality of water returned to rivers and other water courses and resilience. Many of these improvements are driven by requirements set out in legislation; however, there is often a choice about how and when the improvement is made.

5.2.3. Assessing investment based on these categories for our Draft Determination helps to provide transparency into the investment customers pay for and the drivers that contribute to bill changes. It ensures that the same categories of costs can be compared over time and across companies, providing valuable insights into the level and reasonableness of costs, the level of future maintenance costs, and supporting efficiency analysis. This ensures customers pay no more than necessary for the vital investment required. Finally, it also enables investment to be monitored during the regulatory period, ensuring that Scottish Water is held to account for delivering the investment customers have paid for.

5.2.4. Our approach to investment for the 2027-33 regulatory period focuses on ensuring that Scottish Water's investment proposals are well-justified, efficient and deliverable. We cover each of these areas in turn below.

## Ensuring investment is well justified

### *Asset maintenance*

5.2.5. The WICS Final Determination for SRC21 marked a change in the regulation of asset maintenance compared to previous periods. Overall, the new approach placed greater focus on infrastructure resilience to address the long-term challenges facing the industry.

5.2.6. This change in approach has also been recognised by the Independent Water Commission in its final report on the review of the water sector in England and Wales (also referred to as 'the Cunliffe review', named after the chair of the Commission, Sir Jon Cunliffe).<sup>120</sup> One of the key recommendations in the final report is to establish a forward-looking infrastructure resilience framework and standards at a national level for England and Wales.

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<sup>120</sup> Independent Water Commission (2025), 'Independent Water Commission: Final Report', 21 July 2025.

5.2.7. We build on our approach in SRC21 by enhancing the focus on evidence, information and assurance. To justify asset maintenance, we required Scottish Water to provide the following:

- Bottom-up evidence for future asset maintenance needs and how they have been costed, including an investment baseline with clear descriptions of expected measurable outcomes across different asset categories, number, overall costs and unit costs of interventions, and how these investments will impact the condition and performance of the asset base;
- A measure (or measures) of asset condition across its asset base, translating as far as possible the impact of maintenance activities on asset condition into tangible consequences that customers will understand, and providing an improvement plan to address the data and knowledge gaps in its asset condition reporting and forecasting; and
- A roadmap for improving its knowledge of its asset base and long-term replacement costs.

5.2.8. To justify enhancement and growth investment, we required Scottish Water to provide standard information within investment cases for all projects and aggregated programmes of work which are in development and post-commitment, i.e. Scottish Water's internal Gate 50 onwards, when Scottish Water conducts a strategic options review.<sup>121</sup> The standard information covers aspects such as the need for investment, the range of options considered, cost-benefit analysis, accounting for non-financial costs, evidence that costs are efficient, and others – the full list is available in Appendix 1. We also applied a monetary threshold for how the information is grouped. If a project has total costs above £6 million (not just forecast costs for the 2027-33 period) or is novel or contentious, an individual investment case should be submitted. Projects less than £6 million and not novel or contentious can be grouped into programmes of work, and an investment case is required for each programme.<sup>122</sup>

5.2.9. We also placed additional requirements on two specific categories of projects:

- large projects, defined as projects with a total project value above £100 million; and
- Private Finance Initiative funded projects, recognising that Ministers have requested WICS undertake a full examination of Scottish Water's approach to

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<sup>121</sup> In the context of enhancement, we define a programme of works as comprising investment that shares the same characteristics, involves the delivery of the same group of investment outputs, involves repeatable work of similar construction requirements and risk profiles and the location of the investment is unknown. Examples include a programme to remove unsatisfactory intermittent discharges or combined sewer overflows.

<sup>122</sup> WICS (2024), 'Strategic Review of Charges 2027-2033: Final Methodology', 12 December 2024, pp.122-124.

establishing the options and costs of the 4 PFI contracts maturing in the 2027-33 regulatory period.

5.2.10. For these projects, we required Scottish Water to provide external assurance on the proposed approach and the robustness of the cost estimates.

5.2.11. For projects and programmes of work that involve an element of enhancement and growth which have not reached Gate 50 of Scottish Water’s internal development process (those considered “pre-development”), we required Scottish Water to explain its assumptions for the indicative costings and outputs in the business plan. This allows WICS to test the reasonableness of Scottish Water’s assumptions and conduct high-level benchmarking.

### Ensuring investment costs are efficient

5.2.12. We required Scottish Water to develop an efficiency work plan that sets out how it would evidence the efficiency challenge that it has applied to investment costs. The efficiency work plan set out several initiatives, including:

- Using external consultants to benchmark the direct construction costs within Scottish Water’s most significant cost models (which account for over 25% of the business plan cost inputs)<sup>123</sup> against equivalent models from UK water and sewerage companies of comparable scale and operating model;
- Benchmarking of Scottish Water’s indirect and on-cost levels against those of companies in England and Wales, supported by three external cost consultants; and
- Benchmarking Scottish Water’s investment cost forecasts against data from companies in England and Wales using Ofwat’s efficiency models for investment.

5.2.13. As set out in section 2.5, we required Scottish Water’s Board to provide assurance that the plan represents value for money by providing challenging proposals for operating and capital expenditure efficiency and service performance levels.<sup>124</sup> As set out in paragraph 2.5.3, we consider that the assurance in this area is not as strong as in other areas of the assurance statement.

5.2.14. Our assessment of efficiency involves reviewing this evidence, while also conducting our own analysis focusing on three main areas:

- WICS review of individual projects and proposed costings;
- External review of projects and programmes; and

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<sup>123</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Technical Appendix 012 – Efficiency’, 26 February 2026, p.13.

<sup>124</sup> WICS (2024), ‘Strategic Review of Charges 2027-2033: Final Methodology’, 13 December 2024, pp.62-65.

- Supplementing benchmarking analysis based on Ofwat’s efficiency models for investment with further models.

### Ensuring investment is deliverable

5.2.15. In addition to ensuring that investment is well-justified and efficient, we also need to be confident that the programme is deliverable. Deliverability is a broad concept that reflects both Scottish Water’s internal capacity to appraise, plan, and develop projects effectively and the external supply chain's ability to build them at an efficient cost. If the volume of projects is too large or grows too quickly, Scottish Water may be unable to give each project the level of scrutiny needed to ensure that the chosen solutions represent the best value for money. Equally, if specialist contractors, materials or equipment are in short supply, competition may be reduced, and customers may end up paying more than necessary for essential investment. Ensuring the investment programme is deliverable, therefore, means setting it at a level that Scottish Water and the wider supply chain can realistically deliver, which maintains quality, efficiency and value for customers.

5.2.16. In the 2021-27 regulatory period, Scottish Water has already signalled that it is facing increasing delivery pressures, including extended lead times for key materials such as motor control centre cabinets, difficulties securing specialist contractors, and constraints on progressing certain programmes of work, such as the removal of unsatisfactory intermittent discharges. Scottish Water has also noted challenges in the labour market, such as losing engineers and other staff involved in delivery to other sectors, such as energy, which is undertaking significant investment in renewable energy.

5.2.17. In light of these challenges, as part of the Board assurance statement covered above, we required Scottish Water’s Board to provide explicit assurance that its proposed investment programme is deliverable, taking account of internal capability and supply chain constraints. This assurance is a critical safeguard for customers, ensuring that the Board rigorously tests the plan’s deliverability before submission.

5.2.18. Furthermore, recognising the scale of the proposed investment and the uncertainties in the wider market, we also commissioned an external review of the size of the investment programme that Scottish Water could efficiently deliver over 2027-33. This is examined in more detail in section 5.10.

## 5.3. Scottish Water’s proposed investment programme and supporting evidence

5.3.1. As set out in section 2.4, Scottish Water’s final business plan proposes an investment programme of £8,093 million (all figures are in 2024-25 prices) over the 2027-33 regulatory period, representing a 35% increase in the size of the investment programme Scottish Water

expects to deliver over 2021-27. Therefore, Scottish Water is asking customers to fund a materially larger investment programme.

5.3.2. The investment spans 12 areas, each covered in a separate business plan technical appendix, as set out in Table 26.

*Table 26: Scottish Water's proposed investment*

Area	Investment (2024-25 prices; £m)	Relevant business plan technical appendix
Water quality	1,720	1
Water continuity	1,770	2
Water environment	1,914	3
Managing the quantity of flows	970	4
Enabling growth	551	5
Climate adaptation	13	6
Climate mitigation	59	7
West Central Bioresources	557	10
Customer and communities	21	15
Digital	107	17
Transformation and innovation	31	18
Support services	317	Not Applicable
Real price effects	60	12
<b>Investment total</b>	<b>8,093</b>	-

5.3.3. Scottish Water's business plan and Board assurance statement explain that this programme is justified, efficient and deliverable. Scottish Water provided the following evidence base to support this position:

- Project Investment Appraisals (PIAs) for 14 asset maintenance projects and for 47 enhancement and growth projects and project bridging documents;
- 50 Management Approach documents for asset maintenance investment in programmes of work and projects;<sup>125</sup>
- 25 evidence packs for programmes of work and groupings of projects where each project is less than £6 million in total value;
- Separate assurance reports, covering a range of areas including the quality and reliability of submitted data and commentary, the quality of the customer research and how it is reflected in the business plan, and others;

<sup>125</sup> This does not include an additional Management Approach (MA076 - Wastewater Studies), which was shared by Scottish Water through the query process.

- External consultants benchmarking direct construction costs against equivalent models used by water companies in England and Wales, which suggested Scottish Water’s costs were 4.2% lower than the industry average overall;
- External consultants benchmarking Scottish Water’s indirect costs, which suggested that Scottish Water’s costs in these areas were below the industry average; and
- Enhancement cost benchmarking, where Scottish Water concluded that its enhancement cost forecasts are below or in line with the set of modelled benchmarks that Ofwat used for its price review in 2024 (known as PR24).

5.3.4. We have reviewed the investment programme and the supporting evidence in detail. The following sections explain where we are persuaded by the evidence, where we are not persuaded and where further evidence is required. Those judgements are what determine our proposed allowance for the Draft Determination. The rest of this chapter is organised as follows:

- Our review of the investment programme and common themes;
- Proposed adjustments to the specific investment areas;
- West Central Bioresources;
- Asset maintenance investment allowance;
- Assumptions that apply across the whole programme, covering indirect costs, productivity improvements, real price effects and contributions for National Insurance;
- Additional investment allowances; and
- Deliverability.

## 5.4. Our review of the investment programme and common themes

5.4.1. We have reviewed the following evidence:<sup>126</sup>

- Investment cases for individual projects and proposed costings with a total value of £1,426 million;
- 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;
- Conducting our own benchmarking of around £1,610 million of investment, building on Ofwat’s efficiency models for investment; and

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<sup>126</sup> Note that there is an overlap in investment between these items.

- Commissioning an external review of projects and programmes from the engineering consultants, WSP, who reviewed investment with a total value of £2,905 million.

5.4.2. Appendix 1 provides the details of each of these reviews. Our adjustments based on these reviews are set out in section 5.5. We consider that several common themes arise from the reviews that we have grouped into three areas:

- The needs case for investment and linkage to outcomes;
- Cost assumptions and data availability; and
- Investment allocations with no tangible outputs.

### **The needs case and linkage to outcomes**

5.4.3. Across the projects and programmes reviewed, there is a consistent finding that the strategic and regulatory need for investment is generally robust and clearly articulated. In most cases, investment drivers are well grounded in statutory obligations, Ministerial Objectives and recognised asset risks.

5.4.4. However, we consider that Scottish Water does not have sufficient evidence of the linkage between the proposed outcomes and the investment required to deliver them, as detailed throughout Chapter 4. While it is important to evidence alignment with statutory or strategic drivers, demonstrating a strong link to the delivery of outcomes is crucial. It would allow Scottish Water to better articulate the benefits customers will receive from the investment and the consequences if Scottish Water does not deliver it. Overall, rather than reducing investment, we have set Scottish Water the challenge of delivering more for the same investment. We consider that this achieves an appropriate balance between price, investment, and service for current and future customers, in line with our statutory duties to protect both. We also consider this in line with the feedback from the confirmation pillar of the customer research (as set out in paragraphs 3.4.17 and 3.4.18).

### **Cost assumptions and data availability**

5.4.5. A common theme is that there are recurring weaknesses in the evidence used to support costs, efficiencies and value for money. Many programmes rely heavily on historical unit rates, modelling assumptions, or high-level allowances, with limited transparency into how these have been derived, challenged, or benchmarked. This is a common theme emerging from our review of investment programmes and the external review of the investment programme from our engineering consultant, WSP.

5.4.6. Scottish Water's external assurance on management approaches, which underpin the investment programmes for asset maintenance, also recognised some of the data

limitations.<sup>127</sup> The assurance recognised that Scottish Water has been on a journey of continuous improvement in its management approaches, but also highlighted the data theme that “significant data improvements are required across the board to increase confidence in these management approaches”.<sup>128</sup> Furthermore, the assurance highlights that “there is no overarching methodology developed for these management approaches (version 2). It is essential that the organisation develop a methodology as this will help to set out the process and assumptions so that Management Approach documents can be compared against an expected standard”.<sup>129</sup> Scottish Water acknowledges data gaps and has set out a programme to improve data by 2030. This is known as its Routemap to 2030.<sup>130</sup>

5.4.7. Scottish Water has also provided improvement plans with milestones and deliverables covering several areas of asset management, including:<sup>131</sup>

- 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.

5.4.8. There are, therefore, several important initiatives underway to improve asset management processes and information. These initiatives will enable Scottish Water to continue improving 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.

5.4.9. Therefore, we require Scottish Water to consolidate the list of actions from its various asset management improvement plans (including its Routemap to 2030) to allow WICS to monitor progress and provide this consolidated list as 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).

5.4.10. Furthermore, there is a discrepancy between the number of interventions reported in the business plan data tables (specifically ‘Table X’, a more detailed version of Table 5) and the number in the management approaches. We understand that the business plan data tables include only planned maintenance interventions, whereas the management approaches include both planned and reactive maintenance and inspections. While we recognise the

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<sup>127</sup> AtkinsRealis (2025), ‘Management approach assurance: assurance report’, 16 April 2025.

<sup>128</sup> AtkinsRealis (2025), ‘Management approach assurance: assurance report’, 16 April 2025, p.4.

<sup>129</sup> AtkinsRealis (2025), ‘Management approach assurance: assurance report’, 16 April 2025, p.55.

<sup>130</sup> Scottish Water (2020), ‘Asset Management Transformation Routemap’, July; and AtkinsRealis (2025), ‘Management approach assurance’, April 2020.

<sup>131</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Technical Appendix 008 – Investment Planning’, Annex D, 26 February 2026.

uncertainty inherent in reactive maintenance, we need to understand and report on the full programme. We have not reduced the proposed maintenance investment due to this data gap. However, we require Scottish Water to provide the forecast number of responsive maintenance interventions and inspections, which should have been reported in the business plan data tables, in line with the WICS methodology requirements by 1 September 2026.

5.4.11. Taking into account the assurance and our own review of management approaches, we could have further challenged the maintenance investment. However, we have instead set Scottish Water the challenge to deliver more for the same investment in these cases, as set out above.

#### **Investment allocations with no tangible outputs**

5.4.12. There are some investment areas that have no tangible outputs, including:

- Disinfection monitoring;
- Auto shutdown facilities at water treatment works; and
- Wastewater studies to inform investment for the River Basin Management Plan 4, covering the period from January 2028 to December 2033.

5.4.13. In some of these cases, such as wastewater studies, we have asked Scottish Water to provide more details on these outputs through the query process. However, in other cases, the investment projects are yet to be decided between Scottish Water and either SEPA or DWQR.

5.4.14. We see a higher risk of customer detriment in these areas, given that the tangible deliverables for the investment are not specified and, as such, there may be greater scope for Scottish Water to use some of these allocations to absorb cost overruns elsewhere in the programme.

5.4.15. Recognising this higher risk, we have allowed the investment in the Draft Determination, but require Scottish Water to work with either DWQR or SEPA to define how that allocation will be utilised. We will then monitor how this investment is utilised through our monitoring safeguard.

5.4.16. Appendix 1 (see sections 1.3 and 1.4) identifies missing outputs in other investment areas. We require Scottish Water to confirm these outputs.

5.4.17. We now cover the adjustments to specific investment areas, recognising these general themes.

## 5.5. Adjustments to the specific investment areas

5.5.1. We provide our adjustments to Scottish Water's proposed investment programme for each investment area. Appendix 1 provides our full assessment.

### Water quality and water continuity

5.5.2. The water quality and continuity investment areas account for £3,491 million of Scottish Water's proposed investment programme for the 2027-33 regulatory period.

5.5.3. We received feedback from DWQR in relation to the water quality investment area.

5.5.4. In its feedback, DWQR explained that it was broadly supportive of the approach taken by Scottish Water and generally agreed with the proposed business plan, which prioritises:

- Compliance with legal duties;
- Resilience of supplies with failsafe arrangements; and
- Acceptability of supplies to consumers.

5.5.5. DWQR explained that the proposed plan goes some way in addressing risk, but risk remains, and focus is required on the operation and maintenance of assets to protect public health.

5.5.6. DWQR set out the main drivers of investment, including:

- Improvements are associated with delivery of a revised disinfection policy, which will require significant improvement over the 2027-33 regulatory period and beyond;
- Inspection and repair of all treated water storage assets, which is the subject of an enforcement notice;<sup>132</sup>
- Maintaining and improving customer acceptability related to discolouration, taste and odour;
- Lead compliance;
- Addressing ageing and deteriorating assets in the face of climate change and more recent regulatory changes;
- Protection of public health in relation to raw water supplies, with concern that recent information shows the number of supplies significantly exceeding the investment plan.

5.5.7. DWQR issued an enforcement notice to develop and implement an action plan related to its risk assessment methodologies and understanding of significant risks, requiring improvements in these areas. In our engagement with DWQR, it reiterated these concerns

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<sup>132</sup> DWQR (2025), 'Water Industry (Scotland) Act 2002 Enforcement Notice Under Section 10 (1)', letter dated 1 December 2025.

and highlighted that Scottish Water may need to reprioritise investment during the 2027-33 regulatory period once Scottish Water has a better understanding of the significant risks.

5.5.8. DWQR's feedback evidences the pressures on Scottish Water to deliver more outputs and outcomes to address challenging statutory requirements and issues, for less money, recognising the affordability challenges it faces. This is why our focus is on encouraging Scottish Water to reinvest and redeploy any efficiencies achieved across its investment programme. Investment may also need to be reprioritised within the water quality programme during the regulatory period, recognising Scottish Water's work to deliver a revised disinfection policy and risk assessment methodologies.

5.5.9. We have reviewed water quality investment projects and programmes. From our review of selected projects from the final business plan, we identified two projects where we have some reservations:

- Carron Valley water treatment works at a cost of £19 million within the 2021-27 regulatory period. The needs case that Scottish Water presented identified the investment need as addressing risks related to halo acetic acids (HAAs). However, the proposed solution appears to address taste and odour at that site. We have discussed this project with DWQR and recognise that taste and odour are a longstanding issue at this site. As such, we have allowed the investment; however, we require Scottish Water to confirm the project needs and whether the solution relates to taste and odour only or to taste and odour and HAAs. If it is only taste and odour, we require confirmation that the proposed £19 million investment is consistent with a low-regrets pathway, should a further solution later be required to address HAAs at that site.
- Glendevon water treatment works at a cost of £54 million, of which £53 million is in the 2027-33 regulatory period. However, Scottish Water has not evidenced that all needs set out in its project investment appraisal will be addressed by the proposed solution. As such, we have concerns that not all benefits will be realised from the £54 million of investment, and that there is potential for cost escalation at this site. We have discussed this project with DWQR, which has recorded water-quality incidents at this site and agrees that investment is needed. As such, we have included the investment; however, we require Scottish Water to confirm the project's needs and that the full scope will be met from the proposed costs.

5.5.10. We will revisit both projects in our Final Determination and may remove them if Scottish Water is unable to provide the necessary assurances.

5.5.11. Scottish Water proposed an allowance for progressing two strategic projects for water quality and water continuity:

- Edinburgh, Lothians, Castle Moffat, Hopes - Resilience and Growth, where the purpose of this project is to address a current and worsening imbalance between available water supply and increasing demand in the Edinburgh and Lothian area. Scottish Water proposes costs of £7 million over the 2027-33 regulatory period.
- Daer water treatment works strategic replacement, where Scottish Water proposes to develop plans to replace the existing 75-year-old treatment works, which serves the south Glasgow and Lanarkshire area, with improved water treatment technology at a new works. Scottish Water proposes costs of £31 million for detailed design over the 2027-33 regulatory period.

5.5.12. Consistent with the overall themes in paragraph 5.4.12, WICS has concerns that the project outputs are neither well-defined nor tangible. Therefore, we require Scottish Water to confirm what it will deliver in relation to this expenditure over the 2027-33 regulatory period in its response to our Draft Determination. This will enable us to monitor expenditure and progress on these important strategic projects, ensuring customers can see progress towards the longer-term benefits that will eventually be delivered.

5.5.13. In the case of the Daer water treatment works strategic replacement project, Scottish Water has explained that its aim is to complete the detailed design in the 2027-33 regulatory period, with construction in the next investment period. We are concerned that the cost proposed of £31 million for the initial assessment of options and detailed design is higher than industry norms for detailed design, which we would normally expect to be in the range 4-6% for estimated capital cost, which Scottish Water explains is around £250 million to £300 million. Based on £300 million, we consider an allowance of £18 million (6% of £300 million) to be more appropriate for optioneering and detailed design, resulting in a cost challenge of £13 million.

5.5.14. From our review of asset maintenance programmes based on Scottish Water's management approaches, our benchmarking analysis and the external engineering review by our consultants, WSP, we consider that there is scope for a cost challenge relating to catch-up efficiency in the following areas:

- Treated water storage, where Scottish Water's unit costs for refurbishment and replacement are relatively high compared to those of companies in England and Wales. This is based on a benchmarking analysis by our consultants, WSP, who advised on a possible cost challenge of 12.5% to 25%. We apply a cost challenge of 10%, which is on the lower end of the proposed range, to mitigate against the risk of under-delivery if the cost challenge is set too high.
- Chlorine contact tanks, where the unit costs for refurbishment and replacement interventions are based on the unit costs for treated water storage, which are typically larger in size than chlorine contact tanks. Our engineering consultants,

WSP, consider that the upper end of unit costs for chlorine contact tanks is in line with industry standards for large, high-volume assets, which would be atypical for Scottish Water. WSP advised that a cost challenge of 7% to 10% is applied due to Scottish Water's reliance on a condition-based methodology, the pace of delivery mandated by DWQR regulations, and the aforementioned size assumption in costing. As such, we apply a 10% cost challenge to this investment area.

- Lead communication pipes replacement, where we consider that there is a scope for a 7% efficiency challenge, based on the results from our benchmarking of Scottish Water's costs against those of the companies in England and Wales. This also aligns with the results from Scottish Water's benchmarking in the final business plan.
- Leakage management equipment, where Scottish Water's analysis in the relevant management approach (MA073) suggests a £2,200 unit cost for a maintenance intervention; however, the business plan data suggests a unit cost of £4,900 (or 123% higher). We propose a conservative 10% challenge, recognising that we are setting Scottish Water a more demanding forecast for the leakage outcome measure and that there may be some interaction between the proposed investment and this measure (e.g. the maintenance of pressure-reduction valves).
- Dams and reservoirs, where the £1.1 million unit cost for standard MIOS resolution is high compared to industry standards.<sup>133</sup> This unit cost is based on historical rates for 157 MIOS interventions. We consider that the historical rates of 20 of those interventions should be categorised as what Scottish Water refers to "big ticket" MIOS as they are over £2 million and average £6.3 million in total costs. Including these 20 interventions in the calculation of the standard MIOS unit rate would overestimate it. Our engineering consultants advised on a cost challenge of between 8% and 12%. We consider a 5% cost challenge appropriate.
- Water pumping stations, where Scottish Water's analysis in the relevant management approach (MA058) suggests that the highest unit cost maintenance intervention could be £220,000 (for replacing a large pump of £180,000 and adding a 20% uplift for temporary works). However, the average unit cost in the business plan is £300,000 (36% higher than the highest unit cost estimate in MA058), and we would expect the proposed interventions to range in size. As such, we consider a 10% cost challenge to be reasonable and acknowledge that other factors, such as

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<sup>133</sup> Measures in the Interest of Safety (MIOS) are identified through independent engineer inspections as mandated by the Reservoirs (Scotland) Act 2011. Scottish Water distinguishes two types of MIOS interventions: standard and "big ticket", where the former includes "fixing an asset to ensure it can continue to operate and achieve its expected operational asset life" while the latter includes "renovation / overhaul of older or damaged equipment or replacement of parts of the asset to bring the asset back to a workable condition to extend the expected life of the asset". Scottish Water (2025) 'Summary Management Approach: Water Reservoir Safety MA004', 15 April 2025, pp.28-29, submitted with the final business plan on 26 February 2026.

differences in the price base and other activities, could explain some of the difference.

- 5.5.15. We note that our engineering consultants also recommended a cost challenge on the programme for maintaining chemical storage and dosing of between 2% and 4%. This is to reflect the potential for efficiencies on the early-stage programme cost estimates from the new enterprise delivery model. We have decided not to apply a cost challenge in this area, considering DWQR's priority on disinfection programme (as explained in paragraph 5.5.6). However, we will actively monitor investment in this area throughout the period and expect Scottish Water to outperform its final business plan forecasts.
- 5.5.16. Another area we have benchmarked and which has also been reviewed by our engineering consultants is the programme for rolling out smart meters to non-domestic properties. Scottish Water has demonstrated the need for investment; however, we consider its proposed costs are materially higher than those of companies in England and Wales, and it has not provided sufficient evidence to explain the material difference. We have decided to apply a 15% cost challenge for this programme, and we explain our reasoning in the following paragraphs.
- 5.5.17. Scottish Water proposes in its final business plan to spend c.£60 million to upgrade 130,000 meters at non-domestic premises with smart ones, and to spend c.£7 million to install 4,920 smart meters at first-time registered non-domestic properties during the SRC27 period.<sup>134</sup> This results in a unit cost for upgrades of £463 per meter and for new installations of £1,358 per meter, or a combined unit cost of £495 per meter (all 2024-25 prices). Scottish Water compares these costs to the median unit costs in England and Wales in Annex B of technical appendix 12 (TA012)<sup>135</sup> where it shows the significant difference to the median unit costs for meter upgrades (£88 per meter in 2022-23 prices, or £95 in 2024-25 prices) and for new meter installs (£414 per meter in 2022-23 prices or £448 in 2024-25 prices) in England and Wales.<sup>136</sup>
- 5.5.18. Scottish Water provided two main reasons for this significant difference. Firstly, Scottish Water considers that it currently lacks the economies of scale in meter deployment that companies in England and Wales achieve. Secondly, Scottish Water considers that its planned non-household meter upgrades are lower in volume and more geographically dispersed than those of companies in England and Wales. Scottish Water explains that Ofwat's modelling does not sufficiently account for these two factors, which explains the material difference to the benchmark.

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<sup>134</sup> As per final business plan data table 5, lines P-5363112530 and P-887-Planned respectively.

<sup>135</sup> Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 012 – Efficiency', 26 February 2026, p.123.

<sup>136</sup> See also Ofwat (2024), 'Water enhancement expenditure model PR24CA32: Metering', republished on 26 February 2025.

5.5.19. As part of the review undertaken by our engineering consultants, Scottish Water provided a more disaggregated breakdown of the associated programme costs by meter size. This information showed that 95% of smart meter installations involve small meters, which are more expensive, as are installations for medium-sized meters. These costs include the cost for the physical meter, installation, traffic management, and an uplift for installations in the north and island regions of Scotland. The total programme also includes costs for surveys and for the smart metering component (i.e. the smart technology). While our engineering consultant considered that these factors may explain part of the cost difference, they still concluded that a 10%-15% cost challenge would be reasonable, given the significant remaining cost difference.

5.5.20. Our view is that Scottish Water has not sufficiently evidenced its higher costs; as such, we apply a 15% cost challenge on this programme.

5.5.21. We consider that deploying smart meters to non-household customers requires careful implementation. For example, the cost of reading smart meters is currently borne by licence providers, but will eventually transfer to Scottish Water, the wholesaler, which will be responsible for owning and reading them. However, there are practical issues, which mean that licensed providers should still recover these costs for a period, including:

- Licensed providers will still have customers on a meter that needs to be read manually, which will gradually reduce over time as Scottish Water installs smart meters; and
- Licensed providers may have contractual arrangements with a meter reader, which may not lapse for a period.

5.5.22. Both issues may affect the unit cost of reading a meter during this transitional period.

5.5.23. Given these factors, we consider that licensed providers should still recover these costs until Scottish Water has installed a critical mass of non-household customers. We will work with Scottish Water to set the terms of the transitional period, including agreeing on and defining the threshold for Scottish Water to achieve critical mass. In the meantime, Scottish Water and individual licensed providers may agree on their own arrangements for Scottish Water to read smart meters on their behalf as a transitional measure. If this is the case, Scottish Water will need to ensure that the arrangements are consistent with level-playing-field considerations.

5.5.24. Scottish Water's deployment of smart meters will be a focus of our annual monitoring and reporting. We will also conduct a post-delivery evaluation of the programme to understand whether it has delivered the forecast benefits.

5.5.25. Table 27 sets out the Scottish Water final business plan proposal and our proposed Draft Determination allowance.

Table 27: Business plan investment versus draft allowance for water quality and continuity

Water quality and water continuity	Final business plan investment (2024-25 prices; £m)	Draft Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	2,408	2,343
Enhancement and growth	1,082	1,057
<b>Total</b>	<b>3,491</b>	<b>3,400</b>

5.5.26. Table 27 shows our proposed allowance of £3,400 million, representing a cost challenge of around £90 million.

5.5.27. We do not consider that this challenge materially impacts the outcome forecasts set out in section 4.11, recognising that the challenge relates to cost rather than investment activities, and we would expect Scottish Water to achieve the proposed outcomes at a lower cost.

### Water environment and quantity of flows

5.5.28. The water environment and quantity of flows investment area accounts for around £2,885 million of Scottish Water’s proposed investment programme for the 2027-33 regulatory period (excluding the proposed investment in the West Central Bioresources project of £557 million, which is covered in section 5.6).

5.5.29. We received feedback from SEPA regarding the water quality investment area. SEPA’s comments covered the following areas:

- For the Bathing Water Directive, SEPA noted that the business plan proposes a ‘study first, invest later’ approach. SEPA considered that delaying investment until the 2033-39 regulatory period risks breaching statutory duties and requested explicit recognition that the identified improvements will be progressed by reprioritising investment in the 2027-33 regulatory period.
- For Shellfish Water Protected Areas, SEPA requested that the plan include an allowance for studies, with the same request that improvements identified are progressed by reprioritising investment in the 2027-33 regulatory period.
- Integrated Urban Wastewater Management Plans should have an allocation for investment, and that blue-green infrastructure should be the preferred and default solution in line with the direction of the recast Urban Wastewater Treatment Directive.
- For the Urban Wastewater Treatment Directive, SEPA expects Scottish Water to remove a further 150 UIDs, excluding those carried forward from the River Basin Management Plan 3 (RBMP3).
- For the Water Environment and Water Services Act 2003, SEPA expects demand reduction, leakage reduction and metering to be considered alongside supply-side

solutions to mitigate the risks of breaching environmental protection duties, drought and ecological pressures.

5.5.30. SEPA's feedback highlights a desire for Scottish Water to deliver more investment to achieve better environmental outcomes. We have allowed Scottish Water additional water quality, water continuity and water environment investment of £118 million, which is not attached to particular projects or programmes. Scottish Water may decide to use some of this unallocated investment to address SEPA's concerns. Furthermore, investment within the water environment programme may need to be reprioritised during the regulatory period to address immediate priorities identified through the studies.

5.5.31. We have reviewed investment projects and programmes in relation to the water environment programme. From our review of selected projects from the final business plan, we have disallowed investment for two projects:

- Allanfearn Sludge Treatment Centre – Replacement of Digester 1 and 2, which has a proposed cost of £19.5 million over the 2027-33 regulatory period. We asked Scottish Water for clarification on the proposed costs for this project. In response, Scottish Water explained that the project would now be closed and incorporated into a wider Allanfearn wastewater treatment works project, which we understand is titled 'Allanfearn WwTW - Treatment and bioresource', that includes digester replacement.<sup>137</sup> We have therefore removed the Allanfearn STC digester replacement project from our investment allowance (associated investment of £19.5 million) to avoid double-counting.
- Pathhead wastewater treatment works at a cost of £8 million, of which over £6 million is in the 2027-33 regulatory period. In this case, Scottish Water has not provided sufficient evidence to support the need for investment, the selection of the proposed investment option, nor the adequacy of the capital cost estimate. Therefore, WICS considers that the evidential threshold for investment in Pathhead wastewater treatment works has not been met and, as such, we have disallowed this investment in our Draft Determination.

5.5.32. From our review of asset maintenance programmes based on Scottish Water's management approaches, our benchmarking analysis and the external engineering review by our consultants WSP, we consider that there is scope for a cost challenge relating to catch-up efficiency in the following areas:

- Secondary treatment processes, where the programme has been costed using Scottish Water's cost models applied to the planned volume of interventions. However, ChandlerKBS' benchmarking analysis, commissioned by Scottish Water,

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<sup>137</sup> This has the project reference 5363112312 and has a forecast cost of £55 million.

shows material cost variances to the industry median benchmark for two of the associated cost curves (cost variances of over 50%).<sup>138</sup> The programme unit costs are based on 'representative assets', whereas the associated management approach (MA043) lacks detail on variations in size, type, service, and actuation of the assets, which would impact their unit costs. Thus, we consider that these unit costs may not be representative of Scottish Water's assets covered by this programme. We apply a 10% cost challenge in this area, which aligns with the advice of our engineering consultants, who reviewed it and suggested that a 7%-10% cost challenge may be appropriate.

- Asset maintenance associated with former PFI assets that return to Scottish Water over the 2027-33 regulatory period. We reviewed these costs and included this maintenance programme in our engineering consultants' review of investment programmes. Scottish Water has limited information on the condition of these assets because it cannot inspect or survey them, as they are currently owned and maintained by the PFI companies. As such, Scottish Water has inevitably had to make high-level assumptions and rely on engineering judgement. We note that Scottish Water's proposed allowance includes a significant risk allowance to reflect the uncertainty in asset condition. Scottish Water has provided limited evidence on how these risks are quantified or differentiated from maintenance requirements derived through modelling. As such, we have questions over whether costs are duplicated and proportionate. However, we have not applied a further cost challenge to maintenance investment. We consider that these findings add further support to our cost challenge to the operating expenditure from returning PFI sites, as set out in paragraph 6.7.21.

5.5.33. We note that our engineering consultants also recommended a cost challenge on the programme for maintaining sewers of between 3% and 5%. This is to reflect the high number of assumptions used in estimating the costs (which are not clearly defined or sufficiently transparent) and the resulting uncertainties. We have decided not to apply a cost challenge in this area, as we consider it appropriate for Scottish Water to use assumptions when estimating costs where better data is not available. However, we will actively monitor investment in this area throughout the period and expect Scottish Water to outperform its final business plan forecasts.

5.5.34. Following the review of programmes for maintaining inlet works and for pass forward flow (PFF) compliance, we require the following information in Scottish Water's response to our Draft Determination:

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<sup>138</sup> ChandlerKBS (2025) 'R2309 Cost Model Assurance & Benchmarking', 7 April 2025, submitted with the final business plan on 26 February 2026.

- A further detailed explanation for how the unit costs for the maintaining inlet works programme have been derived, including how average asset and equipment costs were calculated, the data sources used, and the key factors influencing these estimates; and
- An update on Scottish Water’s engagement with SEPA on whether the proposed solution in the PFF compliance will meet the required need.

5.5.35. We also examined the UID programme, which involves removing 150 UIDs at a proposed cost of £269 million. Scottish Water has increased the number of UIDs it proposes to remove from 125 in its draft business plan, in response to SEPA's feedback that it should make more progress in this area, recognising Scottish Water’s strategy to remove all UIDs in Scotland by 2051.<sup>139</sup> Scottish Water was able to increase the number of UIDs, while reducing the proposed expenditure in this area by substituting UIDs that are more expensive to remove (e.g. the Water of Leith) for a larger number of those that are less expensive to remove.

5.5.36. In our engagement, SEPA has confirmed it still considers that Scottish Water should seek to remove 25% of the remaining UIDs in each regulatory period. However, it recognises that the total number of UIDs is likely to decrease from the current 892 due to improved information on these discharges.<sup>140</sup> As such, 25% of the UIDs is likely lower than the 223 implied by the current reported number of UIDs.

5.5.37. Scottish Water’s final business plan includes investment to remove 107 UIDs during the 2027-33 regulatory period (as part of RBMP4), in addition to the 43 UIDs it already planned to remove (as part of RBMP3).<sup>141</sup> However, it is apparent that SEPA considers that the 150 UIDs Scottish Water proposes to deliver over the 2027-33 regulatory period should not include the 43 UIDs that Scottish Water has already committed to removing by December 2027 as part of the RBMP3, as reflected in the improving urban waters routemap.

5.5.38. We have reviewed Scottish Water’s proposed costs for removing UIDs and asked our engineering consultants, WSP, to include it in their engineering review. We consider the average unit costs comparable to those observed in England and Wales. Our engineering consultants, WSP, considered that a potential cost challenge of 10%-15% could be applied, as costs are based on assumptions. However, we consider this a common theme across the investment programmes, and our general approach has been to require Scottish Water to deliver further improvements for the same investment. Furthermore, we consider there is a risk of cost escalation for the UID programme, given the complexity of some of the required

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<sup>139</sup> SEPA (2025), ‘Strategic review of charges 2027-33: draft business plan submission’, letter to Scottish Water dated 8 September 2025.

<sup>140</sup> Scottish Water reported 892 UIDs in table B8, line B8.6 of the Annual Return. Annual Return (2025), ‘AR25 – B tables’, November 2025.

<sup>141</sup> The 43 is the difference between the 54 Scottish Water forecasts to deliver by March 2027 and 97 that it forecasts to deliver by December 2027, as set out in the Water Industry Investment Group improving urban waters quarterly update for 2025-26, quarter 3. WIIG (2026), ‘WIIG 27-26-03’, 11 March 2026.

solutions, as we observed during the 2021-27 regulatory period. As such, we have not applied a specific cost challenge for UIDs in our Draft Determination.

5.5.39. In relation to the number of UIDs removed over the 2027-33 regulatory period, we considered increasing the number, recognising that the 150 UIDs include 43 that Scottish Water committed to removing as part of RBMP3. However, we consider that even the 150 that Scottish Water proposes to deliver over one regulatory period will be challenging for it to achieve. This is around three times the 54 UIDs Scottish Water forecasts for the 2021-27 regulatory period, and Scottish Water has reported supply chain and deliverability challenges in the current regulatory period, which have delayed delivery.<sup>142</sup> We discuss overall deliverability in section 5.10 and safeguards in Chapter 8.

5.5.40. As explained above, we have allowed Scottish Water additional water quality, water continuity and water environment investment of £118 million, which is not attached to particular projects or programmes. Scottish Water may decide to use some of this unallocated investment for UIDs to address SEPAs concerns.

5.5.41. We also consider that Scottish Water should plan to remove at least 43 UIDs over the period April 2033 to December 2033 (the first nine months of the SRC33 period). This would ensure that at least 150 UIDs are removed over the period January 2028 to December 2033, the period covered by River Basin Management Plan 4 (RBMP4).

5.5.42. Table 28 sets out the Scottish Water final business plan proposal and our proposed Draft Determination allowance.

*Table 28: Business plan investment versus draft allowance for water environment and flows*

Water environment and quantity of flows (excluding West Central Bioresources)	Final business plan investment (2024-25 prices; £m)	Draft Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	1,904	1,867
Enhancement and growth	981	981
<b>Total</b>	<b>2,885</b>	<b>2,848</b>

5.5.43. Table 28 shows our proposed allowance of £2,848 million, representing a cost challenge of £37 million.

5.5.44. We do not consider that this challenge materially impacts the outcome forecasts set out in section 4.11, recognising that the challenge relates to cost rather than investment activities.

<sup>142</sup> For example, Scottish Water presented an update to industry stakeholders where it reported '3<sup>rd</sup> party issues related to land, utility diversions and road closures resulting in programme delays' and 'significant number of projects with high complexity resulting in longer development periods, risking SRC21 delivery'. Scottish Water (2025), 'Improving Urban Waters Routemap: Scottish Government Investment Group', 2 April 2025.

## Growth

5.5.45. The growth investment area accounts for around £550 million of Scottish Water's proposed investment programme for the 2027-33 regulatory period.

5.5.46. We have reviewed investment projects and programmes in relation to the growth programme. From our review of selected projects from the final business plan, we identified three projects where we have some reservations:

- AVSE – Growth Seafield, which is a major strategic project to invest in Seafield wastewater treatment works (WwTW) to increase treatment capacity to accommodate forecast growth in the Edinburgh catchment area and has a forecast cost of £18 million over the 2027-33 regulatory period; and
- Nigg and Persley growth projects from the Aberdeen strategy, which set out the strategy to address the medium to long-term needs related to asset maintenance issues, together with forecast future growth through increased wastewater treatment capacity in the Aberdeen catchment area and have a forecast cost of £38 million in total over the 2027-33 regulatory period.

5.5.47. The delivery of these three projects is expected to extend into the 2033-39 regulatory period, given their scale. However, none of these projects has specific deliverables or objectives. As such, we have concerns that the allocated budget will not advance the strategic aims of these projects, and that customers may see only limited benefit from the expenditure. Therefore, we require Scottish Water to confirm what it will deliver in relation to this expenditure over the 2027-33 regulatory period in its response to our Draft Determination. This will enable us to monitor expenditure and progress on these important strategic projects, ensuring customers can see progress towards the longer-term benefits that will eventually be delivered.

5.5.48. From our review of other growth investment, we have reduced the business plan forecasts in the following areas:

- Part 3 strategic capacity for water and wastewater, where Scottish Water provided revised forecasts for expenditure through our query process, reducing the forecast from the business plan of £123 million to around £96 million over the 2027-33 regulatory period. We have therefore adopted Scottish Water's revised forecast.
- Service relocations, where we consider that Scottish Water has not evidenced the step increase in expenditure on service relocations based on actual expenditure between 2021-22 and 2024-25. Scottish Water did not explain whether the step increase is due to additional activities or cost pressures. As such, we consider that there is scope for a 26% cost challenge in this area, bringing Scottish Water's proposed expenditure back into line with actual expenditure over the 2021-27

regulatory period. We have also reduced the income Scottish Water expects to cover service relocation costs in our financial model, in line with this.

5.5.49. Table 29 sets out the Scottish Water final business plan proposal and our proposed Draft Determination allowance.

*Table 29: Business plan investment versus draft allowance for growth*

Growth	Final business plan investment (2024-25 prices; £m)	Draft Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	0	0
Enhancement and growth	551	514
<b>Total</b>	<b>551</b>	<b>514</b>

5.5.50. Table 29 shows our proposed allowance of £514 million, representing a cost challenge of £37 million.

### Climate change adaptation and mitigation

5.5.51. The climate change adaptation and mitigation investment area accounts for £73 million of Scottish Water’s proposed investment programme for the 2027-33 regulatory period.

5.5.52. From our review of asset maintenance programmes based on Scottish Water’s management approaches, our benchmarking analysis and the external engineering review by our consultants WSP, we consider that there is scope for a cost challenge in the following area:

- Carbon capture investment of £29 million, where we have compared Scottish Water’s proposed investment on a £ per tonne of CO2 equivalent basis to comparable projects undertaken by Scottish Water in the 2021-27 regulatory period and similar projects completed by the water and sewerage companies in England and Wales. Scottish Water’s costs are higher than both comparators, and we consider a 27% cost challenge appropriate.

5.5.53. Table 30 sets out the Scottish Water final business plan proposal and our proposed Draft Determination allowance.

Table 30: Business plan investment versus draft allowance for climate change

Climate change adaptation and mitigation	Final business plan investment (2024-25 prices; £m)	Draft Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	16	16
Enhancement and growth	57	49
<b>Total</b>	<b>73</b>	<b>65</b>

5.5.54. Table 30 shows our proposed allowance of £65 million, representing a cost challenge of around £8 million.

5.5.55. We do not consider that this challenge materially impacts the outcome forecasts set out in section 4.11, recognising that the challenge relates to cost rather than investment activities.

### Customers and communities

5.5.56. The customers and communities investment area accounts for £21 million of Scottish Water’s proposed investment programme for the 2027-33 regulatory period. This includes investment to improve the response to priority service customer groups during an incident, to improve customer access to Scottish Water’s assets for leisure purposes, to undertake marketing campaigns and customer research, and other areas. We asked Scottish Water how investment in this area compares with investment for the 2021-27 regulatory period, and it demonstrated that it is broadly in line with past investment. As such, we do not propose a cost challenge in this area.

5.5.57. Table 31 sets out the Scottish Water final business plan proposal and our proposed Draft Determination allowance.

Table 31: Business plan investment versus draft allowance for customers and communities

Customer and communities	Final business plan investment (2024-25 prices; £m)	Draft Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	0	0
Enhancement and growth	21	21
<b>Total</b>	<b>21</b>	<b>21</b>

5.5.58. Table 31 shows our proposed allowance of £21 million.

### Digital

5.5.59. The digital investment area accounts for £107 million of Scottish Water’s proposed investment programme for the 2027-33 regulatory period. This will be used to replace or maintain digital assets such as data centre systems, cloud products and systems, to ensure

cyber security and more. We have reviewed the management approach for this investment area and are satisfied that the cost estimates are reasonable. As such, we do not propose a cost challenge. This investment will be crucial to enabling Scottish Water to meet the productivity challenge we set in this Draft Determination.

5.5.60. Table 32 sets out the Scottish Water final business plan proposal and our proposed Draft Determination allowance.

*Table 32: Business plan investment versus draft allowance for digital*

Digital	Final business plan investment (2024-25 prices; £m)	Draft Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	107	107
Enhancement and growth	0	0
<b>Total</b>	<b>107</b>	<b>107</b>

5.5.61. Table 32 shows our proposed allowance of £107 million.

### Transformation and innovation

5.5.62. The transformation and innovation investment area accounts for £31 million of Scottish Water's proposed investment programme for the 2027-33 regulatory period. This will deliver transformation initiatives, innovation pilot programmes, and university research. We do not propose a cost challenge in this area, as this investment will be crucial to enabling Scottish Water to meet the productivity challenge we set in this Draft Determination.

5.5.63. Table 33 sets out the Scottish Water final business plan proposal and our proposed Draft Determination allowance.

*Table 33: Business plan investment versus draft allowance for transformation and innovation*

Transformation and innovation	Final business plan investment (2024-25 prices; £m)	Draft Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	0	0
Enhancement and growth	31	31
<b>Total</b>	<b>31</b>	<b>31</b>

5.5.64. Table 33 shows our proposed allowance of £31 million.

### Support services

5.5.65. The support services investment area accounts for £317 million of Scottish Water's proposed investment programme for the 2027-33 regulatory period.

5.5.66. We have reviewed investment projects and programmes in relation to the support services programme. Scottish Water proposes a project to construct a new scientific services laboratory in Edinburgh (Juniper House), with a forecast cost of £110 million over the 2027-33 regulatory period. Our assessment of the project's need and the proposed solution is that both are well-evidenced and appropriate. However, we have some reservations about the cost benchmarking evidence. In general, we consider the benchmarking report to lack transparency and clarity regarding the logic used to benchmark the modular build proposal for the Juniper House project against both other projects and against traditional construction. We have included the investment but require Scottish Water to undertake a more comprehensive benchmarking study, to be submitted to us, once the scope is further developed.

5.5.67. From our review of asset maintenance programmes based on Scottish Water's management approaches, our benchmarking analysis and the external engineering review by our consultants WSP, we consider that there is scope for a cost challenge relating to catch-up efficiency in the following area:

- Offices, property and estates investment of £66 million. Given the limited information and cost justification provided by Scottish Water in the relevant management approach (MA029), we consider that Scottish Water's forecast expenditure for office repairs and refurbishments is too high, given the unit costs presented in the management approach. Based on conservative estimates of repair and refurbishment costs, we consider that there is scope for a 20% cost challenge.

5.5.68. Table 34 sets out the Scottish Water final business plan proposal and our proposed Draft Determination allowance.

