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Executive Summary

Final Report: SRC27 Review

**Efficient Size of Scottish Water's SRC27 Investment Programme
Water Industry Commission for Scotland**

making the **difference**

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1 Summary of Scope, findings and overall conclusions

1.1 Introduction

WICS's role is to set charge caps consistent with the lowest reasonable overall cost of Scottish Water, meeting the Objectives of the Scottish Ministers.

In December 2024, WICS published its methodology for setting charge caps for the regulatory control period 2027-2033.¹ The process for setting these charge caps is called the Strategic Review of Charges 2027 (SRC27).

Setting charge caps is an iterative process which involves examining and understanding different scenarios for price and investment levels over the regulatory period and beyond. There are different factors to consider when examining scenarios for price and investment levels, such as:

- Scottish Water's 'bottom-up' view of the investment required to meet the objectives of Scottish Ministers; and
- Customer acceptability over the proposed level and profile of price caps.

Another important consideration is the 'efficient size of the investment programme; which recognises the relationship between the size of the investment programme and the efficiency with which the investment can be delivered.

WICS methodology highlighted the relationship between the size of the investment programme and the efficiency with which the investment can be delivered - 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.

Either scenario could result in investment not being delivered as efficiently as expected.

The Commissioning letter, which Scottish Ministers sent to WICS to commence SRC27 and set out strategic priorities, recognised the need to examine such factors for Scottish Water:²

"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 the wider supply chain faces".

There is a requirement therefore to assess Scottish Water's investment programme for SRC27 to ensure that it can be delivered efficiently whilst meeting the objectives set.

¹ WICS (2024), 'Strategic Review of Charges 2027-2033: Final Methodology', 12 December 2024. Available at [2027-33 Final Methodology | WICS](#)

² Scottish Government (2024), 'Commissioning the Strategic Review of Water Charges: 2027-2033', p. 3. Available at [2027-33 Commissioning letter | WICS](#)

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1.2 Turner & Townsend Scope

WICS final methodology said that WICS would seek to understand the efficient size of the investment programme for Scottish Water. WICS considers that this may provide a top-down view (as an important lens) on the overall size of the investment programme WICS proposes to build on Scottish Water's existing research and scenario analysis and asked Turner & Townsend to answer the following questions:

- How could the capacity of the supply chain in Scotland and Great Britain impact the size of the investment programme that Scottish Water could deliver efficiently for SRC27, recognising the AMP8 investment programmes already underway in England and Wales, the delivery of major projects under DPC/SIPR in the water industry in England and Wales and investment programmes in other infrastructure sectors in Scotland and the United Kingdom?
- What other external or internal constraints could impact the size of the investment programme that Scottish Water could deliver efficiently and, if so, to what extent could each factor impact the size of the programme? For example, several reports from Scottish Water's research identified shortages in skilled labour in the construction and civil engineering sectors as a material challenge facing these sectors in Scotland. Scottish Water has also reported extended lead times for specific materials or asset components (e.g. motor control centre components).
- In our opinion:
 - How well has Scottish Water managed growth in its investment programme over the current regulatory period (SRC21)?
 - What is a reasonable range for the percentage change in the size of the investment programme that Scottish Water could deliver efficiently for SRC27 compared to the investment programme in the current regulatory period (SRC21) when accounting for these internal and external factors?
 - What are the implications on investment costs if Scottish Water's proposed investment programme exceeds this range, e.g., would Scottish Water have to pay a premium to the market price and, if so, what is the potential size of the premium?
 - If a larger investment programme is required in SRC27:
- Is there a precedent of other infrastructure companies increasing their investment programmes by such a percentage over one regulatory period? If so, what are the key lessons that can be drawn?
- how quickly could Scottish Water increase its investment programme in terms of annual percentage changes in investment given possible internal and external constraints on the size of investment programme?
- Are there specific areas of the investment programme where internal and/or external constraints have a more material impact on the level of investment that Scottish Water could deliver in SRC27 (e.g. motor control centres, or water storage tanks)?
- What are the key deliverability risks in SRC27, e.g. in relation to the availability of labour and specific materials or asset components?

In making this assessment, Turner & Townsend were asked to consider whether Scottish Water will need to pay any price premium (over and above the current market rate) to secure the required capacity and whether this price premium could be avoided by re-phasing the investment programme into the future.

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WICS expected that this will involve considering factors such as:

- How the market price is determined in the infrastructure construction sector and the elasticity of supply in the construction supply chain in the short and medium term; and
- Expectations for how prices might develop in the longer term and the key factors that will impact market prices, such as demand from water companies in England and Wales and the energy sector and supply-side factors, such as availability of skilled labour.

To complete this assignment, we reviewed a number of sources of evidence, both substantive evidence and other sources that are more anecdotal in order to form a view on the confidence/risk associated with Scottish Water's ability to deliver a significant investment programme efficiently, taking account of both internal and external factors. This report provides Turner & Townsend's view based on the information available at October 2025, recognising that the process for procuring and introducing some of the delivery vehicles (DV4) for the regulatory period 2027-33 remains ongoing.

1.3 Summary Findings

We reviewed a number of sources of evidence, both substantive evidence and other sources that are more anecdotal in order to form a view on the confidence/risk associated with Scottish Water's ability to deliver a significant investment programme efficiently. We considered sources in relation to current SRC21 performance; the SRC27 programme (including cross sector & geography comparisons); and wider macroeconomic and sectoral analysis. Our findings against each of these areas are summarised below:

1. SRC21 Performance

- **Investment Delivery:** Scottish Water has been broadly on track with delivery once projects are developed and confirmed (added to a Committed List). Furthermore, several (typically) lower risk or high volume outputs are