*Table 34: Business plan investment versus draft allowance for support services*

Support services	Final business plan investment (2024-25 prices; £m)	Draft Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	295	281
Enhancement and growth	22	22
<b>Total</b>	<b>317</b>	<b>303</b>

5.5.69. Table 34 shows our proposed allowance of £303 million, representing a cost challenge of around £14 million.

## 5.6. West Central Bioresources

5.6.1. Scottish Water proposes to invest in a new bioresource treatment centre, known as West Central Bioresources (WCB). The centre will replace the previous PFI site, which returned to

Scottish Water on 1 April 2026. The centre will also serve as a hub for bioresource treatment, recovery and/or disposal in Scotland, bringing in imports of biosolids (byproducts of wastewater treatment processes that can be used for energy generation and can generate income) from smaller sites. This aligns with Scottish Water’s bioresources strategy, developed in 2018.<sup>143</sup> WCB is a separate investment area given its scale and value, representing the largest project for Scottish Water since it was created in 2002.

## Background

5.6.2. When Scottish Water was created in 2002, it inherited 9 legacy PFI contracts. Under these contracts, third parties operate and maintain 21 facilities across Scotland for the provision of wastewater treatment and the subsequent treatment, recovery and/or disposal of the biosolids (formerly known as sewage sludge or sludge).<sup>144</sup> In exchange for these services, the third parties receive regular payments from Scottish Water. The contracts stipulate how the payments are calculated, covering aspects such as the inflation index applied to unit rates and the basis of charging (e.g. based on loads treated).

5.6.3. As of 30 March 2026, 7 of those contracts remained, with 2 contracts expiring during the current regulatory period (comprising 2 facilities) and 4 contracts expiring during the 2027-33 regulatory period (comprising 12 facilities) as outlined in Table 35.

Table 35: PFI sites<sup>145</sup>

Site location	Contract end date	SRC period of end date	Percentage of wastewater in Scotland treated at site	Percentage of sludge in Scotland treated at site
Daldowie	31/03/2026	SRC21	0%	34%
Dalmuir	14/06/2026	SRC21	9%	7%
Blackburn	29/04/2029	SRC27	0%	0%
East Calder	29/04/2029	SRC27	2%	0%
Newbridge	29/04/2029	SRC27	0%	0%
Seafield	29/04/2029	SRC27	13%	19%
Whitburn	29/04/2029	SRC27	0%	0%
Hatton	16/12/2029	SRC27	4%	3%
Banff/Macduff	25/06/2031	SRC27	0%	0%
Buckie	25/06/2031	SRC27	0%	0%
Lossiemouth	25/06/2031	SRC27	1%	2%

<sup>143</sup> Scottish Water (2018), ‘Scottish Water’s Bioresource Strategy’, report prepared by M2, June 2018.

<sup>144</sup> Around 40-50% of wastewater is treated by third parties under PFI contracts. 80% of the biosolids that remains from the wastewater treatment process is treated, recovered and/or disposed of by third parties under PFI contracts.

<sup>145</sup> Contract end dates are as per Annual Return 2024-25 Table E3a, line E3a.29. Percentage of wastewater and sludge treated are calculated using site data for population equivalent of total load received (line E3.3) and total treated tons of dry solids (lines E3.33 to E3.40) respectively compared to the totals in table A3, lines A3.23 and A3.26.

<b>Inverclyde</b>	29/09/2032	SRC27	1%	0%
<b>Meadowhead</b>	29/09/2032	SRC27	3%	7%
<b>Stevenston</b>	29/09/2032	SRC27	1%	0%
<b>Levenmouth</b>	30/10/2040	SRC39	3%	2%
<b>Total %</b>			<b>39%</b>	<b>75%</b>

5.6.4. Once the contracts expire, the facilities will return to Scottish Water’s operations.<sup>146</sup> This means that by the end of the 2027-33 regulatory period, 14 sites responsible for treating 35% of wastewater in Scotland and treating and disposing of around 70% of sludge in Scotland will have returned to Scottish Water.

5.6.5. The Daldowie bioresource treatment centre returned to Scottish Water on 1 April 2026, following the expiry of the PFI contract. As shown in Table 35, the Daldowie site is Scotland’s largest bioresource facility, responsible for the treatment and disposal of around a third of the biosolids in Scotland.

5.6.6. The Daldowie site is served by the Greater Glasgow sludge main, which is a 32 km pipeline that conveys sludge from 5 wastewater treatment works in Glasgow.<sup>147</sup> This main accounts for around 70% of the sludge treated at the site. The remaining material is transported by tanker from other wastewater treatment works in the west of Scotland and central Scotland.

5.6.7. Scottish Water explains that the site’s operational resilience has deteriorated over recent years due to outdated technology, which has resulted in decreased output and higher costs. As such, the plant currently processes only half the amount of sludge it is originally designed to treat. The reduced throughput puts more pressure on the bioresource storage tanks which have the capacity to hold 3 days’ worth of sludge. Scottish Water explains that it has imposed intake restrictions for 44, 53, 28 and 58 days in 2022, 2023, 2024 and 2025 respectively.<sup>148</sup>

5.6.8. The current site treats the sludge and then dries it using six thermal dryers to produce a waste-derived fuel. Scottish Water explains that the site has the highest natural gas consumption across its asset base, resulting in 27,000 tonnes of carbon dioxide equivalent (CO<sub>2</sub>e) per annum. Once the sludge is dried, it is disposed of through two main routes:

- Selling the dried biosolid pellets to a cement works under an energy-from-waste agreement, which was signed at the time of the original PFI contract in 2002; and

<sup>146</sup> Scottish Water has an option to extend the PFI contract covering Meadowhead, Stevenston and Inverclyde (MSI) when it expires in 2032 until 2037. Scottish Water (2026), ‘Business plan 2027-2033 Technical Appendices: Water Environment’, February 2026. Scottish Water (2018), ‘Scottish Water’s Bioresource Strategy’, report prepared by M2, June 2018, p.91.

<sup>147</sup> Scottish Water (2025), ‘Stage 3a: outline investment appraisal level 1 – West Central Bioresource’, June 2025, p.9.

<sup>148</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Technical Appendix 010 – West Central Bioresources’, 26 February 2026, p.15.

- Sending the treated biosolids to land restoration, which entails remediating derelict land and former industrial sites.

5.6.9. Scottish Water explains that the contract with the cement works ends with the expiry of the PFI contract in 2026, and the land restoration routes are expected to reach capacity in 2027-28. As such, these two disposal routes, which underpin the thermal drying model, will cease to be available at scale after 2027-28.

5.6.10. In the absence of these outlets, application to agricultural land becomes the main outlet in the near term. However, there are challenges associated with applying biosolids to land, including securing the required land bank.

5.6.11. Scottish Water identifies three options for the site:

- Investment to replace the dryers;
- Investment to upgrade the facility to enable liming; and
- Investment in a new advanced anaerobic digestion (AAD) facility on the site of the existing Daldowie bioresource facility.

5.6.12. Scottish Water's business plan proposes the third option, which forms part of a wider strategy for bioresources. This strategy is based on consolidating sludge treatment at 2-3 dedicated bioresource facilities in Scotland.<sup>149</sup> The proposal for the third option is based on Scottish Water's assessment of the options in terms of costs, carbon emissions, risks and benefits. This assessment determined that the proposed option for an AAD facility at Daldowie has the lowest Net Present Cost over 60 years (accounting for capital and operational costs as well as expected revenue generated from biogas production), the lowest whole-life carbon over 60 years, the least level of assessed risk, and is one of the options with the highest level of benefits. In contrast, the options with drying and liming would require investment in legacy technology, which is more costly to run, has more emissions, is less future-proof with regards to potential future environmental legislation, would produce higher volumes of treated bioresource and would consequently require more landbank for its disposal at a time when available landbank is reducing according to Scottish Water.

5.6.13. This project, West Central Bioresources, is the largest for Scottish Water since its creation in 2002, with a forecast cost of around £560 million. It involves both a new site and upgrades to other wastewater treatment works to enable the export of sludge to the West Central Bioresources site via tanker, as shown in Table 36.<sup>150</sup>

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<sup>149</sup> Scottish Water (2018), 'Scottish Water's Bioresource Strategy', report prepared by M2, June 2018.

<sup>150</sup> Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 010 – West Central Bioresources', 26 February 2026, p.76.

Table 36: West Central Bioresources investment

Description	Investment (2024-25 prices; £m)
West Central Bioresources	423.5
Land restoration mitigation - liming sites	5.6
West Central System - Cupar	4.8
West Central System - Dunfermline	4.8
West Central System - Kirkcaldy	4.8
West Central System - St Andrews	4.8
West Central System - Cumnock	14.3
West Central System - Dalderse	9.5
West Central System - Girvan	4.8
West Central System - Kinniel Kerse	9.5
West Central System - Meadowhead	9.5
West Central System - Stirling	4.8
West Central System - Screening	47.5
West Central System - Greater Glasgow Sludge Main	9.5
<b>Total investment</b>	<b>557.4</b>

5.6.14. On 7 November 2025, the Cabinet Secretary for Climate Action and Energy set out the Scottish Government’s policy position for West Central Bioresource.<sup>151</sup> The letter asks Scottish Water to consider alternative financing options consistent with the requirements for major projects in the Scottish Public Finance Manual, to ensure appraisal is undertaken to HM Treasury Green Book standards, and to explore whether the project’s objectives could support a Just Transition at Grangemouth. Scottish Ministers requested assurance from WICS that Scottish Water’s options appraisal is consistent with this policy position, and assurance from SEPA that the project will deliver good environmental outcomes.

5.6.15. We provide our assessment of the project in the following section. Our detailed review is set out in Appendix 4.

## Our assessment of West Central Bioresources

### *Project need, costs and benefits*

5.6.16. Based on our review and the external review from our consultations, WSP, we consider that Scottish Water has evidenced the need for the West Central Bioresources project. Scottish Water has demonstrated that the need aligns with the SRC21 and SRC27 Ministerial Objectives for growth, the circular economy, and climate change (particularly the achievement of the net zero target).

<sup>151</sup> Scottish Government (2025), ‘Letter from the Cabinet Secretary for climate action and energy’, letter dated 7 November 2025.

- 5.6.17. Scottish Water has evidenced that it has considered different options for the provision of bioresources treatment and disposal, following the return of the Daldowie site. This ranges from replacing the thermal dryers at the current site to multiple new centres and centralised bioresource treatment and disposal across different locations (Daldowie, Kinneil Kerse, and Grangemouth).
- 5.6.18. We further questioned the viability of Grangemouth as a site and highlighted potential benefits from proximity to the wider bioresource supply chain, in particular, the potential to produce sustainable aviation fuel from bioresources. However, we are satisfied with Scottish Water’s assessment that these benefits are uncertain due to these markets being less mature and could be realised regardless of where the AAD site is constructed, through the transportation of biosolids produced from AAD.<sup>152</sup> Our engineering consultants, WSP, also shared this view.
- 5.6.19. The forecast cost of the new bioresources treatment centre is £420 million, excluding £140 million in upgrades to other wastewater treatment works to enable the export of biosolids to the new treatment centre. The £420 million cost estimate in the business plan appears to be in line with available benchmarks; however, the facility’s design is still under development, so there is some uncertainty about the final cost estimate before construction commences. We therefore require Scottish Water’s cost estimate in the Stage 4 Project Investment Appraisal as set out in section 8.3.
- 5.6.20. There is also uncertainty over whether Scottish Water will be able to offset some of the costs of WCB. In recent months, Scottish Water has also highlighted the opportunity to apply for funding through the Green Gas Support Scheme (GGSS), which provides financial incentives for new anaerobic digestion plants to inject gas into the UK grid. Such incentives would reduce the costs to customers.
- 5.6.21. Regarding the consideration of benefits, Scottish Water demonstrates in the Stage 3a PIA that it has considered the whole-life (60-years) carbon values of the 5 main technical solution options for both embodied and operational emissions. Appendix 3 of that document also shows the assessment of the options against various criteria, including benefits such as energy capture and generation, as well as the quantity and quality of bioresource output. However, there seems to be a limited number of other wider and also non-financial economic benefits considered outside of energy capture and generation.
- 5.6.22. Scottish Water has provided evidence that it has considered risk. However, there are three areas where Scottish Water should provide further evidence:
- The need for more landbank for the disposal of the treated biosolids;

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<sup>152</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Technical Appendix 010 – West Central Bioresource’, 26 February 2026, p.28.

- Whether it has fully considered “headroom above the required capacity” in the project designs, to ensure the asset is future-proofed; and
- The availability of land at the Daldowie site to accommodate potential future expansion of the AAD facility, e.g. if another treatment stream or future bolt-on technologies are required. This is based on the available area shown in the provisional site layout design in Figure 16 of technical appendix 10, and the potential area required by future bolt-on technologies and associated ancillary assets.

### *Mutual Investment Model (MIM)*

5.6.23. The policy position of the Cabinet Secretary for Climate Action and Energy (see paragraph 5.6.14) establishes how Scottish Water should appraise the options for this project to deliver on the Scottish Government’s priorities, specifically enabling growth, tackling the climate emergency, and ensuring high-quality, sustainable public wastewater services. Given the capital cost of West Central Bioresources, the Cabinet Secretary requested that the project be considered for the Mutual Investment Model (MIM). The letter requires WICS to provide assurance that it meets the requirements of the policy position, including that Scottish Water has considered the project for the MIM.

5.6.24. A MIM spreads the upfront investment cost over the asset’s lifetime. It involves contracting with the MIM provider, which is responsible for financing, building and operating the asset in return for an annual service fee. It is similar to a Private Finance Initiative (PFI) contract in that it aims to ensure that the borrowing associated with the infrastructure asset does not count as Government debt – i.e. is ‘off balance sheet’. The main difference between a PFI and an MIM is that the latter involves the public body taking a minority stake in the holding company (as a special purpose vehicle) responsible for the investment in the asset. Profit sharing and enhanced governance from the issuer address some of the criticisms of PFI.

5.6.25. The Office for National Statistics (ONS) applies Eurostat’s guidance and criteria to determine whether an asset and its associated financing are classified as private or public. If it is the latter, the financing for the project will be counted as Government debt. As part of the assessment, ONS examines construction, availability and demand risk. For off-balance-sheet classification, the private sector must bear these risks. ONS reviews classification on an ongoing basis, meaning balance sheet classification can change over the lifetime of the MIM.

5.6.26. Given these factors, MIM has been used for projects with the following characteristics:

- Projects that are standardised and non-complex, allowing construction risk to be transferred to the private sector;
- Project outcomes are fixed over the lifetime of the asset; and
- Large projects (>£500 million), to attract international investors and contractors.

5.6.27. Therefore, to be viable, a MIM for WCB would need to meet these criteria in a way that provides high confidence that the ONS would classify the financing as an off-balance-sheet item and that it would remain so over the lifetime of the MIM. If this were not the case, then the MIM would count as Scottish Government debt. In this scenario, it is unclear who would bear the risk of reclassification and the consequences if the borrowing is counted towards Scottish Government debt either at the outset or over the duration of the MIM.

5.6.28. Scottish Water has commissioned two consultancy reports as part of the evidence on the suitability of the MIM model for WCB.

- EY Parthenon report providing an initial assessment against the potential classification for a MIM;<sup>153</sup> and
- EY Parthenon market engagement, testing market appetite for a MIM.<sup>154</sup>

5.6.29. The first report found that a MIM can be structured so as not to trigger the automatic on-balance-sheet provisions in Eurostat guidance.<sup>155</sup> However, this was an initial view, and further work will be required to develop the project scope and risk allocation. The second report documented interviews with project sponsors, senior finance providers, and contractors to test market appetite for an MIM for an AAD facility. There was an appetite; however, an unwillingness to accept full fixed-price construction risk.<sup>156</sup> EY Parthenon concluded that a form of shared-risk procurement could be challenging to accommodate within the requirements for an off-balance-sheet classification.<sup>157</sup>

5.6.30. Scottish Water has also compared the cost of WCB delivered through a MIM with the cost of Scottish Water self-funded delivery over 60 years on a net present cost basis. Scottish Water's analysis shows that self-funded delivery costs £1,097 million in 2024-25 prices, compared to £1,580 million under a MIM.<sup>158</sup> This suggests that a MIM would have a premium of around £480 million or 40%.

5.6.31. The Scottish Government has examined the use of a MIM for the dualling of the A9; however, it was recently discounted, recognising that the cost of a MIM is around 28% higher than the alternative Scottish Government capital-funded project. As such, it was concluded that MIM contracts for the A9 dualling programme would deliver poorer value for money than capital-funded projects.<sup>159</sup>

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<sup>153</sup> EY Parthenon (2025), 'Project Farm 2', 26 August 2025.

<sup>154</sup> EY Parthenon (2026), 'Scottish Water Mutual Investment Model', 30 January 2026.

<sup>155</sup> EY Parthenon (2025), 'Project Farm 2', 26 August 2025, p.7.

<sup>156</sup> EY Parthenon (2026), 'Scottish Water Mutual Investment Model', 30 January 2026, p.10.

<sup>157</sup> EY Parthenon (2026), 'Scottish Water Mutual Investment Model', 30 January 2026, p.12.

<sup>158</sup> Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 010 – West Central Bioresource', 26 February 2026, p.45.

<sup>159</sup> Scottish Parliament (2026), 'Official Report: Meeting of the Parliament Wednesday 14 January 2026', 14 January 2026.

- 5.6.32. Scottish Water's assessment of the additional cost of an MIM for WCB also exceeds the 28% additional cost identified in relation to the A9, where the Scottish Government concluded that MIM contracts would deliver poorer value for money than capital-funded projects. While the A9 is not directly comparable to WCB, it provides a relevant caution when considering whether the additional cost of a MIM is justified.
- 5.6.33. Our engagement with the Scottish Futures Trust has reinforced the importance of the classification risk. In particular, it highlighted the uncertainty over whether the project could achieve off-balance-sheet classification at the outset and maintain it over the asset's lifetime. Without sufficient confidence in classification and risk allocation, a MIM may not achieve its intended purpose.
- 5.6.34. Overall, we are satisfied that Scottish Water has considered a MIM as part of the project appraisal for WCB. Scottish Water has provided evidence on cost, market appetite, risk allocation and classification risk, and its Board has approved the proposal not to deliver WCB through a MIM. On the evidence currently available, we consider Scottish Water's conclusion that self-funded delivery is the preferable option for customers to be reasonable.
- 5.6.35. On this basis, we have made a conditional allowance for self-funded delivery of WCB within the investment programme, subject to the cost challenges outlined above and in the following section on operating expenditure. While WICS remains open to considering alternative funding and delivery models at a strategic level in future SRCs, we do not consider the evidence to support further development of a MIM for WCB.

#### *Assurance against the requirements of the Scottish Ministers' policy position*

- 5.6.36. As explained above, WICS is required to provide assurance against the requirements of the policy position on West Central Bioresources.
- 5.6.37. Table 37 provides our assessment and draft assurance against each of the requirements from Scottish Government's policy position detailed in paragraph 5.6.23 above.
- 5.6.38. Our assessment is colour-coded as follows.
- Green: requirement met;
  - Amber: requirement partially met or in progress; and
  - Red: requirement not sufficiently met.
- 5.6.39. Overall, WICS considers Scottish Water has met the majority of requirements. However, several areas require further evidence from Scottish Water to be provided between the Draft Determination and the Final Determination. We will provide our final assurance statement as part of the Final Determination.

Table 37: WICS draft assurance against Scottish Government’s requirements

Requirement from policy statement	WICS assurance	Assurance commentary
Consider how options can support the Just Transition (Grangemouth)	Requirement met	We consider that Scottish Water has sufficiently demonstrated it has appropriately considered Grangemouth (or Kinneil Kerse in immediate proximity) as a site for the AAD facility to support the Scottish Government’s Just Transition plan for that industrial cluster. The proposed solution can also produce precursors for Sustainable Aviation Fuel (SAF) for onward transport to Grangemouth for upgrading or refining.
Align with HM Treasury’s Green Book	Requirement met	While the appraisal is not presented as a traditional Green Book investment case, all relevant Green Book information requirements are met.
Align with Infrastructure Investment Plan and draft Bioenergy Policy Statement	Requirement met	We consider the proposed solution to be aligned with the relevant IIP strategic themes and largely aligned with the IIP investment hierarchy. We also gain assurance from our engineering consultant’s review that the proposed WCB solution appropriately aligns with the Scottish Government’s draft Bioenergy Policy Statement and draft Infrastructure Strategy (2027-2037)
Support the circular economy strategy and achieving the 2045 net zero target	Requirement met	The primary investment need to be addressed by the WCB project is to maximise the value from bioresource, which is a core principle of a circular economy and will support Scottish Water in achieving its net zero target through energy generation and lowering carbon emissions.
Align with SPFM section ‘Funding and procuring’ for major investment projects	Requirement partially met	<p>We consider this is largely met, subject to Scottish Water confirming that the project roles, responsibilities, and delegated authorities are clearly identified, agreed, and documented, with roles set out in the investment case. On this basis, we consider this element partially met at this stage.</p> <p>The WCB appraisal has considered a MIM as a type of public-private partnership, and Scottish Water has received expert advice on the suitability of a MIM for WCB. Scottish Water has also documented and evidenced the reasons why it is not proposing to deliver WCB through a MIM, and this proposal has been approved by its Board as part of the business plan submission.</p>
Consider delivery through a MIM	Requirement met	As above. WICS is assured that Scottish Water has undertaken appropriate detailed analysis of the costs and risks associated with a MIM delivery option, based on which it concludes self-

Requirement from policy statement	WICS assurance	Assurance commentary
		delivery is the preferable option. Overall, we consider that Scottish Water's assessment that self-funded delivery is in customers' best interests is reasonable.
Represent Value for Money	Requirement partially met	The cost estimate in the business plan appears to be in line with available benchmarks; however, the facility's design is still under development, so there is some uncertainty over the final scope and project costs. This is one of the reasons for adopting a conditional charge cap for this project.
Consider economic impact (whole-life costs and how capital costs can be shared between current and future customers)	Requirement met	Scottish Water's analysis includes estimates of capital and operating costs over 60 years in a whole-life cost calculation for both self-funded delivery and MIM delivery, as options for sharing capital costs between current and future customers.
Consider qualitative or quantitative wider economic benefits	Requirement partially met	Scottish Water has demonstrated that it has considered the whole-life (60-year) carbon values of the 5 main technical solution options, including embodied and operational emissions. However, there seems to be a limited number of other, broader, non-financial economic benefits considered beyond energy capture and generation.
Assess integration with existing policies and plans at the national, regional and local level (e.g. National Planning Framework 4)	Requirement not sufficiently met	Overall, Scottish Water's coverage is high-level and limited. We require Scottish Water to explain how it has met this requirement of the Ministerial policy position in response to our Draft Determination.
Environmental Impact Assessment	In progress	Scottish Water is currently developing the required EIA and expects to complete it in the second half of 2026. We plan to make the completion of all necessary impact assessments and receipt of necessary consents and approvals a condition of the conditional charge cap.
Align with SPFM section 'Governance' for major investment projects	Requirement partially met	We consider that this is largely met, subject to confirming that the project roles, responsibilities, and delegated authorities are clearly identified, agreed, and documented, with roles set out in the investment case. On this basis, we consider this element partially met at this stage. However, we require Scottish Water to set this out in the final investment case <sup>160</sup> and in response to our Draft Determination.

<sup>160</sup> We consider this to be the Stage 4 Project Investment Appraisal.

## *Our Draft Determination*

5.6.40. Our Draft Determination allows for the full proposed cost for West Central Bioresources and the satellite sites of £560 million (based on Scottish Water’s proposed level of efficiency). However, due to the uncertainties of this project, this allowance will be subject to conditions, outlined in Chapter 8. As such, the allowance is included in our Draft Determination for modelling and calculating the conditional charge cap, but access to the customer-funded portion of the project will depend on Scottish Water meeting the conditions set out in Chapter 8. The following elements require more certainty before Scottish Water commits to delivering the project:

- An up-to-date benchmarking assessment of the capital costs based on the cost estimates in the Stage 4 Project Investment Appraisal;
- The need for more landbank for the disposal of the treated biosolids;
- Whether it has fully considered “headroom above the required capacity” in the project designs, to ensure the asset is future-proofed;
- The availability of land at the Daldowie site to accommodate potential future expansion of the AAD facility, e.g. if another treatment stream or future bolt-on technologies are required;
- Scottish Water confirming that the project roles, responsibilities, and delegated authorities are clearly identified, agreed, and documented, with roles set out in the investment case;
- Providing a more in-depth assessment of how the project will integrate with existing policies and plans at the national, regional and local level; and
- Complete all required impact assessment and obtain all necessary permits and consents, including those required from SEPA.

## 5.7. Asset maintenance investment allowance

5.7.1. Following our review in the previous two sections, Table 38 shows our overall allowance for asset maintenance investment. To ensure the comparison to a top-down assessment of asset maintenance derived from econometric models is like-for-like, the asset maintenance allowance is expressed pre-efficiency and excluding Scottish Water’s proposed Real Price Effects of £60 million.

Table 38: Asset maintenance investment allowance before frontier-shift efficiency

Total over SRC27 (£m; 2024-25 prices)	
Scottish Water final business plan	5,220
WICS asset maintenance allowance	5,101
<i>Difference</i>	<i>-119</i>

5.7.2. We have used Ofwat’s base expenditure econometric models to understand what would be a top-down allowance based on an econometric approach. Ofwat’s base expenditure models include both operating expenditure and asset maintenance. To determine an asset maintenance allowance on a top-down basis, we have subtracted the allowance associated with operating expenditure from the base expenditure allowance. A full explanation of these models is provided in Chapter 6. Table 39 shows the difference between our overall allowance for asset maintenance and the top-down asset maintenance allowance.

Table 39: WICS draft maintenance allowance versus top-down maintenance allowance

Total over SRC27 (£m; 2024-25 prices)	
Scottish Water final business plan	5,220
WICS asset maintenance allowance	5,101
Top-down asset maintenance allowance	2,620
<i>Difference between the WICS and the top-down allowance</i>	<i>2,481</i>

5.7.3. We have discounted a top-down econometric allowance for maintenance on the basis that this would increase the level of risk current customers would bear and the costs borne by future customers. We consider that the WICS asset maintenance allowance maintains a focus on maintenance in line with the approach in SRC21 and enables Scottish Water to effectively manage its asset base.

5.7.4. However, as set out in section 5.4, we require Scottish Water to continue to improve the evidence on asset condition, asset risk, replacement need and the consequences of deferring investment.

## 5.8. Assumptions that apply across the whole programme

5.8.1. This section examines the evidence and assumptions that apply across the whole programme covering:

- Real price Effects (RPEs);
- Labour costs – contributions for National Insurance;
- Productivity improvements; and
- Indirect costs.

## Real price effects (RPEs)

- 5.8.2. The funding WICS allows Scottish Water to recover through the Strategic Review of Charges is set relative to general economy-wide inflation, as measured by the Consumer Price Index (CPI). This means that Scottish Water's allowance for capital investment will rise in line with CPI throughout the period. However, Scottish Water's cost mix differs from that of an average consumer, and as such it may experience price fluctuations that differ from CPI. Such differences between input prices and CPI are known as real price effects (RPEs).
- 5.8.3. Scottish Water has proposed an additional allowance for capital expenditure labour costs on the basis that it expects them to increase at a faster rate than CPI. This proposed RPE adjustment amounts to an additional £60 million of capital expenditure over the 2027-33 regulatory period,<sup>161</sup> as shown in Table 26.
- 5.8.4. There is regulatory precedent for including adjustments for RPEs in UK utility price controls. For example, Ofwat's price control for 2025-30 included adjustments to base labour and energy costs – an increase of 0.7% per annum for labour costs and a £1,278 million uplift to energy cost allowances over the period (intended as a one-off adjustment to account for energy price volatility in the early 2020s).<sup>162</sup> Ofgem included similar adjustments for labour, materials and plant and equipment in their UK energy price controls for 2026-31. On an annualised basis, this represents an addition of between 0.1% and 1.5% of total expenditure per annum, depending on the company.<sup>163</sup>
- 5.8.5. The proposed adjustment is based on Scottish Water's forecast difference between CPI and capital expenditure labour costs, which is based on:
- The CPI forecast from the Bank of England's (BoE's) May 2025 Monetary Policy Report until 2027, followed by the long-term inflation target of 2% until 2033; and
  - The Office for Budget Responsibility's (OBR's) March 2025 earnings forecast until 2029, followed by the sum of the BoE's CPI forecast and the 2015-24 average difference between CPI and public sector wages.
- 5.8.6. WICS recognises that the use of forecasts was encouraged in First Economics' March 2025 feedback to Scottish Water's RPE proposal. However, in our view, the forecasts used are likely to overestimate the size of the labour real price effect over SRC27 for two main reasons:

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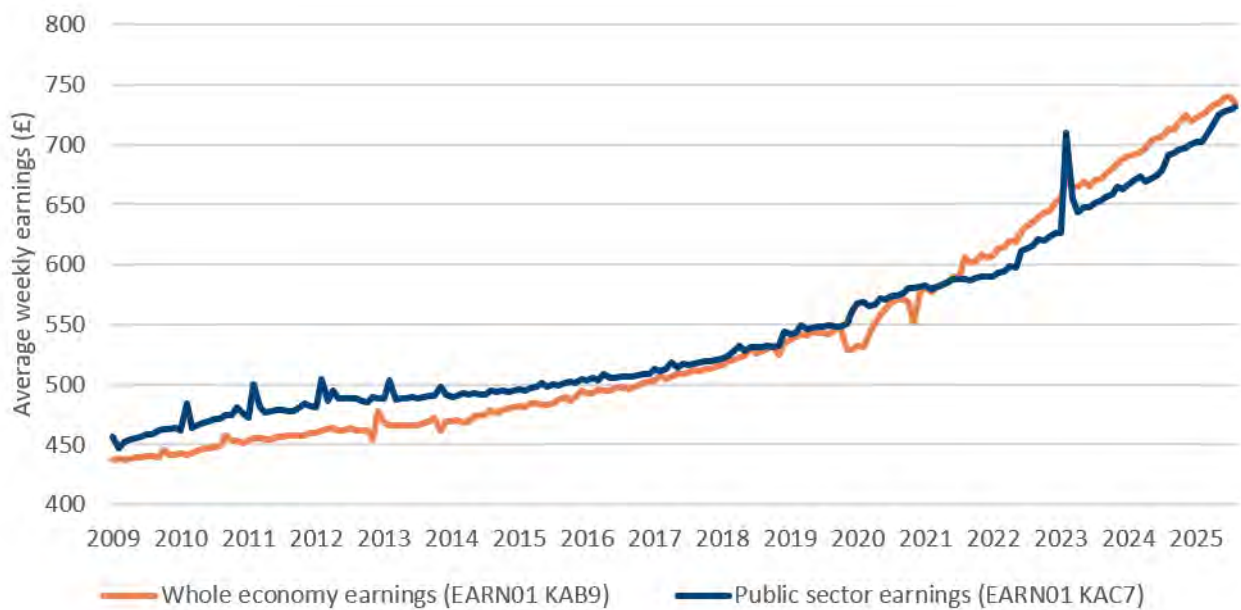
<sup>161</sup> Scottish Water (2026), 'SR27 Final Business Plan: Table 5 & 7', 26 February 2026.

<sup>162</sup> Ofwat (2024), 'PR24 Final Determinations – Expenditure allowances', p.54, 55, 273.

<sup>163</sup> Ofgem (2025), 'RIIO-3 Final Determinations Overview Document', p.88.

- The OBR’s earnings forecast is economy-wide, while UK public sector wages have grown more slowly than whole-economy wages historically, as shown in Figure 47 and Figure 48; and
- The average difference between CPI and public sector wage growth was greater from 2015-24 than it was from 2009-25<sup>164</sup> and from 2021-25 (during SRC21) – in fact, CPI has outpaced public sector wage growth over both of these periods, as shown in Figure 69 and Figure 70 in the section on operating expenditure RPEs (paragraph 6.6.37).

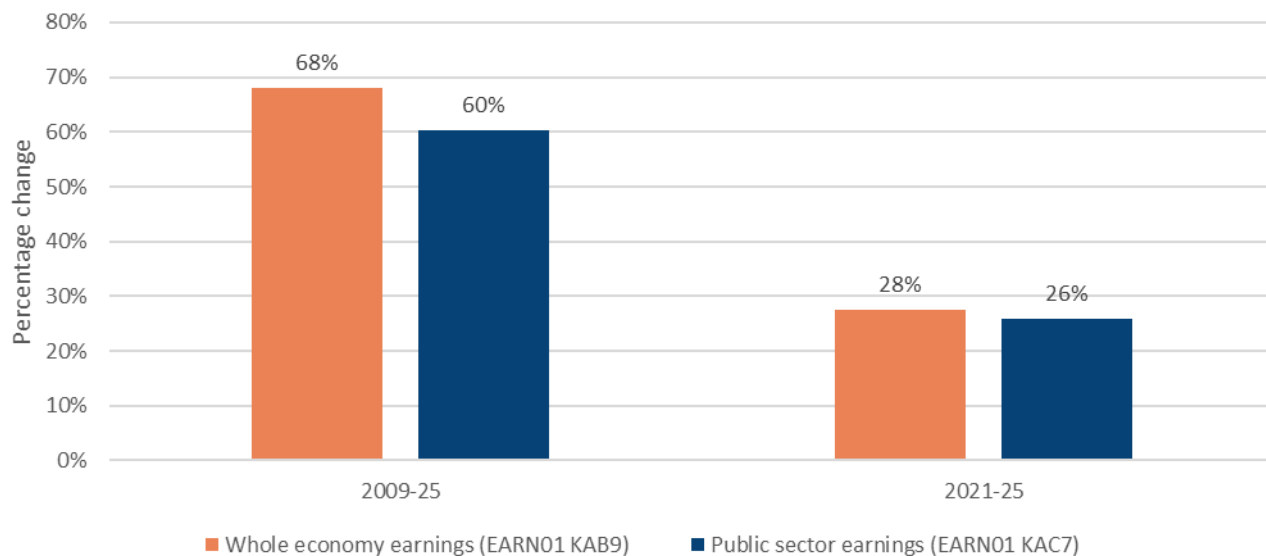
Figure 47: UK whole economy and public sector wage growth between May 2009 and December 2025<sup>165</sup>



<sup>164</sup> The period 2009-2025 covers the period post the global financial crisis.

<sup>165</sup> Office for National Statistics (2026), 'EARN01: Average weekly earnings', 17 February 2026.

Figure 48: Total percentage historical change in weekly earnings



5.8.7. WICS notes that Scottish Water’s choice of index for capital expenditure labour costs (construction wages as measured by the EARN01 K5CD index)<sup>166</sup> has risen broadly in line with CPI over both 2021-25 (during SRC21) and 2009-25, as shown in figures Figure 49 and Figure 50. As such, WICS does not consider that historical evidence supports an RPE adjustment to capital expenditure.

<sup>166</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Technical Appendix 012 – Efficiency’, 26 February 2026, p.51.

Figure 49: Change in CPI and average construction wages from May 2009 to December 2025 (May 2009 = 1)<sup>167, 168</sup>

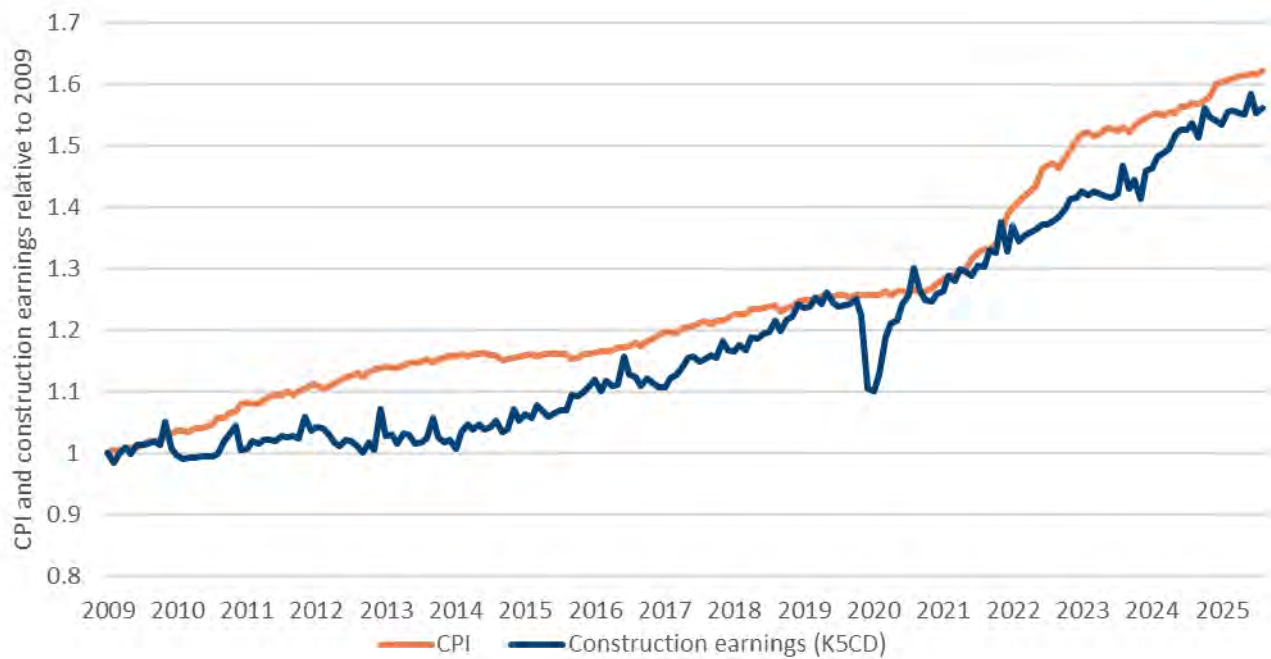
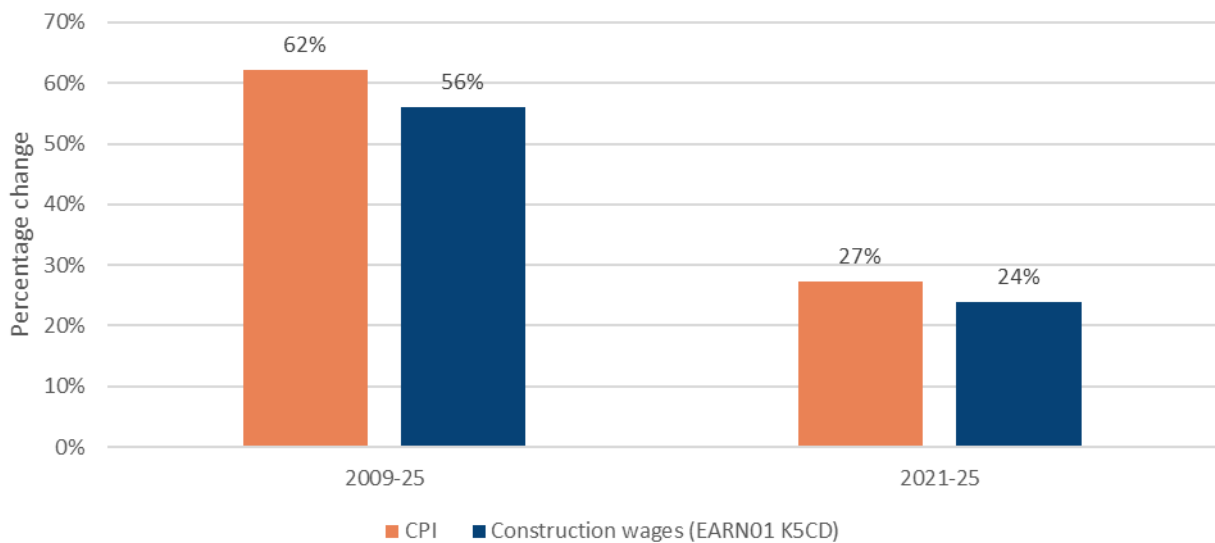


Figure 50: Total historical growth in CPI and construction wages



5.8.8. As set out above, WICS has not seen robust evidence that there has been a material difference between capital expenditure labour costs and CPI historically, or that such a difference is likely to emerge during SRC27. WICS does not consider there to be a robust case

<sup>167</sup> Office for National Statistics (2026), 'CPI INDEX 00: ALL ITEMS 2015=100', 18 February 2026.

<sup>168</sup> Office for National Statistics (2026), 'EARN01: Average weekly earnings', 17 February 2026.

for including a labour RPE adjustment for capital expenditure in SRC27. As such, WICS proposes to disallow the associated £60 million in the Draft Determination.

### Labour costs – contributions for National Insurance

5.8.9. Scottish Water has included around £2.5 million a year in the capital investment programme (or £15 million over the 2027-33 regulatory period) for an increase in employer National Insurance contributions as decided in the UK Government Autumn budget 2024.<sup>169, 170</sup> WICS considers that these costs will impact all employers in the economy and will either be passed on to consumers through higher prices in the general economy, and therefore be reflected in inflation, or result in lower wage growth going forward.<sup>171</sup> If these costs are passed on to consumers through higher prices and reflected in inflation, then Scottish Water should be insulated from these additional costs, given that its revenue is linked to the consumer price index measure of inflation. Ofgem reached a similar view in its Final Determinations for electricity transmission, gas distribution, and gas transmission.<sup>172</sup>

5.8.10. As such, WICS does not consider it appropriate to include this expenditure of £15 million over the 2027-33 regulatory period and will disallow it in the Draft Determination. We take a similar approach with regard to operating expenditure as explained in paragraphs 6.6.4 to 6.6.6.

5.8.11. Table 40 sets out the Scottish Water final business plan proposal and our proposed Draft Determination allowance for real price effects and labour costs.

*Table 40: Business plan proposal versus draft allowance for real price effects*

	Business plan investment (2024-25 prices; £m)	Draft Determination allowed for investment (2024-25 prices; £m)
Real Price Effects	60	-15

5.8.12. Table 41 below shows a summary of our allowed for investment based on the discussed adjustments in this chapter so far, before we apply a further efficiency challenge as described in the following sub-section on productivity improvements.

<sup>169</sup> Scottish Water explains that the increase in 2025-26 was £5.4 million, with £2.9 million relating to operating expenditure. As such, £2.5 million per annum will be included in capital investment. See Scottish Water (2026), 'Business Plan 2027-2033 data table commentaries – table 7: other costs and assumptions', February 2026, p.5.

<sup>170</sup> UK Government (2024), 'Autumn Budget 2024', October 2024.

<sup>171</sup> House of Lords Economic Affairs Committee (2024), 'Corrected oral evidence: Economic inactivity: welfare and long-term sickness', 26 November 2024.

<sup>172</sup> Ofgem (2025), 'RIIO-3 Final Determinations Overview Document', 4 December 2025, p.97.

Table 41: Allowed for investment before WICS efficiency challenge

Investment area	Draft Determination allowed for investment before WICS efficiency challenge (2024-25 prices; £m)		
	Asset maintenance	Enhancement and growth	Total
Water quality and water continuity	2,343	1,057	<b>3,400</b>
Water environment and quantity of flows (excluding West Central Bioresources)	1,867	981	<b>2,848</b>
West Central Bioresources	346	212	<b>557</b>
Growth	0	514	<b>514</b>
Climate change adaptation and mitigation	16	49	<b>65</b>
Customer and communities	0	21	<b>21</b>
Digital	107	0	<b>107</b>
Transformation and innovation	0	31	<b>31</b>
Support services	281	22	<b>303</b>
Real Price Effects			<b>-15</b>
<b>Total</b>	<b>4,960</b>	<b>2,887</b>	<b>7,833</b>

## Productivity improvements

5.8.13. Scottish Water recognises that even leading companies should improve their efficiency over time, as they adopt the latest technology and roll out innovation. We call these efficiency improvements productivity improvements, or ‘frontier shift’. Scottish Water proposes an assumption of 0.8% annual productivity improvement, based on several sources of information.<sup>173</sup> This compares to the 1% per annum efficiency challenge that Scottish Water accepted for the 2021-27 regulatory period.

5.8.14. For the 2021-27 regulatory period, Scottish Water accepted the challenge to reduce its expenditure by 1% per annum to reflect the scope for productivity improvements.<sup>174</sup> This assumption was based on the most comprehensive study ever undertaken of productivity improvements in the water industry, which examined water company performance from 1994 to 2017.<sup>175</sup>

5.8.15. Scottish Water’s final business plan explains that it has risen to this challenge and is broadly on track to deliver the 1% per annum efficiency challenge that was set by WICS.<sup>176</sup> Scottish Water explains that it expects its recurring costs (known as Tier 1 in SRC21) to be 5.5% lower in 2027 than at the start of the 2021-27 period. Elsewhere in the business plan, Scottish

<sup>173</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Technical Appendix 012 – Efficiency’, 26 February 2026, p.43.

<sup>174</sup> WICS (2020), ‘2021-27 Final Determination’, 10 December 2020, p.9.

<sup>175</sup> Saal and Frontier Economics (2017), ‘Productivity improvement in the water and sewerage industry in England since privatisation’, September 2017.

<sup>176</sup> Scottish Water (2026), ‘Final Business Plan 2027-2033: investing in Scotland’s future’, 26 February 2026, p.136.

Water explains that it will achieve its efficiency challenge of 1% per annum for recurring costs and has implemented a 1% per annum efficiency challenge for capital expenditure.<sup>177</sup>

5.8.16. Scottish Water's final business plan proposes a frontier efficiency challenge of 0.8% per annum, applied to both capital and operating expenditure. Scottish Water proposes this efficiency challenge on the following basis:

- It exceeds the Office for National Statistics (ONS) UK productivity data trends over 2010-2024;
- It positions Scottish Water's challenge level above the 0.7% per annum adopted in the Competition and Market Authority's (CMA's) provisional findings for referrals of the Ofwat Final Determinations for 2025-30 by four water and sewerage companies and one water-only company;<sup>178</sup>
- It sits at the top of a plausible range identified by an economics consultancy that completed work for the water companies in England and Wales; and
- It aligns with international data on productivity improvements in comparator sectors.

5.8.17. Scottish Water explains that it considered updating this 0.8% per annum efficiency challenge in response to stakeholder feedback on its draft business plan from June 2025. However, taking account of the CMA's provisional determinations and more recent macro-economic forecasts for productivity, it decided that maintaining the challenge of 0.8% per annum would be appropriate in the final business plan.

5.8.18. In our feedback on the draft business plan, we explained that our starting point is that the 1% per annum productivity efficiency challenge should continue to apply unless Scottish Water provides compelling evidence to justify a lower figure.

5.8.19. As Scottish Water proposes applying the efficiency challenge to both capital and operating expenditure, the assessment below also applies to the productivity improvement assumed for operating expenditure.

### *Our assessment*

5.8.20. Our draft decision on assumed productivity improvements takes account of several considerations. Firstly, our analysis is based on the measure for Total Factor Productivity (TFP) which represents the productivity that an average firm in the UK has achieved in the economy. We consider that Scottish Water should be able to outperform the average firm in the economy, recognising that it benefits from a stable and predictable regulated revenue

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<sup>177</sup> Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 012 – Efficiency', 26 February 2026, p.4.

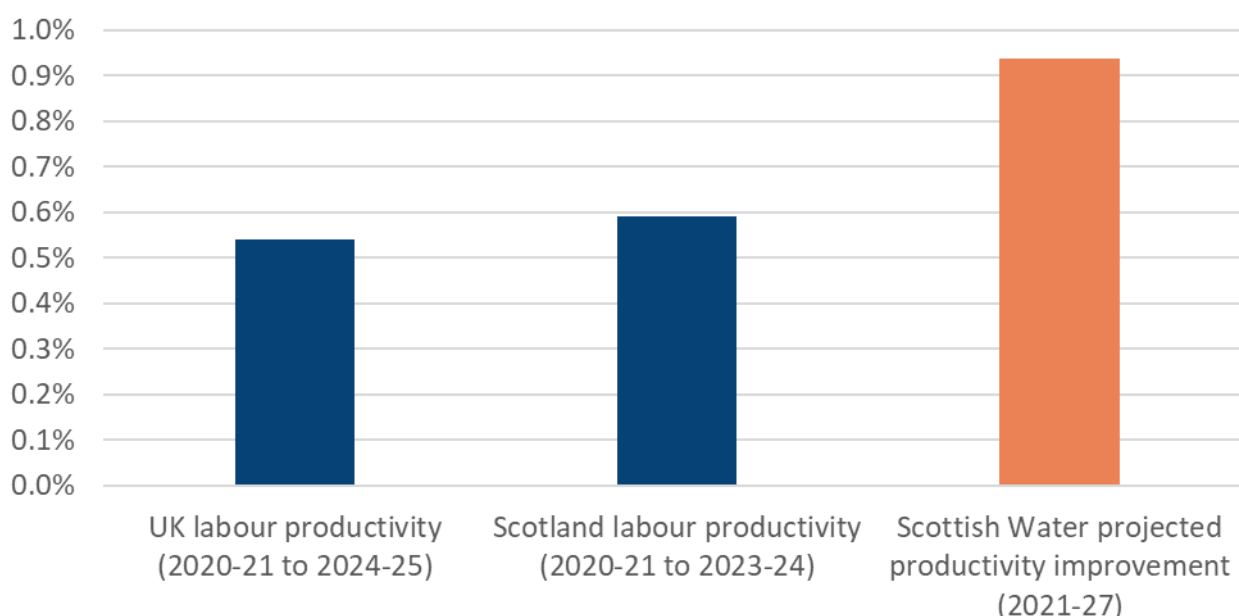
<sup>178</sup> Competition and Markets Authority (2025), 'Water PR24 References Provisional Determinations Volume 1: Introduction, Background, Approach and prioritisation, Base costs – Chapters 1-4', October 2025.

stream and from delivering a large investment programme, including significant investment in digital technologies such as artificial intelligence.

5.8.21. Indeed, this has borne out in the current regulatory period with Scottish Water being on track to exceed observed productivity improvements in Scotland and the UK, with Scottish Water’s projected productivity improvements over 2021-27 around 0.3%-0.4% above labour productivity in the general economy in Scotland and the UK from 2021 onwards (see Figure 51).<sup>179</sup>

5.8.22. As such, we see no reason why Scottish Water cannot continue to outperform the average firm in Scotland and the UK during the 2027-33 period, as these productivity measures represent.

*Figure 51: Productivity improvements in the UK and Scotland (average annual)*

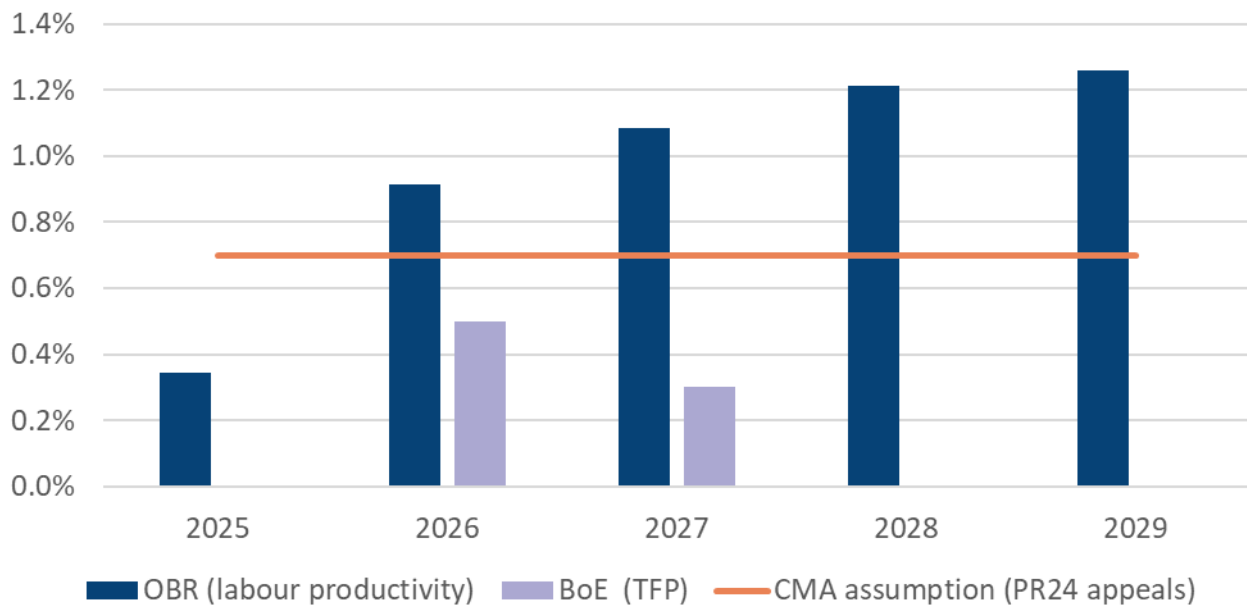


5.8.23. Secondly, while noting that the OBR reduced its forecasts for productivity growth, it still expects labour productivity, which the CMA used to inform its assumed frontier-shift efficiency, to reach 1% by 2030. Furthermore, the OBR forecasts only cover the first half of the 2027-33 regulatory period.<sup>180</sup> Figure 52 shows these third-party forecasts and the CMA’s decision.

<sup>179</sup> To be conservative, the figure is based on Scottish Water’s actual to date and forecast reduction in recurring costs of 5.5% over 2021-27. This is equivalent to an annualised reduction of around 0.95%, rather than the full 1% efficiency challenge for recurring and capital costs that Scottish Water refers to elsewhere in the final business plan.

<sup>180</sup> Competition and Markets Authority (2025), ‘Water PR24 References Provisional Determinations Volume 1: Introduction, Background, Approach and prioritisation, Base costs – Chapters 1-4’, October 2025, p.85.

Figure 52: Annual productivity forecasts and CMA decision<sup>181</sup>

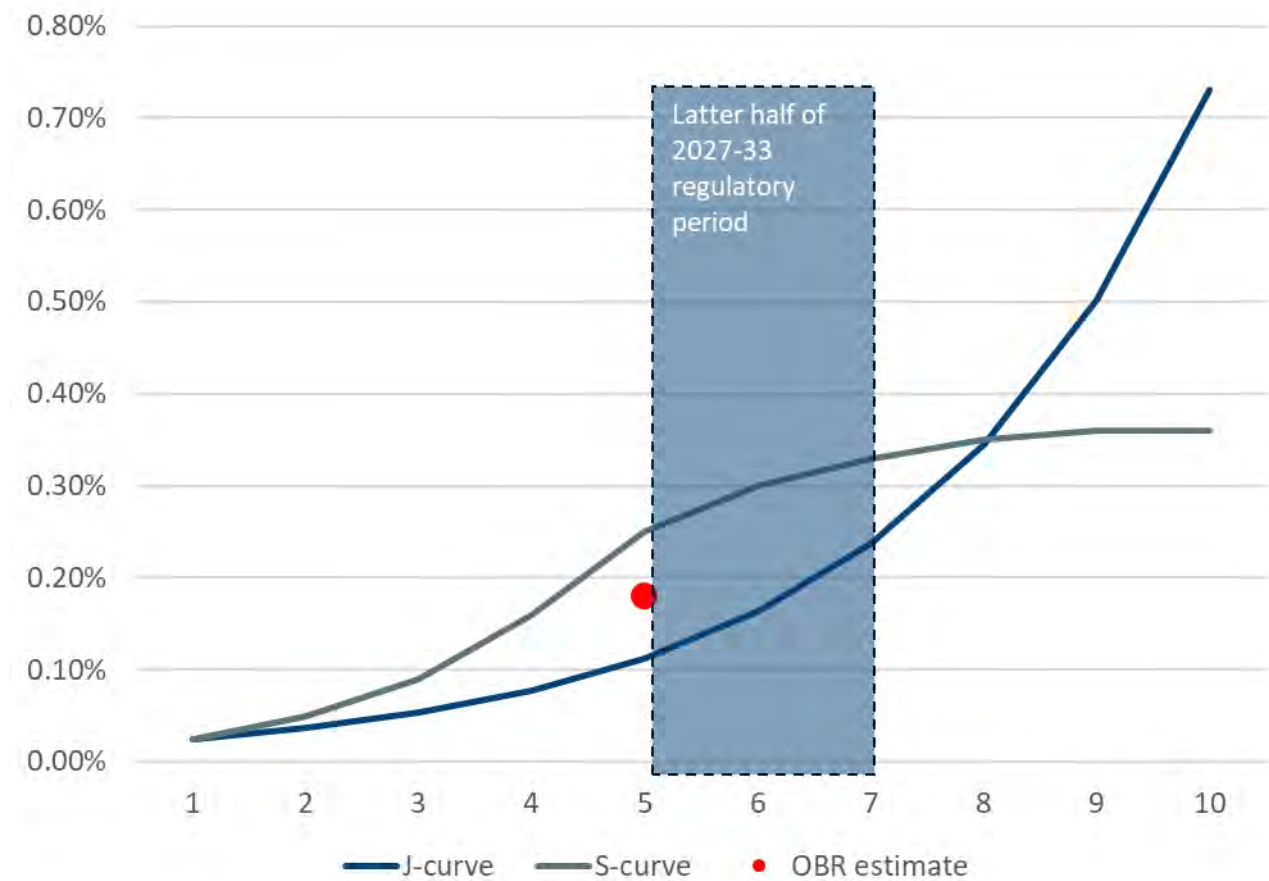


5.8.24. While it is unclear how forecasts will develop in the latter half of the regulatory period, the OBR’s analysis indicates that it expects AI to boost productivity growth beyond 2030.<sup>182</sup> Based on the data produced by the OBR, it has the potential to add around 0.3% to growth in total factor productivity by the end of the regulatory period (year 7 in Figure 53).

<sup>181</sup> Bank of England is abbreviated to BoE in the figure. The Bank of England only provided forecasts to 2027 in its February 2025 Monetary Policy Report.

<sup>182</sup> Figure replicated based on data published by the OBR. Office for Budget Responsibility (2025), ‘Briefing paper No. 9 forecasting productivity’, 26 November 2025, p.51.

Figure 53: Estimated impact of AI on UK productivity



5.8.25. Thirdly, we note that regulatory precedent points to productivity growth assumptions of around 1% (Table 42). However, we place less weight on consultant reports and regulatory precedent than on the two points above, recognising that reliance on regulatory precedent can be circular.

Table 42: Regulatory precedent for productivity challenge in UK utilities

Recent UK price controls	Sector	Regulatory period	Productivity challenge
<b>Ofwat PR19</b>	England and Wales water	2020-2025	1.1% <sup>183</sup>
<b>CMA PR19</b>	England and Wales water	2020-2025	1.0% <sup>184</sup>
<b>Ofgem RIIO-GD2</b>	GB energy	2021-2026	1.2% <sup>185</sup>
<b>Ofgem RIIO-T2</b>	GB energy	2021-2026	1.2% <sup>186</sup>
<b>CMA RIIO-2</b>	GB energy	2021-2026	1.0% <sup>187</sup>
<b>UR PC21</b>	Northern Ireland water	2021-2027	0.7% <sup>188</sup>
<b>UR GT22</b>	Northern Ireland energy	2022-2027	0.8% <sup>189</sup>
<b>Ofgem RIIO-ED2</b>	GB energy	2023-2028	1.0% <sup>190</sup>
<b>Commission for Regulation of Utilities – draft</b>	Ireland water	2025-2029	1.0% <sup>191</sup>
<b>Ofwat PR24</b>	England and Wales water	2025-2030	1.0% <sup>192</sup>
<b>CMA PR24 – provisional</b>	England and Wales water	2025-2030	0.7% <sup>193</sup>
<b>UR RP7</b>	Northern Ireland energy	2025-2031	1.0% <sup>194</sup>
<b>Ofgem RIIO-3</b>	GB energy	2026-2031	1.0% <sup>195</sup>

5.8.26. Finally, we note that Scottish Water proposes investment in transformation initiatives aimed at improving productivity, which are expected to deliver net benefits of £292 million.<sup>196</sup> Scottish Water explains that it accounts for these benefits in its proposed productivity improvement of 0.8%. However, we note that the forecast benefits are higher than those Scottish Water expects over the 2021-27 regulatory period (net benefits of £174 million),<sup>197</sup>

<sup>183</sup> Ofwat (2020), 'PR19 Final Determinations – Securing cost efficiency technical appendix', 30 April 2020, p.121.

<sup>184</sup> Competition and Markets Authority (2021), 'Anglian Water Services Limited, Bristol Water plc, Northumbrian Water Limited and Yorkshire Water Services Limited price determinations – Final report', 17 March 2021, p.263.

<sup>185</sup> Ofgem (2020), 'RIIO-2 Final Determinations – Core Document', 8 December 2020, p.12.

<sup>186</sup> Ofgem (2020), 'RIIO-2 Final Determinations – Core Document', 8 December 2020, p.48.

<sup>187</sup> Competition and Markets Authority (2021), 'RIIO-2 Energy Licence Modification Appeals – Summary of Final Determination', 28 October 2021, p.8.

<sup>188</sup> Utility Regulator (2021), 'Water and Sewerage Services Price Control 2021-27 – PC21 Final Determination – Main Report', May 2021, p.86.

<sup>189</sup> Utility Regulator (2022), 'Price Control for Northern Ireland's Gas Transmission Networks – GT22 – Final Determination', 20 May 2022, p.59.

<sup>190</sup> Ofgem (2022), 'RIIO-ED2 Final Determinations Overview document', 30 November 2022, p.28.

<sup>191</sup> Commission for Regulation of Utilities (2025), 'Draft determination: revenue control 4', 25 November 2025, p.123

<sup>192</sup> Ofwat (2024), 'PR24 Final Determinations: Expenditure allowances', 20 December 2024, p.268.

<sup>193</sup> Competition and Markets Authority (2025), 'Water PR24 References – Provisional Determinations Volume 1: Introduction, Background, Approach and prioritisation, Base costs – Chapters 1-4', 9 October 2025, p.79.

<sup>194</sup> Utility Regulator (2024), 'Northern Ireland Electricity Networks Ltd – Transmission and Distribution 7th Price Control (RP7)', 30 October 2024, p.50.

<sup>195</sup> Ofgem (2025), 'RIIO-3 Final Determinations Overview Document', 4 December 2025, p.97.

<sup>196</sup> Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 018 – Transformation and Innovation', 26 February 2026, p.2.

<sup>197</sup> Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 018 – Transformation and Innovation', 26 February 2026, p.7.

which Scottish Water explains has contributed to it achieving productivity improvements of 1% in this period. Therefore, it is reasonable to assume that Scottish Water should be able to achieve at least similar levels of productivity improvement to those it has claimed for the 2021-27 regulatory period.

5.8.27. Furthermore, as discussed in paragraph 4.3.8, Scottish Water is in the process of implementing a new operating model, which will create separate directorates for water and wastewater to ensure teams are accountable for the entire end-to-end process. Scottish Water expects this to accelerate programme delivery and to lower costs. We expect this new operating model to enable Scottish Water to deliver further efficiencies.

5.8.28. In conclusion, we consider that setting an assumption for productivity improvements is an exercise of regulatory judgement that involves taking into account several factors and considering the relevance of different sources of evidence. Our draft decision is to assume a 1% per annum productivity improvement, reflecting an in-the-round assessment of the opportunities Scottish Water has to drive productivity improvements going forward.

5.8.29. We apply this assumption to capital investment, resulting in an additional efficiency challenge of £55 million as shown in Table 43 below.

*Table 43: WICS additional efficiency challenge*

	Draft Determination allowed for investment (2024-25 prices; £m)
<b>WICS draft decision based on the Scottish Water efficiency challenge</b>	7,833
<b>SW proposed average efficiency challenge based on 0.8% per year</b>	2.8%
<b>WICS draft decision pre-efficiency</b>	8,055
<b>WICS proposed efficiency challenge based on 1.0% per year</b>	3.4%
<b>WICS draft decision based on WICS efficiency challenge<sup>198</sup></b>	7,778
<b>WICS additional efficiency challenge</b>	-55

5.8.30. Scottish Water proposed applying a total expenditure efficiency challenge to both operating and capital expenditure.<sup>199</sup> We have considered Scottish Water’s proposal; however, we have two concerns:

- It may enable Scottish Water to move expenditure from areas of the capital investment programme with no tangible outputs (e.g. allocations or studies) to operating expenditure, reducing the incentives for efficiency; and
- We are still unclear how it could be implemented practically.

<sup>198</sup> Note that this draft decision undergoes further adjustments later in this chapter.

<sup>199</sup> Scottish Water (2026), ‘Business plan 2027-2033 technical appendices – efficiency’, February 2026, pp.44-47.

5.8.31. As such, we do not propose to adopt Scottish Water’s proposal. We discuss how we apply the forecast for productivity improvements to operating expenditure in Chapter 6.

### Indirect costs

5.8.32. Indirect investment costs are expenditure not related to construction labour, plant, or materials, all of which are direct costs. Indirect costs include activities such as design, project and programme management, construction management, site preliminary costs and management fees. Scottish Water explains in its final business plan submission that its indirect investment costs account for approximately 40% of its investment plan for SRC27.<sup>200</sup>

5.8.33. Scottish Water proposes that no catch-up efficiency challenge is applied to its indirect costs in SRC27. This is based on analyses in three consultant reports provided in the business plan submission, which benchmark Scottish Water’s indirect costs against those of companies in England and Wales. The results are summarised in the business plan technical appendix 12.

5.8.34. We highlighted in our Final Methodology for SRC27 that we would require external technical expertise in engineering and asset management to review Scottish Water’s investment programme, including specific areas of asset management that apply across the investment programme, such as Scottish Water’s approach to overheads and risk allowances. We commissioned engineering consultants WSP to undertake this review on our behalf.

5.8.35. One of the metrics Scottish Water used to benchmark its indirect and on-cost levels<sup>201</sup> against those of comparator companies relates to ‘pound in the ground’ analysis, which measures indirect costs as a proportion of total direct construction costs. In addition to our own review, we asked our engineering consultants to provide an external view on whether Scottish Water’s benchmarking approach is robust and in line with the data and evidence available to them.

5.8.36. We consider that Scottish Water’s benchmarking of indirect costs is an appropriate high-level approach but lacks robustness and transparency in cost categorisation, risk exclusion, and statistical significance at a more detailed level. Scottish Water’s client on-costs are significantly above industry norms, while its contractors’ on-costs are lower. This could be attributed to differences in delivery models, comparator sets, and data confidence levels. Overall, our engineering consultants assigned a medium level of confidence in Scottish Water’s benchmarking and consider that, in aggregate, Scottish Water’s indirect costs are broadly comparable with industry overall. However, there are variances between Scottish

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<sup>200</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Technical Appendix 012 – Efficiency’, 26 February 2026, p.28.

<sup>201</sup> On-costs are interchangeably used with indirect costs to refer to the indirect costs associated with delivering a capital project, typically split into two categories:

- Client On-Costs: Costs incurred by the client organisation (in this case, Scottish Water), such as project management, design, governance, stakeholder engagement, and internal overheads.
- Contractor On-Costs: Costs incurred by the contractor that are not part of direct construction, including site preliminaries, supervision, and contractor-side project management.

Water's costs and the average industry costs for several constituent categories, leading WSP to identify a potential cost challenge of £8 million to £26 million.<sup>202</sup> In its business plan, Scottish Water has provided feedback on these findings.<sup>203</sup>

5.8.37. Considering the evidence in the round, we take the view that Scottish Water's indirect costs are broadly in line with comparators from England and Wales. We considered applying a cost challenge on the lower end of the range identified by WSP – this would aim to strike a balance between the view that Scottish Water's indirect costs are at a similar level to those of industry comparators and the recognition that the 'pound in the ground' analysis could be further improved, given the areas highlighted by WSP. However, our draft decision is not to set such a challenge due to our intention to set a demanding 1% frontier-shift efficiency challenge on capital expenditure, as explained in paragraph 5.8.28.

## 5.9. Additional investment allowances

5.9.1. We have included additional allowances based on the feedback from the customer research, DWQR and SEPA. The additional investment covers the following areas:

- Sewer flooding, following the customer feedback on internal sewer flooding being under-represented in the business plan (paragraphs 4.6.8 and 4.6.11); and
- The water quality, water continuity and water environment programmes (£118 million).

5.9.2. 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.

5.9.3. Table 44 provides our Draft Determination allowance, including the additional allowances.

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<sup>202</sup> WSP (2025), 'Water Industry Commission Scotland: Engineering Review of Scottish Water's SRC27 Draft Business Plan', September 2025. Executive summary available at: <https://wics.scot/publications/price-setting/strategic-review-charges-2027-33/consultant-reports/engineering-review-scottish-waters-draft-business>

<sup>203</sup> Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 012 – Efficiency', 26 February 2026, pp.30-32.

Table 44: Allowed for investment

	Draft Determination allowed for investment (2024-25 price; £m)
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
<b>Draft Determination allowed for investment, including allocations</b>	<b>7,946</b>

5.9.4. The additional allowances will be subject to the conditions and safeguard requirements explained in Chapter 8.

## 5.10. Deliverability

5.10.1. Our Final Methodology explained that there are internal and external factors which impact the level of investment that Scottish Water could deliver efficiently over the 2027-33 regulatory period.<sup>204</sup> For example, a small investment programme may mean that Scottish Water cannot secure the benefits of scale in capital procurement and delivery. Conversely, a large investment programme beyond a specific size may become unmanageable given Scottish Water’s internal capacity for asset management planning and delivery or the capacity of the supply chain.

5.10.2. On deliverability, Scottish Water provided its own analysis and assessment of supply chain capacity over the 2027-33 regulatory period. Based on this analysis, the Scottish Water Board has assured that it is comfortable that the business plan is deliverable on the basis of projected capacity of the supply chain in Scotland.

5.10.3. WICS commissioned external consultants Turner & Townsend to undertake an analysis to understand a top-down view of the size of the investment programme that Scottish Water could deliver efficiently in the 2027-33 period, recognising the capacity of the supply chain and Scottish Water’s own capacity to deliver the investment programme. The executive summary of the final report is available on our website at [Efficient size of Scottish Water’s SRC27 investment programme | WICS](#).

5.10.4. Based on an in-the-round assessment using a mix of objective, subjective and anecdotal evidence, Turner & Townsend made the following overall conclusions outlined in Table 45.

<sup>204</sup> WICS (2024), ‘Strategic Review of Charges 2027-2033: Final Methodology’, 12 December 2024, p.125.

Table 45: Estimated range of investment Scottish Water can deliver efficiently in 2027-33

Range and confidence (2024-25 prices)	Reasoning
<p><b>£6.1 billion investment programme (£6 billion in 2023-24 prices)</b></p> <p>Higher level of confidence that Scottish Water can deliver efficiently</p>	<ul style="list-style-type: none"> <li>• Similar in size to the SRC21 programme</li> <li>• Scottish Water’s updated delivery model should mitigate the recurrence of the SRC21 under-delivery risks</li> <li>• Maintaining this size will enable Scottish Water to focus on embedding its new delivery model and more effectively mitigating the associated risks</li> <li>• Evidence from England &amp; Wales suggests even limited increases can create challenges</li> </ul>
<p><b>£7.2 billion investment programme (£7 billion in 2023-24 prices)</b></p> <p>Medium level of confidence that Scottish Water can deliver efficiently</p>	<ul style="list-style-type: none"> <li>• 15% uplift on the SRC21 programme</li> <li>• Delivering this uplift in parallel with implementing and maturing a new delivery model adds more complexity, time and risk to delivery from a cost, schedule and quality perspective</li> <li>• Delivering this uplift relies on some assumptions for Scottish Water’s new delivery model and its capacity to grow to hold true</li> </ul>
<p><b>£8.2 billion investment programme (£8 billion in 2023-24 prices)</b></p> <p>Lower level of confidence that Scottish Water can deliver efficiently</p>	<ul style="list-style-type: none"> <li>• 30% uplift on the SRC21 programme</li> <li>• In addition to the points for the medium level of confidence, despite Scottish Water’s early engagement on its new delivery model and its mitigations, analysis based on the supply chain’s own capacity estimates suggest a potential shortfall towards the end of the period even with several stretching assumptions all holding true</li> </ul>

5.10.5. The following paragraphs provide a high-level summary of Turner & Townsend’s analysis (which supports the overall conclusions and the confidence levels) and Scottish Water’s feedback to the report submitted with the final business plan. Further details are provided in Appendix 1.

5.10.6. Turner & Townsend consider that Scottish Water’s SRC21 delivery performance shows mixed results: while it has generally delivered well once projects are fully developed and handed to the supply chain – sometimes even exceeding planned outputs – there are concerns about delays in high-risk, high-value outputs and outstanding work carried over from SRC15, partly due to Covid-19. Key stakeholders, such as the quality regulators, have raised concerns about delays in some areas and rising costs. Although the supply chain has expanded, the lack of a clear baseline makes it difficult to judge efficiency. Looking ahead to the much larger

proposed SRC27 programme, Turner & Townsend identified that Scottish Water's new delivery model (the Enterprise Model or Delivery Vehicle 4 (DV4)) introduces transition-related risks and relies on several assumptions – such as no double-counting of supply-chain capacity, realistic bidder capacity estimates, successful extension of existing vehicles, flexible capacity in the delivery vehicle for major projects (DV3) and internal teams, and the ability to substitute work between delivery vehicles. Confidence in several of these assumptions is only medium or limited.

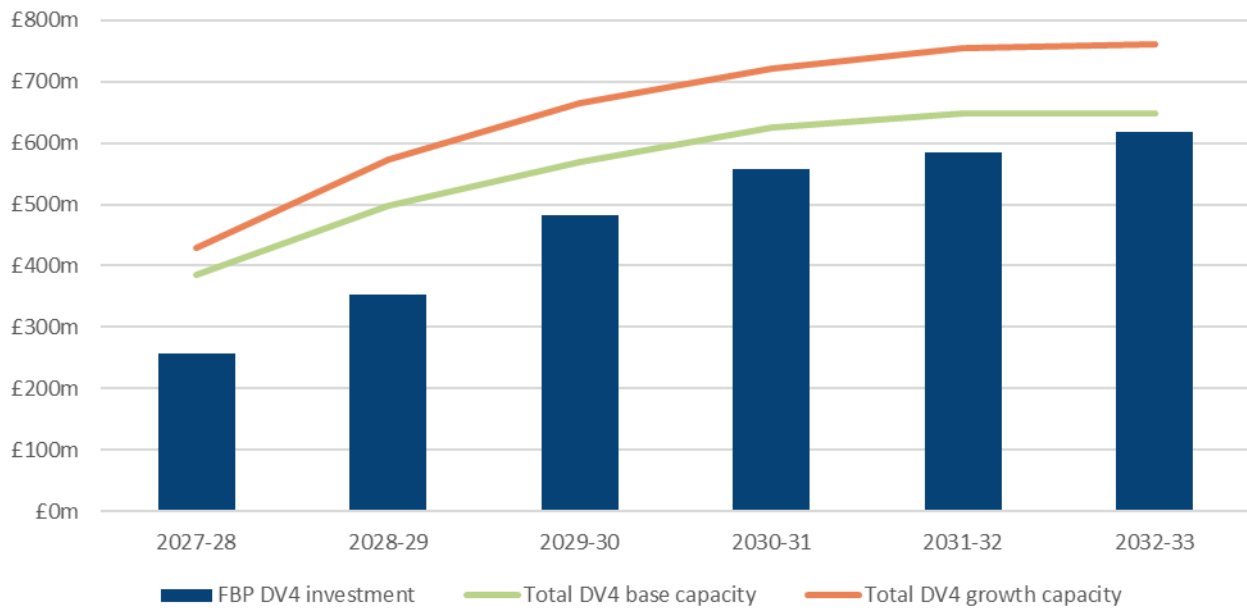
- 5.10.7. Turner & Townsend's testing of these assumptions suggests only limited confidence in the round that Scottish Water will have the capacity to deliver the proposed SRC27 programme (this was in relation to the draft business plan investment of £8,305 million in 2023-24 prices). Wider industry pressures intensify this risk: water companies in England and Wales have previously overspent and underdelivered, and while most companies express confidence in meeting new regulatory expectations, suppliers are far less certain. At the macroeconomic level, construction sector capacity across the UK and Scotland is expected to stabilise rather than grow, leaving limited spare capacity and potentially higher costs if Scottish Water's demand exceeds what the market can supply.
- 5.10.8. Overall, Scottish Water noted in its feedback that the findings must be treated with caution to ensure that uncertainties are fully recognised and that fair and balanced inferences are drawn.
- 5.10.9. Scottish Water's feedback to the draft report and its final business plan submission provided some updated evidence on the DV4 procurement processes and the actions and risk mitigation measures Scottish Water is taking. For example, in December 2025, Scottish Water confirmed the 7 preferred bidders for the DV4 procurement process.<sup>205</sup> While this process had not fully concluded and confirmed the successful bidders when the final business plan was submitted, Scottish Water did provide an updated view of the forecast capacity of and forecast investment allocated to each Delivery Vehicle, where the DV4 base and growth capacity is based on the information shared by the 7 preferred bidders.<sup>206</sup>
- 5.10.10. Figure 54 compares the DV4 base and growth capacity of the 7 preferred bidders (using data provided by Scottish Water during the query process) with the DV4 investment profile from the final business plan. It appears that the 7 preferred bidders for DV4 are expected to provide sufficient base capacity to deliver the final business plan investment in each year.

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<sup>205</sup> WaterBriefing (2025), 'Scottish Water confirms 7 preferred bidders to deliver multi-billion pound transformation of water and waste water infrastructure', 19 December 2025.

<sup>206</sup> Scottish Water defines "base capacity" as "a sustainable capacity position each bidder is willing to commit to". "Growth capacity" is defined as "a capacity position that can be reached but may have associated constraints or challenges". The definitions are sourced from materials Scottish Water submitted to WICS and Turner & Townsend in August 2025.

Figure 54: DV4 (and adjusted Scottish Water) capacity versus business plan DV4 investment<sup>207</sup>

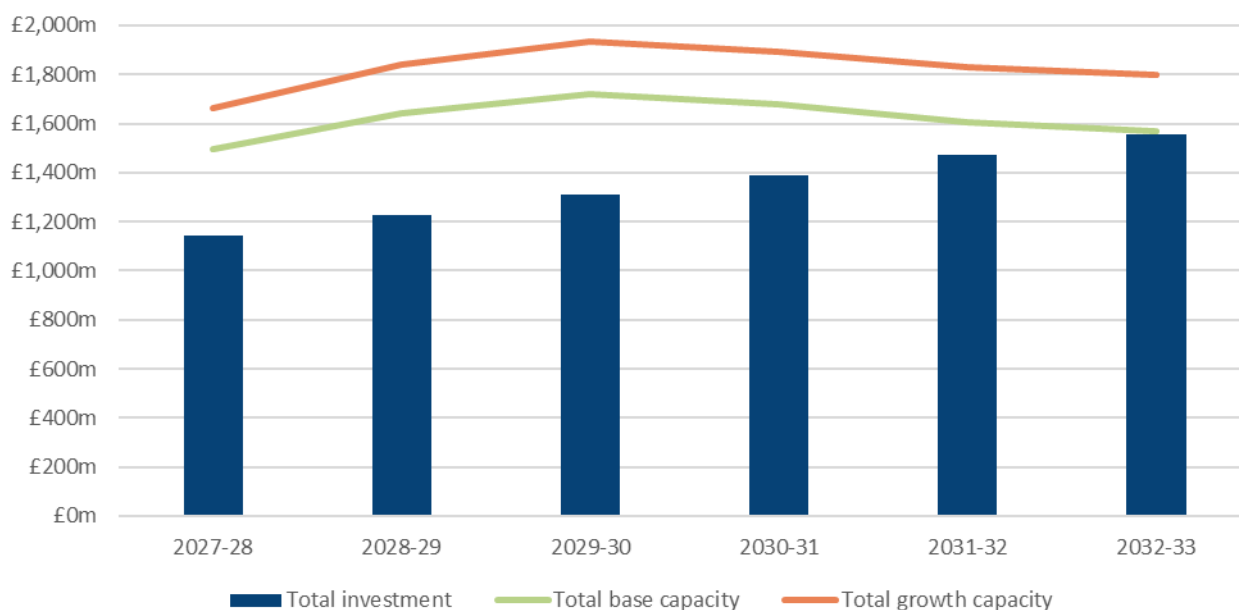


5.10.11. Figure 55 below shows how the total capacity across all vehicles compares with the final business plan investment profile (assuming the capacity for the 7 preferred bidders for DV4). At the end of the period, the forecast base capacity is only around £13 million above the forecast investment (or 1% of total base capacity). Scottish Water explains that if a forecast capacity shortage is realised, it would work with its supply chain to ensure sufficient growth capacity is in place to meet expected demand.<sup>208</sup>

<sup>207</sup> The DV4 total capacity data shared by Scottish Water during the query process consisted of the bidders' self delivery capacity and subcontracted capacity as well as Scottish Water's own capacity which was calculated as 15% of the November 2025 DV4 investment profile. Figure 54 uses the bidders' capacity data as well as a calculation of Scottish Water's capacity as 15% of the final business plan DV4 investment profile as per detailed data in Table X.

<sup>208</sup> Scottish Water (2026) 'SR27 Supply Chain Capacity (November 2025)', 26 February 2026, p.10.

Figure 55: Total delivery vehicle capacity versus total investment



5.10.12. The analysis in this section so far demonstrates that there is a wide range of factors to consider when assessing the size of the investment programme as a whole, and that a multitude of risks, with varying levels of risk, are associated with different sizes and delivery approaches.

5.10.13. We recognise that 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. The reduction in investment funding during the 2021-27 period, due to Scottish Water’s decision to rephase charges in response to the cost-of-living challenges, also contributes to this pipeline of projects ready to commence construction.

5.10.14. However, we consider that some deliverability risks remain due to the assumptions of Scottish Water’s analysis outlined in paragraph 5.10.6. These risks include:

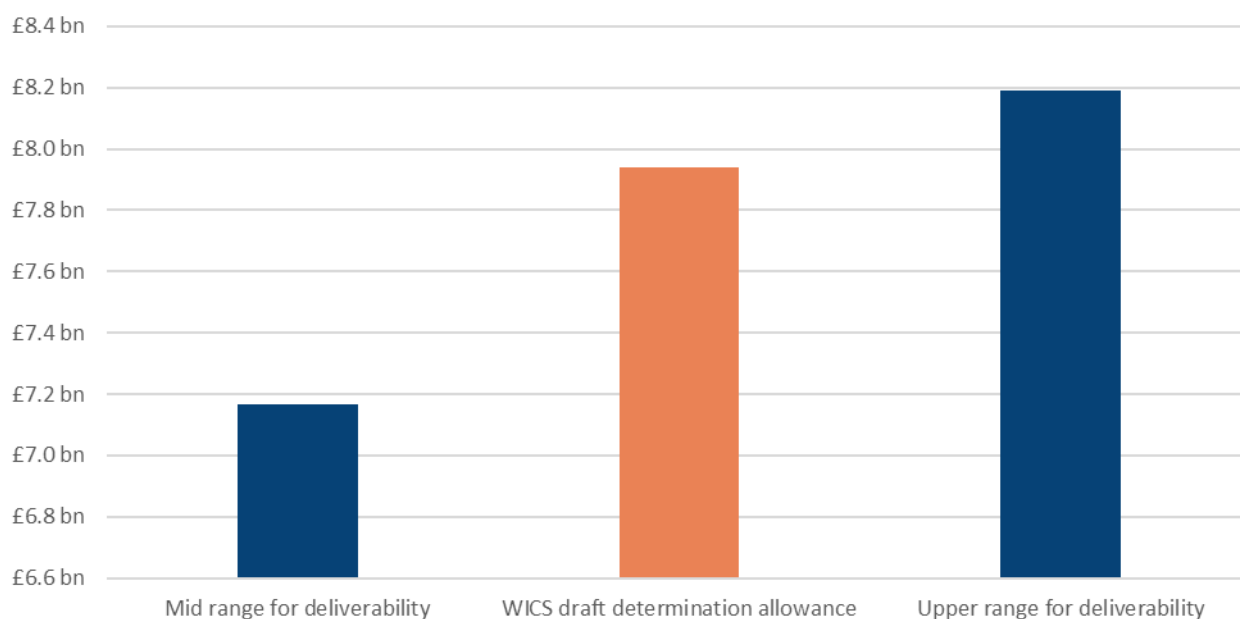
- The potential for double-counting of forecast capacity of suppliers, which could be on the same delivery vehicle – 3 out of the 7 supply chain partners part of Delivery Vehicle 2 are expected to also join DV4;
- The feasibility of cross-substituting investment work between different vehicles – the final business plan and the data we received from the query process tell us that there is some forecast shortfall in some years of the period for some delivery vehicles. Figure 55 shows no capacity shortfall, which implies there is some cross-substitution of work between delivery vehicles;
- The potential for optimism bias in capacity forecasts; and

- The risk of a shortfall in base capacity for the overall investment programme in the last year of the period, considering the forecast capacity headroom is only £13 million or 1%, as illustrated in Figure 55 above.

5.10.15. Furthermore, we would expect the complexity of the investment programme to continue to increase in each period. This will be due to a mix of factors such as introducing new innovative solutions, maturing the investment planning approach in terms of developing catchment management and upstream solutions (e.g. adopting more blue-green infrastructure solutions), improving the knowledge of the asset base and the interactions and dependencies between assets, accounting for the increasing impacts of climate change, and others. However, we expect the increased complexity to pose further risks to the management and delivery of the investment programme.

5.10.16. Our Draft Determination allowance aims to achieve an appropriate balance between maintaining the long-term approach, protecting future customers, and ensuring deliverability over the 2027-33 regulatory period. Figure 56 compares our Draft Determination allowance to the deliverability range based on our analysis.

*Figure 56: Comparison against deliverability range (2024-25 prices)*



5.10.17. Recognising the risks highlighted in paragraph 5.10.14, Scottish Water has informed us it is undertaking further work on internal capacity and supply chain readiness. It has proactively engaged with us on the scope for one such project, which is with another team within Turner & Townsend. The consultants have been asked to conduct an evidence-based review of Scottish Water’s recent progress in portfolio deliverability and management and in procuring its SRC27 supply chain and securing capacity; to identify gaps and required mitigations to ensure efficient and reliable delivery through internal stakeholder

engagement; and to deliver clear recommendations with a prioritised 6-12-24 month improvement roadmap aligned to governance and delivery models. We understand the work will also aim to provide an analysis of how to address some of the risks identified in paragraph 5.10.14. We understand that this analysis will be completed prior to the close of the consultation on the Draft Determination on 1 September 2026.

5.10.18. Therefore, we require Scottish Water to share the 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 on 1 September 2026.

5.10.19. We will monitor delivery closely in the 2027-33 regulatory period as part of our monitoring safeguards set out in Chapter 10.

## 5.11. Our draft decision

5.11.1. Table 46 below summarises Scottish Water’s proposed investment from the draft and final business plan and our draft decision for the allowed investment.

*Table 46: Investment allowance for SRC27 (£ million; 2024-25 prices)*

Investment	Draft business plan (June 2025)	Final business plan (February 2026)	Draft Determination allowed for investment	Difference between final business plan and Draft Determination
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
Additional allowance for enhancement	0	0	168	168
<b>Total</b>	<b>8,501</b>	<b>8,093</b>	<b>7,946</b>	<b>-147</b>

5.11.2. On the evidence currently available, we propose to allow for £4,926 million for asset maintenance investment and £2,867 million for enhancement and growth investment. We also propose to make two further adjustments: reverse the inclusion of the recent increase in national insurance in investment costs, which reduces investment by £15 million, and make additional allowances of £168 million, resulting in total investment of £7,946 million. This assumes a 1% per annum productivity challenge. The total investment falls within the

mid and upper range in terms of investment that can be delivered efficiently; however, we require further assurances from Scottish Water, recognising that some delivery risk remains.

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

5.12.1. As part of its response to the Draft Determination consultation, we require Scottish Water to address the following areas:

- Addressing the discrepancy between the number of maintenance interventions proposed in the asset class policies, known as Management Approaches, and the business plan data tables (specifically Table X, 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 paragraph 5.4.10);
- Consolidating the list of actions from its various asset management improvement plans to allow WICS to monitor progress (see paragraph 5.4.9);
- 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 paragraph 5.5.9);
- 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 paragraphs 5.5.12 and 5.5.47);
- Further information on how unit costs for the programme for maintaining inlet works have been derived, and an update on Scottish Water's engagement with SEPA on the pass forward flow (PFF) compliance programme (see paragraph 5.5.34);
- Confirmation of missing project outputs for investment areas identified in Appendix 1 of the Draft Determination (sections 1.3 and 1.4; including but not limited to: outputs for chlorine contact tank management programme, for MA003 Maintain Pipebridges, for MA068 Statutory, Essential and Planned Maintenance);
- 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 (see Table 37 and paragraph 5.6.40);
- Providing a more in-depth assessment of how the West Central Bioresources project will integrate with existing policies and plans at the national, regional and local level (see Table 37 and paragraph 5.6.40);

- 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 (see paragraph 5.10.18); and
- 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 (see paragraph 5.10.18).

## 6. Operating costs allowances

### 6.1. Summary of chapter

- 6.1.1. This chapter sets out our assessment of Scottish Water’s proposed operating and Private Finance Initiative (PFI) expenditure for the 2027-33 regulatory period, including efficiency, cost drivers, and our Draft Determination allowances.
- 6.1.2. Operating expenditure covers the day-to-day costs of providing water and wastewater services, including staff, energy, chemicals and customer service costs. PFI expenditure relates to contractual payments to third-party providers, which will reduce as assets return to Scottish Water over the period.
- 6.1.3. Scottish Water proposes increasing operating expenditure over the period, driven in part by the return of PFI assets and additional cost pressures such as energy and chemicals.
- 6.1.4. We assess efficiency through benchmarking against companies in England and Wales and through evaluating both input costs and service delivered. Our analysis indicates that Scottish Water performs relatively well in terms of operating efficiency, although there remain areas for improvement once the beneficial impact of lower energy costs is factored in.
- 6.1.5. We have reviewed Scottish Water’s proposed additions to operating expenditure. While we accept a number of cost increases and make full or partial allowances in some areas (e.g., energy and chemicals), we have disallowed or challenged others where the evidence is insufficient or costs are not clearly justified (e.g., pensions and elements of PFI-related costs).
- 6.1.6. We do not accept Scottish Water’s proposed adjustments for labour real price effects, as historical evidence shows limited divergence from CPI. Similarly, we disallow additional funding for increases in employer National Insurance contributions on the basis that these costs are reflected in inflation and should not be separately funded.
- 6.1.7. The return of PFI assets is a significant driver of change over the period. We have benchmarked the associated operating costs and applied an efficiency challenge, reflecting

evidence that costs can be reduced significantly when assets return to Scottish Water's operation.

6.1.8. We also apply a 1% annual productivity improvement assumption, consistent with our approach to capital expenditure and reflecting expectations that Scottish Water continues to improve efficiency over time.

6.1.9. Overall, our Draft Determination provides an operating expenditure allowance that is lower than Scottish Water's proposal, reflecting cost challenges, while ensuring sufficient funding to maintain service levels.

6.1.10. This chapter is structured as follows:

- Background;
- Performance in the 2021-27 period;
- Scottish Water's business plan proposals for 2027-33;
- Operating expenditure efficiency;
- Assessment of Scottish Water's proposals for additional expenditure;
- Additional operating expenditure from returning PFI assets;
- PFI contract expenditure;
- Our draft decision; and
- Areas for Scottish Water to address in its response to the Draft Determination.

## 6.2. Background

### What is operating expenditure?

6.2.1. Operating expenditure relates to what Scottish Water spends on an ongoing, day-to-day basis to run its business and provide water and wastewater services. It represents around a quarter of its annual expenditure. Operating expenditure includes, but is not limited to:

- Employment costs;
- Electricity and other utility costs;
- Local authority rates and taxes;<sup>209</sup>
- Vehicle running costs;
- The costs of billing and serving customers (including bad debt); and
- The cost of buying materials such as chemicals for water treatment.

6.2.2. PFI expenditure relates to regular payments that Scottish Water is contractually obliged to pay to third-party organisations providing wastewater assets and services on behalf of

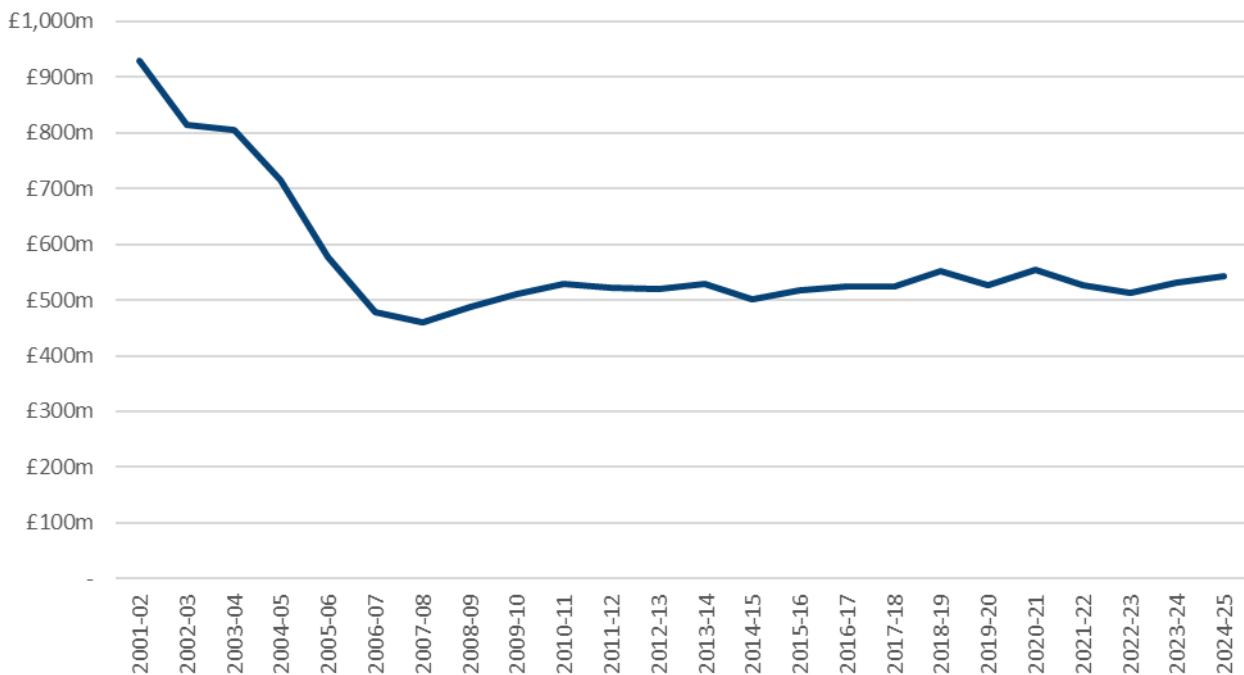
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<sup>209</sup> This covers non-domestic (or business) rates which are a tax on non-domestic properties to help pay for local authority services such as education, social care, waste management etc.

Scottish Water under legacy contracts. PFI expenditure represents over 10% of Scottish Water’s annual expenditure.

6.2.3. The overall governance of the water industry in Scotland, our efficiency challenges and Scottish Water rising to the challenges have led to around a 40% reduction in operating expenditure from the levels in 2001-02, as shown in Figure 57. This reduction was largely achieved between 2001-02 and 2007-08, with Scottish Water broadly maintaining performance at this level from 2007-08 onwards.

Figure 57: Scottish Water operating expenditure from 2001-02 to 2024-25 (2024-25 prices)



### What is operating efficiency?

6.2.4. We examine operating expenditure together with levels of service when considering efficiency. Economic regulators consider efficiency in terms of inputs and outputs:

- Inputs relate to the resources used in a company’s production process, which in this case is the supply of water and removal of wastewater and surface water. It can be measured in terms of materials (e.g. chemicals), labour (e.g. staff costs) and capital, or levels of expenditure; and
- Outputs relate to the final goods and services from the production process, which in this case is the quantity and quality of water delivered, the volume of wastewater treated, and the quality of treated wastewater discharged into the natural environment. Outputs also cover other aspects of service levels, such as the company’s responsiveness to customer contacts.

6.2.5. Efficiency can be considered as one of or a combination of two things:

- Minimising input to achieve a certain level of output; or
- Maximising output given a certain level of mix of inputs.

6.2.6. Economic regulators in the water industry (e.g. WICS in Scotland, Ofwat in England and Wales and the Utility Regulator in Northern Ireland) have estimated operating efficiency by benchmarking levels of expenditure and service performance across companies.<sup>210</sup> Therefore, the efficiency challenge would be two-fold:

- Reducing operating expenditure to a level that matches that of the best performing companies (once adjusting for differences in operating characteristics); and
- Improving levels of service to match the best-performing companies.

6.2.7. During the regulatory period, the company would then have the incentive to beat the economic regulator's efficiency challenge, recognising that they could earn reputational (e.g. being top of a league table) and financial rewards (e.g. keeping the outperformance for a defined period) from outperformance. This regulatory approach has led to Scottish Water reducing its operating expenditure and improving service levels over the past two decades.

6.2.8. Before discussing the approach to efficiency for SRC27, we consider factors that can impact operating expenditures during the regulatory period as further background.

#### Factors that impact operating expenditure during the regulatory period

6.2.9. Operating expenditure can change year-to-year due to factors such as changes to staff or electricity costs. There may also be additions or reductions to the starting level of operating expenditure (known as the baseline, which for the 2027-33 period is the financial year 2024-25), such as new regulatory standards that increase treatment costs or efficiency savings that reduce operating expenditure.

6.2.10. Regulators consider the scope for efficiency, covering:

- **Catch-up efficiency:** the reduction in expenditure to catch up with the leading performing company (i.e. the 'frontier') on operating expenditure performance after adjusting for differences in operating characteristics across companies. The scope for catch-up efficiency is measured as a snapshot based on past/current expenditure across companies.
- **Frontier-shift:** the achievable reduction in operating expenditure by the leading performing company (i.e. the 'frontier') to continue its operating efficiency as a

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<sup>210</sup> With levels of service covering areas such as water quality and reliability (e.g. interruptions and water pressure), environmental performance (e.g. pollution incidents and non-compliant discharges), sewer flooding and customer service (e.g. customer satisfaction) and contact (e.g. time taken to respond to complaints).

result of technological improvements, better management and operating processes.

- **Special factors:** the statistical models used to assess the scope for catch-up efficiency cannot account for all of a company's operating characteristics. As such, the catch-up challenge can be adjusted, or an additional allowance provided, if the company has a unique operating characteristic not sufficiently accounted for by the models that may adversely affect operating costs. Special factors must meet certain criteria (e.g., materiality, management's mitigation of the impact, the need for the adjustment).<sup>211</sup> These are now known as cost adjustment claims in the water sector in England and Wales.<sup>212</sup>
- **Scope adjustments:** the opposite of special factors. These recognise that some of a company's activities may result in lower costs. An example for Scottish Water is household metering. As Scottish Water has a much lower rate of metered households (<0.01%) compared to companies in England and Wales, it does not incur the operating expenditure associated with meter reading, meter maintenance, and billing based on meter readings. Scope adjustments would offset a special factor adjustment.
- **Real price effects:** while not necessarily part of the efficiency challenge, some economic regulators recognise that the company may face input price pressures over and above that reflected in general economy-wide inflation (as measured by the consumer price index (CPI) measure of inflation).

### 6.3. Operating expenditure performance in SRC21

- 6.3.1. Our performance report for 2024-25 provides our assessment of performance in the first four years of the regulatory period 2021-27. That assessment shows that Scottish Water's operating and PFI expenditure were broadly in line with the allowances set out in the Final Determination for SRC21, consistent with an efficiency challenge of 1% per annum (see also Figure 58 below).<sup>213</sup>
- 6.3.2. However, we note that Scottish Water's business plan proposes to increase its operating expenditure in the final two years of the regulatory period 2021-27, with operating expenditure increasing from £511 million in 2024-25 to £558 million in 2026-27 (2024-25 prices).
- 6.3.3. As shown in Figure 58, Scottish Water's forecast for operating expenditure and PFI fees exceeds the allowance set in the SRC21 Final Determination by £21 million in 2025-26 and £25 million in 2026-27. As such, we have concerns that the proposed additions would result

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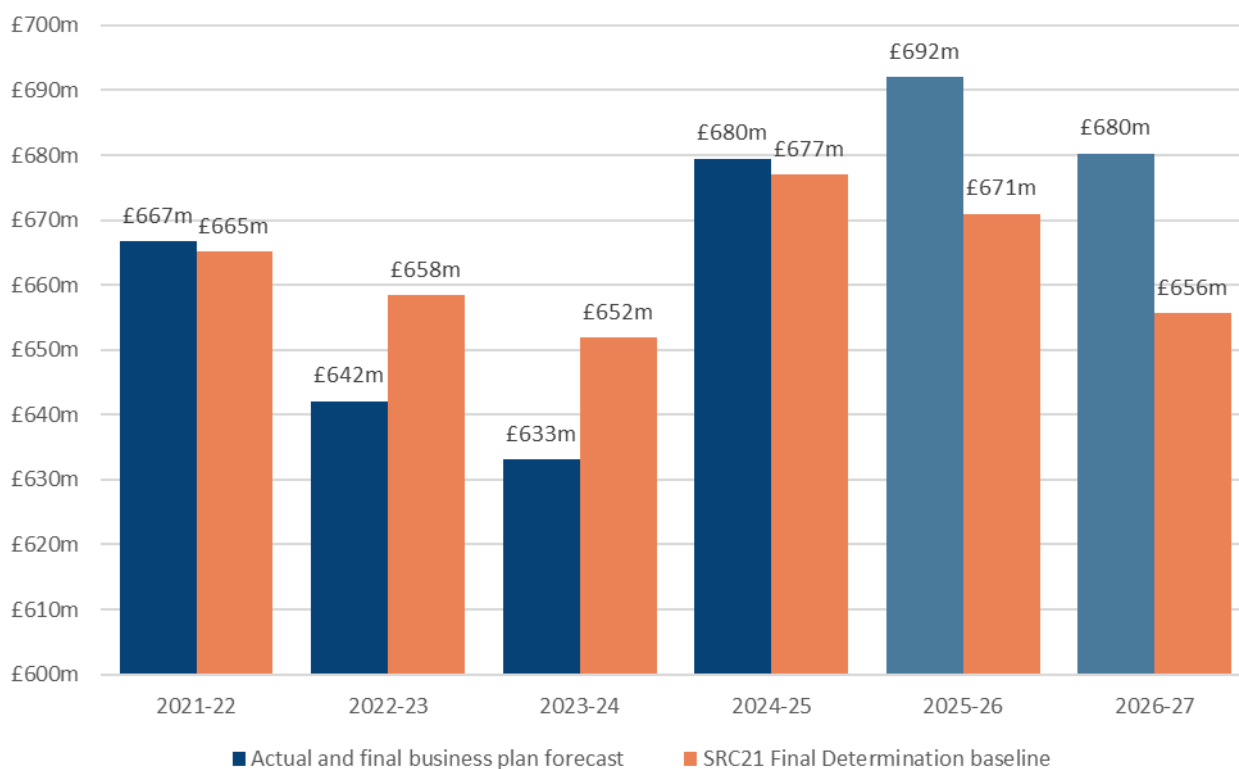
<sup>211</sup> WICS (2009), 'Staff Paper 6', June 2009, p.11.

<sup>212</sup> Ofwat (2023), 'Cost adjustment claims', June 2023.

<sup>213</sup> WICS (2025), 'Scottish Water's performance 2024-25', November 2025, p.13.

in Scottish Water underperforming the operating and PFI expenditure forecasts underpinning the WICS Final Determination for SRC21, with Scottish Water forecasting £3,994 million over SRC21 compared to the allowance set of £3,979 million.

*Figure 58: SRC21 Final Determination allowances versus actual and forecast expenditure (operating plus PFI expenditure) (2024-25 prices)*



6.3.4. We will comment on actual performance against the SRC21 Final Determination allowances in the respective performance reports for 2025-26 and 2026-27. Paragraph 6.6.4 examines these proposed increases for 2025-26 and 2026-27 further, as part of the overall assessment of Scottish Water’s cost efficiency.

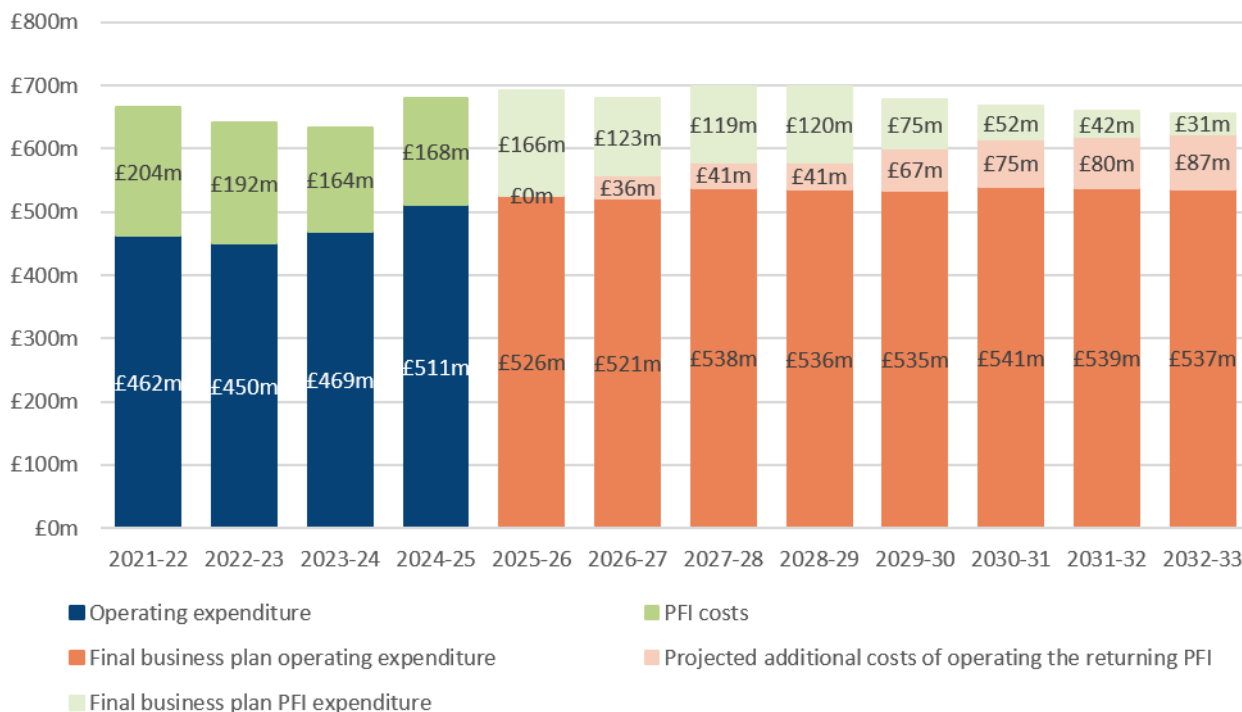
## 6.4. Scottish Water’s final business plan proposals for 2027-33

6.4.1. Scottish Water’s final business plan proposes that the underlying operating expenditure will increase from £511 million in 2024-25 to £537 million, as shown in Figure 59. An additional £87 million will be added to operating expenditure relating to the expenditure arising from the return of PFI assets upon expiry of the PFI contracts.<sup>214</sup> This gives a total operating expenditure of £624 million by 2032-33.

<sup>214</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Table 7 – Other Costs and Assumptions’, 26 February 2026.

6.4.2. Figure 59 also shows that expenditure on fees to PFI operators will decrease from £168 million in 2024-25 to £31 million by 2032-33, as a result of these sites transferring to Scottish Water upon contract expiry.

Figure 59: Scottish Water’s operating and PFI expenditure proposal for SRC27 (2024-25 prices)



6.4.3. Table 47 below provides the breakdown of Scottish Water’s operating expenditure into the individual components, starting from the £511 million of operating expenditure in the base year 2024-25.

Table 47: Scottish Water's proposals for additions to base operating expenditure (2024-25 prices)

	2027- 28	2028- 29	2029- 30	2030- 31	2031- 32	2032- 33	Total over SRC27
<b>Operating expenditure 2024-25</b>	£511m	£511m	£511m	£511m	£511m	£511m	
<b>Additional costs arising in 2025-26 and 2026-27</b>	£2m	£2m	£2m	£2m	£2m	£2m	<b>£14m</b>
<b>Energy costs</b>	£18m	£18m	£18m	£18m	£18m	£18m	<b>£108m</b>
<b>RBMP3 chemical costs</b>	£8m	£8m	£8m	£8m	£8m	£8m	<b>£46m</b>
<b>Labour real price effects</b>	£1m	£2m	£3m	£5m	£6m	£7m	<b>£25m</b>
<b>Increase in pension contributions</b>	£0m	£0m	£0m	£7m	£7m	£7m	<b>£22m</b>
<b>Bad debt</b>	£1m	£2m	£3m	£4m	£5m	£6m	<b>£21m</b>
<b>New operating expenditure from enhancement</b>	£1m	£2m	£2m	£3m	£4m	£5m	<b>£16m</b>
<b>Leakage and non-household smart metering impact on operating costs</b>	£0m	-£1m	-£1m	-£2m	-£3m	-£3m	<b>-£11m</b>
<b>Productivity improvements efficiency</b>	-£4m	-£8m	-£11m	-£15m	-£20m	-£24m	<b>-£82m</b>
<b>Returning PFI</b>	£41m	£41m	£67m	£75m	£80m	£87m	<b>£391m</b>
<b>Forecast operating expenditure, including PFI return</b>	<b>£579m</b>	<b>£578m</b>	<b>£602m</b>	<b>£615m</b>	<b>£618m</b>	<b>£624m</b>	<b>£3,617m</b>
<b>Forecast operating expenditure, excluding PFI return</b>	<b>£538m</b>	<b>£536m</b>	<b>£535m</b>	<b>£541m</b>	<b>£539m</b>	<b>£537m</b>	<b>£3,226m</b>

6.4.4. As shown in Table 47, Scottish Water forecasts its operating expenditure to increase from £511 million in 2024-25, to £624 million in 2032-33. However, this increase is partly due to the return of former PFI sites, for which Scottish Water will incur operating expenditure for the first time in the 2027-33 regulatory period. Excluding former PFI sites, Scottish Water's underlying like-for-like operating expenditure increases from £511 million in 2024-25 to £538 million in 2027-28, with operating expenditure remaining around this level over the 2027-33 regulatory period.

6.4.5. The next section will focus on Scottish Water's current operating expenditure efficiency position and the efficiency position after the proposed additions to operating expenditure in the business plan.

## 6.5. Operating expenditure efficiency

6.5.1. As set out in the section 6.2, there are several factors that impact operating expenditure efficiency during the regulatory period:

- Catch-up efficiency;
- Frontier shift;
- Special factors;
- Scope adjustments; and
- Real price effects.

6.5.2. The remainder of this section examines each of these in turn. The additional operating expenditure associated with operating the returning PFI sites has been excluded to ensure expenditure is comparable over time. The expenditure associated with PFI sites is covered separately in section 6.7.

### Catch-up efficiency

6.5.3. The Final Methodology set out that for catch-up efficiency, the starting point was for Scottish Water to apply statistical models that seek to compare or benchmark the levels of operating expenditure across companies in Great Britain, to identify an efficient level of expenditure. This benchmarking will provide an overall assessment, enabling WICS to form a view of relative efficiency levels. We also examine Scottish Water's proposed additions individually to assess their merits. We consider that using benchmarking in this manner, rather than in a mechanistic way, is consistent with best practice.<sup>215</sup>

6.5.4. WICS and Scottish Water have engaged in developing a shared understanding of the data set and methodological adjustments required to run the econometric models.

6.5.5. In technical appendix 12 (TA012), Scottish Water explains how it has used the base expenditure models created by Ofwat for the price review in 2024 (PR24) to assess its efficiency on operating expenditure.<sup>216</sup> The base cost models exclude expenditure outside management control, such as local authority rates and service charges (e.g., abstraction licences paid to SEPA). In line with this, PFI fees have been excluded to examine the underlying operating expenditure over which Scottish Water has control. This leaves items that water companies control, such as staff costs, energy, and materials. The items included are fully explained in Appendix 3.

6.5.6. Based on WICS feedback to its draft business plan, Scottish Water has adjusted the water operating expenditure only models to account for Scottish Water's specific circumstances

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<sup>215</sup> Independent Water Commission (2025), 'Final Report', 21 July 2025, p.193.

<sup>216</sup> Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 012 – Efficiency', 26 February 2026, p.10.

and to improve the statistical significance of the models. Specifically, Scottish Water has used a different density variable in the water distribution models,<sup>217</sup> arguing that this better captures its operating circumstances and improves the model's significance.

- 6.5.7. Scottish Water has also included a post-modelling adjustment to capture the effects of geographical dispersion on water treatment costs.<sup>218</sup> Scottish Water has done so because it has not found an explanatory variable that accurately captures the cost associated with the number of small water treatment works in the models. Scottish Water argues that the number of small treatment works is a factor outside its control, as it is a consequence of its operational area, and that it differs significantly from the water companies in England and Wales against which it is being benchmarked. Scottish Water has also presented evidence of this adjustment as a special factor adjustment.
- 6.5.8. Based on this analysis, Scottish Water considers itself among the leading water and wastewater companies in Great Britain in terms of operating expenditure efficiency, once it accounts for its higher levels of spending on asset maintenance and the relative rurality of its operating area.<sup>219</sup> Table 48 shows the results from Scottish Water's analysis of applying Ofwat's base cost models on an operating expenditure only basis. In the table, a score above 1 indicates the company is inefficient relative to the benchmark; a score of 1 indicates the company is in line with the benchmark; and a score below 1 indicates the company is more efficient than the benchmark.

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<sup>217</sup> Scottish Water has used weighted average density weighted by area as opposed to the weighted average density weighted by population as used in the water resources and treatment and wholesale models.

<sup>218</sup> Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 012 – Efficiency', 26 February 2026, p.82.

<sup>219</sup> Scottish Water (2026), 'Final Business Plan 2027-2033: investing in Scotland's future', 26 February 2026, p.137.

Table 48: Scottish Water base cost models re-run as operating expenditure only relative to benchmark

Models re-run using operating expenditure only	Excluding special factor	Including special factor
Scottish Water water efficiency score relative to median <sup>220</sup>	0.93	0.89
Scottish Water water efficiency score relative to upper-quartile	1.00	0.96
Scottish Water wastewater efficiency score relative to median <sup>221</sup>	0.88	0.88
Scottish Water wastewater efficiency score relative to upper-quartile	0.99	0.99

6.5.9. Scottish Water’s analysis suggests that its operating expenditure efficiency is broadly in line with the leading companies (based on the upper quartile) for the water and wastewater services, excluding PFI assets and expenditure.<sup>222</sup>

6.5.10. WICS builds upon the water models in two ways.

6.5.11. Firstly, by adopting consistent measures of density across the different models to ensure density is captured consistently at a company level. We note that Scottish Water has included weighted average density, weighted by area, in its water distribution models. While the inclusion increases the statistical significance of the treated water distribution models, conceptually, it is unclear why different density measures would be required across value chain activities. We also consider that using consistent density measures across the models would improve their reliability.

6.5.12. Secondly, ensuring that the models include statistically significant explanatory variables, as well as economic and engineering justification. We note that in the models, the variable average pumping head is not statistically significant in the treated water distribution models with p-values ranging from 70% to 99%. As such, we consider that other variables may be more accurate drivers of costs than the average pumping head is in operating expenditure-only models.

6.5.13. WICS has conducted its own benchmarking of Scottish Water’s operating expenditure compared to the expenditure of the other water and wastewater companies in Great Britain. As outlined in 6.5.4, WICS and Scottish Water engaged to develop a shared dataset to run the econometric models. Following this engagement, Ofwat has published 2024-25 data for its base models.<sup>223</sup> We have incorporated the 2024-25 data for both the England and Wales companies and Scottish Water into our modelling.

<sup>220</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Technical Appendix 012 – Efficiency’, 26 February 2026, p.85.

<sup>221</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Technical Appendix 012 – Efficiency’, 26 February 2026, p.106.

<sup>222</sup> The median is the middle ranking company when companies are arranged from most to least efficient. The upper quartile is the top-performing 25% of companies.

<sup>223</sup> Ofwat (2025), ‘Competition and Markets Authority references’, 2 October 2025.

- 6.5.14. WICS has adjusted the models to take account of Scottish Water’s specific circumstances and to improve their statistical significance on an operating expenditure-only basis. The following paragraphs provide an overview of the changes to each model.
- 6.5.15. In the water models, we have made two adjustments. The first is to exclude models that contain one of the weighted-average density variables.<sup>224</sup> In its final business plan, Scottish Water explained that this variable does not accurately reflect the density of its operational area and therefore does not reflect its higher costs of serving a more sparsely populated area compared to companies in England and Wales. Our analysis excludes models that use this particular measure of density to better reflect Scottish Water’s circumstances, thereby improving the statistical significance of the models.
- 6.5.16. The second is to use booster pumping capacity per length of mains, in place of the average pumping head variable. Both variables reflect the geography and topography of a company’s operating area: a larger, more dispersed area would require more pumping to transport water and is expected to result in higher operating expenditure. We made this change, recognising that the average pumping head variable loses significance in operating-expenditure-only models, and that the models’ significance improves when using booster capacity per unit length of mains instead.
- 6.5.17. In the wastewater models, we have mirrored Scottish Water’s ‘bottom-up’ approach, using sewage collection and treatment models.<sup>225</sup> We also do not use the bioresources models for historical expenditure, recognising that over the historical modelling period, most of Scottish Water’s biosolids are treated, recovered or disposed of through PFI contracts. However, we use these models to forecast an efficient level of operating expenditure for assets that return to Scottish Water.
- 6.5.18. Additional details regarding our modelling approach are provided in Appendix 3.
- 6.5.19. Table 49 shows the results of WICS’ modelling compared to Scottish Water’s analysis before any special factor adjustment. The adjustments take further account of Scottish Water’s specific circumstances, such as population density, and improve the statistical significance of the models. A combined efficiency score comparing Scottish Water relative to the Water and Sewerage Companies (WaSCs) in England and Wales has also been provided.

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<sup>224</sup> The variable is ‘lnWAD\_MSOA\_population’, which is the weighted average density based on the geographical area measurement Middle layer Super Output Areas (MSOA). A weighted average density measure based on local authority area remains in WICS’ modelling. Appendix 3 provides details on the explanatory variables used in the efficiency modelling.

<sup>225</sup> ‘Bottom up’ refers to the language used by Ofwat and Scottish Water in reference to the approach in the efficiency modelling. In this context it means the sum of the parts of the value chain, as opposed to on a wholesale basis. WICS considers this assessment as being a ‘top down’ view of efficiency.

Table 49: Scottish Water and WICS operating expenditure only models relative to benchmark

Models re-run using operating expenditure only	Scottish Water's results	WICS' results
Scottish Water water efficiency score relative to median	0.93	0.95
Scottish Water water efficiency score relative to upper-quartile	1.00	1.02
Scottish Water wastewater efficiency score relative to median	0.88	0.85
Scottish Water wastewater efficiency score relative to upper-quartile	0.99	0.90
Scottish Water combined efficiency score relative to the upper-quartile of the England and Wales WaSCs	Not undertaken	0.97

6.5.20. We consider that the improvement in efficiency scores in the wastewater models is a result of the additional year of data, which reflects an overall increase in water company costs in England and Wales, including higher electricity costs associated with the modelling period changing from 2019-20 to 2023-24, then to 2020-21 to 2024-25.<sup>226</sup> It is worth noting that Scottish Water has not experienced the same impact from higher electricity costs as companies in England and Wales, due to its pre-purchasing of energy in 2021. The effect of this is examined fully in 6.5.32.

### Choice of benchmark

6.5.21. Regulators decide where to set the efficient benchmark, based on a specific percentile of the range of companies' efficiency scores in the efficiency modelling. An average-performing company would be consistent with the 50th percentile (i.e. half of the companies are more efficient than this level, and half are less efficient), and an upper-quartile-performing company would be consistent with the 75th percentile (i.e. a quarter of companies are more efficient than this level). Ofgem, the energy regulator for Great Britain, sets the efficiency benchmark on a glidepath from the 75th to the 85th percentile by the end of the regulatory period (i.e., 15% of companies are more efficient than this level).<sup>227</sup> The choice of benchmark depends on several factors, including the robustness of the models and their ability to account for factors outside management control that affect a water company's costs.

6.5.22. WICS considers the upper quartile an appropriate benchmark. WICS considers that Scottish Water has consistently achieved an upper-quartile level of efficiency. Adopting a less challenging benchmark would mean lowering expectations for Scottish Water below what it has previously achieved. The use of an upper-quartile benchmark is also consistent with regulatory precedent: Ofwat set an upper-quartile efficiency challenge in PR24 for base

<sup>226</sup> Ofwat (2024), 'PR24 Draft Determinations Expenditure allowances – Base cost modelling decision appendix', July 2024, p.27.

<sup>227</sup> Ofgem (2025), 'RIIO-3 Final Determinations – Gas Distribution', 4 December 2025, p.224.

costs, and the CMA also set an upper-quartile efficiency challenge in its provisional determination.<sup>228, 229</sup>

6.5.23. WICS notes the regulatory precedent set by Ofgem, which established a catch-up efficiency challenge with a glide path from the 75th to the 85th percentile in its RIIO-3 Final Determinations for gas distribution.<sup>230</sup> This is the same benchmark as in the RIIO-2 Final Determinations for gas distribution.<sup>231</sup> This 85th benchmark was upheld by the CMA in the RIIO-2 redetermination, stating that “regulators must always consider the case-specific circumstances and set the benchmark at a level appropriate for the case”.<sup>232</sup>

6.5.24. While we could set a benchmark at the 85th percentile, we also recognise that the modelling cannot account for all factors outside management control that affect Scottish Water’s costs. Furthermore, in line with best practice, we are not applying the efficiency modelling in a mechanical way; rather, we are using the analysis to provide an in-the-round view of Scottish Water’s efficiency, as described in 6.5.3.

### Special factors

6.5.25. As mentioned in 6.5.7, Scottish Water has proposed a post-modelling adjustment for the number of small water treatment works that it operates compared to the companies in England and Wales. Scottish Water has provided evidence for this adjustment as a special factor claim, and this is how WICS will evaluate it.

6.5.26. Figure 60 shows that Scottish Water is a statistical outlier in the number of water treatment works it operates in the smallest size band compared to the companies in England and Wales.<sup>233</sup> Scottish Water claims that this is not adequately captured in the models, as the issue is not the distribution input of small water treatment works, but the unit cost of small treatment works. Scottish Water has accounted for this by emulating the approach taken in the wastewater models, where septic tanks are excluded, by excluding the small water treatment works above the median level in England and Wales and the corresponding distribution input from those works. Scottish Water has calculated the cost of this to be £7.1 million per year.

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<sup>228</sup> Ofwat (2025), ‘PR24 Final Determinations: Expenditure allowances’, February 2025, p.26.

<sup>229</sup> CMA (2025), ‘Provisional Determinations Volume 1: Introduction, Background, Approach and prioritisation, Base costs – Chapters 1–4’, 9 October 2025, p.58.

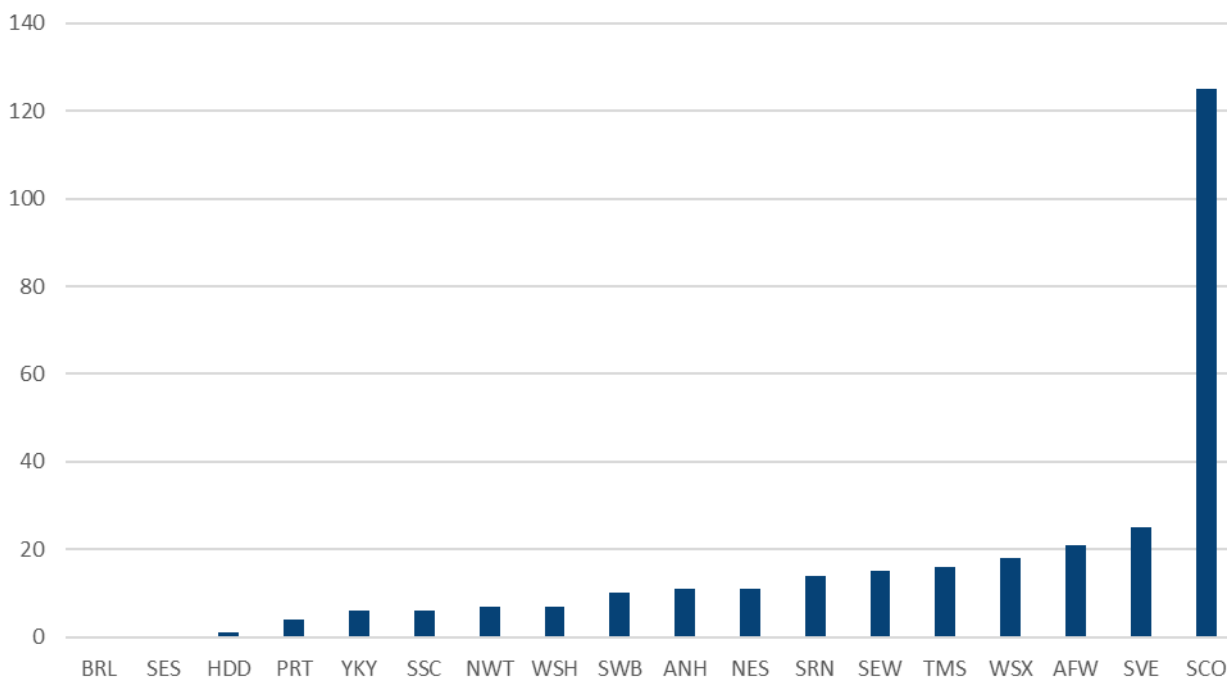
<sup>230</sup> Ofgem (2025), ‘RIIO-3 Final Determinations – Gas Distribution’, 4 December 2025, p.224.

<sup>231</sup> Ofgem (2021), ‘RIIO-2 Final Determinations – GD Sector Annex (REVISED)’, 3 February 2021, p.8.

<sup>232</sup> CMA (2021), ‘Final Determination Volume 3: Individual Grounds’, 28 October 2021, p.165.

<sup>233</sup> Scotland and England use different size bands for water treatment works. The smallest size band in Scotland is  $\leq 1$  Ml/d and in England and Wales it is  $\leq 2$  Ml/d. On a like-for-like basis, Scottish Water would likely operate more water treatment works than Figure 60 shows.

Figure 60: Number of water treatment works in the smallest size band



6.5.27. WICS has assessed Scottish Water’s special factor claim using the following criteria:

- Does the claim relate to unique circumstances compared to the companies in England and Wales;
- Is the claim under management control; and
- Is the claim material.

6.5.28. Based on these criteria, WICS considers that Scottish Water has provided sufficient evidence to justify a special factor adjustment for the number of small treatment works. The complete assessment is provided in Appendix 3.

6.5.29. However, WICS’ water resources and treatment models are better suited to Scottish Water’s circumstances than the models Scottish Water has used. WICS’ models provide an additional £1.7 million in water resources and treatment compared to Scottish Water’s. As such, we will adjust Scottish Water’s modelled expenditure by £5.4 million.

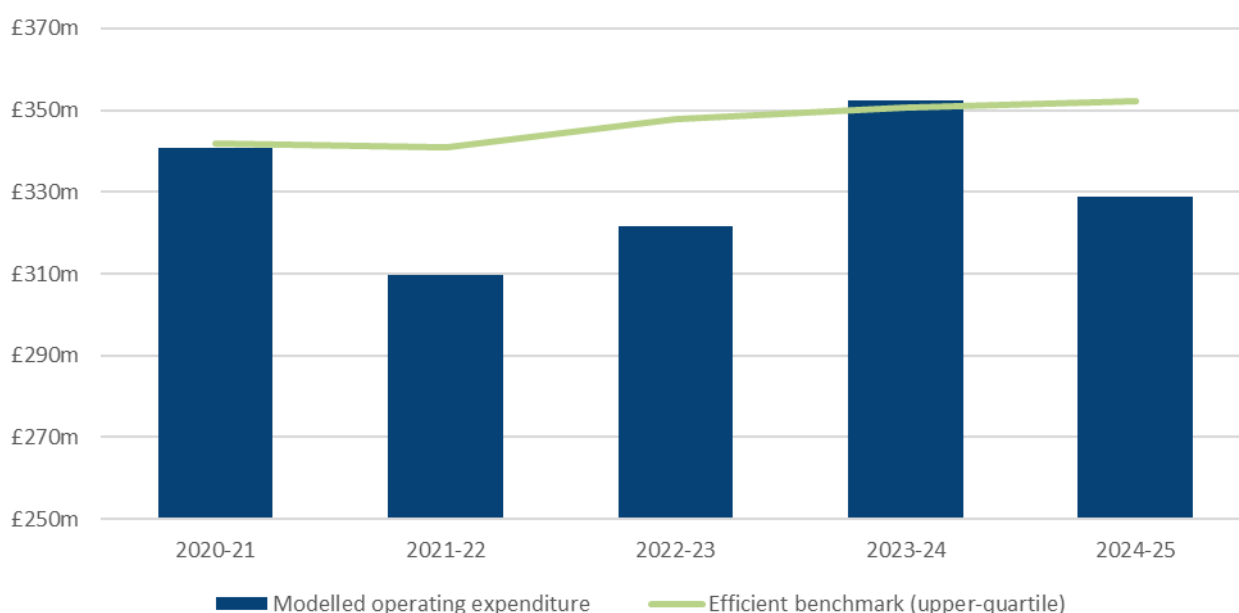
### Scottish Water’s efficiency position

6.5.30. Figure 61 compares Scottish Water’s actual operating expenditure used for benchmarking purposes post special factor adjustment (as shown by the blue bars) to an efficient benchmark based on an upper quartile level of efficiency (as shown by the green line) from 2020-21 to 2024-25.<sup>234</sup> This figure shows that Scottish Water’s operating expenditure

<sup>234</sup> The expenditure used for benchmarking excludes costs outside of management control such as local authority rates.

efficiency was generally lower than the efficiency benchmark over this period, consistent with Scottish Water’s findings. Scottish Water’s operating expenditure used for the modelling was £331 million (2024-25 prices) on average over the 2020-21 to 2024-25 period, with the efficient benchmark at £347 million (2024-25 prices) on average over the same period.

Figure 61: Modelled operating expenditure versus efficient benchmark post special factor adjustment (2024-25 prices)

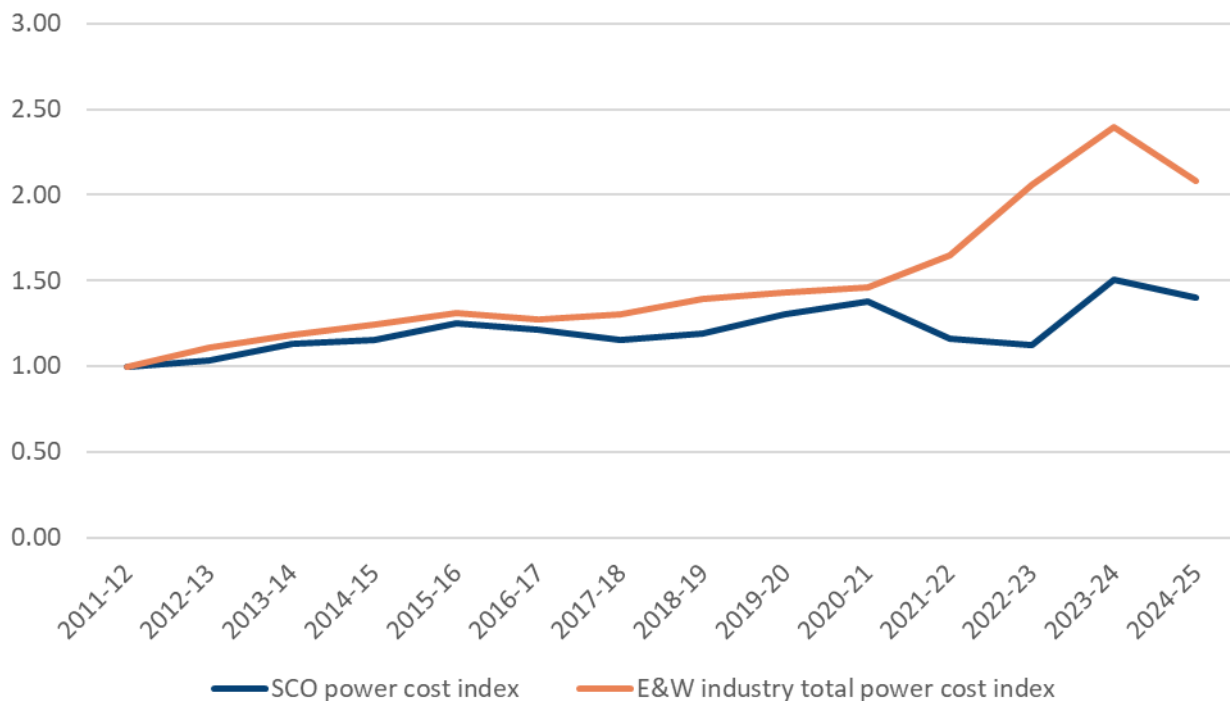


6.5.31. However, WICS considers that this position reflects Scottish Water’s contract to pre-purchase around 50% of the electricity that it consumes<sup>235</sup> and consequently having significantly lower electricity costs than the companies in England and Wales over the modelling period.

6.5.32. Over the 2021-27 regulatory period, Scottish Water fixed around half of its grid electricity requirements through a long-term power purchase agreement. Figure 62 shows the evolution of power costs for Scottish Water compared to the companies in England and Wales over the period 2011-12 to 2024-25. This covers both the volume of energy consumed (in GWh) and the unit energy price. In the figure, we set power costs in 2011-12 to 1, with subsequent-year costs shown relative to that level. As shown, Scottish Water’s power costs closely followed those of the companies in England and Wales until 2020-21, when Scottish Water’s costs diverged as a result of fixing its electricity costs. Scottish Water’s approach has protected customers from unforeseen cost shocks arising from the rise in electricity costs between 2020-21 and 2024-25.

<sup>235</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Table 7 – Other Costs and Assumptions Commentary’, 26 February 2026, p.6.

Figure 62: Scottish Water's power costs compared to the companies in England and Wales<sup>236</sup>



6.5.33. We recognise that Scottish Water’s underlying efficiency position is likely to reflect this difference in electricity costs. For example, our benchmarking of Scottish Water’s operating expenditure against the companies in England and Wales will compare Scottish Water’s energy costs (the blue line in Figure 62) against the energy costs of the water and sewerage companies (WaSCs) in England and Wales (the orange line in Figure 62). To understand how Scottish Water’s lower electricity costs affect the comparison of Scottish Water’s operating expenditure with the other companies in England and Wales, we review benchmarking results with and without energy costs included. Figure 63 shows the results of the benchmarking models from 2020-21 to 2024-25, compared to the WaSCs in England and Wales, including power costs and Figure 64 shows the same comparison, excluding power costs.

<sup>236</sup> Based on England and Wales data from Ofwat base model datasets.

Figure 63: Scottish Water's efficiency position including power costs (2020-21 to 2024-25)

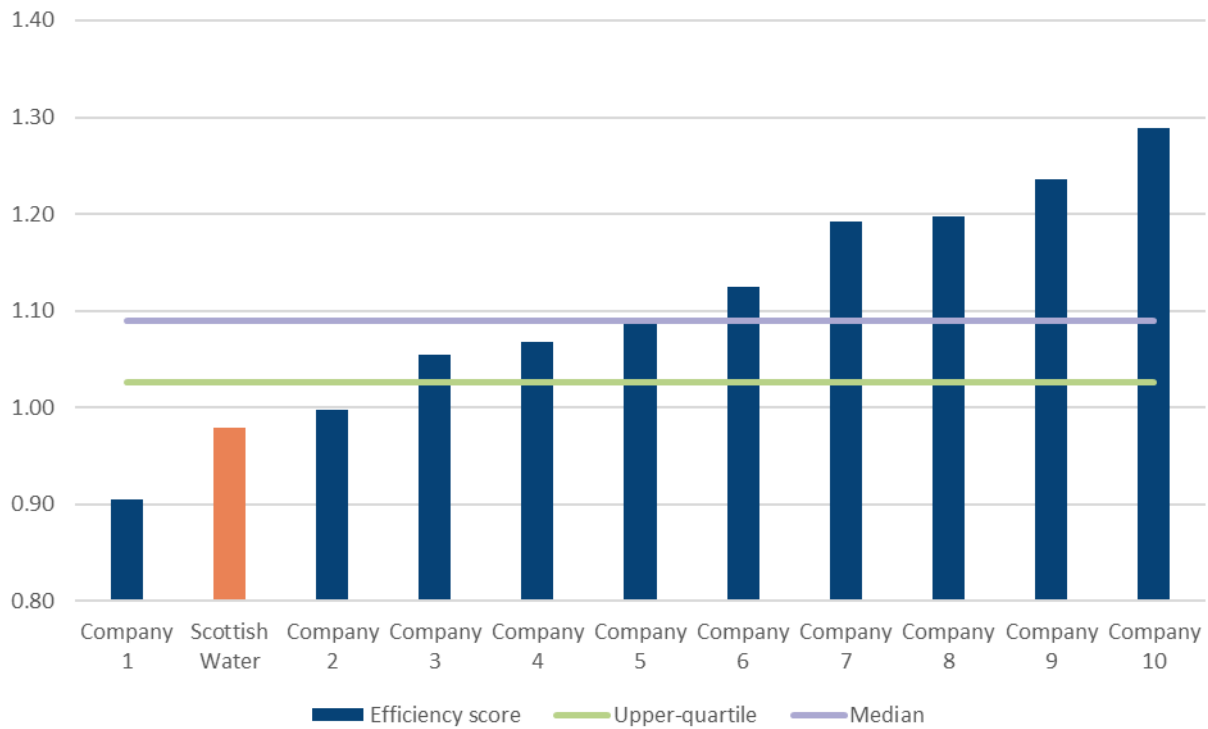
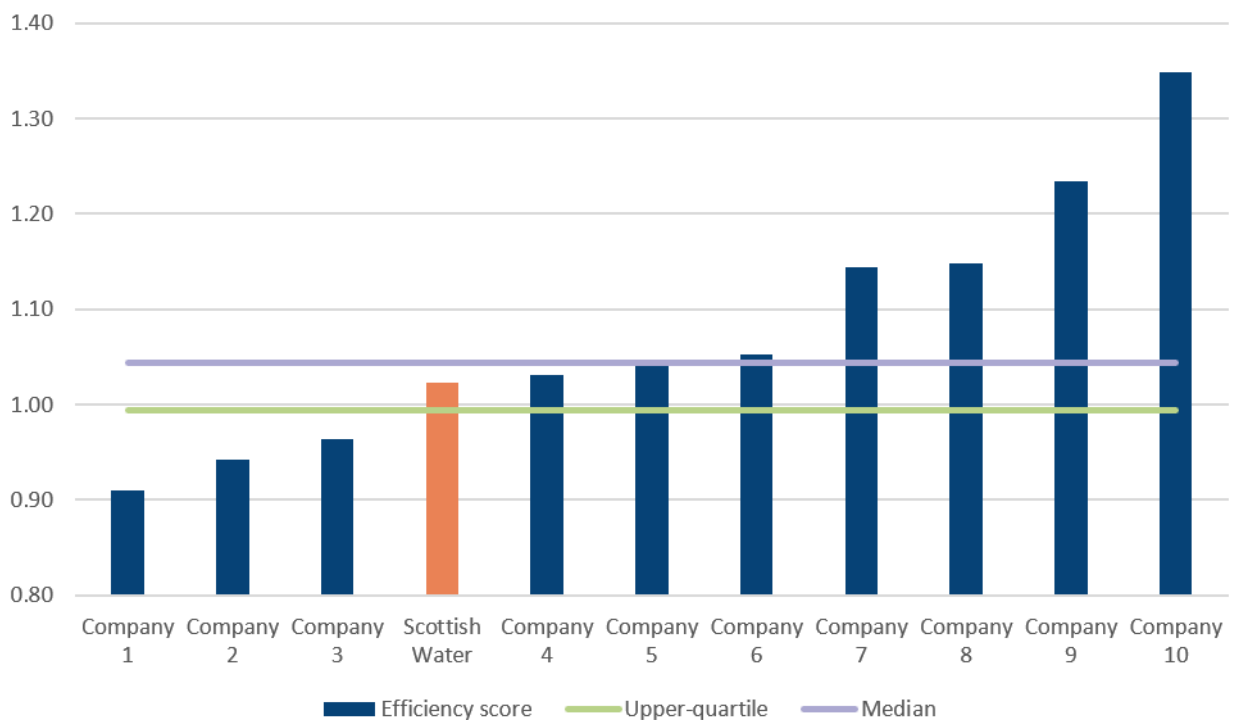


Figure 64: Scottish Water efficiency position excluding power costs (2020-21 to 2024-25)



6.5.34. When excluding power costs, Scottish Water moves from performing better than the upper quartile of companies in Great Britain to performing somewhere between the upper quartile

and the median. The difference between Scottish Water's position and the upper quartile in relation to Scottish Water's other items of operating expenditure (excluding power), as shown in Figure 64, equates to around £14 million per year on average over the five-year modelling period (2020-21 to 2024-25).

6.5.35. WICS notes that the number of employees for regulated water and wastewater services at Scottish Water has increased between 2021-22 and 2024-25 by 15%.<sup>237, 238</sup> WICS recognises that some of this increase will be to support the larger investment programme over the 2021-27 regulatory period. However, this may be one of the factors resulting in a reduction in Scottish Water's efficiency when power costs are excluded from the analysis.

6.5.36. WICS considers that Scottish Water has scope to reduce its current operating expenditure, given that if Scottish Water had not pre-purchased energy, it would be at a below upper quartile level of efficiency. However, our draft decision is not to apply a catch-up efficiency challenge. Instead, we consider that this supports our draft decision to assume a 1% per annum productivity improvement, and it also provides Scottish Water with some capacity to absorb any unexpected cost increases in the period.

## 6.6. Assessing Scottish Water's proposals for additions to operating expenditure

6.6.1. Scottish Water has proposed several increases to its operating expenditure in SRC27. These cover:

- Additional costs arising in 2025-26;
- Electricity;
- Chemical costs related to achieving River Basin Management Plan 3 (RBMP3) requirements;
- Pension contributions;
- Bad debt; and
- Additional operating expenditure arising from investment.

6.6.2. We will evaluate the proposals using two criteria:

1. Are the increases well justified?
2. Are there offsetting factors?

6.6.3. We cover each item in turn.

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<sup>237</sup> Scottish Water (2022), '2021/22 Annual Report and Accounts Performance and Prospects', August 2022, p.166.

<sup>238</sup> Scottish Water (2025), '2024/25 Annual Report and Accounts Performance and Prospects', August 2025, p.127.

## Additional costs arising in 2025-26 and 2026-27

- 6.6.4. The additional costs in 2025-26 and 2026-27 cover several areas, including higher employment costs, higher National Insurance contributions, and higher electricity costs. These increases are offset by lower cloud computing arrangement costs, lower property costs, and improved efficiencies in business planning processes. The net effect over the 2027-33 regulatory period is an increase of £2.4 million per year, or £14 million in total.
- 6.6.5. Scottish Water proposes a £2.9 million annual increase (£5.4 million before capitalisation) for an increase in employer National Insurance contributions as decided in the UK Government Autumn budget 2024.<sup>239</sup> WICS considers that these costs will impact all employers in the economy and will either be passed on to consumers through higher prices in the general economy, and therefore be reflected in inflation,<sup>240</sup> or result in lower wage growth going forward. If these costs are passed on to consumers through higher prices and reflected in inflation, then Scottish Water should be insulated from these additional costs, given that its revenue is linked to the consumer price index measure of inflation. Ofgem reached a similar view in its Final Determinations for electricity transmission, gas distribution, and gas transmission.<sup>241</sup>
- 6.6.6. While these increases are in 2025-26 and 2026-27, WICS does not consider it appropriate to include this expenditure over the 2027-33 regulatory period. Furthermore, WICS has removed the element of the increase in national insurance contributions in employment costs that Scottish Water has included in the capital investment programme (around £2.5 million a year, or £15 million over the 2027-33 regulatory period), as per paragraph 5.8.10.

## Energy

### *Are the proposed increases well justified?*

- 6.6.7. Scottish Water proposes an increase in operating expenditure of £7.9 million in 2025-26 and an additional £10 million in 2027-28 relating to electricity costs. Scottish Water explains that the £7.9 million increase in 2026-27 is due to an increase in non-commodity electricity costs as a result of Ofgem's draft transmission, capacity mechanism and nuclear charges. The £10 million increase in 2027-28 is due to the expiry of a long-term power purchase agreement under which Scottish Water fixed the price of around half of its electricity requirements. Taken together, Scottish Water forecasts that it will require a further £18 million per year in operating expenditure, equivalent to £108 million over the 2027-33 regulatory period.

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<sup>239</sup> UK Government (2024), 'Autumn Budget 2024', October 2024.

<sup>240</sup> House of Lords Economic Affairs Committee (2024), 'Corrected oral evidence: Economic inactivity: welfare and long-term sickness', 26 November 2024.

<sup>241</sup> Ofgem (2025), 'RIIO-3 Final Determinations Overview Document', 4 December 2025, p.97.

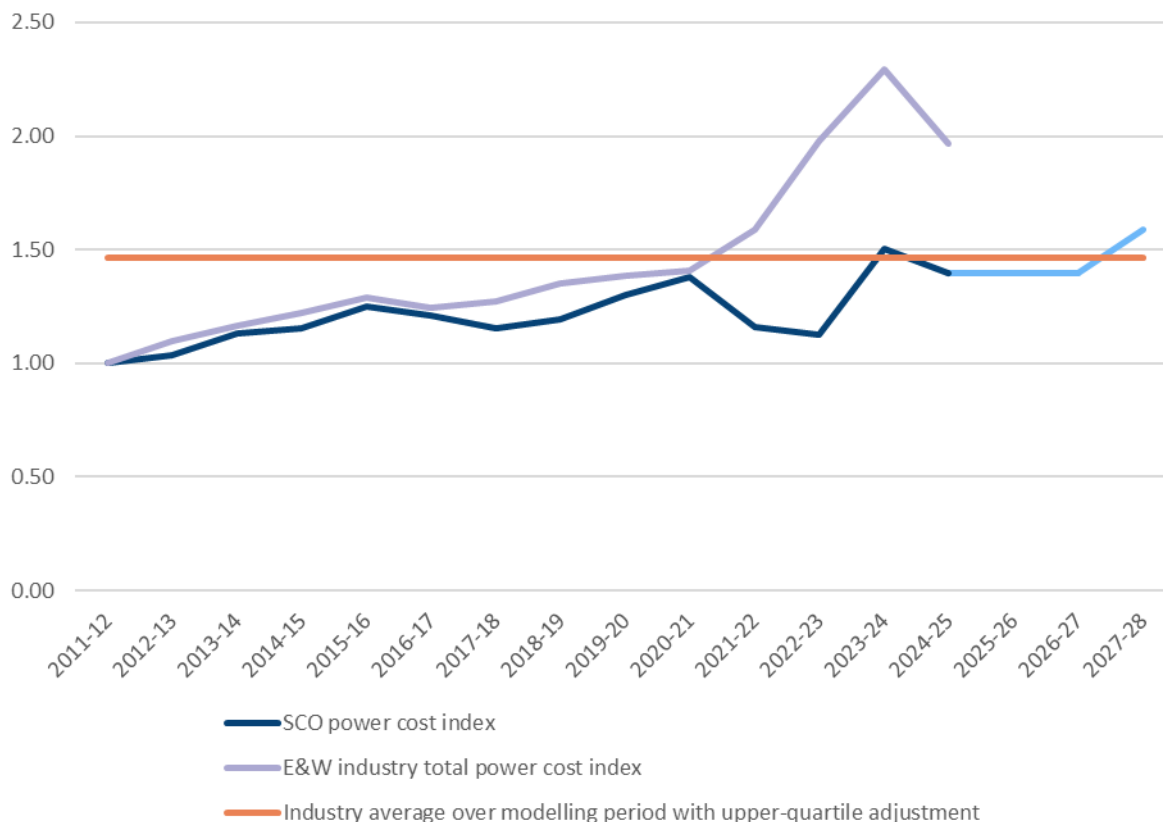
- 6.6.8. Examining the increase of £7.9 million in 2026-27 due to an increase in non-commodity electricity costs, we requested additional information for this evidence, but Scottish Water did not provide it. While there may be legitimate reasons for this increase, we do not consider it well justified. As such, it does not meet our first criterion, and we are not minded to allow the £7.9 million increase in 2026-27 for non-commodity electricity costs. However, we consider that Scottish Water is likely to be able to evidence it in response to our Draft Determination. As such, we have made a provision for it, which we will either confirm or remove in our Final Determination.
- 6.6.9. For the increase of £10 million in 2027-28 relating to electricity costs, this is due to the ending of pre-purchasing agreements as mentioned in 6.5.32. Scottish Water has provided additional evidence to justify these costs.
- 6.6.10. WICS analysis shows that Scottish Water's electricity costs per GWh have increased 50% between 2021-22 and 2024-25, while the electricity industrial consumer index in Great Britain has increased 75% over the same period.<sup>242</sup> As such, Scottish Water's electricity costs have increased at a lower rate than equivalent industrial users over the same period.
- 6.6.11. The benchmarking undertaken by WICS includes an implicit allowance for energy costs.<sup>243</sup> For a claim to be justified, the increase would need to be in excess of the implicit allowance from the models. Figure 65 shows the average power costs across the water industry in Great Britain against Scottish Water's proposals for additional electricity costs.

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<sup>242</sup> Department for Energy Security and Net Zero (2026), 'Industrial energy price indices', 7 April 2026.

<sup>243</sup> An implicit allowance is an element, in cash terms, of the operating expenditure benchmark which can be considered available for funding certain elements of operating expenditure. In this circumstance, it is the element of the efficient benchmark which is available for funding power costs.

Figure 65: Scottish Water's additional electricity proposal against the industry average



6.6.12. The orange line in Figure 65 represents the implicit allowance for energy costs in the models. We would only consider an increase in excess of the implicit allowance to be justifiable, as any increase up to the orange line should be funded from the implicit allowance. Scottish Water is currently £3.5 million below the orange line, and the proposed £10 million increase in 2027-28 would take it to £6.5 million above it. As such, WICS considers that a £6.5 million increase, or £39 million over SRC27, is justified.

*Are there offsetting factors?*

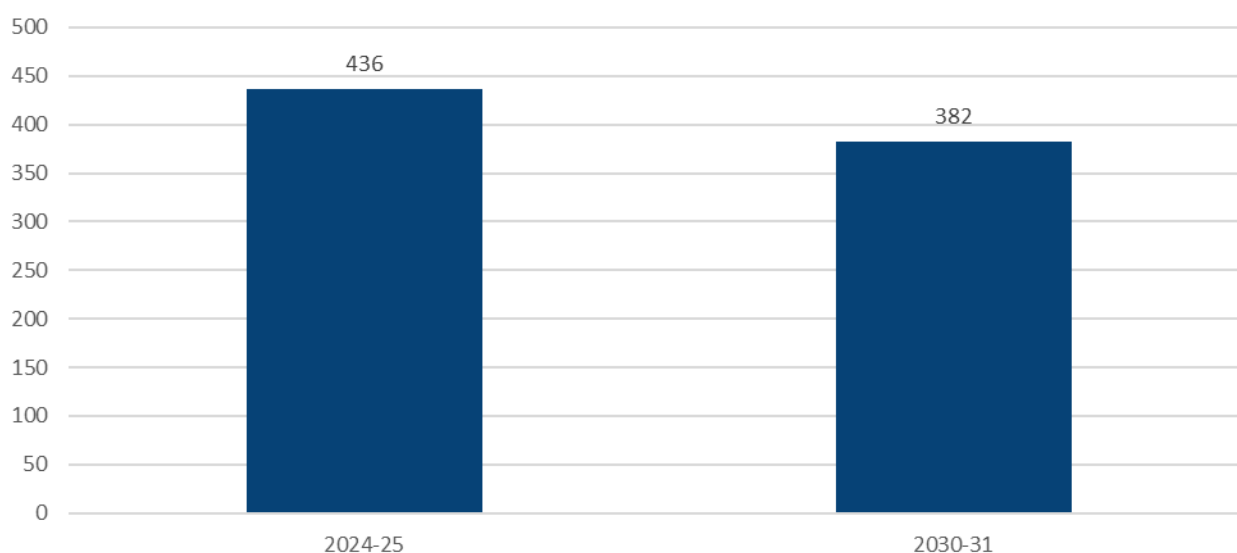
6.6.13. In SRC21, Scottish Water has invested significantly in schemes to reduce the electricity it draws from the grid. This includes investments to modernise pumping stations and increase their generation of renewable energy. These investments should result in a noticeable decrease in energy consumption and costs and should futureproof Scottish Water to future energy price shocks.

6.6.14. In addition to its investments in SRC21, Scottish Water is planning to further invest in renewable energy generation in SRC27, increasing annual generation by 77 GWh in 2030-31.<sup>244</sup> This increase in renewable energy generation should result in a corresponding

<sup>244</sup> Scottish Water (2026), 'SR27 Final Business Plan: Table 2 – Enhancement and Growth Outputs and Investments', 26 February 2026.

decrease in costs for purchasing grid electricity, either by Scottish Water using the renewable energy itself or by funding it with revenue generated by exporting the renewable energy. 23 GWh per year of this increase will offset all grid electricity from the West Central Bioresources facility, where the renewable energy assets will be situated, leaving a reduction in grid electricity consumption of 54 GWh per year. Figure 66 shows the decrease in grid electricity consumption that should occur when the renewable energy becomes available.

Figure 66: Scottish Water's grid electricity consumption (GWh)



6.6.15. This reduction in grid electricity consumption will result in an £11 million annual reduction in electricity costs for Scottish Water from 2030-31. However, this reduction is contingent on the West Central Bioresources project. As such, this reduction will be offset in the conditional charge cap for West Central Bioresources. This is explained further in Chapter 8 and Chapter 9.

6.6.16. Table 50 shows the change in energy costs over the regulatory period from 2024-25. The additional energy costs to be evidenced are presented in square brackets on the basis that we have made a provision for it, which we will either confirm or remove in our Final Determination, subject to Scottish Water providing further evidence.

Table 50: Change in Scottish Water's energy costs from 2024-25 (2024-25 prices)

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	SRC27 total
Change in Scottish Water's energy costs from 2024-25	£6.5m	£6.5m	£6.5m	£6.5m	£6.5m	£6.5m	£38.9m
<b>[Additional energy costs to be evidenced]</b>	<b>[£7.9m]</b>	<b>[£7.9m]</b>	<b>[£7.9m]</b>	<b>[£7.9m]</b>	<b>[£7.9m]</b>	<b>[£7.9m]</b>	<b>[£47.5m]</b>

## Chemical costs related to achieving the River Basin Management Plan 3 (RBMP3) requirements

### *Are the proposed increases well justified?*

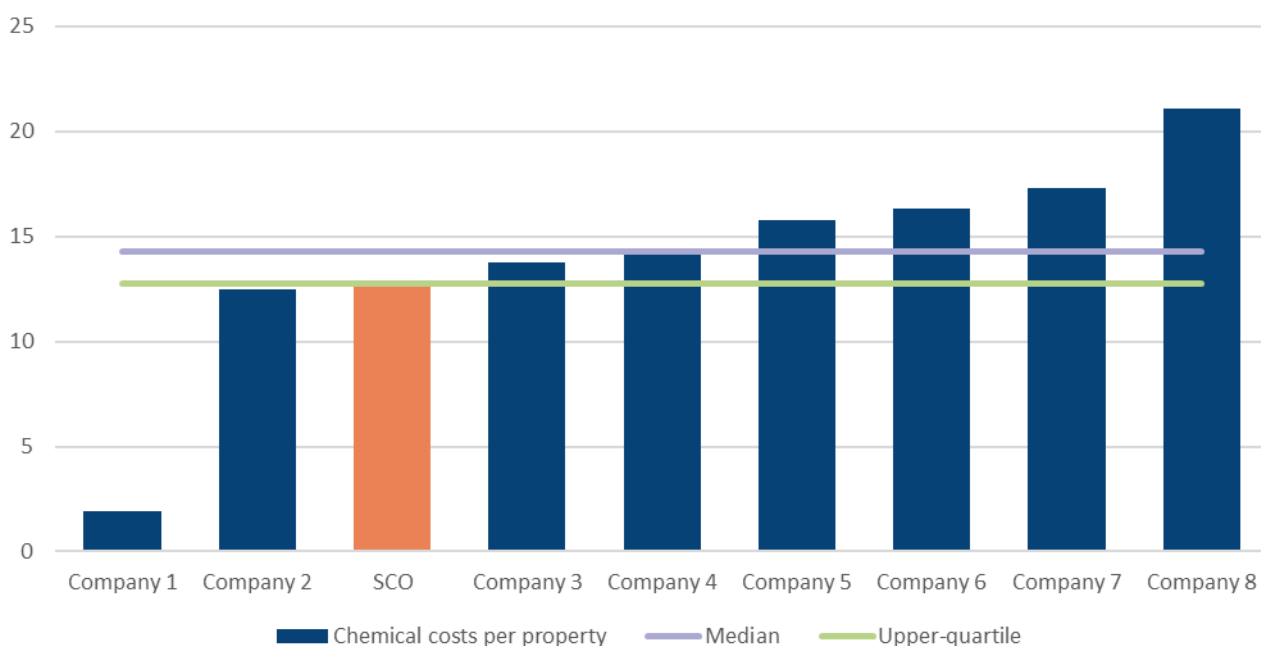
6.6.17. Scottish Water has proposed an increase of £7.7 million from 2027-28 to meet new phosphorus standards starting in December 2027. This is equal to £46 million over SRC27. As the increase is due to new phosphorus standards, it is outside Scottish Water’s control.

6.6.18. We requested additional information justifying the proposed increase in chemical costs. Scottish Water has submitted a scheme-by-scheme breakdown of the required chemicals and their associated costs. WICS considers this a sufficient justification for most costs; however, £0.72 million (2024-25 prices) in sludge costs is not explained.<sup>245</sup> As such, we consider that £7.0 million of Scottish Water’s proposal is justified.

### *Are there offsetting factors?*

6.6.19. Analysis by WICS indicates that Scottish Water is in line with the top-performing WaSCs in Great Britain in terms of chemical costs per property. Figure 67 shows the results from this analysis.

Figure 67: WaSCs chemical costs per property



6.6.20. While it would appear that additional chemical costs would push Scottish Water above the upper quartile for chemical costs per property, WICS notes that Ofwat allowed for additional costs in PR24 for phosphorus removal.<sup>246</sup> When this additional cost adjustment is included

<sup>245</sup> The item named “Sludge per tonne Need to convert to M3 for tankering to STC’s and add additional treatment (Costs from Waste Services)” is hard coded in Scottish Water’s spreadsheet and no calculations for the value are provided.

<sup>246</sup> Ofwat (2024), ‘PR24 Phosphorus removal cost adjustment’, December 2024.

alongside an increase in Scottish Water’s chemical costs, Scottish Water maintains its position at the upper-quartile level. As such, WICS considers that there are no offsetting factors and allows a £7.0 million increase in chemical costs.

### **Increase in pension contributions**

#### *Are the proposed increases well justified?*

6.6.21. Scottish Water has proposed an increase of £7.2 million from 2030-31 due to a “more likely than not”<sup>247</sup> increase in pension contributions. Scottish Water is currently forecasting a funding deficit from 2030-31, following a long period of surplus. The surplus has allowed Scottish Water to lower contribution rates. If there is a deficit at the time of the triennial valuation of the financial position of the pensions schemes that Scottish Water employees are members of, then Scottish Water may need to increase pension contributions. Scottish Water’s proposal would be equal to £22 million over SRC27.

6.6.22. WICS does not consider any potential increase to be justified in its entirety, given the uncertainty around the timing and scale of any increase; however, as these factors are outside Scottish Water’s control, we recognise that this could present an issue for Scottish Water.

6.6.23. As such, WICS proposes linking this additional expenditure to a conditional charge cap as an uncertainty mechanism. If pension contributions need to increase, Scottish Water will be able to recover them through customer charges. However, if the cost does not materialise, customers are protected. We cover this further in Chapter 8 and Chapter 9.

### **Bad debt**

#### *Is it well justified?*

6.6.24. Scottish Water has proposed that bad debt will increase by roughly £1 million per year, equating to £21 million over the 2027-33 regulatory period.

6.6.25. Bad debt is a revenue provision for amounts Scottish Water will not collect due to customers’ non-payment of water and/or wastewater charges. In the water industry, bad debt is treated as an operating expense, spreading the cost of non-payment across all customers.

#### *Are there offsetting factors?*

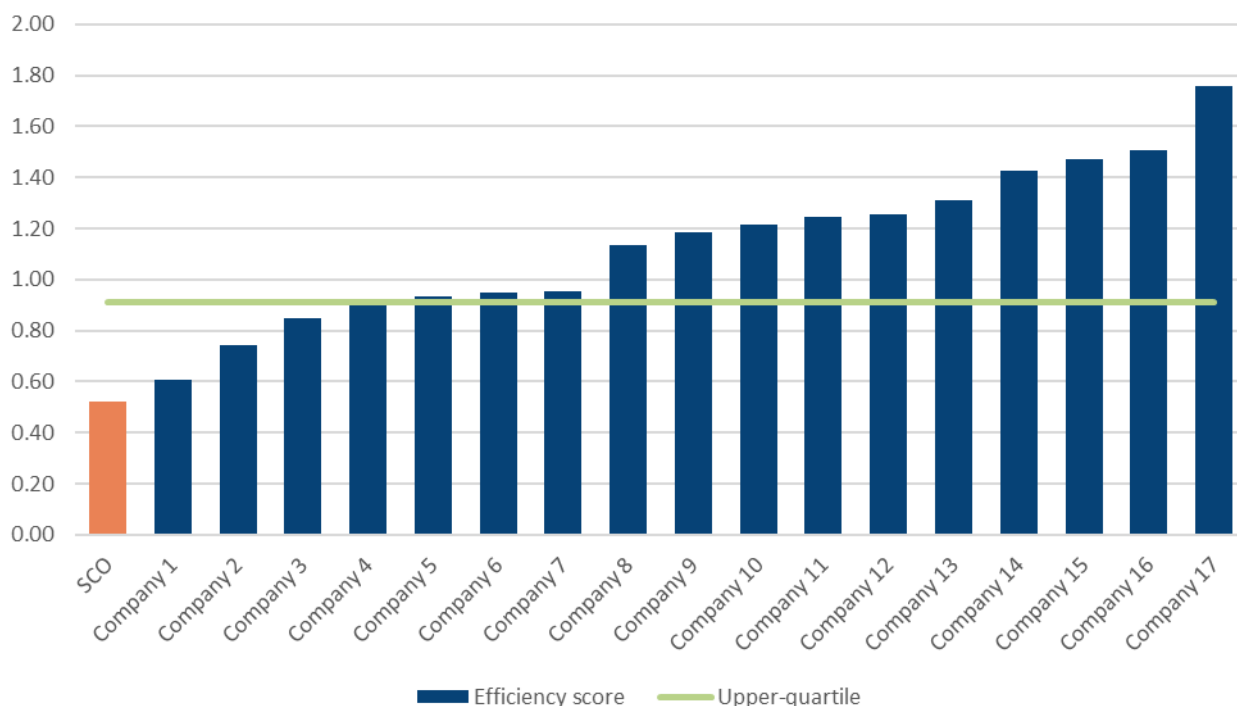
6.6.26. Scottish Water has proposed increasing its current level of bad debt by the proposed charge cap of 3.3% per year, recognising that it will not collect revenue each year and that the bad debt charge will therefore increase in line with the proposed charge cap.

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<sup>247</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Table 7 – Other Costs and Assumptions Commentary’, 26 February 2026, p.8.

6.6.27. WICS has undertaken a benchmarking analysis to compare Scottish Water's level of bad debt with that of companies in England and Wales. Figure 68 shows Scottish Water's efficiency relative to companies in England and Wales, with Scottish Water the most efficient in Great Britain.

Figure 68: Bad debt benchmarking analysis



6.6.28. Scottish Water also has limited control over bad debt collection, as local authorities undertake it on its behalf. As such, there are limited offsetting factors, as Scottish Water has low bad debt costs and limited ability to improve its collection rates.

6.6.29. While WICS considers Scottish Water's methodology for forecasting bad debt to be appropriate, we have updated the forecast level of bad debt by the annual charge cap of 2% in our Draft Determination. Table 51 shows WICS' draft decision on bad debt.

Table 51: WICS draft decision on bad debt

Bad debt allowance in SRC27 (£m; 2024-25 prices)	
Scottish Water's final business plan	£20.6m
WICS Draft Determination	£8.1m
<i>Difference</i>	<i>-£12.6m</i>

## Additional operating expenditure arising from the investment

- 6.6.30. Scottish Water has proposed that operating expenditure will increase by £16 million over SRC27, or an average of £2.6 million per year, due to investment.<sup>248</sup> This is from serving additional properties and operating an enhanced asset base (e.g. upgrades to water treatment works could result in more complex treatment processes, increasing operating expenditure). Scottish Water's forecast is based on the historical average increase in operating expenditure resulting from its investment programme.
- 6.6.31. In SRC21, we required Scottish Water to absorb the additional operating expenditure as an efficiency challenge; however, in the round, as we are increasing the efficiency challenge from 0.8% to 1%, we have decided to make a separate allowance. We will consider this further for the Final Determination.
- 6.6.32. The top-down modelling conducted by WICS, as described in 6.5.13, allows for increases in operating expenditure from new properties, new mains and increases in the other explanatory variables. This is based on forecasts of property growth from Scottish Water's business plan, alongside regressions to predict future growth.<sup>249</sup> Based on our analysis, we consider the proposed additional operating expenditure arising from investment to be reasonable.
- 6.6.33. Scottish Water has also proposed savings in operating expenditure resulting from the investment programme. These represent reduced costs in water treatment and distribution due to lower demand resulting from reduced leakage, as well as reduced consumption from smart metering at non-household supply points. Scottish Water forecasts these reductions as £11 million over SRC27 or an average of £1.8 million per year.

## Real price effects

- 6.6.34. The operating cost allowances in WICS' Draft Determination are set relative to inflation, as measured by the Consumer Price Index (CPI) – except for PFI costs, which are set relative to the Retail Prices Index (RPI). However, Scottish Water may experience cost pressures that differ from those considered in the calculation of CPI, and as a result, some of its costs may rise above the CPI inflation rate. These differences between input costs and the general inflation index are referred to as Real Price Effects (RPEs).
- 6.6.35. In its final business plan, Scottish Water has put forward a case for WICS to include an RPE adjustment in its SRC27 determination. The proposal is an additional allowance for labour costs, which constitute a material proportion of Scottish Water's operating expenditure

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<sup>248</sup> We note that the Table 7 commentary states additional operating expenditure arising from investment is £4.5m over SRC27. We consider this is an error. £4.5m is the sum of the annual increases, and does not account for the cumulative nature of the increases.

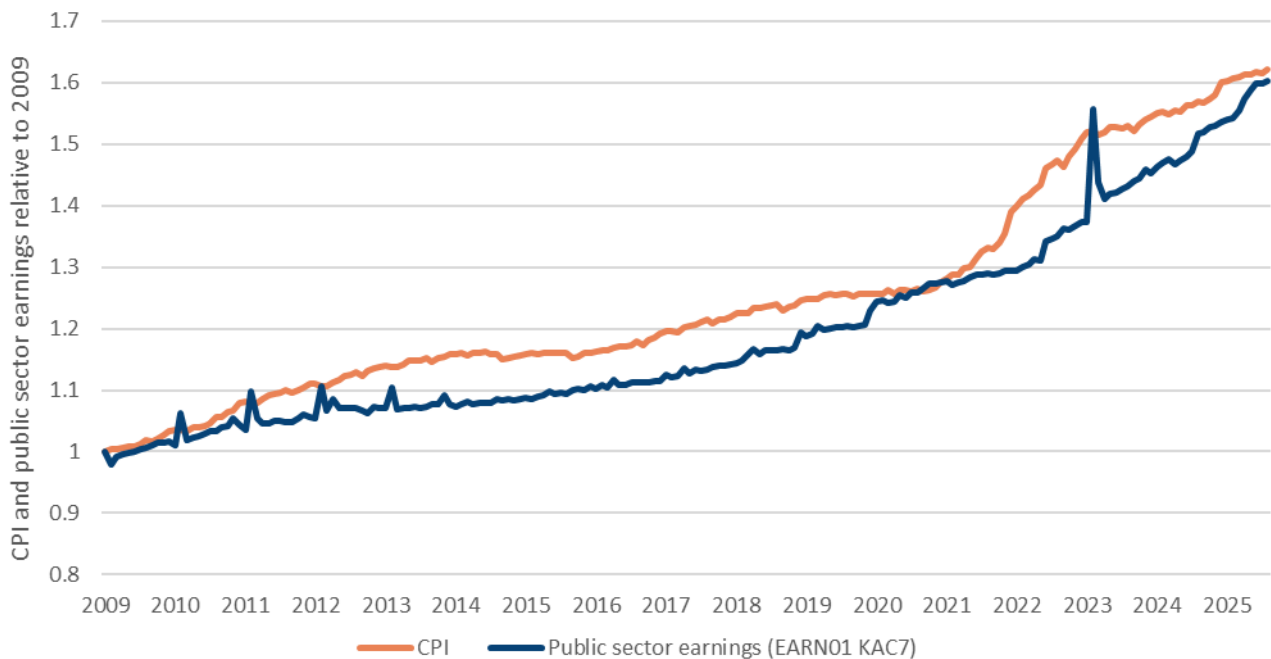
<sup>249</sup> Scottish Water (2026), 'SR27 Final Business plan: Table 7 – Other Costs and Assumptions', 26 February 2026.

(44% according to the final business plan). Scottish Water expects its labour costs to increase by 0.5% above annual CPI inflation, resulting in an overall increase in operating expenditure of 0.2% per annum. The proposed adjustment would allow around an additional £25 million of operating expenditure over the 2027-33 period.<sup>250</sup>

6.6.36. Scottish Water’s proposed RPE adjustments for operating and capital expenditure are both underpinned by the same labour cost forecast. As set out in paragraphs 5.8.5 and 5.8.6 on the capital investment RPE proposal, WICS considers that this forecast is likely to overestimate the size of the labour RPE in SRC27.

6.6.37. Public sector earnings have not risen faster than inflation. As shown in Figure 69 and Figure 70, public sector earnings, as measured by the ONS EARN01 KAC7 index, have generally risen in line with or even below CPI during 2021 to 2025 (the SRC21 period), as well as from 2009 to 2025.

Figure 69: Change in CPI and UK public sector earnings from May 2009 to December 2025 (May 2009 = 1)<sup>251, 252</sup>

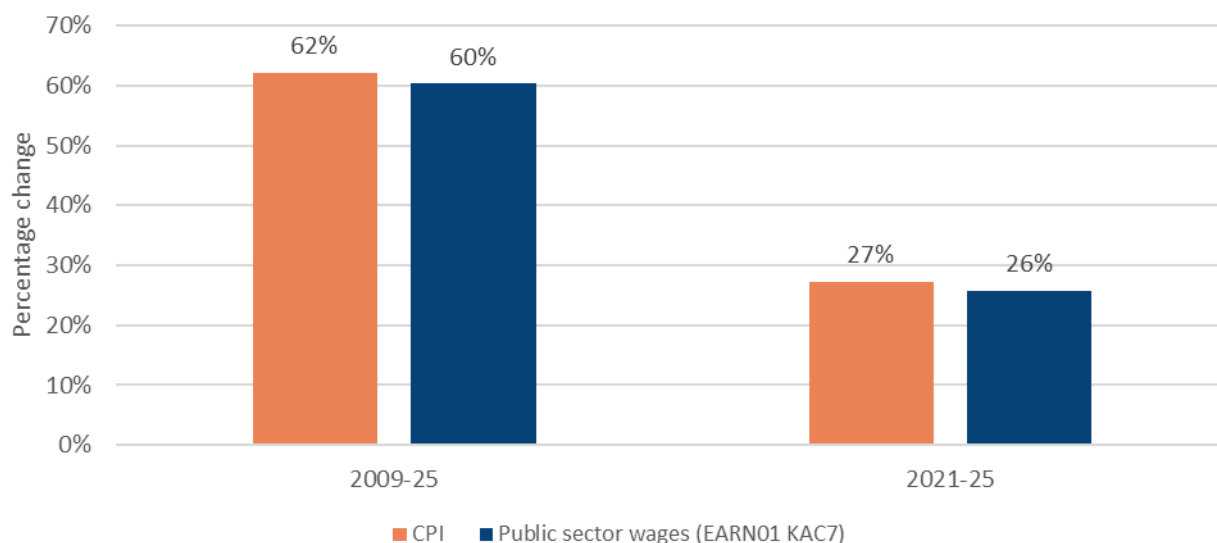


<sup>250</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Table 7 – Other Costs and Assumptions’, 26 February 2026.

<sup>251</sup> Office for National Statistics (2026), ‘CPI INDEX 00: ALL ITEMS 215=100’, 18 February 2026.

<sup>252</sup> Office for National Statistics (2026), ‘EARN01: Average weekly earnings’, 17 February 2026.

Figure 70: Total historical growth in CPI and public sector wages



6.6.38. Given that, on average, public sector labour costs have grown broadly in line with CPI through 2021-2025 as well as over 2009-2025, WICS does not consider there to be a robust case for the inclusion of an RPE adjustment for labour costs in SRC27. As set out above, although labour costs represent a material proportion of Scottish Water’s operating expenditure, WICS has not seen evidence that labour cost inflation has been materially different from CPI inflation historically. While there may be fluctuations in labour costs over the period, we expect that Scottish Water will have the capacity to manage them; accordingly, we propose to disallow the associated £25 million in the Draft Determination.

### Productivity improvements

6.6.39. As outlined in 5.8.28, WICS’ draft decision is to assume a 1% per annum productivity improvement. In relation to operating expenditure, we consider that our decision not to apply a catch-up efficiency challenge as set out in paragraph 6.5.36, despite the scope for further efficiency based on Scottish Water’s efficiency position excluding energy costs, supports our draft decision to assume a 1% per annum productivity improvement.

6.6.40. Table 52 shows the resulting operating expenditure productivity improvements alongside the difference to Scottish Water’s proposal.

Table 52: Operating expenditure productivity improvements

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	SRC27 total
<b>Scottish Water proposed operating expenditure productivity improvements</b>	-£4m	-£8m	-£11m	-£15m	-£20m	-£24m	<b>-£82m</b>
<b>WICS proposed operating expenditure productivity improvements</b>	-£4m	-£9m	-£14m	-£18m	-£23m	-£27m	<b>-£95m</b>
<b>Difference</b>	<b>-£1m</b>	<b>-£1m</b>	<b>-£2m</b>	<b>-£3m</b>	<b>-£3m</b>	<b>-£4m</b>	<b>-£14m</b>

## 6.7. Additional operating expenditure from returning PFI assets

- 6.7.1. When Scottish Water was created in 2002, it inherited 9 legacy PFI contracts. Under these contracts, third parties operate and maintain 21 facilities across Scotland to provide wastewater treatment and the subsequent treatment, recovery, and/or disposal of biosolids (a valuable resource previously known as sludge) that remain from the wastewater treatment process.<sup>253</sup> In exchange for these services, the third parties receive regular payments from Scottish Water. The contracts stipulate how payments are calculated, covering aspects such as the inflation index applied to unit rates and the basis for charging (e.g., based on loads treated).
- 6.7.2. As of 1 April 2024, 7 of those contracts remain, with 2 contracts expiring during the current regulatory period (comprising 2 facilities) and 4 contracts expiring during the SRC27 period (comprising 12 facilities), as outlined in Table 53 below. When the contracts expire, the facilities may return to Scottish Water's operations.

<sup>253</sup> Around 40-50% of wastewater is treated by third parties under PFI contracts. 80% of the sludge that remains from the wastewater treatment process is treated, recovered and/or disposed of by third parties under PFI contracts.

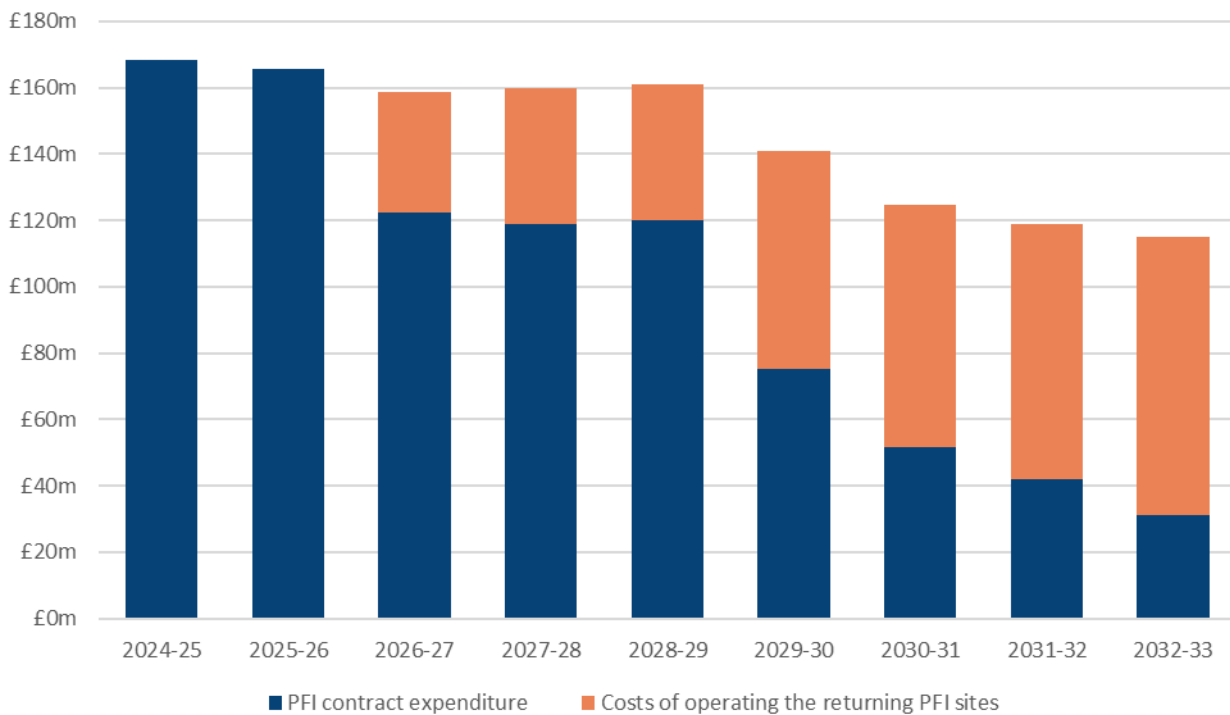
Table 53: Public Finance Initiative expiration dates

Site location	Contract end date	SRC period of the end date
<b>Daldowie</b>	31/03/2026	SRC21
<b>Dalmuir</b>	14/06/2026	SRC21
<b>Blackburn</b>	29/04/2029	SRC27
<b>East Calder</b>	29/04/2029	SRC27
<b>Newbridge</b>	29/04/2029	SRC27
<b>Seafield</b>	29/04/2029	SRC27
<b>Whitburn</b>	29/04/2029	SRC27
<b>Hatton</b>	16/12/2029	SRC27
<b>Banff/Macduff</b>	25/06/2031	SRC27
<b>Buckie</b>	25/06/2031	SRC27
<b>Lossiemouth</b>	25/06/2031	SRC27
<b>Inverclyde</b>	29/09/2032	SRC27
<b>Meadowhead</b>	29/09/2032	SRC27
<b>Stevenson</b>	29/09/2032	SRC27
<b>Levenmouth</b>	30/10/2040	SRC39

6.7.3. Scottish Water sets out the proportion of the annual service fee it expects to incur to operate each of the PFI sites after their return.<sup>254</sup> Figure 71 below shows Scottish Water's proposals for expenditure on the PFI contracts and the projected additional costs of operating the returning PFI.

<sup>254</sup> Scottish Water (2026), 'SR27 Final Business Plan: Table 7 – Other Costs and Assumptions', 26 February 2026.

Figure 71: Scottish Water proposal for operating expenditure for the PFI sites in SRC27 (2024-25 prices)



6.7.4. Scottish Water acknowledges that there is uncertainty around the forecast operating expenditure from the returning PFI sites. For example, Scottish Water explains that:

- “To estimate the cost of operating the returning PFI sites we have undertaken a detailed analysis of each site based on available information and at cost category level (e.g. employment costs, chemicals, power etc). Where no information is available, we have used analysis based on experience and knowledge to estimate due to the variability of process and operation at each PFI site”<sup>255</sup>
- “Subject to uncertainty of the asset condition on return, once all four [PFIs] have returned to Scottish Water, operating costs are expected to increase by £56 million (which is more than offset by the decrease in PFI fees...)”<sup>256</sup>

6.7.5. We assess the reasonableness of Scottish Water’s proposals using several methods, including:

- Benchmarking against the costs of the water and sewerage companies (WaSCs) in England and Wales;
- High-level comparison against existing PFI fees; and

<sup>255</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Table 7 – Other Costs and Assumptions Commentary’, 26 February 2026 p.9.

<sup>256</sup> Scottish Water (2026), ‘SR27 Final Business Plan: Technical Appendix 013 – Financial Strength’, 26 February 2026, p.9.

- Review of Scottish Waters detailed operating expenditure forecasts.

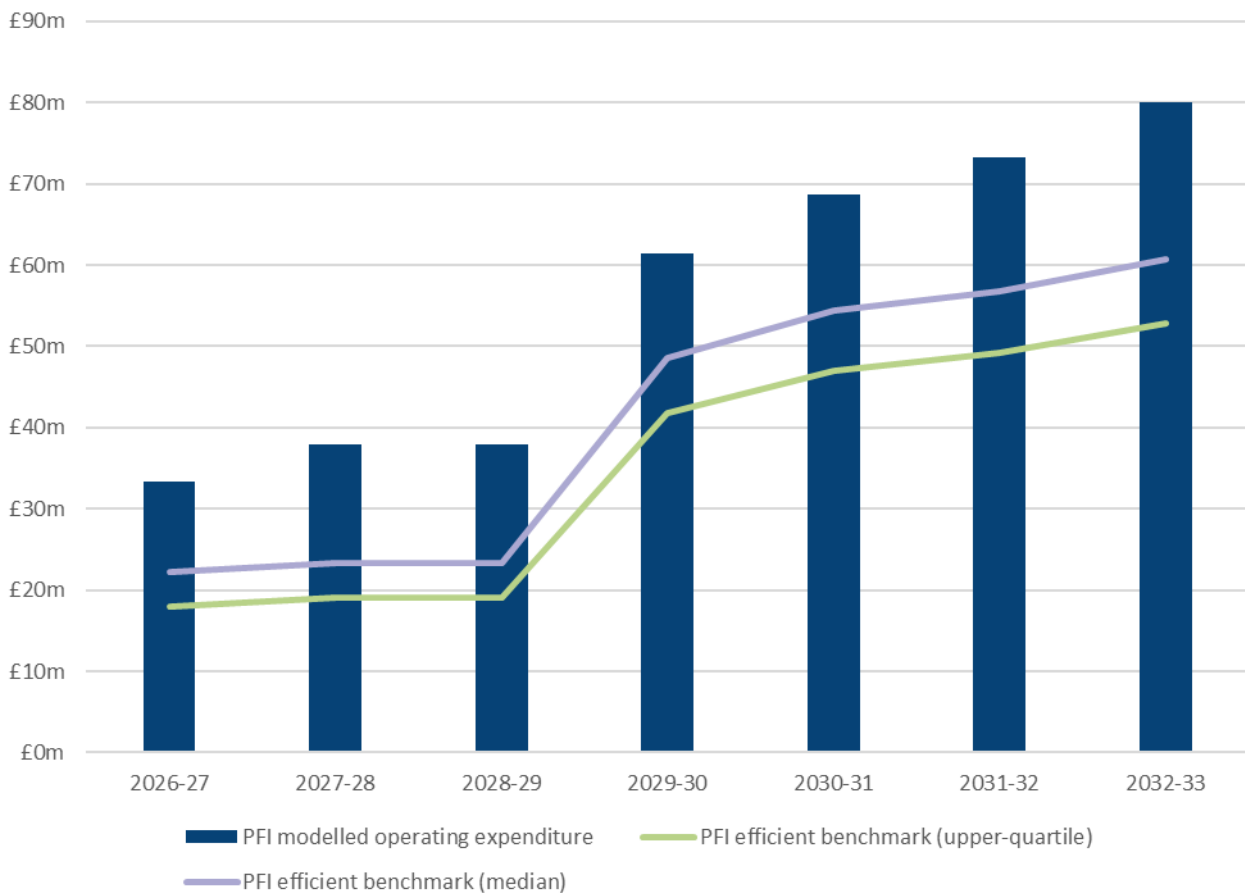
### **Benchmarking against the costs of the water and sewerage companies (WaSCs) in England and Wales**

- 6.7.6. WICS has used the wastewater model from our efficiency benchmarking and Ofwat's bioresources model on an operating expenditure only basis to estimate the predicted operating expenditure from returning PFI assets.
- 6.7.7. We note Scottish Water's comments on the bioresources models<sup>257</sup> and, as noted in 6.5.17, we have not used the bioresources model on a historical basis to assess efficiency. However, at the end of the 2027-33 regulatory period, only one site will remain under a PFI contract. WICS has used both the wastewater 'network plus' models and the bioresources models on an operating expenditure-only basis to generate an efficient benchmark for the operating costs of the returning PFI sites. The efficient benchmark has been calculated to allow for step increases when PFI sites return to Scottish Water to operate. Figure 72 shows the proposed costs in the business plan against the efficient benchmark of the company's average level in Great Britain. Appendix 3 provides more detail on our analysis in this area.

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<sup>257</sup> Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 012 – Efficiency', 26 February 2026, p.99.

Figure 72: Operating expenditure associated with returning PFI assets versus benchmark (2024-25 prices)



6.7.8. WICS considers that a median benchmark is the appropriate standard for the operating expenditure associated with the returning PFI assets. We have set a less challenging benchmark compared to base operating expenditure to account for lower confidence in the data inputs and that some of the returning PFI assets will utilise outdated technology, such as sludge driers, compared to more up-to-date assets and technologies, such as advanced anaerobic digestion (AAD) facilities, included in the benchmark. However, we view a median benchmark as being the minimum achievable considering that around half of the expenditure from the PFI assets is in wastewater collection and treatment, which Scottish Water has demonstrated itself to be among the leading companies in Great Britain in terms of operating efficiency, and that the companies in England and Wales will use a range of technologies in their bioresources sites which will be comparable to Scottish Water’s assets. Additionally, Scottish Water will have the opportunity to rationalise existing bioresources sites and find efficiencies in existing bioresources expenditure as the PFI sites return to Scottish Water’s operations, providing economies of scale.

6.7.9. The difference between Scottish Water’s proposed costs and the median benchmark is £100 million over SRC27, or an average of £17 million per year.

## High level comparison against existing PFI fees

6.7.10. Scottish Water will observe a reduction in total expenditure associated with returning PFI sites, given that the PFI fees Scottish Water pays to the PFI company will need to recover the following elements:

- Operating expenditure;
- Capital maintenance expenditure;
- Overheads and management;
- Risk;
- Repayment of the financing of initial capital investment; and
- Interest and profit.

6.7.11. When the sites return to Scottish Water, it will incur operating and capital maintenance expenditure. Furthermore, it will be able to absorb most of the overhead, management and risk-related costs within its overall corporate costs in these areas. Furthermore, Scottish Water will not incur repayment of the financing for the initial capital investment associated with the asset, or interest and profit. Scottish Water should therefore observe significant savings when comparing the previous PFI fees to the operating and capital maintenance expenditure associated with the returning PFI sites.

6.7.12. Scottish Water illustrated that it should secure savings compared with PFI fees in technical appendix 3 of the business plan submission, which discussed its approach to returning PFI sites. Figure 73 shows the figure produced by Scottish Water in technical appendix 3 of the business plan.<sup>258</sup>

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<sup>258</sup> Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 003 – Water Environment', Figure 28, p.32, 26 February 2026.

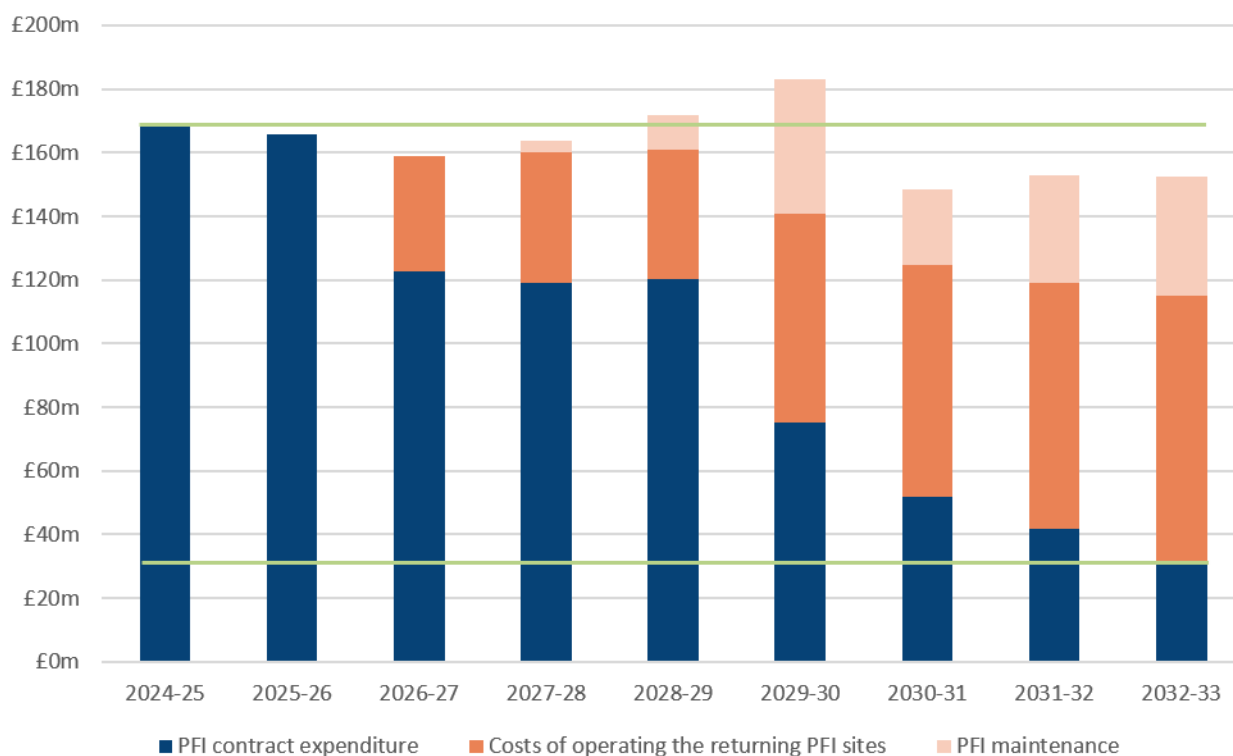
Figure 73: Illustrative savings in PFI fees



6.7.13. Indeed, the cost savings of Scottish Water’s delivery and operation compared with outsourcing, such as PFI or the Mutual Investment Model, are one of the factors behind Scottish Water’s proposal to deliver the West Central Bioresources project on a self-funded basis.

6.7.14. Figure 71 shows the impact of returning PFI on Scottish Water’s operating expenditure. As discussed in paragraph 6.7.11, the comparison is not on a like-for-like basis as the PFI contract expenditure will include maintenance, overheads and profit for the third parties. Figure 74 includes the maintenance expenditure that Scottish Water proposes in the business plan, giving the total expenditure over SRC27. This is a like-for-like comparison.

Figure 74: Scottish Water proposal for total expenditure for the PFI sites in SRC27 (2024-25 prices)

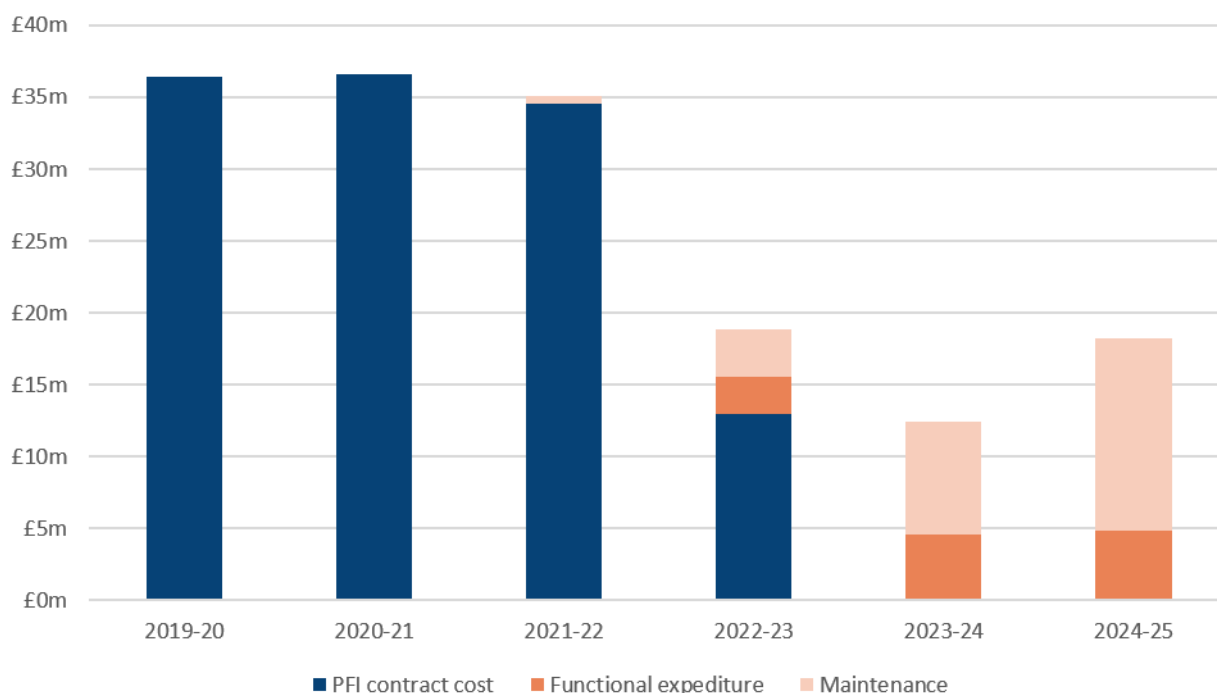


6.7.15. When excluding the remaining PFI contract expenditure in 2032-33 (the blue section in Figure 74), Scottish Water is proposing a 12% reduction in PFI expenditure from the PFI sites returning to Scottish Water’s operations.

6.7.16. Examining evidence from the Highland and Aberdeen PFI contracts that ended in 2022, Scottish Water appears to have achieved significant cost savings on the associated works. Figure 75 shows the total expenditure for the Allanfearn, Nigg, Persley, and Peterhead works, indicating that Scottish Water achieved a 50% cost reduction when the first two PFI contracts ended.<sup>259</sup> As such, WICS considers that Scottish Water’s prediction of a 12% reduction for the other PFI contracts is not consistent with recent experience from returning PFI sites.

<sup>259</sup> Fort William and Fraserburgh have not been included as there is not consistent data for the comparison in the Annual Return table E9.

Figure 75: Allanfearn, Nigg, Persley and Peterhead PFI works total expenditure (2024-25 prices)<sup>260</sup>



6.7.17. Additionally, WICS has examined the statutory accounts of the operating companies of the PFI works to understand how much of the current cost base relates to surplus (revenue less cost of sales and administrative expenses). Table 54 shows the revenue, costs and surplus from the statutory accounts of the operating company that currently operates Daldowie.

Table 54: Information from the statutory accounts of the company that operates Daldowie (outturn prices)

	2017	2018	2019	2020	2021	2022	2023	2024
<b>Revenue</b>	21.0	22.3	20.9	21.7	21.6	23.1	25.3	27.5
<b>Cost of sales and Administrative expenses</b>	13.8	14.5	14.7	14.7	15.2	18.4	23.1	22.4
<b>Revenue less Cost of sales and Administrative expenses ('surplus')</b>	7.2	7.8	6.2	7.0	6.4	4.7	2.2	5.1
<b>'Surplus' as a percentage of revenue</b>	34%	35%	30%	32%	30%	20%	9%	19%

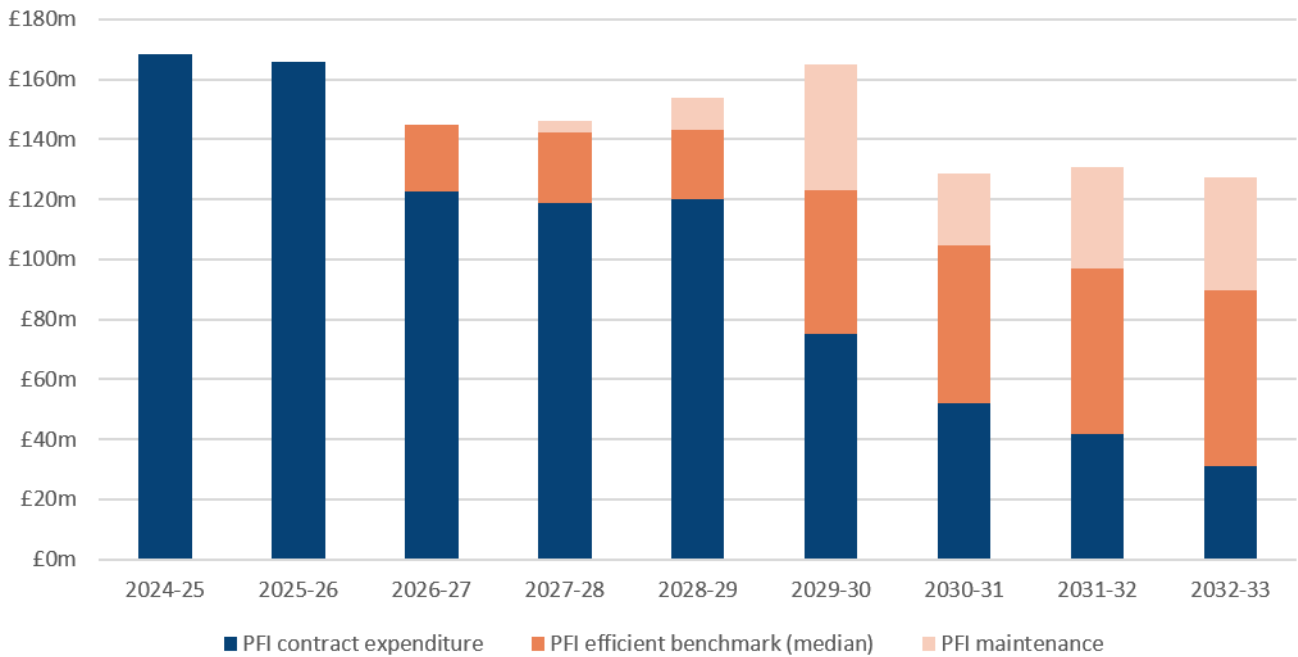
6.7.18. Table 54 shows that the percentage of the contract cost that Scottish Water pays that is surplus is 19% in the most recent year, or 26% on average. This should represent the reduction in expenditure that Scottish Water observes when the PFI contract expires, and it takes over the operation of that site. However, Scottish Water has proposed a 13% reduction

<sup>260</sup> 2022-23 may double-count expenditure as this was the transfer year for the return of the PFI and the effects were not captured consistently between Annual Return tables.

between its previous PFI fees and its forecast operating expenditure for the returning Daldowie PFI site.<sup>261</sup>

6.7.19. Figure 76 shows the total expenditure on PFI sites over SRC27 when a median efficiency challenge is applied to the operating expenditure of the returning PFI sites, overlaying Scottish Water’s forecast capital maintenance expenditure.

*Figure 76: Expenditure of PFI sites with a median efficiency challenge on operating expenditure (2024-25 prices)*



6.7.20. Based on this assessment, the forecast reduction in expenditure when the PFI site returns to Scottish Water would be 30%, compared to the 12% proposed by Scottish Water. We consider this a more reasonable estimate of the reduction expected.

6.7.21. Furthermore, we consider that Scottish Water’s maintenance expenditure is not well evidenced and may not be proportionate, as set out in paragraph 5.5.32. However, we use this evidence to further support our cost challenge to operating expenditure from the return of PFI sites, rather than also reducing maintenance expenditure. This approach recognises that there is some uncertainty regarding the expenditure associated with returning PFI sites and reduces the risk of imposing an overly challenging challenge on Scottish Water. We will revisit this for the Final Determination.

<sup>261</sup> ‘Surplus’ here refers to the PFI operator’s Revenue less Cost of sales and Administrative expenses.

## Review of Scottish Water’s detailed operating expenditure forecasts

6.7.22. We have also reviewed Scottish Water’s disaggregated forecast of operating costs for the returning PFI sites, which it provided in response to one of our queries regarding the business plan.

6.7.23. WICS does not consider that the disaggregated forecast is sufficiently robust. For example, Scottish Water appears to have estimated staff numbers by providing an uplift to the staff numbers reported in the operating companies’ statutory accounts. For the Dalmuir site, Scottish Water assumes a 25% uplift in staff; however, the rationale for these adjustments is unclear.

### Our draft decision

6.7.24. WICS applies a cost challenge to Scottish Water’s estimates based on:

- Benchmarking analysis against comparator companies in England and Wales;
- Comparing Scottish Water’s previous PFI fees associated with the sites to Scottish Water’s forecast operating and maintenance expenditure associated with the sites, recognising that Scottish Water should realise significant savings compared with PFI fees;
- The evidence of the reduction in expenditure that Scottish Water made on the ending of PFI contracts in 2022;
- Comparing Scottish Water’s proposed costs to the costs currently spent by the operating company responsible for the PFI site; and
- A review of Scottish Water’s disaggregated forecasts.

6.7.25. This cost challenge is based on the costs predicted by the benchmarking analysis, with a median benchmark, and the observed service charges for large works. Table 55 shows this allowance alongside Scottish Water’s business plan proposal for the cost of operating the returning PFI works.

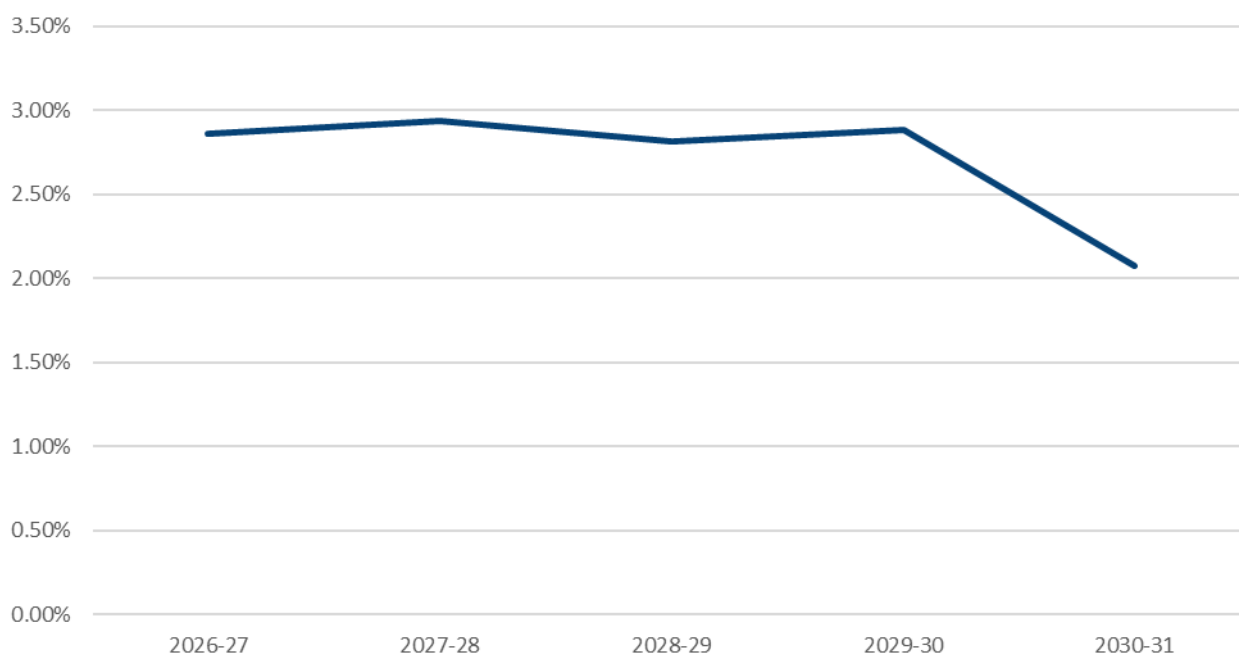
*Table 55: WICS draft decision on the cost of operating the returning PFI works*

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	SRC27 total
<b>Scottish Water proposed cost of operating the returning PFI works</b>	£41.3m	£41.3m	£66.9m	£74.8m	£79.7m	£87.2m	£391.2m
<b>WICS cost of operating the returning PFI works</b>	£25.5m	£25.4m	£52.9m	£59.2m	£61.8m	£66.2m	£291.0m
<b>Difference</b>	-£15.8m	-£15.9m	-£14.0m	-£15.7m	-£17.9m	-£21.0m	-£100.2m

## 6.8. PFI contract expenditure

- 6.8.1. We have considered Scottish Water’s proposals for expenditure related to PFI contracts prior to expiry and broadly agree with the approach and forecast.
- 6.8.2. PFI contract costs increase each year in line with inflation as measured by RPI. To project inflation we have applied the most recent forecast from the Office for Budget Responsibility (OBR).<sup>262</sup> This forecast is shown in Figure 77.

*Figure 77: Office for Budget Responsibility forecast for RPI (financial year average inflation)*



- 6.8.3. This chart shows that we expect RPI to remain slightly below 3% until 2030. At this point, the RPI measure of inflation is set to be aligned with the CPIH measure of inflation.<sup>263</sup> CPIH is typically around 1.0% below the RPI measure and is broadly similar to CPI. For this reason, we have assumed that PFI contract inflation is in line with the Bank of England target level for CPI of 2.0% in the latter years of the SRC27 regulatory period where detailed forecasts from the Office for Budget Responsibility are not available.
- 6.8.4. As explained above, two PFI contracts will expire in 2026 (Daldowie and Dalmuir), and a further four PFI contracts will expire during SRC27. When these contracts expire, the assets are assumed to return to Scottish Water ownership. This results in an increase in operating expenditure, but a corresponding decrease in PFI contract expenditure. At the end of the SRC27 regulatory period, just one PFI contract will remain, which means we will see a significant reduction in PFI contract expenditure over the period. As such, the allowance for

<sup>262</sup> Office for Budget Responsibility (2026), ‘Economic and fiscal outlook – March 2026’, 3 March 2026.

<sup>263</sup> Office for Budget Responsibility (2024), ‘Economic and fiscal outlook – October 2024’, 30 October 2024, p.38.

PFI contract expenditure in SRC27 will decrease from £118.6 million in 2027-28 to £30.0 million in 2032-33 (at 2024-25 prices). This means a total allowance of £434.9 million over the period, about £4 million less than the amount proposed by Scottish Water in its final business plan.

*Table 56: PFI contract expenditure allowance in SRC27 (£m; 2024-25 prices)*

<b>PFI contract expenditure allowance in SRC27 (£m; 2024-25 prices)</b>	
<b>Scottish Water's final business plan</b>	£439.1m
<b>WICS Draft Determination</b>	£434.9m
<b><i>Difference</i></b>	<b><i>-£4.2m</i></b>

## 6.9. Our draft decision

6.9.1. Table 57 shows the underlying operating expenditure, before the return of the PFI sites and adjustments for RPEs and frontier shift, in WICS' Draft Determination and the difference between Scottish Water's proposed underlying operating expenditure over the 2027-33 regulatory period.

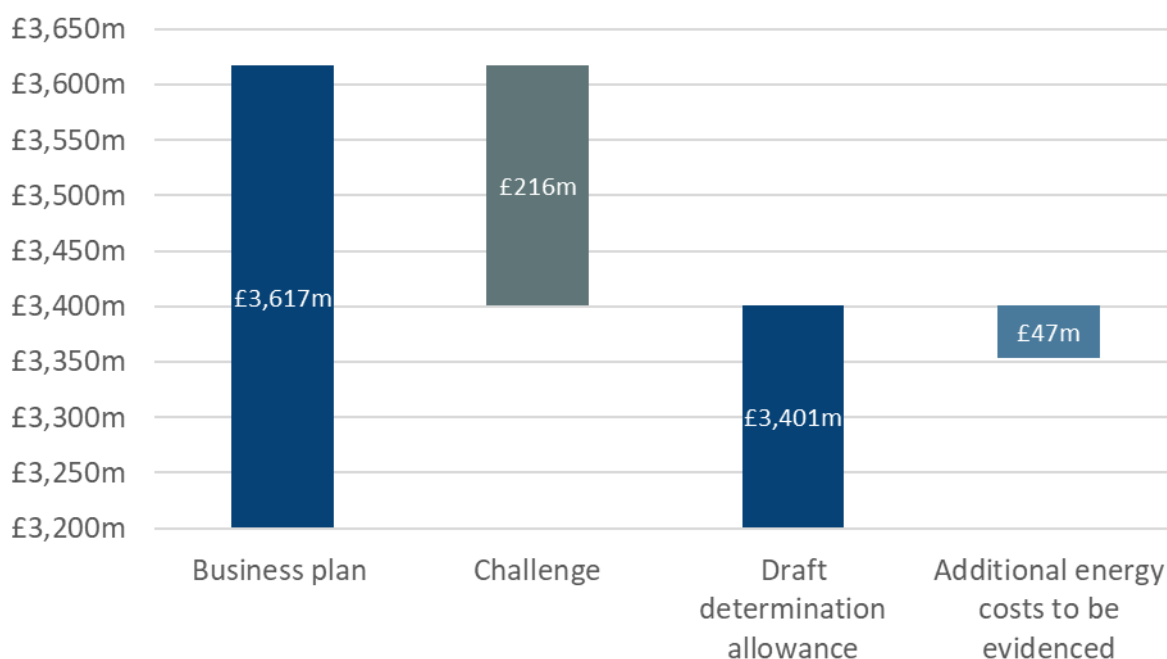
Table 57: WICS' Draft Determination operating expenditure allowance (2024-25 prices)

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total over SRC27	Proposed in Business Plan	Difference to Business Plan
<b>Operating expenditure 2024-25</b>	£511.1m	£511.1m	£511.1m	£511.1m	£511.1m	£511.1m			
<b>Additional costs arising in 2025-26 and 2026-27</b>	-£0.5m	-£0.5m	-£0.5m	-£0.5m	-£0.5m	-£0.5m	<b>-£3.3m</b>	£14.1m	-£17.4m
<b>Energy costs</b>	£6.5m	£6.5m	£6.5m	£6.5m	£6.5m	£6.5m	<b>£38.9m</b>	£60.1m	-£21.2m
<b>[Additional energy costs to be evidenced]<sup>264</sup></b>	[£7.9m]	[£7.9m]	[£7.9m]	[£7.9m]	[£7.9m]	[£7.9m]	<b>[£47.5m]</b>	£47.5m	[£0.0m]
<b>RBMP3 chemical costs</b>	£7.0m	£7.0m	£7.0m	£7.0m	£7.0m	£7.0m	<b>£41.9m</b>	£46.5m	-£4.6m
<b>Labour real price effects</b>	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m	<b>£0.0m</b>	£24.8m	-£24.8m
<b>Increase in pension contributions</b>	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m	<b>£0.0m</b>	£21.7m	-£21.7m
<b>Bad debt</b>	£0.4m	£0.7m	£1.1m	£1.5m	£1.9m	£2.3m	<b>£8.1m</b>	£20.6m	-£12.6m
<b>New operating expenditure from enhancement</b>	£0.8m	£1.5m	£2.3m	£3.0m	£3.8m	£4.5m	<b>£15.9m</b>	£15.9m	£0.0m
<b>Leakage and non-household smart metering impact on operating costs</b>	£-0.3m	-£0.9m	-£1.5m	-£2.1m	-£2.7m	-£3.3m	<b>-£10.6m</b>	-£10.6m	£0.0m
<b>Returning PFI</b>	£25.5m	£25.4m	£52.9m	£59.2m	£61.8m	£66.2m	<b>£291.0m</b>	£391.2m	-£100.2m
<b>Productivity improvements efficiency</b>	-£4.5m	-£8.9m	-£13.5m	-£18.2m	-£22.8m	-£27.4m	<b>-£95.3m</b>	-£81.7m	-£13.6m
<b>Forecast operating expenditure, including PFI return</b>	<b>£553.8m</b>	<b>£549.9m</b>	<b>£573.3m</b>	<b>£575.5m</b>	<b>£574.0m</b>	<b>£574.3m</b>	<b>£3,400.8m</b>	£3,616.8m	-£216.0m
<b>Forecast operating expenditure, excluding PFI return</b>	<b>£528.3m</b>	<b>£524.4m</b>	<b>£520.4m</b>	<b>£516.3m</b>	<b>£512.2m</b>	<b>£508.2m</b>	<b>£3,109.8m</b>	£3,225.6m	-£115.8m

<sup>264</sup> This is the non-commodity energy costs described in 6.6.8 which Scottish Water must evidence.

6.9.2. Figure 78 shows our draft decision for the allowed for operating expenditure.

Figure 78: Allowed for operating expenditure



6.9.3. The allowance for PFI fees is set out in Table 56.

6.9.4. Chapter 10 explains how we will monitor Scottish Water's performance against these allowances during the 2027-33 regulatory period.

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

6.10.1. As part of its response to the Draft Determination consultation, we require Scottish Water to address the following areas:

- 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.

# 7. Allowances for other income and expenditure

## 7.1. Summary of chapter

- 7.1.1. Before we explain the charge caps we will apply in SRC27, we must first consider the other sources of income that we expect Scottish Water to receive over the regulatory period. We must also consider the other types of expenditure that we expect Scottish Water to incur, in addition to the capital expenditure set out in Chapter 5 and operating expenditure set out in Chapter 6.
- 7.1.2. This chapter sets out our assumptions for new borrowing, infrastructure charges income, disposal proceeds, and grants and contributions. We must understand the magnitude of these receipts to ensure that Scottish Water is appropriately funded whilst ensuring that customers pay no more than is necessary.
- 7.1.3. This chapter also sets out our allowances for interest, taxation and Reasonable Cost Contributions for the 2027-33 regulatory period. These expenditure areas are important inputs into the overall revenue requirement and, therefore, into the charges customers will pay.
- 7.1.4. Unlike operating expenditure and investment, these costs are influenced to a significant extent by external factors, including borrowing requirements, prevailing interest rates, UK tax rules and developer activity. Our approach is therefore to model these allowances transparently, using the best available evidence, and to keep material changes under review during the regulatory period.
- 7.1.5. For SRC27, we have adopted a more detailed approach than in SRC21. In particular, we have modelled Scottish Water's existing loans individually, reflected the expected refinancing of maturing debt, and modelled tax using capital allowance pools. We have also reviewed Scottish Water's forecast of Reasonable Cost Contributions<sup>265</sup> and consider it reasonable for the purposes of the Draft Determination.
- 7.1.6. This chapter is structured as follows:
- Borrowing and other income (infrastructure charges, disposal proceeds, grants and contributions); and

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<sup>265</sup> Scottish Water is required to provide water and wastewater services to households and non-households up to a reasonable cost. Where developers incur costs to connect new properties to Scottish Water's network, Scottish Water may reimburse the developer up to a maximum reasonable cost. These payments are referred to as Reasonable Cost Contributions (or RCCs).

- Other expenditure (interest, taxation, Reasonable Cost Contributions).

## 7.2. Borrowing and other income

### Allowed for borrowing

- 7.2.1. Scottish Water borrows from the Scottish Government to support the investment programme and spreads these costs between current and future customers. At the end of the 2024-25 financial year, Scottish Water held debt of £4,874 million.<sup>266</sup>
- 7.2.2. Borrowing 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 a central lever in balancing intergenerational equity and affordability.
- 7.2.3. The maximum amount of borrowing available to Scottish Water in each regulatory period is set by Scottish Ministers in their Principles of Charging for the industry. To pay for investment, Scottish Water is free to borrow within the public sector allowance that has been granted in the Scottish Government's Budget. Each year, Scottish Water pays interest on this borrowing, and at maturity it repays the principal, currently through refinancing the debt. As such, Scottish Water effectively rolls over maturing debt at prevailing interest rates, and we refer to the new borrowing in the year less the borrowing repaid in the year as net new borrowing.
- 7.2.4. The draft Principles of Charging for the 2027-33 regulatory period explain that the Scottish Government will continue to make borrowing available to Scottish Water, and the Government wishes to ensure that this lending is at the lowest practicable level, consistent with the principle of stable charges.<sup>267</sup>
- 7.2.5. During 2021-27, the Scottish Government has made £1,030 million of net new borrowing available to Scottish Water, representing around 18% of its forecast £5.8 billion investment programme. If borrowing were maintained at similar cash levels, the proportion of the investment programme financed through borrowing would fall to around 11% in real terms.
- 7.2.6. Therefore, WICS considers that the borrowing levels available in the current 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

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<sup>266</sup> Table M5, line M5.24 from WICS (2025), 'AR25 Regulatory Accounts – M tables 2024-25', November 2025.

<sup>267</sup> Scottish Government (2026), 'Water Services – investing in and paying from 2027', 6 January 2026.

- Scottish Water maintains financial strength that is stronger than that of other prudently financed utility companies.

7.2.7. We therefore assume that the maximum amount of net new borrowing available for the 2027-33 regulatory period is £1,030 million (in nominal terms). This is also in line with the level of borrowing for planning purposes highlighted in the Commissioning letter for SRC27.<sup>268</sup> Our assumption is that this net new borrowing is evenly phased over the regulatory period.

7.2.8. 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:

1. Investments in increasing capacity at water resources, water treatment works and wastewater treatment works (known as Part 4 assets);
2. 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
3. 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).

7.2.9. Table 58 provides a summary of the projects to which we are attaching the borrowing based on the assumption that around 60% of these projects and programmes are financed through debt of £1,030 million in outturn prices (£912 million in 2024-25).

*Table 58: Assumed use of borrowing*

Projects	Characteristic	Borrowing (2024-25 prices)
Part 4 growth investment	Growth	£232m
West Central Bioresources	High-value, one-offs	£332m
Water quality enforcements and sites with Letters of Commitment	Enhancement	£345m
<b>Total</b>		<b>£909m</b>

7.2.10. This leaves around £3 million of borrowing in 2024-25 prices, which Scottish Water should allocate to a project in line with the hierarchy. With the exception of West Central Bioresources, which is subject to a conditional charge cap, Scottish Water can utilise the

<sup>268</sup> WICS (2024), '2027-33 Commissioning letter', 12 June 2024.

available borrowing for other projects provided it sets this out in its delivery plans and its reporting to WICS.

### Infrastructure charges income

- 7.2.11. Development, in the form of household, business, or industrial growth, places demands on Scottish Water's assets and resources. The infrastructure charge is the amount Scottish Water recovers from developers to cover the costs of growth-related upgrades to its network (known as Part 3 growth) that cannot be attributed to any single developer. Part 3 assets include trunk mains, service reservoirs, trunk sewers and pumping stations.
- 7.2.12. The infrastructure charge is payable to Scottish Water for each supply point or household that has not previously been connected to Scottish Water's network.
- 7.2.13. In this Draft Determination, we are allowing for Part 3 growth investment of £96 million in 2024-25 prices. This is based on an updated forecast from Scottish Water, sent to us after the final business plan, and must be fully funded by infrastructure charges.
- 7.2.14. Using Scottish Water's assumptions for the number of new connections to the network, WICS estimates that an infrastructure charge that increases in line with inflation will be sufficient to fund Part 3 growth investment. WICS has modelled income aligned with fully cost-reflective infrastructure charges over the regulatory period, resulting in a total income of £96 million in 2024-25 prices. This is assumed to be evenly phased across the six years of the period.
- 7.2.15. WICS will review Scottish Water's proposals for the infrastructure charge on an annual basis as part of the review of the Scheme of Charges to ensure that the infrastructure charge remains cost reflective.

### Disposal proceeds

- 7.2.16. Each year, Scottish Water disposes of a small number of assets. Income can vary from year to year. Over the first four years of the 2021-27 regulatory period, disposal proceeds have ranged from £0.7 million to £3.8 million in outturn prices.
- 7.2.17. Scottish Water explains that more marketable assets have been disposed of in SRC21 than are expected in SRC27. As such, we have aligned our forecast to Scottish Water's assumption for the 2027-33 regulatory period. This means we assume £1 million to £2 million of disposal proceeds per year at 2024-25 prices over the 2027-33 regulatory period.
- 7.2.18. While we accept Scottish Water's forecast reduction in income from asset disposals for the 2027-33 regulatory period, we consider that Scottish Water should continue to review its asset portfolio to mitigate the proposed increases in customer charges.

## Grants and contributions

7.2.19. In the first four years of the 2021-27 regulatory period, Scottish Water received grants and contributions of between £3 million and £10 million each year in outturn prices. For the 2027-33 regulatory period, we align our forecast of the income Scottish Water receives from grants and contributions with that set out in Scottish Water's business plan. This results in a forecast of between £4 million and £5 million in 2024-25 prices, which is broadly in line with the value of grants and contributions received in recent years.

## 7.3. Other expenditure

### Interest

7.3.1. As explained above, Scottish Water borrows from the Scottish Government to contribute towards the cost of delivering the investment programme. Scottish Water pays interest on its debt, though this is slightly offset by the interest it receives on cash balances. Scottish Water also pays interest to Licensed Providers on balances held from the prepayment of wholesale charges. The sum of interest paid on debt, interest received on cash balances, and interest paid on wholesale prepayments, collectively referred to as the net interest charge, was £142.3 million in 2024-25.<sup>269</sup>

7.3.2. In forecasting interest expenditure, the key assumption we must make is the interest rate that will apply to new borrowing and the refinancing of maturing debt. Our approach to this assessment is explained below.

### *Our approach to modelling net interest expenditure*

7.3.3. In SRC21, in line with the top-down approach to setting charges and expenditure allowances, a high-level approach was taken to modelling interest costs. Existing interest costs at the beginning of the period were assumed to roll forward with a 1.0% efficiency challenge. This approach assumed that only modest gains could be achieved through refinancing existing debts. As a result, Scottish Water has outperformed the interest expenditure allowance of our SRC21 Final Determination.

7.3.4. As explained in our Final Methodology, we have adopted a detailed assessment of Scottish Water's expenditure for SRC27. As a result, we model each of Scottish Water's existing loans on an individual basis. When loans mature, Scottish Water will reborrow the principal at the prevailing interest rate.

7.3.5. Information on all existing debt held by Scottish Water is provided to us in Table M30 of the Regulatory Accounts each year.<sup>270</sup> We use this data to model each of the 67 loans (with total

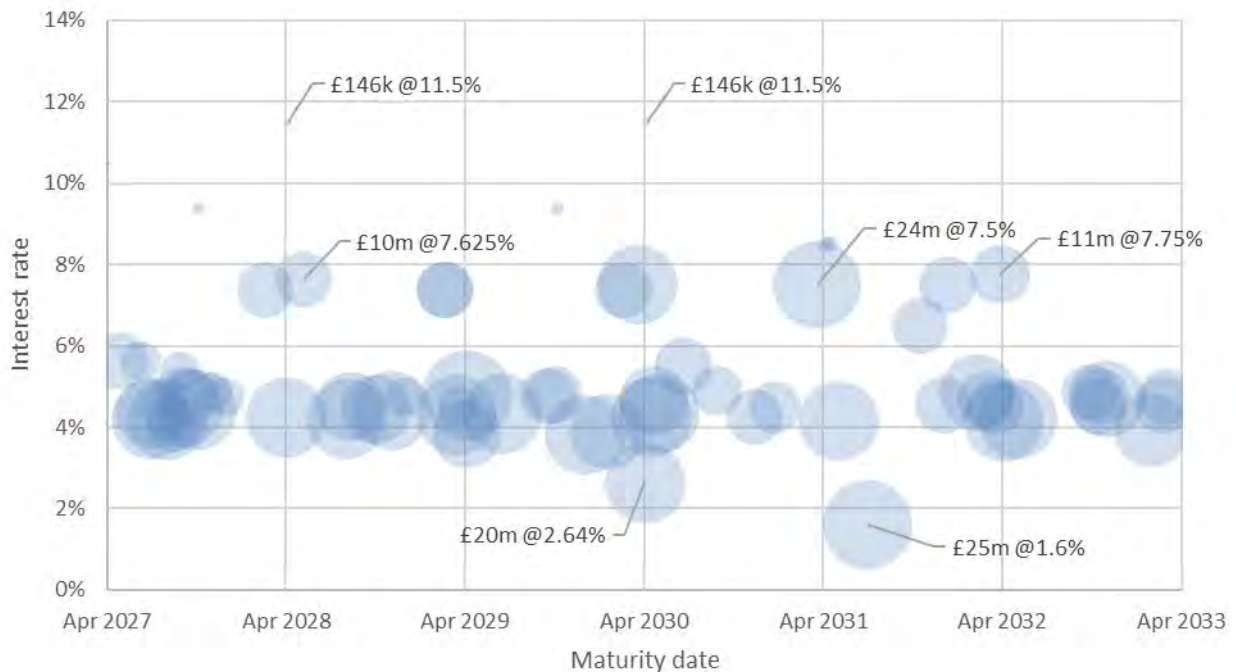
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<sup>269</sup> Table M4, line M4.10 from WICS (2025), 'AR25 Regulatory Accounts – M tables 2024-25', November 2025.

<sup>270</sup> WICS (2025), '2024-25 M tables', 27 November 2025.

principal of c.£840 million) currently expected to mature between 2027-28 and 2032-33. The interest rate, principal and maturity date of these loans are shown in Figure 79.

Figure 79: Interest rate and principal of loans maturing during the 2027-33 regulatory period<sup>271</sup>



7.3.6. Figure 79 shows that several high-value, high-interest-rate loans will mature during the 2027-33 regulatory period. We expect Scottish Water to benefit from this, as it will be able to re-borrow the maturing debt at a lower prevailing rate.

7.3.7. Interest on new debt and on wholesale prepayments is added to this expenditure each year. We also forecast interest income on cash balances, which offsets this expenditure. This income and expenditure is also calculated within the financial model.

7.3.8. To forecast the interest rate at which Scottish Water will borrow, we have reviewed in detail Scottish Water's existing debt. This analysis includes the principal, interest rate, term, and drawdown date of loans held prior to 1 April 2025.

7.3.9. Figure 80 shows the interest rate at which Scottish Water has borrowed, along with the Bank of England base rate and various National Loans Fund (NLF) rates. It is these NLF rates that Scottish Water's interest rates are set.

<sup>271</sup> The area of each circle represents the principal of the maturing loan.

Figure 80: Interest rates between 2017 to 2026<sup>272</sup>



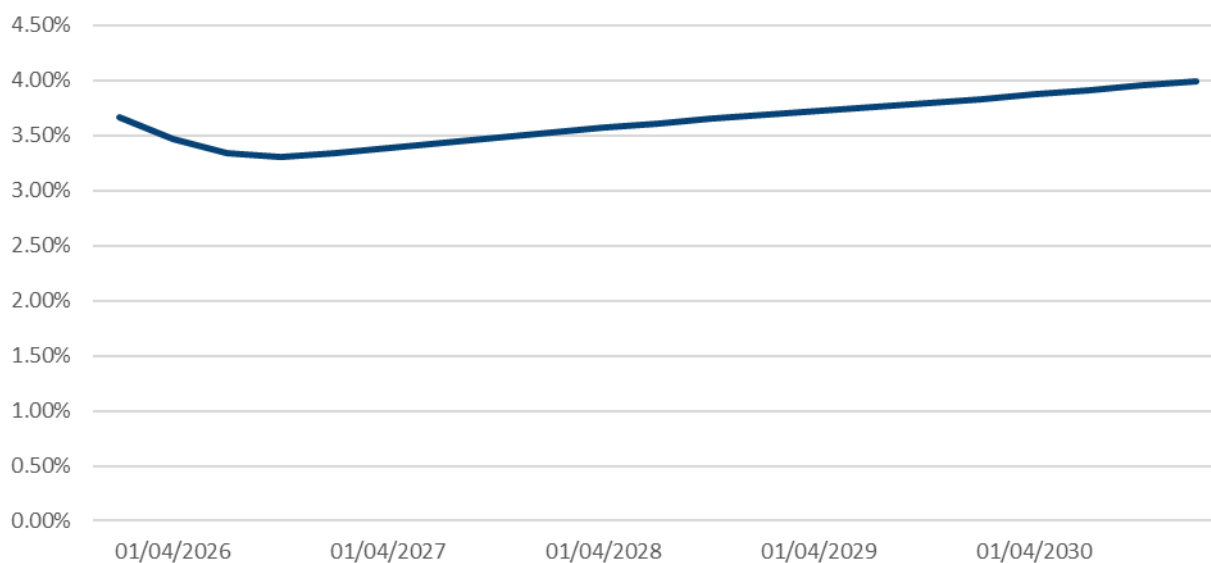
7.3.10. Typically, Scottish Water has borrowed from the Scottish Government with loans on a long-term basis (c.50 years). However, in recent years (2024-25 in particular), we have observed that Scottish Water has borrowed a significant proportion of new debt with a much shorter term of less than 5 years. As shown in Figure 80, loans with a shorter maturity typically have a lower interest rate than those with longer terms.

7.3.11. Forecasts for NLF interest rates are not available. Therefore, we have considered forecasts for the Bank of England base rate. The most recent forecast from the Office for Budget Responsibility, published in March 2026, predicts that interest rates will continue to fall in 2026 before gradually increasing between 2027 and 2031. This forecast is shown in Figure 81.<sup>273</sup>

<sup>272</sup> Note that WICS does not yet have data from Scottish Water for the 2025-26 financial year.

<sup>273</sup> Office for Budget Responsibility (2026), 'Economic and fiscal outlook – March 2026', 3 March 2026.

Figure 81: OBR forecast for base rate



7.3.12. The OBR forecast was published prior to the recent conflict in the Middle East and before economic impacts were fully reflected in market expectations. More recent market expectations indicate that interest rates will remain near the current level for the remainder of 2026. Based on this, WICS has modelled interest rates broadly in line with the NLF rates observed in the 2025-26 financial year. As such, for each year in the 2027-33 regulatory period and the final two years of the 2021-27 regulatory period, we have assumed an average interest rate of 4.50% on new debt. This is slightly below Scottish Water's assumption for 2025-26 (4.90%), and slightly higher than Scottish Water's assumption for each year thereafter (4.35%-4.45%). Given that this area remains uncertain, we will continue to review this assumption ahead of our Final Determination.

7.3.13. Figure 80 also shows that Scottish Water typically borrows towards the end of each financial year. Between 2016 and 2025, we have observed that the average drawdown date for new debt is at the beginning of January. We have assumed that this trend will continue through SRC27.

7.3.14. As explained above, Scottish Water also receives interest on cash balances it holds. Between 2017-18 and 2024-25, we have observed that the interest rate Scottish Water receives on cash balances is, on average, 0.95% below the rate at which it has borrowed from the Scottish Government. We have also observed that, between 2022-23 and 2024-25, the interest rate that Scottish Water has paid on wholesale prepayment from Licensed Providers has been around 0.55% above the rate at which it has borrowed from the Scottish Government. We have assumed that these trends will continue throughout the 2027-33 regulatory period.

## Interest allowance

7.3.15. Using the approach and assumptions described above, we have modelled Scottish Water's interest expenditure over the SRC27 regulatory period to set an expenditure allowance. This allowance represents a small reduction compared to Scottish Water's proposal.

Table 59: Net interest allowance for SRC27 (£m; 2024-25 prices)

Net interest allowance for SRC27 (£m; 2024-25 prices)	
Scottish Water's final business plan	£1,016.6m
WICS Draft Determination	£1,003.1m
<i>Difference</i>	<i>-£13.5m</i>

## Taxation

7.3.16. In the immediate years following the formation of Scottish Water in 2002, it paid only very limited corporation tax payments. From 2017-18 to 2021-22, tax payable broadly increased each year, with payments equalling £41 millions over these five years.

7.3.17. Scottish Water previously held a significant balance of brought-forward losses that could be used to write off profits in later years. From around 2015-16, Scottish Water began drawing down on these losses to reduce tax payable. Prior to 2017-18, companies could write off 100% of in-year profits against brought-forward losses. However, in 2017, rules on the utilisation of brought-forward losses changed, and instead of being able to write down 100% of in-year profits, companies were only allowed to write down up to £5 million plus 50% of remaining profits. This remains the case today.

7.3.18. In the last three financial years (2022-23 to 2024-25), Scottish Water has not paid any corporation tax. This is, in part, due to changes to the capital allowance pools and depreciation rates, which now allow full expensing of certain capital investments in the year they are incurred.

## Our approach to modelling tax payments

7.3.19. In SRC21, a high-level approach was adopted. Average tax payments observed in prior years were rolled forward with inflation, less an efficiency challenge. Recognising recent changes to tax policy and the reduction in the balance of Scottish Water's remaining brought forward losses, we consider that applying the same approach as in SRC21 would no longer provide a robust forecast. For this reason, we have modelled tax payments at a much more detailed level based on forecast profits/losses in the period, brought-forward losses, and capital allowances. Our input assumptions for this calculation are covered below.

7.3.20. Many inputs to the calculation of taxation are set by the United Kingdom Government. As such, WICS is not required to evaluate them. For this reason, they are not discussed in detail in this chapter. Instead, this chapter focuses on the allocation of capital investment to tax depreciation pools.

7.3.21. To forecast the value of additions to each capital allowance pool, we have considered additions as a proportion of total investment between 2019-20 and 2024-25. A summary of these input assumptions is provided in Table 60.

*Table 60: Allocation of investment to tax depreciation pools*

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	WICS assumption	Scottish Water assumption
General rate pool	38.4%	48.9%	32.3%	39.6%	31.6%	34.8%	<b>37.2%</b>	<b>37.2%</b>
Long-life pool	48.4%	30.0%	53.5%	38.7%	43.3%	49.2%	<b>43.4%</b>	<b>42.2%</b>
Structures and Buildings Allowance pool	n/a	1.3%	1.4%	0.8%	3.0%	0.0%	<b>1.3%</b>	<b>1.7%</b>
Investigations	4.8%	11.1%	5.6%	9.7%	12.1%	8.0%	<b>8.5%</b>	<b>7.0%</b>

7.3.22. We consider it prudent to assume that Scottish Water will make optimal use of the available capital allowances. As such, we have assumed that any assets that qualify for the general pool will be depreciated fully in the year of spend, and those qualifying for the long-life pool will be depreciated by 50% in that year. This aligns with the approach adopted by Scottish Water in its business plan.

#### *Taxation allowance*

7.3.23. Using the approach and assumptions described above, we have modelled Scottish Water's taxation over the 2027-33 regulatory period to set an expenditure allowance. We expect Scottish Water to incur relatively little tax over the final four years of the 2027-33 regulatory period.

*Table 61: Taxation allowance for SRC27 (£m; 2024-25 prices)*

Taxation allowance for SRC27 (£m; 2024-25 prices)	
Scottish Water's final business plan	£53.1m
WICS Draft Determination	£23.3m
<i>Difference</i>	<i>-£29.8m</i>

7.3.24. WICS allowance for tax represents a c.£30 million reduction compared to the forecast put forward by Scottish Water in its final business plan. This reduction comes primarily as a result of the lower charge path as set out in Chapter 9.

## Reasonable Cost Contributions

7.3.25. Scottish Water is required to provide water and wastewater services to households and non-household customers up to a reasonable cost. Where developers incur costs to connect new properties to Scottish Water’s network, Scottish Water may reimburse the developer up to a maximum reasonable cost. These payments are referred to as Reasonable Cost Contributions (or RCCs).

7.3.26. The Reasonable Cost Contribution payments that Scottish Water is required to make can be difficult to forecast because they depend on the rate at which new developments are connected to its network. In 2024-25, Scottish Water’s Reasonable Cost Contribution payments were higher than would typically be expected (£46.8 million). This is primarily because of large-scale developments such as Bertha Park in Perth.

### *Reasonable Cost Contributions allowance*

7.3.27. In its business plan, Scottish Water explains that it expects Reasonable Cost Contributions in 2025-26 to remain at higher than historical levels, before reducing to around £30 million per year in 2024-25 prices by 2026-27.

7.3.28. After reviewing Scottish Water’s forecasts, and after conducting our own analysis of historical data, we have concluded that Scottish Water’s projections for RCCs are broadly reasonable. However, we have not included the small increase to RCCs proposed by Scottish Water in 2027-28 as we did not consider this well evidenced. This results in an allowance of £30.1 million per year for RCCs, or £180.8 million over the regulatory period.

*Table 62: RCCs allowance for SRC27 (£m; 2024-25 prices)*

	RCCs allowance for SRC27 (£m; 2024-25 prices)
Scottish Water’s final business plan	£185.3m
WICS Draft Determination	£180.8m
<i>Difference</i>	<i>-£4.5m</i>

## Monitoring

7.3.29. Some of these forecasts are subject to external pressures that are not within Scottish Water’s control. Future interest rates may be affected by wider economic and global events, while tax payable may be affected by changes to UK tax legislation or the treatment of capital allowances.

7.3.30. We will therefore keep these areas under review during the regulatory period as part of our ongoing monitoring of Scottish Water’s performance. Where changes are material, we will consider the impacts within the safeguards framework described in Chapter 8, including

whether they should be addressed through normal monitoring, future determinations or an interim determination.

## 8. Safeguards, risk and uncertainty

### 8.1. Summary of chapter

8.1.1. This chapter explains how we propose to protect customers from risks and uncertainties during the 2027-33 regulatory period.

8.1.2. In setting charge caps, we need to balance two considerations. Customers should not pay upfront for uncertain costs that may not materialise. At the same time, Scottish Water needs a clear route to recover the costs necessary to deliver services and invest.

8.1.3. For SRC27, we propose to use conditional charge caps for two categories of known uncertainty: the West Central Bioresources project and specific operating expenditure uncertainties (“OPEX uncertainties”) relating to energy costs and pension costs. These conditional charge caps will only be available where Scottish Water provides evidence that the relevant conditions have been met. For example, for the conditional charge cap for West Central Bioresources, Scottish Water will be required to provide a final project investment appraisal confirming the project’s scope, cost, and outcomes.

8.1.4. This chapter also explains the role of interim determinations, which remain available in exceptional circumstances where there are material changes in costs or revenues that are not within the scope of either of the conditional charge caps.

8.1.5. This chapter is structured as follows:

- Safeguards;
- Conditional charge caps (regulatory precedents, proposed conditional charge cap for West Central Bioresources and proposed conditional charge cap to deal with OPEX uncertainties);
- Interim Determinations; and
- Conclusions

### 8.2. Safeguards

8.2.1. Water companies face a number of risks, including:

- Economy-wide risks such as high inflation and interest rates; and
- Company-specific risks such as supply chain disruption, adverse weather impacts.

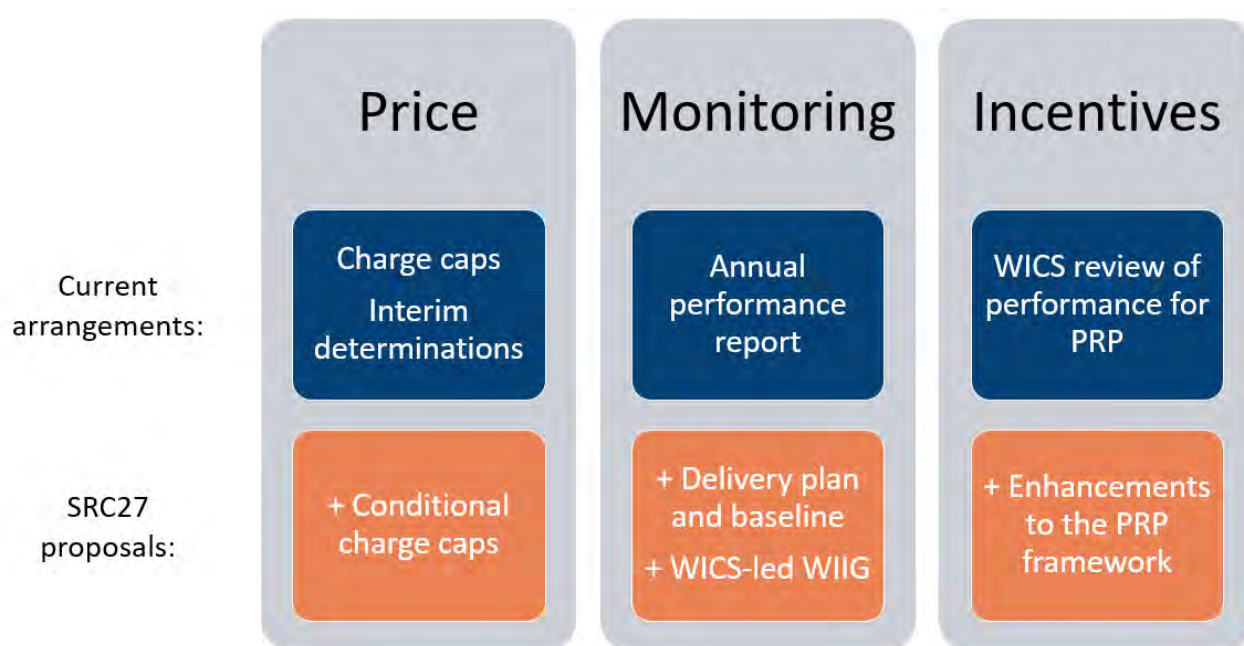
- 8.2.2. Where these risks materialise, they are likely to impact the level of costs that Scottish Water incurs and therefore the charges that customers pay for the service they receive. Where this happens, and the impact is material, then either:
- Ministers, as the owner of Scottish Water, provide additional funding;
  - Ministers provide additional lending; or
  - Investment, and therefore also outcomes, are reduced.
- 8.2.3. Risk cannot be removed from the system. It can only be allocated between Scottish Water, Scottish Ministers as owners, and current and future customers. Our role is to ensure that this allocation is transparent and in customers' interests. As economic regulator, we need to achieve an appropriate balance between protecting customers from risks that a company should be able to manage (e.g. delivery of the investment programme), versus the risks that are fully outside management control (e.g. changes to pension costs as a result of an independent revaluation) and may require some form of adjustment to charges or investment. Customers should bear only the additional costs that an efficient operator incurs to deliver its core functions.
- 8.2.4. The current regulatory framework already includes safeguards to protect customers from the risk of underperformance. For example, setting caps on the charges Scottish Water collects from customers protects customers from the immediate risk of cost overruns that could result in higher charges. Furthermore, our detailed annual monitoring and reporting of Scottish Water's performance provide an incentive for Scottish Water to ensure it meets the requirements of the Final Determination, given that WICS will highlight both outperformance and underperformance, with the latter attracting wider criticism.
- 8.2.5. Furthermore, we have the interim determination mechanism to adjust charges within a regulatory period in the event a factor has a material impact on Scottish Water's costs or revenues.
- 8.2.6. WICS must ensure the safeguards for the 2027-33 regulatory period are commensurate with the risks and uncertainties that may materialise. We see risks in three main areas:
- risks over West Central Bioresources, in particular, the risk of cost escalations or delivery delays associated with a project of its size;
  - risks associated with the delivery of an investment programme which is larger and more complex than previous regulatory periods; and
  - risks associated with OPEX uncertainties outside of Scottish Water's control.
- 8.2.7. For the 2027-33 regulatory period, we propose to enhance safeguards across three areas:
- Price: through the use of charge caps that apply only where certain conditions are met, to protect customers in the event of costs escalating or if there are delays in

developing a project. These could also be used to protect Scottish Water from cost increases that are fully outside management control. We refer to this safeguard as conditional charge caps.

- Monitoring: enhancing visibility of performance, ensuring there are early warning signals in the event of delivery delays and holding Scottish Water to account in delivering outcomes for customers.
- Incentives: strengthening WICS' role in the Performance Related Pay (PRP) framework.

8.2.8. Figure 82 sets out our proposed approach to safeguards in the SRC27 regulatory period.

Figure 82: Safeguards in SRC27



8.2.9. This chapter covers the safeguards relating to price: conditional charge caps and interim determinations. Chapter 10 covers safeguards for monitoring and incentives.

### 8.3. Conditional charge caps

8.3.1. In setting charge caps, we ensure that customers are adequately protected from material uncertainties, recognising that it is customers who are likely to bear the risk if they materialise. When considering how best to protect customers from material uncertainties, we face a choice:

- We either allow the cost in charges at the time of our Determination, which risks leaving customers paying more than necessary if the uncertain costs do not materialise; or

- We do not allow the cost in charges, which could leave Scottish Water with a shortfall in funding, and leave customers with reduced investment and reduced levels of service if the uncertain costs do materialise.

8.3.2. We consider that conditional charge caps could both protect customers from material risks, serving as a safeguard, and enable the sector to deal with uncertainties that arise during the regulatory period. In practice, this means our Determination would allow a ‘core’ charge cap sufficient to provide the required funding for costs that are certain and are fully evidenced by Scottish Water. Our Determination will also set out an additional charge profile, subject to conditions under which Scottish Water may access it only when costs become certain and Scottish Water has evidenced that the funding is required.

### Regulatory precedents

8.3.3. In addition to WICS ‘ring-fenced allowance’ in SRC21, similar mechanisms have been applied by other economic regulators.

8.3.4. Ofwat applies a gated process for large projects.<sup>274</sup> Through this process, Ofwat can set charge caps at the start of the period, including an allowance for the development costs of agreed large projects. Companies must then submit project investment cases through the interim determination/ cost change process. Ofwat will assess the submission and, if accepted, amend the allowed charge cap to cover additional expenditure required to deliver the project.

8.3.5. Similarly, Ofgem uses Uncertainty Mechanisms (UMs) to adjust allowances during the regulatory period for activities where there are uncertainties in the associated cost forecast at the time of setting the price control. Where, at the start of the control period, there is material uncertainty as to both prices and quantities (and/or the economic needs case is not proven, or the scope of expenditure is unclear), Ofgem has the option to use a re-opener mechanism during the control period to consider a variation in allowances.<sup>275</sup>

### Conditional charge cap for West Central Bioresources

#### *Why the West Central Bioresources project is suited to a conditional charge cap*

8.3.6. The West Central Bioresources project is set to be the largest project Scottish Water has ever delivered. The proposal includes the construction of a new advanced anaerobic digestion (AAD) facility on the site of the existing Daldowie bioresource facility, and upgrades at other wastewater treatment sites to enable the transfer of sludge to the AAD site. Until 1 April 2026, the Daldowie site was run by a PFI operator. Scottish Water plans to begin construction

<sup>274</sup> Ofwat (2024), ‘PR24 Final Determinations: Expenditure allowances’, December 2024.

<sup>275</sup> Ofgem (2025), ‘RIIO-3 Final Determinations Overview Document’, 4 December 2025.

in June 2027 and complete the project by 2031. Further information on the proposed investment can be found in section 5.6.

- 8.3.7. WICS considers that there is a risk that during the development of the project, costs escalate to a point that the project is no longer in the customers' interests. WICS also considers that there is a risk that if the start of construction of the project is delayed, then the allocated funding could be used to pay for other investments or to cover cost overruns in other areas of the programme. If Scottish Water requested funding for West Central Bioresources in future periods, there is a risk that customers could end up paying twice for the project.
- 8.3.8. WICS also understands that there is uncertainty around potential opportunities for Scottish Water to receive funding from the UK Government's Green Gas Support Scheme (GGSS).<sup>276</sup> In technical appendix 10 of its business plan, Scottish Water estimates that, should this opportunity materialise, it could generate between £8 million and £10 million annually. We consider that, if they materialise, these additional funding sources must be used to offset the allowed cost of West Central Bioresources, ensuring that customers receive the full benefits of the funding. However, at present, we do not have sufficient information to factor this into our Determination.

#### *How the conditional charge cap for West Central Bioresources will be applied*

- 8.3.9. Under WICS proposals, Scottish Water would only be able to access the funding associated with the conditional charge cap once the project reaches Gate 80/90 and the Scottish Water Board has approved the project, but prior to starting construction. Scottish Water will be required to apply to WICS to evidence that it has met the charge cap conditions. Scottish Water should commit to the construction phase of the project only after WICS approval confirming that the conditions have been met. We understand from correspondence received from Scottish Water since the publication of its final business plan that the project is scheduled to reach Gate 80/90 in June 2027. Scottish Water may apply for the conditional charge cap at any point during the 2027-33 regulatory period after Gate 80/90 has been reached.
- 8.3.10. We propose that Scottish Water will be required to address the outstanding requirements of the Minister's policy position for the conditional charge cap to be accessed. Evidence that Scottish Water has addressed these requirements should be submitted to WICS as part of the application to access the conditional charge cap.
- 8.3.11. The application will also need to provide evidence in the areas set out in Table 63.

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<sup>276</sup> Ofgem (2025), 'Green Gas Support Scheme Guidance v2.2', 7 July 2025.

Table 63: Evidence required for Scottish Water to access the West Central Bioresources charge cap

Area	Form of evidence
<p><b>Confirmation of scope, cost, outcomes, cash inflows and value for money</b></p>	<ul style="list-style-type: none"> <li>• Final project investment appraisal confirming the scope, cost and outcomes of the West Central Bioresources project, and evidence of any cash inflows that will offset part of the cost (e.g. GGSS, savings from renewable energy generation). If costs have escalated above those allowed for in the Determination, then Scottish Water should explain how the additional cost will be met;</li> <li>• An up-to-date benchmarking assessment of the capital costs based on the cost estimates in the Stage 4 Project Investment Appraisal; and</li> <li>• Assurance from Scottish Water’s Board that the West Central Bioresources project is the appropriate solution and that it will satisfy SEPA’s requirements.</li> </ul>
<p><b>Consents and approvals</b></p>	<ul style="list-style-type: none"> <li>• Assurance from Scottish Water’s Board that it has completed the relevant impact assessments (e.g. the environmental impact assessment) and has received the relevant consents and approvals (e.g. planning consents, environmental consents); and</li> <li>• Visibility of these consents.</li> </ul>
<p><b>Confirmation of timescales</b></p>	<ul style="list-style-type: none"> <li>• A detailed timeline for the delivery of the project post-Gate 80/90 for monitoring.</li> </ul>

8.3.12. Once the project has reached Gate 80/90, Scottish Water may submit its application. We would welcome Scottish Water doing so at the earliest possible date, as we consider this to be in the best interests of all parties.

8.3.13. Following the submission of the evidence, WICS will decide whether Scottish Water has met the conditions and can access the conditional charge cap. WICS will seek to reach a decision within 3 months of receiving the application. Any decision that the conditions have been met and that access to the charge cap should be granted will remain subject to Scottish Water

submitting a compliant Scheme of Charges for the years in which the conditional charge cap applies.

8.3.14. While Scottish Water can submit its application at any point after the project has reached Gate 80/90, we require that the evidence be submitted to WICS no later than the end of August in the year prior to the charging year in which Scottish Water wishes to access the conditional charge cap. This is to ensure that WICS has sufficient time to consider the merits of the evidence presented by Scottish Water prior to the review of the Scheme of Charges. If Scottish Water were to submit evidence to WICS after the end of August, WICS may exercise its discretion to extend the deadline should we consider it in the interests of customers to do so. We will ensure that any decision to accept a late submission of evidence does not impact WICS' ability to apply full due diligence in its role to review the Scheme of Charges submission. If this is not possible, then WICS will consider the evidence for the following charging year.

### **Conditional charge cap to deal with OPEX uncertainties**

8.3.15. In setting charge caps for 6-year regulatory periods, WICS accepts that there will always be uncertainties that are not within Scottish Water's control and cannot be accounted for at the beginning of the period. However, any conditional charge caps should not seek to protect Scottish Water from normal business risks that Scottish Water should be expected to manage and mitigate.

8.3.16. With this in mind, in our review of Scottish Water's business plan and the wider evidence base, we consider that there are two known OPEX uncertainties that may materialise within the regulatory period and could be material enough to warrant a conditional charge cap. These OPEX uncertainties are:

- Energy costs; and
- Pension costs.

8.3.17. We propose that a conditional charge cap be applied to these OPEX uncertainties, and propose that before allowing Scottish Water to access these conditional charge caps, it must be evidenced that these cost movements are efficient and cannot reasonably be managed within Scottish Water's existing allowances.

### *Energy costs*

8.3.18. As we observed in the 2021-27 regulatory period, energy costs can be volatile due to geopolitical factors. As explained above, Scottish Water's use of pre-purchase agreements shielded customers from the 2022 spike in energy costs caused by geopolitical instability.

8.3.19. At the time of preparing the Draft Determination, we are again entering a period of geopolitical instability. Depending on how quickly the situation is resolved, there may or may not be a material long-term impact on energy costs.

8.3.20. If WICS were to allow for uncertain energy costs at the time of the SRC27 Final Determination, customers would pay more than necessary if the uncertain cost does not materialise or can be mitigated. For this reason, we propose applying a conditional charge cap for OPEX uncertainties, including energy costs.

8.3.21. To review the impact of changing energy costs, WICS will continue to review the DESNZ measure of energy prices for large users.

#### *Pension costs*

8.3.22. In its business plan, Scottish Water explains that its employees are part of Local Authority pension funds and that these funds are currently in surplus. Scottish Water forecasts that if the surplus status were to change, then its contributions to the fund would increase by around £7 million per year. These revaluations are undertaken by an independent party, meaning Scottish Water does not have control over this aspect of pension costs.

8.3.23. WICS' view is that such an increase in operating costs would be beyond Scottish Water's control, but allowing these costs to be included in customer charges from the start of the period could result in customers being overcharged if the costs do not materialise. As such, we consider it appropriate to apply a conditional charge cap to provide funding that may be required to meet increased pension costs resulting from a revaluation. We propose that the conditional charge cap for pension costs would apply only to additional costs arising from the pension revaluation. This is because such adjustments to charge caps must be due to additional costs outside management's control that cannot be absorbed through efficiency improvements.

#### *How the conditional charge cap for OPEX uncertainties will be applied*

8.3.24. We propose that from year four of the regulatory period (2030-31), charge caps can be amended if the OPEX uncertainties have materialised. We expect Scottish Water to engage with WICS in advance of its Scheme of Charges submission and provide appropriate evidence to support its application to access the conditional charge cap if it views an adjustment to charges to be required. Evidence must be submitted to WICS before the end of August in the year preceding the charging year in question. As explained above, WICS may choose to accept a late submission of evidence from Scottish Water if it is in customers' interests to do so.

8.3.25. The submission of evidence for the OPEX uncertainty charge cap must include the following:

- A quantification of the impact that changing energy costs and/or a pension revaluation have had on operating costs (such quantification must be based on actual data rather than forecasts);
- An explanation of why Scottish Water has not been able to manage these costs; and
- An explanation of why Scottish Water has not been able to absorb these costs through outperformance in other areas.

8.3.26. Given the inherent uncertainty in these areas, WICS may also request any additional evidence it considers is required during the in-period review of conditional charge caps.

8.3.27. If these costs materialise in the first three years of the regulatory period, then this will be taken into account in the review of the conditional charge cap for years four to six of the period. As such, the conditional charge cap can be considered as a 'true-up' in the second half of the regulatory period.

8.3.28. As set out above, only energy costs and pension costs associated with the pension revaluation will be within the scope of the conditional charge caps for OPEX uncertainties. The maximum conditional charge cap associated with these operating costs is set out in Chapter 9 and will not be amended upward during the period.

8.3.29. WICS recognises that uncertainties may arise during the regulatory period that we are currently unaware of. Reflecting the need for customers to have relative clarity about bills, such uncertainties that unfold through the regulatory period will not be adjusted for. In this scenario, the options identified in paragraph 8.2.2 will apply. If the emerging uncertainties are sufficiently material, an Interim Determination may be triggered.

## 8.4. Interim Determinations

8.4.1. In certain circumstances, it could be necessary to amend charge caps during the regulatory period beyond the conditional charge caps set in the Final Determination. The process by which WICS may adjust charge caps within the regulatory period is known as an 'Interim Determination' or 'IDoK'.

8.4.2. WICS may make an interim determination where, since the making of the Final Determination, there has been or is likely to be a material change in Scottish Water's income from charges, or other resources, or expenditure required for the effective exercise of its core functions. Where these circumstances apply, the Commission may decide to amend the maximum charge caps.<sup>277</sup> In considering whether to amend the maximum charge caps, the Commission will assess whether the relevant change results from underperformance, from

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<sup>277</sup> Section 29F of the Water Industry (Scotland) Act 2002 provides WICS with this power.

risks that could reasonably have been managed by Scottish Water, or from standard forecasting errors.

- 8.4.3. The scope of an interim determination is strictly limited to reassessing the specific elements that triggered it, rather than a re-opening of the price review process. The mechanism therefore protects customers from paying for unjustified cost increases while ensuring that Scottish Water can recover material costs.
- 8.4.4. Where Scottish Water wishes WICS to make an interim determination, it must submit proposals for the revision of the maximum charge cap. WICS may reject a proposal if it considers that the change is not material. To assess the materiality of a change, WICS will apply a materiality test. WICS will generally consider the change sufficiently material to trigger an interim determination if the Net Present Value of the change over the regulatory period is greater than 10% of Scottish Water’s turnover in the year of the request. The change to costs or revenues will be considered net of Scottish Water’s ability to mitigate, manage, or reprioritise investment in response to the change.
- 8.4.5. To ensure that WICS has appropriate time to consider the proposal and consult with industry stakeholders, Scottish Water must make its proposal prior to the end of June for the interim determination to be in place in time for the next charging year. The full timeline for the interim determination process is shown in Table 64.

*Table 64: Timeline for application for an interim determination*

Date of relevant year	Description of stage
No later than the end of June	Scottish Water initiates the interim determination process with a proposal
One month after Scottish Water’s submission, meaning no later than end of July	If the proposal meets the materiality threshold then WICS will invite stakeholders to comment on the material change item no later than one month after the draft submission
No later than end of October	WICS issues draft interim determination for consultation
No later than end of December	WICS issues final interim determination
April	New charges take effect

- 8.4.6. WICS may also request that Scottish Water send proposals to WICS for revising the charge caps of the Final Determination.

## 8.5. Conclusion

- 8.5.1. WICS considers that the application of conditional charge caps will reduce the risk faced by Scottish Water's customers at the same time as ensuring that Scottish Water has the funding required to meet its objectives. This approach will support the wider safeguarding mechanisms described in the Monitoring chapter (Chapter 10).
- 8.5.2. Chapter 9 develops the conditional charge cap approach and sets out how the 'core' charge cap and conditional elements interact.

# 9. Charge caps

## 9.1. Summary of chapter

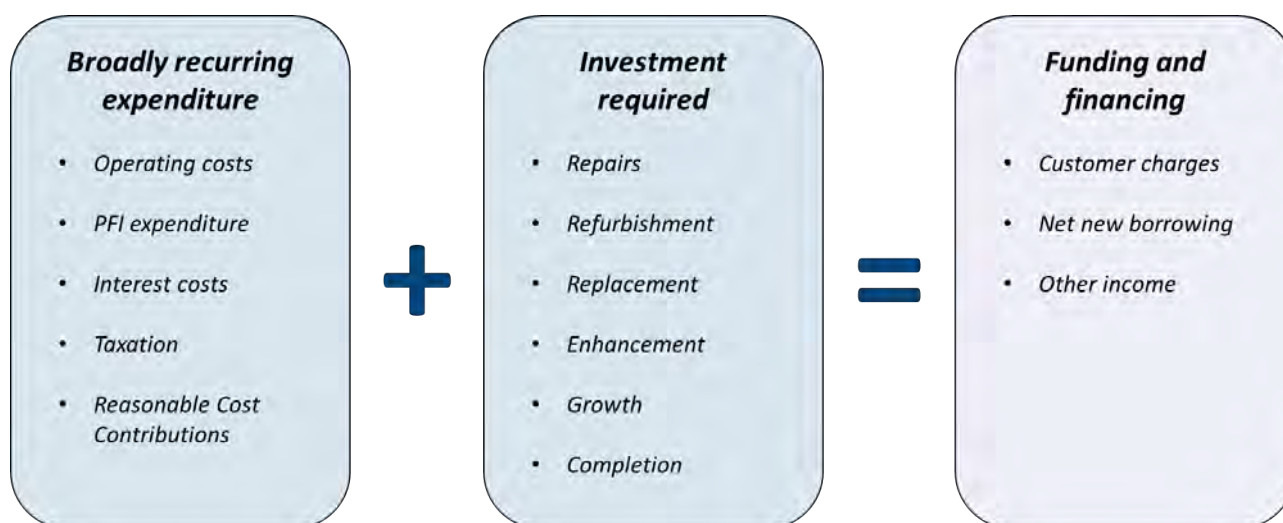
- 9.1.1. This chapter brings together the allowances for investment, operating costs, and other income and expenditure set out in previous chapters to calculate the charge caps required over the 2027-33 regulatory period.
- 9.1.2. Our Draft Determination separates the charge cap into three components.
- 9.1.3. 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.
- 9.1.4. The second is a conditional allowance for West Central Bioresources. This 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.
- 9.1.5. 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.
- 9.1.6. 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.
- 9.1.7. This chapter is structured as follows:
- What are charge caps, and how do we calculate them?;
  - WICS response to Scottish Water's non-household revenue cap proposal;
  - 'Core' charge caps and conditional charge caps;
  - Implications for customer bills and Scottish Water's revenue;

- Income and expenditure baseline; and
- Areas for Scottish Water to address in response to the Draft Determination.

## 9.2. What are charge caps and how do we calculate them?

9.2.1. The cash-based approach to setting charge caps involves balancing cash inflows and outflows over the regulatory period. To do this in practice, WICS forecasts the efficient expenditure needed to achieve the outcomes. We then calculate the charges required to fund this expenditure after accounting for other sources of income, such as net new borrowing from the Scottish Government. This calculation is summarised in Figure 83.

Figure 83: The cash-based approach to setting charge caps for SRC27



## 9.3. WICS response to Scottish Water’s non-household revenue cap proposal

9.3.1. In Chapter 11 of our Final Methodology we explained that we would apply a charge cap in SRC27, and as such, Scottish Water would bear the revenue risk.<sup>278</sup> However, in technical appendix 13 of its business plan, Scottish Water proposes applying a revenue cap to non-household charges rather than a charge cap. It proposes this mechanism because of uncertainty about changes in non-household consumption resulting from the rollout of non-household smart meters.

9.3.2. A revenue cap would mean the revenue available to Scottish Water is independent of factors such as growth in the customer base and change in consumption. For example, if non-household consumption were lower than the assumption at the time of the Final

<sup>278</sup> WICS (2024), ‘Strategic Review of Charges 2027-33: Final Methodology’, 12 December 2024.

Determination, Scottish Water would recover less revenue than forecast, and an upward adjustment to charges would be required to maintain revenue.

9.3.3. While we recognise the uncertainty around changes in consumption, we consider the reasoning in our Methodology continues to stand. We consider that the charge cap approach is consistent with the principle of stable charges in the Scottish Government's Principles of Charging, and that it continues to be in the best interests of non-household customers who might otherwise see significant increases to their charges above the forecasts in our Determination for reasons outside of their control.

9.3.4. That being said, WICS recognises the revenue risk this approach may place on Scottish Water. For this reason, we propose that the longer-term impact of reducing consumption be considered in detail over the 2027-33 regulatory period, with a view to providing a thorough analysis of the likely trade-offs before the SRC33 regulatory period. We consider that this analysis should seek to answer the following questions:

- What factors are expected to impact consumption?
- What impact is the expected reduction in consumption likely to have on Scottish Water's revenue, operating costs, and investment requirements in the short-term and long-term?
- What would this mean for the cost reflectivity of charges with respect to the balance between household and non-household customers?
- What would this mean for the cost reflectivity of charges with respect to the balance between water, wastewater and drainage?
- How might a charge/revenue cap in future regulatory periods address these issues for the long-term sustainability of the water sector in Scotland?

### Live Rateable Value updates

9.3.5. Scottish Water's non-household customers are generally charged for water and wastewater services based on their metered consumption. However, there are relatively few non-household customers without meters, who are instead charged based on an assessed volume. This assessed volume is set based on the Rateable Value (or RV) of the property. Non-household drainage charges are also set relative to the RV of the property. This is set out in the Principles of Charging.

9.3.6. Every three years, the Live Rateable Value (RV) for non-household properties is updated. The next revaluation is due to be completed prior to the 2029-30 financial year. After the update, individual customers may see their RV increase or decrease. As a result, without further adjustment, Scottish Water's revenue would change in line with the aggregate movement in RV. WICS proposes that charges are adjusted in the year of the revaluation to ensure the update is 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.

9.3.7. The most recent Live RV update took effect on 1 April 2026 for the charging year 2026-27. As a result of this revaluation, we expect Scottish Water's revenue in 2026-27 to be higher than forecast in the business plan. WICS has not modelled this adjustment as part of this Draft Determination and will consider this further for the Final Determination, alongside the impact of updating the forecast revenue in 2025-26 for the actual revenue in 2025-26 reported in Scottish Water's regulatory accounts. In its response to the Draft Determination on 1 September 2026, WICS requests that Scottish Water 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 RV update as of 1 April 2026.

## 9.4. 'Core' charge caps and conditional charge caps

9.4.1. As explained in Chapter 8, we will implement conditional charge caps over the 2027-33 regulatory period as a way to protect Scottish Water's customers from uncertainty. In Chapter 8 we explained the conditions that must be satisfied for the conditional charge caps to be applied. This section explains the amount of funding subject to the conditional charge caps. In doing so, we set out the following:

- The charge cap assuming the West Central Bioresources project goes ahead;
- The conditional charge cap associated with the delivery of the West Central Bioresources project; and
- The conditional charge cap associated with OPEX uncertainties.

### Charge cap (assuming WCB conditions are met)

9.4.2. In SRC21, we set out to begin transitioning charges to a level consistent with addressing the long-term challenges facing the Scottish water industry. At the time of the SRC21 determinations, we set out a long-term indicative charge path of between CPI+1.5% to CPI+2.0%. Building on this approach, we will allow Scottish Water to increase charges by CPI+2.0% each year between 2027-28 and 2032-33. This is equivalent to a CPI+12.6% cap for the period.

9.4.3. This charge profile is sufficient to deliver the investment programme set out in Chapter 5, including the West Central Bioresources project (see section 5.6) and provides additional funding of c.£168 million (see section 5.9) for unallocated investment. This charge cap, however, does not include any allowances for OPEX uncertainties, which are covered below.

9.4.4. WICS considers that this charge path supports the continuation of the long-term transition to addressing the asset replacement challenge over subsequent regulatory periods.

- 9.4.5. Our Methodology for SRC27 sets out the expectation that Scottish Water should explain the circumstances in which it might propose deviating from the annual charge profile of the Determination. In its business plan, Scottish Water highlights that an example of such a circumstance would be a cost-of-living crisis similar to that seen in the 2021-27 regulatory period. In this scenario, Scottish Water might choose to reduce customer charges below the cap set in the Determination to help protect its customers' interests. If Scottish Water were to do this, we would require a clear explanation of the investment that will not be delivered as a consequence.
- 9.4.6. The charge cap will continue to apply on a cumulative basis; however, in any given year, we will not allow Scottish Water to exceed the cumulative charge cap up to that point. For example:
- In 2027-28, we would not allow Scottish Water to exceed the cap for that year;
  - In 2028-29, we would not allow Scottish Water to exceed the cumulative cap covering years 2027-28 and 2028-29; and
  - In 2029-30, we would not allow Scottish Water to exceed the cumulative cap covering years 2027-28 to 2029-30.

#### **Conditional charge cap for West Central Bioresources**

- 9.4.7. Due to the nature of the West Central Bioresources project, it would be appropriate to assume that only a proportion of the capital cost of the project is paid directly from customer charges. To assess the funding required under the conditional charge cap, we have assumed that 60% of the project's capital cost is financed through borrowing from the Scottish Government. This 60:40 split between borrowing and charges, which is in line with industry standards, means that around £225 million of the project's capital cost will be funded by customer charges. In modelling conditional prices for this Determination, the funding required for West Central Bioresources is slightly offset by tax savings if lower revenue is needed because the conditions are not met.
- 9.4.8. In considering the application of conditional charge caps for the West Central Bioresources project, we have identified two potential conditional price paths. Both options subject around £225 million of funding to the same conditions, though the timing of the conditional charge cap differs between the two options.
- 9.4.9. In both options, charges are adjusted downward if Scottish Water cannot evidence that it has met the conditions attached to the conditional charge cap. If the project does not go ahead, customers will see a reduction in their charges compared to what they would otherwise have been, and the borrowing allocated to the project will be used to invest in other customer priorities and/or regulatory requirements.

9.4.10. WICS will consider other offsetting factors such as the potential for Scottish Water to receive funding from the UK Government’s Green Gas Support Scheme (GGSS) and/or savings that come as a result of renewable energy generated (see paragraph 6.6.15). However, recognising that the conditional charge cap represents the maximum charge, such offsetting factors have not been included in our assessment of charge caps and revenues in this determination.

*Profiling of conditional charge caps – Option 1*

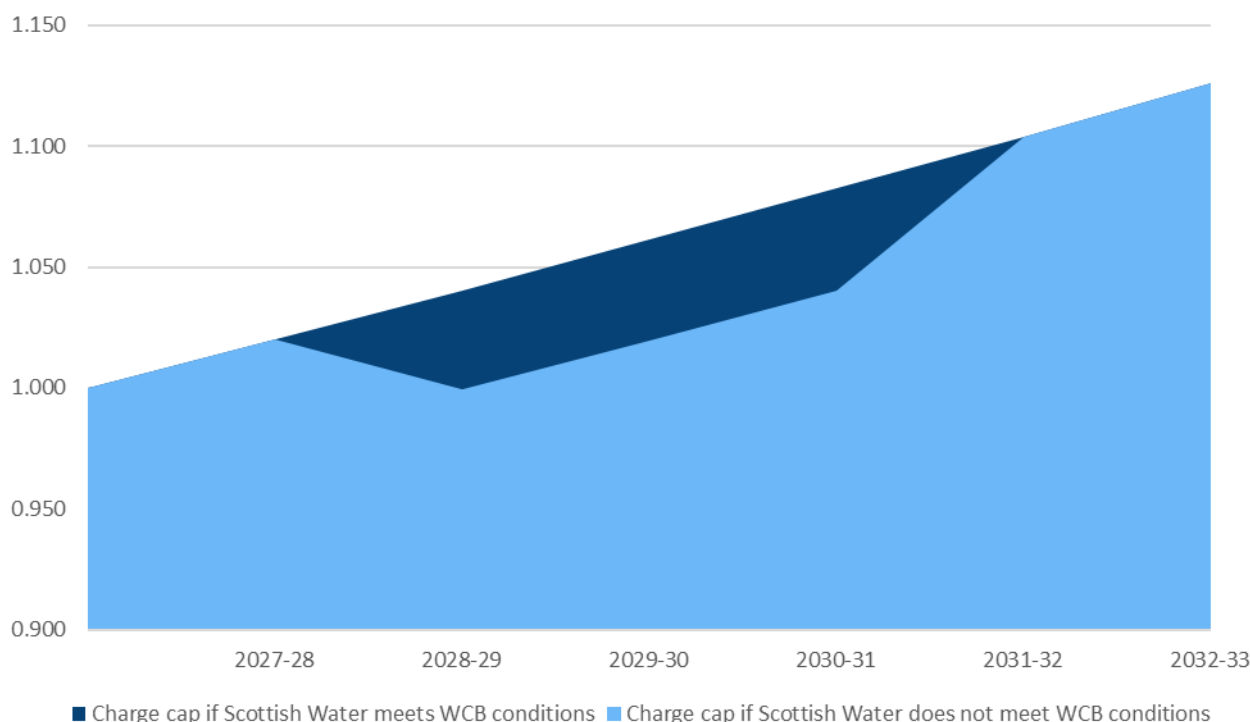
9.4.11. The first option broadly aligns the collection of conditional charge caps to the planned construction phase of the project. As such, if Scottish Water satisfies the West Central Bioresources conditions in line with the project’s schedule, then the funding required from customer charges will be available over years 2, 3 and 4 of the regulatory period. If Scottish Water does not satisfy the conditions by its current planned dates, the annual conditional charge cap will not be available in year 2, but can instead be accessed in the year following the completion of the conditions.

9.4.12. The annual and cumulative charge paths for Option 1 are shown in Table 65 and Figure 84 respectively.

*Table 65: Annual charge profile for Option 1 (real terms)*

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Charge profile not subject to conditions	+2.0%	-2.0%	+2.0%	+2.0%	+6.2%	+2.0%
Conditional charge profile <i>(West Central Bioresources)</i>	+0.0%	+4.0%	+0.0%	+0.0%	-4.2%	+0.0%
<b>Total change in charges</b> <i>(if WCB conditions are met)</i>	<b>+2.0%</b>	<b>+2.0%</b>	<b>+2.0%</b>	<b>+2.0%</b>	<b>+2.0%</b>	<b>+2.0%</b>

Figure 84: Cumulative charge profile for Option 1 (real terms)



9.4.13. Under this option, a delay in Scottish Water meeting the conditional charge cap could impact the stability of customers’ charges. For example, if Scottish Water is unable to meet the conditions prior to year 2 of the regulatory period but meets them prior to year 3, customer charges would be reduced in year 2, only to increase again in year 3. In this scenario, similar fluctuations would also be expected in years 5 and 6 of the regulatory period to ensure that Scottish Water is adequately funded for the project after the delays.

*Profiling of conditional charge caps – Option 2*

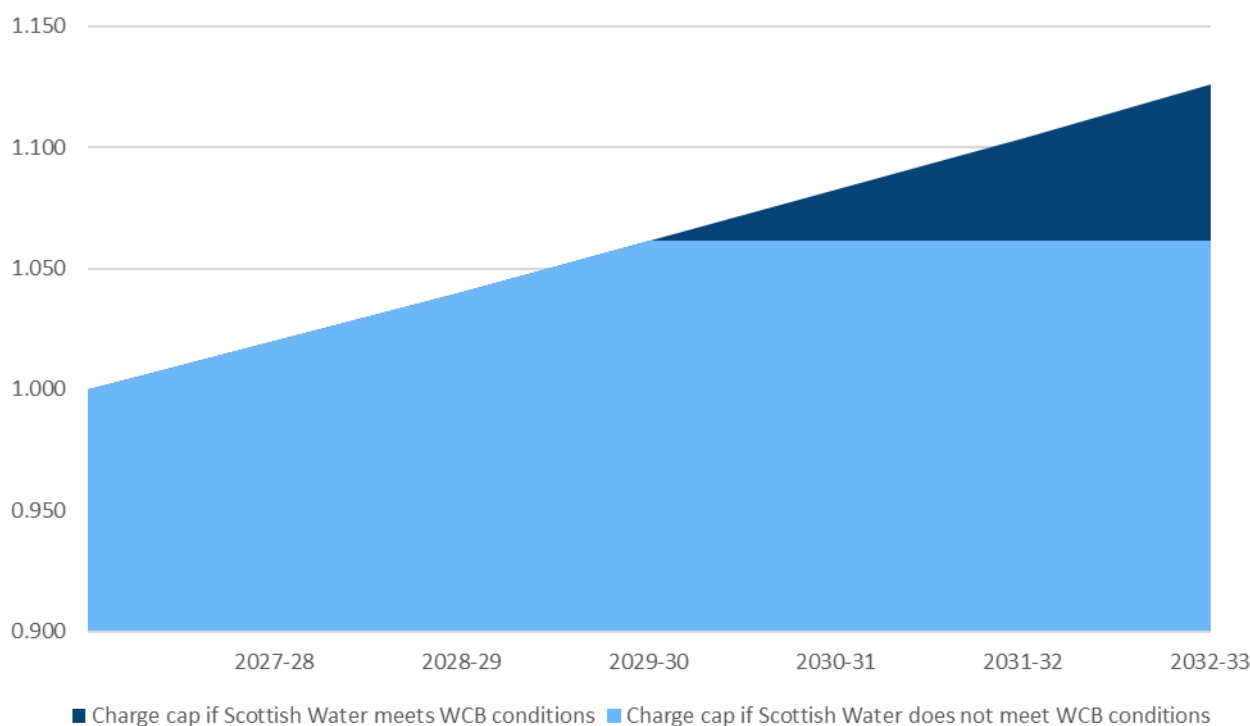
9.4.14. The second option allows Scottish Water to secure the required funding for the West Central Bioresources project over the final three years of the regulatory period. This means the charge caps for years 1 to 3 are fixed, with the second half of the period being used to adjust charges if the project is approved.

9.4.15. The annual and cumulative charge paths for Option 2 are shown in Table 66 and Figure 85.

Table 66: Annual charge profile for Option 2 (real terms)

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Charge profile not subject to conditions	+2.0%	+2.0%	+2.0%	+0.0%	+0.0%	+0.0%
Conditional charge profile (West Central Bioresources)	+0.0%	+0.0%	+0.0%	+2.0%	+2.0%	+2.0%
<b>Total change in charges (if WCB conditions are met)</b>	<b>+2.0%</b>	<b>+2.0%</b>	<b>+2.0%</b>	<b>+2.0%</b>	<b>+2.0%</b>	<b>+2.0%</b>

Figure 85: Cumulative charge profile for Option 2 (real terms)



9.4.16. Like Option 1, this approach provides the required funding for the West Central Bioresources project over three years, but it would result in more stable charges if the project were delayed. This is because the charge cap under Option 2 is fixed until year 4 of the regulatory period and if Scottish Water does not meet the requirements of the conditional charge cap, then charges would increase in line with inflation.

#### Proposed profile option

9.4.17. While both options result in the same price path if the project is delivered on time, if the project is delayed or does not proceed at all, the resulting price paths differ significantly between the two options.

9.4.18. Option 1 allows charges to vary annually based on the project's progression through delivery gates. This contrasts with Option 2, which fixes the charge cap until the middle of the regulatory period.

9.4.19. After considering both options, WICS proposes applying Option 2 in SRC27. This option gives customers certainty about the charge caps in the first three years of the regulatory period, while ensuring they are not overcharged if the West Central Bioresources project is delayed beyond year four of the period or does not occur at all. Not only do we consider this option to be in the best interest of customers due to the lower risk of volatile charges, but we also consider that this approach provides Scottish Water with greater certainty over the funding available in the period, as the charge profile is only impacted if the project is delayed by three years or more. For this reason, WICS proposes implementing Option 2 in SRC27. We consider this to be the optimal balance of risk and charge stability for both Scottish Water and its customers.

9.4.20. In any year, Scottish Water can apply to access the conditional charge cap available for the years 2030-31 to 2032-33. This means that:

- If the project is delayed for any reason, then Scottish Water has sufficient time available to apply for the additional charge cap before the charge cap takes effect; and
- Scottish Water does not need to wait until the charges scheme for 2030-31 to apply for the charge cap, avoiding any delay in progressing the project.

9.4.21. However, any decision to grant access to the conditional charge cap would be subject to Scottish Water submitting a compliant Scheme of Charges for the years in question.

9.4.22. If the project is delayed beyond 2030-31, Scottish Water should still have sufficient funding available to progress it within the available charge cap, recognising that it will span the 2027-33 and 2033-39 regulatory periods.

9.4.23. As explained above, WICS will conduct a detailed review of the evidence submitted by Scottish Water. Part of WICS' review will include consideration of any offsetting factors, such as the availability of funding from the Green Gas Support Scheme (GGSS). As a general rule, we expect a £25 million offset to reduce the conditional charge cap requirement by c.0.2% (i.e. a £50 million offset would reduce the charge cap in the final three years of the regulatory period from CPI+2.0% to CPI+1.6%).

#### **Conditional charge cap for OPEX uncertainties**

9.4.24. Section 8.3 explains that from 2030-31 onward, Scottish Water may apply for additional funding to account for the materialisation of known uncertainties. These uncertainties are limited to energy costs and pension costs.

- 9.4.25. At the time of WICS review of the Scheme of Charges in the relevant year, an assessment will be made as to the extent to which the energy cost and pension cost OPEX uncertainties have materialised. The additional charges to address these uncertainties will be capped at 0.3% per year for the final three years of the regulatory period. WICS believes this is appropriate given the need for customers to have relative certainty about what they will pay.
- 9.4.26. When considering whether Scottish Water qualifies for additional funding to reflect these uncertainties during the mid-period review, WICS will also review whether additional efficiency gains and/or cost savings can offset the need for these conditional prices. For example, WICS has not modelled any reduction in operating costs to reflect any cost savings that an operational AAD site may bring following the successful completion of the West Central Bioresources project. We have also not factored in any income from electricity generated at the new AAD site. These offsetting factors have not been included in operating expenditure allowances due to uncertainty around the progression of the West Central Bioresources project, but we would expect these savings to be realised if the project goes ahead as planned by Scottish Water.
- 9.4.27. Allowances for energy and pension cost OPEX uncertainties have not been included in our operating cost allowances for SRC27. As such, the additional charges associated with these uncertain costs have not been included in the modelling of Scottish Water's revenues for this Draft Determination.

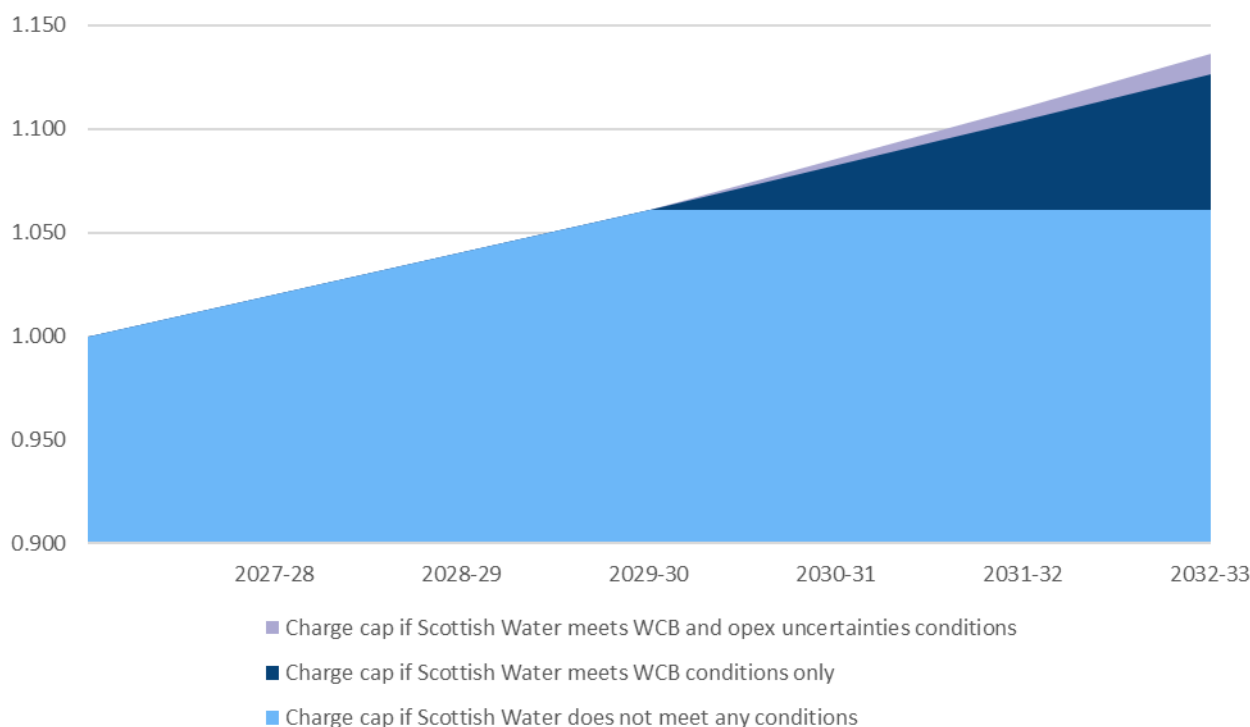
### Summary of charge cap decision

- 9.4.28. Our Draft Determination separates the charge cap into three components.
- 9.4.29. 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.
- 9.4.30. The second is a conditional allowance for West Central Bioresources. This 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. This increase, disaggregated by the associated conditions, is shown in Table 67 and Figure 86.

Table 67: Annual charge profile if all conditions are met in full (real terms)

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Charge profile not subject to conditions	2.0%	2.0%	2.0%	0.0%	0.0%	0.0%
Conditional charge profile (West Central Bioresources)	0.0%	0.0%	0.0%	2.0%	2.0%	2.0%
<b>Total change in charges (if WCB conditions are met)</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>
Conditional charge profile (OPEX uncertainties)	n/a	n/a	n/a	0.3%	0.3%	0.3%
<b>Maximum allowed for charge cap (if WCB conditions are met &amp; OPEX uncertainties materialise)</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.3%</b>	<b>2.3%</b>	<b>2.3%</b>

Figure 86: Cumulative charge profile if all conditions are met in full (real terms)



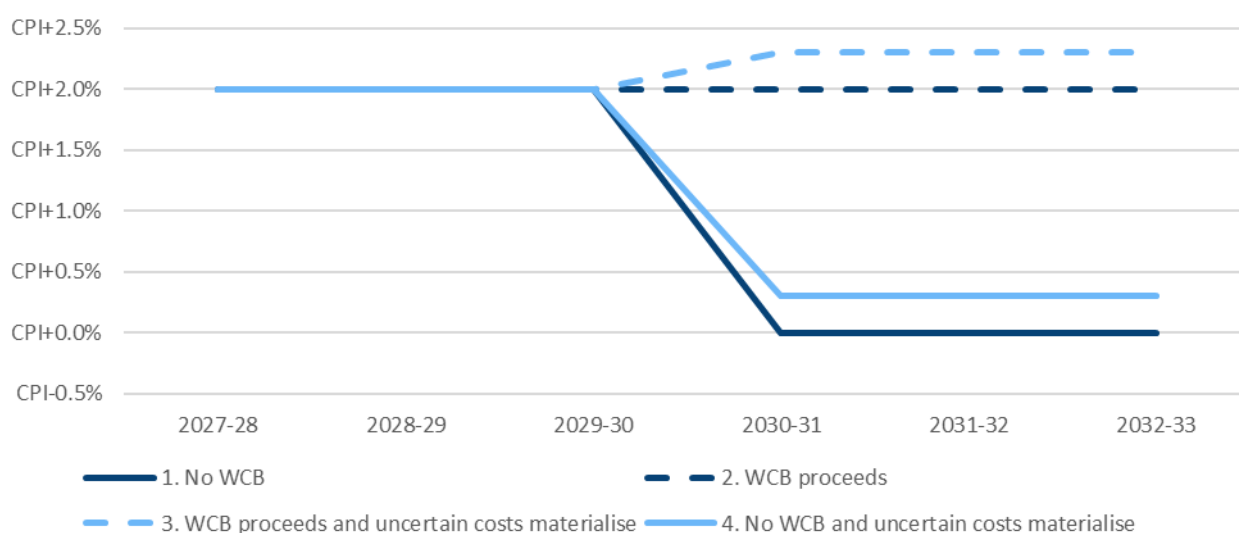
9.4.31. Therefore, our Draft Determination includes four possible charge paths:

- A core charge cap if the West Central Bioresources (WCB) project does not proceed (CPI+2% over 2027-28 to 2029-30, then CPI thereafter);
- A charge cap if Scottish Water meets our conditions for WCB and it proceeds (CPI+2% over 2027-33);

- A charge cap if Scottish Water meets our conditions for WCB, it proceeds and uncertain operating expenditure materialises (CPI+2% over 2027-28 to 2029-30, then CPI+2.3% thereafter);
- A charge cap if the West Central Bioresources (WCB) project does not proceed but uncertain operating expenditure materialises (CPI+2% over 2027-28 to 2029-30, then CPI+0.3% thereafter).

9.4.32. These charge paths are shown in Figure 87.

*Figure 87: Real annual charge paths*



9.4.33. We consider that these charge paths best meet the requirements outlined in the Commissioning letter for SRC27, recognising the risks associated with whether the West Central Bioresources project proceeds. While Scottish Water provided alternative charge paths, we did not consider that the performance on the outcomes associated with these charge paths offered customers sufficient value for the additional charges (CPI+3.8% and CPI+4.3%). The alternative charge paths proposed by Scottish Water provided only very small improvements in the outcome measure forecasts relative to the CPI+3.3% scenario.

9.4.34. We note the findings from the Phase 3 customer research where customers had some concerns over the uncertainty of inflation (see paragraph 3.4.18). We consider that the proposed maximum charge cap of CPI+2% over the first three years of the regulatory period, increasing to CPI+2.3% per year over the final three years of the regulatory period if uncertain and uncontrollable costs arise provides additional protection against inflationary uncertainty compared with Scottish Water's business plan. This is because our Draft Determination provides at least a 1% reduction to the annual charge increase relative to Scottish Water's final business plan.

9.4.35. As set out in paragraph 3.5.2, we are assured that the final business plan commands customer support. 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 are testing this through consultation.

9.4.36. The implications of this charge profile on customer charges are set out below.

## 9.5. Implications for customer bills and Scottish Water's revenue

### Other assumptions that impact the calculation of revenue and bills

9.5.1. In addition to the charge cap we set in this Determination, there are a number of factors that will impact the revenue Scottish Water will collect over the period. To ensure that Scottish Water has the funding required to continue delivering the services we all enjoy, whilst making sure that customers do not pay any more than necessary, we must ensure that our forecasts of these assumptions are as accurate as possible.

9.5.2. To model revenues over the SRC27 regulatory period, we must make assumptions for the following factors:

- Inflation
- Household and non-household growth
- Discounts and exemptions
- Change in non-household consumption

9.5.3. Our assumptions for each of these drivers of revenue are covered in turn below.

#### *Price inflation*

9.5.4. WICS sets charge caps relative to the CPI measure of inflation. This approach is in line with the Principles of Charging and is consistent with the approach adopted in previous regulatory periods. We will continue to use the CPI from October of the previous year as the inflation measure for customer charges.

9.5.5. To model revenues and to calculate the caps we will set on customer charges, we must first forecast price inflation. To do this, we have reviewed external inflation forecasts from sources such as the Bank of England's Monetary Policy Reports and the Office for Budget Responsibility's Economic and Fiscal Outlook reports.

9.5.6. For this Determination, we have applied the Office for Budget Responsibility (OBR) forecast from its Economic and Fiscal Outlook report published in March 2026.<sup>279</sup> The Office for

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<sup>279</sup> Office for Budget Responsibility (2026), 'Economic and fiscal outlook – March 2026', 3 March 2026.

Budget Responsibility forecasts inflation to 2030. For this reason, where detailed forecasts are not available, we have chosen to apply the Bank of England’s long-term target of 2.0%.

9.5.7. This forecast is shown in Table 68.

*Table 68: Price inflation forecast (CPI in October of previous year)*

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Price inflation forecast	1.9%	1.9%	2.1%	2.0%	2.0%	2.0%

9.5.8. Recognising that the recent geopolitical instability could have a lasting impact on macroeconomic factors such as inflation, we will continue to review these assumptions in the period between our Draft and Final Determinations.

#### *Household growth rate*

9.5.9. For household revenues, we use reported values for 2024-25 and then roll them forward with actual charge caps and forecast growth rates for the remainder of the 2021-27 regulatory period, followed by charge caps and forecast growth rates for the 2027-33 period.

9.5.10. The household revenue that Scottish Water collects depends on the number of billed connections to the water and wastewater network and the proportion of households in each council tax band. We apply a Band-D equivalent growth rate to household revenues to account for both factors. This is calculated as an average growth rate, weighted by the council tax band multipliers used to set household charges.

9.5.11. Scottish Water forecasts an increase in Band-D equivalent growth rate of 0.6% and 0.9% for 2025-26 and 2026-27, respectively. We have assumed a growth rate of 0.9% for both years, in line with the assumption in the SRC21 Final Determination.

9.5.12. For 2027-33, Scottish Water forecasts an annual Band-D equivalent growth rate of 1.0% in each year. Having reviewed this proposal, we agree that Scottish Water’s forecast is reasonable. This is supported by our analysis of the number of chargeable dwellings from publicly available council tax datasets.<sup>280</sup> This forecast is shown in Table 69.

*Table 69: WICS Band-D equivalent household growth rate assumption*

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Band-D equivalent growth rate	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%

<sup>280</sup> Scottish Government (2025), ‘Council tax datasets: Number of chargeable dwellings’, September 2025.

### *Non-household growth rate*

9.5.13. Similar to household revenue, non-household revenue is dependent on the number of billed connections to Scottish Water’s network. Scottish Water forecasts a 1.3% reduction in non-household-billed properties in 2025-26, followed by a 0.3% increase in 2026-27. We have adopted the non-household growth assumption from the Final Determination in SRC21 with an increase of 0.75% in both years.

9.5.14. For 2027-33, Scottish Water then proposes a forecast growth rate of 0.5% in each year. This proposal is in line with WICS analysis, so we do not propose any updates to Scottish Water’s assumption. This forecast is shown in Table 70.

*Table 70: WICS non-household growth rate assumption*

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Non-household growth rate	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%

9.5.15. We will review the 2025-26 forecast and assumptions for both household and non-household revenue following the submission of the 2025-26 annual return and regulatory accounts in June 2026.

### *Change in non-household consumption*

9.5.16. Around one third of Scottish Water’s revenue from non-household customers is charged volumetrically. As such, any change in consumption will impact the revenue Scottish Water collects from businesses.

9.5.17. In its business plan, Scottish Water forecasts a reduction in non-household consumption.

9.5.18. Overall, WICS agrees that Scottish Water’s assumption is reasonable so we have applied the same assumption as Scottish Water’s modelling. Further information on WICS view of this assumption can be found in section 4.5 (outcome 1.09). This assumption is shown in Table 71.

*Table 71: WICS change in non-household consumption assumption*

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Change in non-household consumption	-1.00%	-1.51%	-3.73%	-3.81%	-3.64%	-3.45%

### *Discounts and exemptions*

9.5.19. While WICS does not have a role in setting policy such as discounts and exemptions, we must understand the impact that policy decisions have on revenue.

9.5.20. In 2024-25, around half of household customers were in receipt of a discount or exemption. These discounts are paid for through the generality of Scottish Water’s customers.

9.5.21. Similarly, for non-household, charitable organisations may also receive an exemption or reduction on water and wastewater charges.<sup>281</sup>

9.5.22. In the draft Principles of Charging for SRC27, the Scottish Government has not made any changes to the discounts and/or eligibility criteria for households or charitable organisations.<sup>282</sup> As a result, we have not modelled any impact on Scottish Water’s revenue relative to 2024-25, which is the base year for this Determination.

### Household charges

9.5.23. Applying a CPI+2.0% charge cap to household charges results in an average charge of around £679 in projected outturn prices (£605 in 2026-27 prices) by the end of the 2027-33 regulatory period, as set out in Table 72.<sup>283</sup> This assumes that Scottish Water can evidence that it has satisfied the West Central Bioresources conditions to access the full WCB conditional charge caps.

*Table 72: Average household bill if uncertain costs do not materialise*

If uncertain operating costs do not materialise	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Before inflation (real terms; 2026-27 prices)	£537	£548	£559	£570	£581	£593	£605
After inflation (projected outturn prices)	£537	£558	£580	£603	£627	£653	£679

9.5.24. If the OPEX uncertainties charge cap were required, this would increase average charges to £685 in projected outturn prices (£610 in 2026-27 prices) by the end of the 2027-33 regulatory period, as set out in Table 73.

*Table 73: Average household bill if uncertain costs materialise*

If uncertain operating costs materialise	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Before inflation (real terms; 2026-27 prices)	£537	£548	£559	£570	£583	£596	£610

<sup>281</sup> Subject to the criteria set out in Annex 2 to the Principles of Charging.

<sup>282</sup> Scottish Government (2026), ‘Water Services – investing in and paying from 2027’, 6 January 2026.

<sup>283</sup> The average household bill is expressed after the discounts that eligible customers receive.

After inflation (projected outturn prices)	£537	£558	£580	£603	£629	£656	£685
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9.5.25. A full breakdown of annual unmeasured household charges is provided in Table 74 and Table 75.

Table 74: Unmeasured household charges with CPI+2.0% and OPEX uncertainty conditional charge cap (2026-27 prices)

	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
<b>Band A</b>	£434.88	£443.58	£452.45	£461.50	£472.11	£482.97	£494.08
<b>Band B</b>	£507.36	£517.51	£527.86	£538.41	£550.80	£563.47	£576.43
<b>Band C</b>	£579.84	£591.44	£603.27	£615.33	£629.48	£643.96	£658.77
<b>Band D</b>	£652.32	£665.37	£678.67	£692.25	£708.17	£724.46	£741.12
<b>Band E</b>	£797.28	£813.23	£829.49	£846.08	£865.54	£885.45	£905.81
<b>Band F</b>	£942.24	£961.08	£980.31	£999.91	£1,022.91	£1,046.44	£1,070.51
<b>Band G</b>	£1,087.20	£1,108.94	£1,131.12	£1,153.75	£1,180.28	£1,207.43	£1,235.20
<b>Band H</b>	£1,304.64	£1,330.73	£1,357.35	£1,384.49	£1,416.34	£1,448.91	£1,482.24

Table 75: Unmeasured household charges with CPI+2.0% and OPEX uncertainty conditional charge cap (projected outturn prices)

	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
<b>Band A</b>	£434.88	£451.84	£469.46	£488.71	£509.72	£531.64	£554.50
<b>Band B</b>	£507.36	£527.15	£547.71	£570.16	£594.68	£620.25	£646.92
<b>Band C</b>	£579.84	£602.45	£625.95	£651.61	£679.63	£708.86	£739.34
<b>Band D</b>	£652.32	£677.76	£704.19	£733.07	£764.59	£797.46	£831.76
<b>Band E</b>	£797.28	£828.37	£860.68	£895.97	£934.50	£974.68	£1,016.59
<b>Band F</b>	£942.24	£978.99	£1,017.17	£1,058.87	£1,104.40	£1,151.89	£1,201.42
<b>Band G</b>	£1,087.20	£1,129.60	£1,173.66	£1,221.78	£1,274.31	£1,329.11	£1,386.26
<b>Band H</b>	£1,304.64	£1,355.52	£1,408.39	£1,466.13	£1,529.17	£1,594.93	£1,663.51

9.5.26. Based on the assumptions explained above, we expect this to generate around £8,849 million of household revenue over the period in 2024-25 prices. This assumes that Scottish Water can evidence that it has met the conditions associated with the West Central Bioresources conditional charge cap, but does not include any revenue that may result from the OPEX uncertainties charge cap.

### **Non-household charges**

9.5.27. Based on the assumptions explained above, we expect this to generate around £2,985 million of non-household revenue over the period in 2024-25 prices. This assumes that Scottish Water can provide evidence that it has met the conditions associated with the West Central Bioresources conditional charge cap, but does not include any revenue that may result from the OPEX uncertainties charge cap.

### *Default tariffs*

9.5.28. Consistent with our duty to protect customers' interests, we propose continuing to set default maximum tariffs for the non-household retail market. These tariffs are the maximum that any licensed provider can charge for a standard level of service and therefore act as a safety net for all non-household customers.

9.5.29. To promote an effective retail market and encourage licensed providers to continue providing improved, more tailored levels of service to all their customers, we propose to offer licensed providers the same percentage of gross retail margin as currently exists. This would mirror the approach taken in SRC21 and involves establishing a default maximum tariff for each year that reflects Scottish Water's proposals for non-household wholesale charges in its Scheme of Charges.

9.5.30. We will continue to monitor the margins available to licensed providers and make any necessary adjustments to ensure that default maximum tariffs are, and remain, consistent with the Scottish Government's Principles of Charging and competition law. We therefore plan to undertake, by 2029, in consultation with the industry, a comprehensive review of the default maximum tariffs as part of a wider review of the non-household wholesale charges as directed by the Scottish Government's Principles of Charging for SRC27. Amongst other factors, we will consider the impact of the rollout of smart meters on the non-household wholesale costs and make any necessary adjustments to the gross retail margins available to licensed providers.

### **Other revenue**

9.5.31. 'Other revenue' relates to income received by the Core business that does not relate directly to the provision of water and wastewater services to households and non-households.

Infrastructure charges, disposal proceeds, and grants and contributions are not included within 'Other revenue'.

9.5.32. In line with Scottish Water's business plan, our broad assumption is that secondary charges will increase in line with the primary charge cap. This recognises that various secondary charges are indirectly linked to Scottish Water's core activities (e.g. standpipes). These assumptions result in around £113 million of revenue over the regulatory period in 2024-25 prices. Though our overall assumption is that other revenue will increase in line with the primary charge cap, secondary charges will be reviewed each year as part of our assessment of Scottish Water's proposed Scheme of Charges to ensure they remain cost-reflective.

## 9.6. Income and expenditure baseline

9.6.1. Throughout the previous chapters in this Draft Determination, we have set out the expenditure allowances and our forecasts for the income required by Scottish Water to fund and finance this expenditure. Together, these items of income and expenditure form a baseline against which we can monitor performance. The complete income and expenditure baseline is shown in the table below.

Table 76: Income and expenditure baseline (2024-25 prices)<sup>284</sup>

	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
Household revenue	1,368.9	1,408.3	1,451.7	1,495.0	1,539.5	1,585.4
Non-household revenue	479.5	488.4	494.8	500.7	507.2	514.3
Other revenue	17.9	18.2	18.6	19.0	19.3	19.7
<b>Total revenue (excl. ICI &amp; disposal proceeds)</b>	<b>1,866.3</b>	<b>1,915.0</b>	<b>1,965.1</b>	<b>2,014.7</b>	<b>2,066.1</b>	<b>2,119.4</b>
Infrastructure charges income	16.0	16.0	16.0	16.0	16.0	16.0
Disposal proceeds	1.6	1.2	1.2	1.2	1.2	1.2
<b>Total revenue (incl. ICI &amp; disposal proceeds)</b>	<b>1,883.9</b>	<b>1,932.2</b>	<b>1,982.3</b>	<b>2,031.9</b>	<b>2,083.3</b>	<b>2,136.6</b>
Net new borrowing	159.7	156.5	153.5	150.5	147.5	144.6
<b>Total cash inflows</b>	<b>2,043.6</b>	<b>2,088.7</b>	<b>2,135.8</b>	<b>2,182.4</b>	<b>2,230.8</b>	<b>2,281.2</b>
Operating costs	(553.8)	(549.9)	(573.3)	(575.5)	(574.0)	(574.3)
PFI costs	(118.6)	(119.5)	(74.9)	(51.1)	(40.9)	(30.0)
Net interest	(158.2)	(162.8)	(165.9)	(168.4)	(172.8)	(175.1)
Taxation	0.0	0.0	(3.2)	(5.4)	(6.1)	(8.6)
<b>Total operating expenditure</b>	<b>(830.5)</b>	<b>(832.1)</b>	<b>(817.3)</b>	<b>(800.3)</b>	<b>(793.8)</b>	<b>(788.1)</b>
RCCs	(30.1)	(30.1)	(30.1)	(30.1)	(30.1)	(30.1)
Completion investment	(15.7)	(2.2)	(0.3)	(0.2)	(0.1)	(0.0)
Gross SRC27 investment (incl. repairs)	(1,187.6)	(1,231.0)	(1,292.8)	(1,356.3)	(1,411.2)	(1,467.2)
Grants and contributions	4.6	4.5	4.4	4.3	4.3	4.2
<b>Net SRC27 investment (incl. repairs)</b>	<b>(1,182.9)</b>	<b>(1,226.5)</b>	<b>(1,288.4)</b>	<b>(1,351.9)</b>	<b>(1,406.9)</b>	<b>(1,463.0)</b>
Change in working capital	0.0	0.0	0.0	0.0	0.0	0.0
<b>Change in cash</b>	<b>(15.7)</b>	<b>(2.2)</b>	<b>(0.3)</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>(0.0)</b>

## Financial strength

9.6.2. As an indicator of Scottish Water's financial strength, we measure various financial ratios. To ensure that Scottish Water is appropriately funded in SRC27, we have forecast these ratios to 2032-33. We consider the following ratios in our assessment of Scottish Water's financial strength:

- Funds From Operations (FFO): net debt;
- Cash interest cover; and

<sup>284</sup> Note this table assumes that Scottish Water meets the relevant conditions such that it can collect funding for the West Central Bioresources project. If conditions are not met, then revenue and capital investment would be lower. There would also be a reduction in tax payable over the period primarily as a result of the reduction to revenue. This table does not include conditional charge caps associated with OPEX uncertainties.

- Gearing.

9.6.3. Our forecasts for these ratios for the SRC27 regulatory period are shown in Table 77 below.

*Table 77: Financial strength forecast for SRC27*

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
FFO: net debt	21.2%	21.9%	22.9%	24.0%	24.9%	25.8%
Cash interest cover	7.564	7.680	7.967	8.268	8.422	8.677
Cash interest cover (net of asset maintenance)	3.350	3.002	3.157	3.391	3.276	3.299
Gearing	43.3%	42.9%	42.2%	41.4%	40.6%	39.6%

9.6.4. Overall, Scottish Water is expected to have more than sufficient financial strength in SRC27. Financial strength is expected to increase due to the gradual increase in Scottish Water’s revenue and the reduction in net new borrowing in real terms.

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

9.7.1. As part of its response to the Draft Determination consultation, we require Scottish Water to address the following areas:

- 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 RV update as of 1 April 2026 (see paragraph 9.3.7).

# 10. Monitoring performance

## 10.1. Summary of chapter

10.1.1. One category of safeguard relates to our monitoring of Scottish Water’s performance during the 2027-33 regulatory period. WICS will strengthen performance monitoring during SRC27 by reintroducing requirements for delivery plans and by strengthening the Investment Planning and Prioritisation Framework (IPPF), which enables Scottish Water to amend its investment programme if appropriate.

10.1.2. The chapter is structured as follows:

- How WICS will monitor Scottish Water’s performance during the period;
- The Investment Planning and Prioritisation Framework; and
- Performance-related pay.

## 10.2. How WICS will monitor Scottish Water’s performance during the period

10.2.1. In our Final Methodology, we set out our proposed approach for monitoring Scottish Water’s performance over the SRC27 period.<sup>285</sup>

10.2.2. The performance monitoring framework is set out in Table 78.

*Table 78: Performance monitoring framework elements*

Activity	Monitoring framework
<b>Performance and investment baseline</b>	Defined through the Final Determination
<b>Annual ex-ante forecast of performance</b>	Scottish Water publishes its delivery plan in advance of each year
<b>Annual ex-post review of performance</b>	WICS publishes Scottish Water's Annual Return and performance report at the end of each year
<b>Ongoing change process and performance monitoring</b>	Regular forum (WIIG) for Scottish Water to update stakeholders within each year of SRC27 to demonstrate achievement of the Ministerial Objectives and gain comments for proposed changes to the baseline

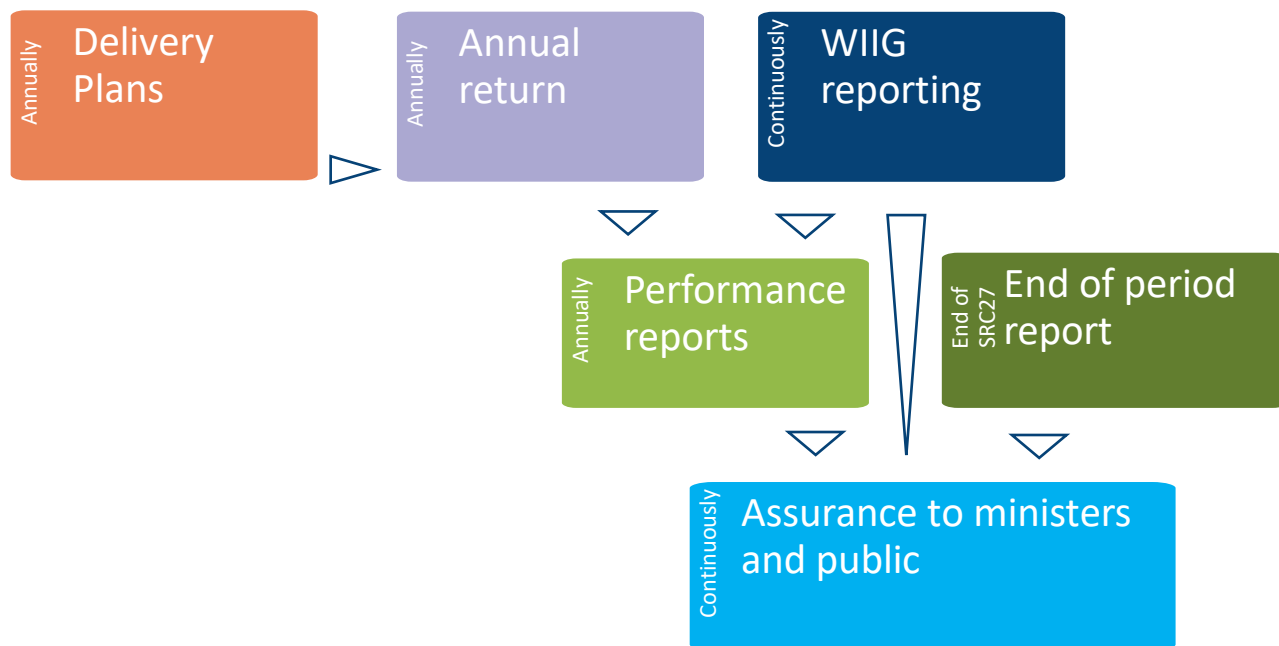
10.2.3. The IPPF was introduced in SRC21 to define investment plan needs on a rolling basis. The main aims of the IPPF were to provide transparency, be flexible and responsive to emerging issues, involve customers at an early stage, and increase innovation. While the IPPF has worked well, there are opportunities to better define the information requirements that allow appropriate scrutiny while Scottish Water and customers benefit from the framework’s flexibility.<sup>286</sup>

10.2.4. The IPPF process includes: a performance and investment baseline set at the Final Determination, Scottish Water’s forecast performance in delivery plans, in-period change process through WIIG, and review of performance through the Annual Return and annual performance report. The process repeats in advance of the following year with updated delivery plans, as shown in Figure 88.

<sup>285</sup> WICS (2024), ‘Strategic Review of Charges 2027-33: Final Methodology’, 12 December 2024, p.126.

<sup>286</sup> WICS (2024), ‘Strategic Review of Charges 2027-33: Final Methodology’, 12 December 2024, p.116.

Figure 88: IPPF process



### Delivery Plans

10.2.5. Ahead of the start of the first year of the SRC27 period, Scottish Water will produce a delivery plan. The delivery plan will set out in detail how Scottish Water plans to meet the requirements of the Final Determination. It will need to be entirely consistent with the Final Determination. It will include a set of tables of outcomes, outputs, and detailed investment programmes that Scottish Water will be required to populate, forming the original baseline position. WICS will review the delivery plan to ensure it is consistent and appropriate.

10.2.6. The delivery plan will then be updated annually to reflect changes to the baseline as a result of the change process. WICS will review each successive delivery plan for consistency.

10.2.7. 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.

### Annual Return

10.2.8. Through the Annual Return process, each year Scottish Water will report the final resulting outturn for the year just completed for outcomes, outputs and the detailed investment plan. We will incorporate these tables into the existing Annual Return process, removing legacy information reporting requirements for previous SRC periods.

## In-period change process and stakeholder engagement

- 10.2.9. For several price control periods, there has been a recognition that the balancing of investment and service delivery is an ongoing process, in order to respond to new information and external factors which may impact the programme. The Water Industry Investment Group (WIIG) is the principal forum by which Scottish Water can regularly inform its stakeholders of its progress in delivering the Ministerial Objectives and Final Determination, and provides a change process that gives feedback on proposed adjustments to the programme.
- 10.2.10. Until recently the Scottish Government has chaired the forum. However, in April 2026, the Scottish Government informed WIIG stakeholders that this responsibility would transfer to WICS for the remainder of SRC21 and SRC27. As a result, we are setting out our regular investment programme reporting requirements that will be monitored through WIIG through SRC27, as well as the change process for Scottish Water to proactively inform stakeholders of proposed changes to the baseline.

## 10.3. The Investment Planning and Prioritisation Framework (IPPF) for the SRC27 period

10.3.1. In this section we set out our requirements for the IPPF.

### Baseline and delivery plans

10.3.2. The first delivery plan, submitted in February 2027, will form the baseline with references to the specific requirements that Scottish Water will be held to account for achieving or delivering over the 2027-33 regulatory period and cover:

- Annual targets for outcome measures for 2027-33;
- Annual targets for output measures for 2027-33;
- The investment programme for 2027-33 at a granular level specified in the Final Determination; and
- Financial reporting requirements.

10.3.3. We will provide a set of delivery plan tables at the Final Determination that Scottish Water will be required to populate and submit as part of its delivery plan each year. The delivery plan must be a document suitable for regulatory submission, and as a minimum, covering the following areas:

- An executive summary which sets out the plan and progress against the plan in a format accessible to customers and stakeholders;
- High-level risk analysis;
- Plan and progress towards the Ministerial Objectives, with a RAG assessment;

- Plan and progress towards the outcome levels set out in the Final Determination, with RAG assessment;
- Plan and progress in high-level investment areas, with RAG assessment;
- Changes from previous delivery plans and proposals for unallocated funding allowance confirmed through the IPPF process;
- Detailed delivery plan for the forthcoming year; and
- Financial forecasts, including revenue, expenditure, cash balance profile, profit & loss, balance sheet, and cashflow statement.

10.3.4. We require an updated delivery plan and associated tables updated each year over the SRC27 period.

#### *Outcomes and levels of performance*

10.3.5. Chapter 4 sets out WICS Draft Determination on the levels of service we expect Scottish Water to achieve during the period. The Final Determination will confirm the baseline targets for outcomes and outputs, which should be included in the delivery plan.

#### *Investment baseline*

10.3.6. Chapter 5 sets out WICS Draft Determination on the investment baseline at a high level. The Final Determination will confirm the high-level investment baseline. Scottish Water will set out a detailed baseline for the investment in its delivery plan. The required level of detail will be confirmed in the IPPF.

#### *Finances (cash inflows, expenditure, financial strength baseline)*

10.3.7. Please refer to section 9.6 of this document.

#### **In-period change process**

10.3.8. In some cases, there may be a need to make changes to the original baseline. The Joint Development Groups (JDGs) should be the primary fora for agreeing changes to individual projects contained within the quality programmes with the relevant regulator. If the proposed changes relate to substitutions within a programme of works (e.g. substituting one named UID, for another) within the existing allocation of funding to that programme, then this could be resolved within the relevant JDG. If the change is more substantive, requiring reallocation of funding across programmes or impacts other areas such as consumers, efficiency and equity, then those changes should be brought to WIIG.

10.3.9. We set expectations for regular (3-monthly) reporting of outputs and high-level investment programme performance at WIIG. We will work with Scottish Water to develop a common risk framework that helps Scottish Water communicate performance (including outcomes and outputs) and investment programme risks simply and effectively within the period.

Reporting will be expanded into earlier planning stages to provide early warning of issues, risks, and opportunities and to provide greater visibility and confidence for stakeholders.

10.3.10. We will set a rules-based framework for Scottish Water to proactively bring forward any material changes to the baseline, including changes to cost and delivery timescales, and project substitution or non-delivery. A material change must be significant, not merely a slippage or cost change in a minor project. The WIIG includes all major stakeholders, including SEPA, DWQR and Consumer Scotland, who will take a holistic view of any material changes to the baseline. For material changes to the baseline, we expect Scottish Water to consider and report all aspects to WIIG, including:

- The impact on outcomes and outputs;
- The financial and delivery impact on the investment programmes; and
- The customer and environmental impacts.

10.3.11. We will monitor compliance through the Annual Return process.

10.3.12. We will work with Scottish Water during the regulatory period to develop customer-focused summary reporting and the measurement and linkage of customer benefits delivered through outcomes and outputs.

#### **Ex-post review through Annual Return and Performance Report**

10.3.13. Scottish Water produces the Annual Return in June each year, which sets out its performance for the previous financial year. For SRC27, we will incorporate outcomes, outputs and full baseline reporting into the Annual Return tables, replacing legacy tables from SRC21. This will act as a reconciliation to Scottish Water's delivery plan for the corresponding year, holding Scottish Water to account for delivering its committed performance levels and investment. We will continue to publish our review of Scottish Water's performance in the autumn of each year in the Performance Report.

## **10.4. Performance-related pay**

10.4.1. Scottish Water's performance-related pay framework gives it the opportunity to receive additional remuneration based on organisational performance. PRP is funded through outperformance of the regulatory settlement, so customers do not directly fund the scheme. During SRC21, performance-related pay (PRP) has been set under a framework which gives Scottish Water a high degree of independence over its PRP, including the associated performance targets and the precise weighting of different metrics in determining the PRP awarded.

10.4.2. Other UK utility regulators have stronger powers over PRP than WICS. For example, Ofwat has a recovery mechanism to prevent customers from paying for PRP where a company has

not met Ofwat's expectations (e.g. if PRP decisions are not aligned with delivery for customers and the environment, targets are not sufficiently stretching, or the company has not performed sufficiently well at an overall level). Ofwat also has a prohibition rule allowing it to block bonuses from being awarded altogether if a company has:

- Breached a principal statutory duty in a way deemed by Ofwat to warrant financial penalty;
- Received a one star rating or had a category 1 pollution incident reported in the Environmental Performance Assessment;
- Breached its licence requirement to hold sufficient credit ratings or failed to comply with an enforcement order or undertaking linked to the breach; or
- Received a sentence for a convicted criminal offence.

10.4.3. As such, we believe SRC27 is an opportunity to enhance WICS' role in PRP to ensure that it remains appropriate and incentivises performance on outcomes that matter to customers, which is in customers' interests.

10.4.4. Following the publication of WICS' Final Determination, the Scottish Government will produce a new framework to provide enhanced oversight of PRP in SRC27. Figure 89 shows our view of the 4 pillars of WICS' role in this new framework. This represents an expansion of our current role, the most notable addition being WICS providing comments on the reasonableness of the performance targets Scottish Water must meet for PRP to be awarded.

Figure 89: WICS' role in the performance-related pay framework for SRC27



10.4.5. The framework will be grounded in a set of key principles outlined by WICS. These principles will include the following:

- There should be a clear linkage between the new PRP framework and the delivery of the regulatory contract of WICS' Final Determination, including both customer outcomes and investment delivery;
- Targets for PRP should be sufficiently stretching and aligned with the performance metrics set out in the Final Determination and delivery of the investment projects over the 2027-33 regulatory period, including WCB if it goes ahead;
- PRP should be awarded based more on outperformance of targets rather than simply achieving them;
- PRP should be funded from overall cash outperformance across Scottish Water's entire business, including revenue generation from regulated assets, rather than from operating cost outperformance alone; and
- The relationship between financial outperformance and PRP should be clear and transparent, such that the benefit to customers from outperformance is clearly demonstrated.

10.4.6. Scottish Ministers will have final approval of the new framework, on the basis of WICS' advice.

- 10.4.7. Following this, WICS will input into the target-setting process by commenting on whether the targets proposed by Scottish Water are sufficiently stretching and aligned with the Final Determination. We envisage this could occur during our review of the 2027-28 delivery plan, allowing Scottish Water to take our comments into account when finalising its PRP targets.
- 10.4.8. During SRC27, WICS will review Scottish Water's performance against PRP targets on an annual basis. To facilitate this, we expect the new framework to align the timing of our review of Scottish Water's PRP assessment with the Annual Return and performance reporting cycle, so we can make an in-the-round assessment of performance ahead of PRP payments. This would mean confirmation of PRP payments by Scottish Water's remuneration committee takes place after Annual Return submission, rather than before, as is currently the case.
- 10.4.9. 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.

## 11. WICS duties

### 11.1. Summary

11.1.1. This chapter sets out how WICS has met its duties and other requirements through this Draft Determination. It covers the following duties and requirements:

- WICS statutory duties;
- WICS duties as a public body, including relevant impact assessments; and
- The requirements of the Commissioning letter.

### 11.2. WICS statutory duties

11.2.1. WICS' statutory duties are set out in the Water Industry (Scotland) Act 2002 (the Act):

- Part 1 of the Act establishes WICS and confers on it its general function (Section 1), its power to advise Scottish Ministers (Section 3) and its power to require information (Section 4); and
- Part 3 of the Act establishes the requirement for WICS to make a charge determination (Sections 29B-29G).

11.2.2. Section 29B of the Act requires WICS to determine (subject to redetermination by the UK Competition and Markets Authority (UK CMA) on a reference by WICS) the maximum

amounts chargeable by Scottish Water for the provision of water and sewerage services. These maximum amounts (which may be reviewed by WICS in the event of a material change (Section 29F)) are determined by reference to the amount required in order to permit Scottish Water to meet the objectives set by Scottish Ministers at the lowest reasonable overall cost (Section 29G).

11.2.3. The Draft Determination ensures that Scottish Water can meet the Draft Objectives set by the Scottish Ministers in a manner fully consistent with the Scottish Ministers' Draft Statement of Principles of Charging.<sup>287</sup> Our Final Determination on 29 October 2026 will reflect the final Principles of Charging and Objectives for the sector, which are due to be published in September to October 2026.

11.2.4. We also received legal advice that the Commission has the power under Section 29B of the Act to set conditional charge caps.

11.2.5. As such, WICS considers that its Draft Determination is consistent with its legislative duties under Sections 29B-29G of the Act.

### 11.3. WICS duties as a public body

11.3.1. There are several duties placed on WICS as a public body, some of which are legislative requirements. Table 79 provides a list of duties that apply to WICS under legislation that are relevant to the Strategic Review of Charges.

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<sup>287</sup> Scottish Government (2026), 'Water services - investing in and paying from 2027: consultation', 6 January 2026.

Table 79: WICS duties as a public body

Duty	Legislation	Requirement
<b>Consumer Duty</b>	Consumer Scotland Act 2020	The public body must consider the impact its strategic decisions will have on consumers.
<b>Accessibility regulations</b>	Public sector bodies (website and mobile applications) accessibility regulations 2018	Public bodies must make their website or mobile app more accessible by making it 'perceivable, operable, understandable and robust'.
<b>Biodiversity duty</b>	The Wildlife and Natural Environment (Scotland) Act 2011  The Nature Conservation (Scotland) Act 2004	Places a duty on all Scottish public bodies, requiring them to further the conservation of biodiversity through the exercise of their functions. The Wildlife and NE (S) 2011 Act requires a report of their actions.
<b>The UN Convention on the Rights of the Child (UNCRC)</b>	UNCRC (Incorporation) (Scotland) Act 2024.	Public bodies are expected to take a children's rights approach to decision making, including considering potential impacts on children and young people.

11.3.2. We have not conducted a Strategic Environmental Assessment (SEA) alongside this Draft Determination, given that it is Scottish Water's responsibility as the relevant authority to produce the SEA. In line with this, as set out in section 2.5, Scottish Water completed the pre-screening assessment, noting that the business plan will be supported by a detailed delivery plan, which will be considered against the SEA requirements. WICS requires Scottish Water to provide further information on when it will complete the full SEA (see paragraph 2.5.12).

11.3.3. We have also assessed how our Strategic Review of Charges supports wider outcomes in Scotland, as part of the existing National Performance Framework (NPF).<sup>288</sup>

11.3.4. We cover how we have met each requirement in turn below.

<sup>288</sup> The Scottish Government has published draft proposals for a revised National Performance Framework. We assess our Draft Determination against the existing NPF.

## Consumer Duty

11.3.5. We have published the Consumer Duty impact assessment alongside this Draft Determination. The impact assessment demonstrates that we have met this duty as follows:

- Customer outcomes have been built into the process from the start. SRC27 involves major, strategic decisions affecting all customers, and customer impacts (including bills, service quality and value) have been considered throughout.
- Our Draft Determination is built on a strong customer engagement and evidence base. Decisions are informed by extensive customer research, independent challenge from the Independent Customer Group, and collaboration with Consumer Scotland to ensure customer views shape outcomes.
- We have rigorously tested Scottish Water's plans, challenging costs and assumptions to reduce charges while maintaining essential investment and service standards.
- We have sought to balance short-term bill impacts against the need for sustainable investment, aiming to minimise harm.
- Feedback from customers will continue to shape the decisions at the Final Determination, as set out in Chapter 12.

## Accessibility regulations

11.3.6. We have produced an HTML version of the Draft Determination Overview, ensuring the summary can be easily read on both computer screens and mobile phone devices. The consultation response form is also in HTML format.

## Biodiversity Duty

11.3.7. The biodiversity duty applies to how WICS' activities further the conservation of biodiversity. Our regulatory framework and decisions in this Draft Determination (see section 4.7) enable Scottish Water to undertake initiatives that protect and further biodiversity, in line with its proposals in its business plan.

## The UN Convention on the Rights of the Child (UNCRC)

11.3.8. We have also had regard to the UNCRC and the need to consider the rights and well-being of children and young people. We consider that our Draft Determination is compatible with the UNCRC. In particular, our decisions:

- Balance the interests of current and future customers, helping to ensure that future generations benefit from safe, reliable water and wastewater services;
- Support investment that protects public health, including high standards of drinking water quality and environmental performance; and

- Recognise that increases in charges may have indirect cost-of-living impacts, including on households with children, and have therefore challenged Scottish Water to deliver the same or better outcomes more efficiently, helping to keep charge increases lower than proposed and deliver better value.

11.3.9. Overall, we consider that the Draft Determination supports both the short- and long-term interests and well-being of children and young people and is compatible with the UNCRC.

### National Performance Framework (NPF)

11.3.10. SRC27 contributes towards several areas of the NPF, as shown in Table 80.

*Table 80: Alignment with the existing National Performance Framework*

<b>NPF Area</b>	<b>How SRC27 contributes</b>
<b>We respect, protect and fulfil human rights and live free from discrimination.</b>	SRC27 can support this outcome by helping to ensure charges remain evidence-based, transparent and informed by consumer impacts, including affordability and the interests of customers in vulnerable circumstances.
<b>We have a globally competitive, entrepreneurial, inclusive and sustainable economy.</b>	SRC27 contributes by supporting a sustainable model for investment in essential water and wastewater services, while promoting efficiency, long-term value for money and confidence in Scotland's economic infrastructure.
<b>We are open, connected and make a positive contribution internationally.</b>	SRC27 supports this outcome through benchmarking and learning from best practice across the UK and internationally to inform our approach and set efficient targets for Scottish Water.
<b>We tackle poverty by sharing opportunities, wealth and power more equally.</b>	SRC27 supports this outcome indirectly by helping to keep charges as low as is consistent with delivering the investment and service levels required, through robust challenge on efficiency and the overall level of charges.
<b>We live in communities that are inclusive, empowered, resilient and safe.</b>	By enabling investment in reliable, resilient water and wastewater services, SRC27 helps support communities across Scotland to be safe, resilient and better able to adapt to future pressures, including climate change.
<b>We have thriving and innovative businesses, with quality jobs and fair work for everyone.</b>	SRC27 supports this outcome indirectly by helping to secure efficient, reliable water and wastewater services that underpin economic activity and public services across Scotland.
<b>We are healthy and active.</b>	SRC27 supports this outcome indirectly by underpinning investment in safe, high-quality water and wastewater services that protect public health and support everyday wellbeing.
<b>We value, enjoy, protect and enhance our environment.</b>	SRC27 contributes strongly to this outcome by enabling investment that protects and enhances the water environment, improves environmental resilience and helps meet long-term climate and nature objectives.

## 11.4. Requirements of the Commissioning letter

11.4.1. Our Draft Determination also meets the requirements of the Commissioning letter as set out in Table 81 (as discussed in paragraph 2.3.2).<sup>289</sup>

*Table 81: Requirements of the Commissioning letter*

<b>What does the Commissioning letter require?</b>	<b>How does our Draft Determination meet these requirements?</b>
<b>The Review needs to respond to the challenges of a changing climate on the industry both in terms of mitigation and adaptation.</b>	Responding to the challenges of a changing climate is embedded in the Draft Determination, including through the outcome measures and proposed investment.
<b>The Review needs to respond to the risks associated with Scottish Water’s ageing asset base.</b>	Our Draft Determination makes further progress toward transitioning to a higher level of asset maintenance investment, allowing a 23% increase in asset maintenance between 2021-27 and 2027-33.
<b>The Review needs to respond to the next cycle of River Basin Management Plans for Scotland.</b>  <b>The Review needs to respond to our commitment to aligning with new EU legislation in the best interests of Scotland, including the recast Drinking Water Directive and the imminent Urban Wastewater Treatment Directive.</b>	Our Draft Determination allows Scottish Water’s proposed investment to respond to the next cycle of River Basin Management Plans.
<b>The Review needs to respond to the ongoing economic situation and cost of living crisis.</b>	Our Draft Determination reduces Scottish Water’s proposed charges of CPI+21.5% over 2027-33 to 12.6% if WCB proceeds, or 13.6% if WCB proceeds and uncertain costs materialise. The mechanism for uncertain and uncontrollable costs 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.
<b>The Review needs to respond to the need to move to nature-based solutions that deliver on responses to climate change, the nature crisis, environmental protection and green spaces for the enjoyment of Scotland’s population.</b>	Our Draft Determination allows for Scottish Water’s proposed investment in more nature-based solutions. For example, the Draft Determination includes Scottish Water’s proposed investment to develop and deliver rainwater removal projects, in collaboration with others, to reduce overall flood risk.

<sup>289</sup> WICS (2024), ‘Strategic Review of Charges 2027-33: Commissioning letter’, 12 June 2024.

<p><b>In conducting the Review, Ministers look to... the Commission... to build on the partnership arrangements with Scottish Water, Consumer Scotland, SEPA, DWQR. In particular, they expect the Commission to enhance and embed its commitment to working with Scottish Water according to the Ethical Business principles. We expect the Commission to work constructively with Scottish Water to collectively ensure the best outcome for Scotland.</b></p>	<p>We have followed the principles of Ethical Business Practice and Regulation (EBP&amp;R) for SRC27 and have worked constructively with Scottish Water and industry stakeholders.</p>
<p><b>Ministers request that the Draft Determination sets out a range of possible charge paths for both the domestic and non-domestic sectors for the services provided by Scottish Water: drinking water, sewerage and drainage. Ministers want the Review to provide them with the necessary information to appreciate the progress towards objectives and the level of risk of service failure associated with different levels of investment in the short, medium and long terms. In calculating the range of charge paths, for planning purposes the Commission should assume that similar levels of lending to 2021-27 period will be made available (around £1,030 million).</b></p>	<p>We have set out different possible charge paths with different levels of risk, as follows:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• The second is a conditional allowance for West Central Bioresources. This 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.</li> <li>• 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.</li> </ul> <p>We propose that drinking water, sewerage and drainage all follow the same charge path.</p>
<p><b>As the industry is aware, Scottish Ministers recently consulted on policy proposals (Nov-Feb 2024) to equip the Water Industry with the necessary powers to ensure that essential water, wastewater and drainage services can continue to be provide in a changing climate. The Review must remain cognisant of ongoing policy development and any resulting legislative changes.</b></p>	<p>We have been cognisant of ongoing policy development in preparing the Draft Determination.</p>

<p><b>Ministers request that the Commission ensures, together with water industry stakeholders, that consumers, communities and the environment are placed at the heart of this Review. They expect that the consumers are engaged throughout this process and that the Commission can demonstrate that Final Determination commands consumers' support.</b></p>	<p>Customers have been at the heart of SRC27, including through significant customer research and the confirmation pillar, which tested whether Scottish Water's business plan commands customer support.</p> <p>This research found support for and acceptance of Scottish Water's final business plan. As our Draft Determination delivers better outcomes for lower charges, we consider such a package to be consistent with the basis on which customers supported the business plan, and are testing this through consultation.</p>
<p><b>To ensure continuity, Ministers request that the Commission considers measures that ensure a smooth transition of investment activity between and beyond regulatory periods (current 2021-2027 period to the 2027-33 period being considered in this Review).</b></p>	<p>The rolling investment programme ensures a smooth transition of investment activity between regulatory periods.</p>
<p><b>Ministers expect that the outputs necessary to achieve their objectives reflect the best possible value for money in terms of the improvement in outcomes achieved for the investment made.</b></p>	<p>Our Draft Determination reduces Scottish Water's proposed charges of CPI+21.5% over 2027-33 to 12.6% if WCB proceeds, or 13.6% if WCB proceeds and uncertain costs materialise. We also challenge Scottish Water to deliver better outcomes.</p>
<p><b>Average annual expenditure on the investment programme should remain of a size that allows efficient delivery whilst facing up properly to the challenges the industry and its wider supply chain faces.</b></p>	<p>The total investment falls within the middle to upper range of what we consider deliverable. We consider that some deliverability risks remain; however, to provide further assurance, we have imposed additional requirements on Scottish Water, including sharing its supply chain readiness assessment with us and a further Board assurance statement confirming its capacity to deliver the programme. We also propose additional safeguards to protect customers from under-delivery.</p>
<p><b>Scottish Ministers request that the Commission work with Scottish Water to establish a monitoring framework and process to review the delivery against these objectives during the Regulatory Period.</b></p>	<p>Our Draft Determination sets out the regular investment programme reporting requirements that will be monitored through the WICS-chaired WIIG through SRC27, as well as the change process for Scottish Water to proactively inform stakeholders of proposed changes to the baseline.</p>
<p><b>Scottish Water will also be required to continue to meet their statutory obligations in responding to Net Zero and should ensure systematic</b></p>	<p>The Draft Determination includes 9 outcome measures related to Net Zero and carbon emissions reduction.</p>

<p>monitoring and reduction of carbon emissions to ensure that reductions can be quantified. Ministers recognise that adapting services to the impact of climate change is an increasing challenge and wish an explanation to be included in the investment scenarios on the impact of delaying investment on the resilience of services.</p>	
<p><b>Capital Maintenance – Over this and future regulatory periods, Scottish Water should continue the transition to a risk-based approach to maintaining the overall condition and performance of its assets to ensure no deterioration of service levels to customers over the long term. Ministers accept that capital maintenance is key to achieving and maintaining service levels and compliance with statutory obligations in relation to drinking water quality and the environment and to reflect customer priorities. They wish the Commission to ensure that there is a stable and sustainable funding regime, recognising the economic conditions prevailing and forecast, for this important part of the investment programme.</b></p>	<p>Our Draft Determination makes further progress toward transitioning to a higher level of asset maintenance investment.</p>
<p><b>Resilience – Ministers recognise the progress Scottish Water has made in developing a strategic approach to identifying the work required to ensure the resilience of the network, not least to adapt to the impacts of climate change. They request that the Commission provides assurance that Scottish Water’s approach is proportionate, fit for purpose over the long term and represents value for money for customers.</b></p> <p><b>Strategic Capacity – Ministers wish to ensure that Scottish Water is properly financed and incentivised to provide strategic and local water, sewerage and drainage assets in a manner that does not place a constraint or restriction on the achievement of their housing and economic development targets. To achieve this Ministers look to the Commission to ensure that finance is available to Scottish Water for this purpose over the regulatory period and that the funding arrangements for additional capacity (including</b></p>	<p>Using Scottish Water’s assumptions for the number of new connections to the network, WICS estimates that an infrastructure charge that increases in line with inflation will be sufficient to fund Part 3 growth investment.</p> <p>WICS will review Scottish Water’s proposals for the infrastructure on an annual basis as part of the review of the Scheme of Charges, to ensure that the infrastructure charge remains cost-reflective.</p> <p>Our Draft Determination also allows investment in growth projects and requires Scottish Water to improve outcome performance in several areas, including leakage reduction, thereby enhancing resilience.</p>

<p><b>the Reasonable Cost Contribution) remain fit for purpose and strike the correct balance of cost between existing customers, new customers and borrowing.</b></p>	
<p><b>Private Finance Initiative funded Projects – Ministers recognise that 4 PFI contracts (Seafield, Tay, Moray and Ayrshire) mature in the period 2027-33. Highland and North East have already returned and Daldowie and Dalmuir return in 2026 with Levenmouth the final PFI due to complete in 2040. Scottish Water has been asked to consider the options and costs for the future operation and funding of these assets. Ministers request that the Commission undertake a full examination of Scottish Water’s approach to establishing the options and costs.</b></p>	<p>We have examined the proposed investment in West Central Bioresources in line with the Scottish Ministers’ assurance statement. The Draft Determination includes a conditional charge cap for West Central Bioresources, recognising that further evidence is required.</p>
<p><b>Partnership Projects – Ministers recognise the progress that Scottish Water has made in delivering improvements in partnership with other stakeholders, and in particular Local Authorities. They consider that, increasingly, delivering outcomes particularly in relation to drainage, the reduction of flood risk and compliance with bathing water standards will require Scottish Water to work closely with Local Authorities, Developers, landowners and communities. Ministers therefore request that the Commission ensures that the funding arrangements are sufficiently flexible so that Scottish Water can deliver to agreed timetables within partnership frameworks.</b></p>	<p>We encourage Scottish Water to undertake Partnership projects to deliver the Ministerial Objectives. Our Draft Determination also includes Scottish Water’s proposed investment to develop and deliver rainwater removal projects, in collaboration with others, to reduce overall flood risk.</p>
<p><b>Supporting innovation – Ministers look to Scottish Water to contribute to inclusive and sustainable economic growth to which end they are encouraged to be innovative in their operation and with regards to capital enhancement and</b></p>	<p>We consider that our regulatory framework supports innovation and our Draft Determination allows for Scottish Water’s proposed investment in ‘lighthouse’ projects.</p>

<p><b>maintenance. In addition, Scottish Water is expected to support the Hydro Nation programme through their renewable energy (including hydrogen), and energy efficiency programmes and by working with communities and customers in Scotland for example to manage water demand or create drainage assets. Ministers therefore request that the Commission ensures that the financing and funding arrangements for Scottish Water’s regulated elements create appropriate incentives towards efficient delivery of these objectives.</b></p>	
<p><b>Security – Ministers recognise the importance of the security of Scottish Water’s physical, operational and IT assets, and the increasing nature of threats particularly in relation to cyber attacks. They require that relevant security standards in relation to physical, personnel and digital systems as advised by Scottish Government Resilient Essential Services and Drinking Water Quality Regulator, should be met.</b></p>	<p>Our Draft Determination allows Scottish Water’s proposed investment in digital, including enhancements to cyber resilience.</p>

## 12. Your views

### 12.1. We welcome your feedback

12.1.1. As set out in paragraph 3.5.2, we are assured that the final business plan commands customer support. As our Draft Determination delivers better outcomes for lower charges, we would expect such a package to be consistent with the basis on which customers supported the business plan, and we are testing this through consultation.

12.1.2. We are inviting customers, stakeholders and interested parties to share their views on our draft decision. This public consultation is open from 30 June until 1 September 2026.

12.1.3. We welcome your views on what we should consider in reaching our final decision, as well as any other comments you would like to share on Scottish Water’s business plan.

### 12.2. Why your feedback matters

12.2.1. Your feedback plays a vital role in shaping our final decision and on the long-term future of the water industry in Scotland. This consultation is an opportunity to help ensure our decision enables Scottish Water to meet the needs of customers, communities, the environment and all other stakeholders.

### **Influence decision-making**

12.2.2. Your views will inform our final decision on charges and expectations for Scottish Water's performance during 2027-33. We carefully consider all responses alongside our analysis and evidence before coming to our final decision on charges.

### **Improve the water industry**

12.2.3. Your feedback can help us identify where our approach could be improved. This includes highlighting risks, opportunities or alternative perspectives that help strengthen our decision and support better outcomes for current and future generations of customers.

### **Hold Scottish Water accountable**

12.2.4. Your feedback will help us hold Scottish Water accountable for delivering efficient and effective services in the years to come. Your input will help us ensure that Scottish Water can deliver on the commitments set out in its business plan.

### **Ensuring customer focus**

12.2.5. Together with the customer research evidence we are considering as part of Scottish Water's business plan, your feedback helps ensure that our decisions reflect the lived experience of people and businesses across Scotland.

## **12.3. What we are consulting on**

12.3.1. 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.

12.3.2. Table 82 provides the consultation questions available on the online consultation form.

Table 82: 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.

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

## 12.4. How to participate

12.4.1. 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.

12.4.2. 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](mailto:enquiries@wics.scot) or by post to:

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

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

12.4.4. 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](#).

## 12.5. Our final decision

12.5.1. 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.

12.5.2. 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.



WICS  
Moray House  
Forthside Way  
Stirling  
FK8 1QZ

T: 01786 430 200  
E: [enquiries@wics.scot](mailto:enquiries@wics.scot)

WICS Economic  
regulation for  
Scotland's water

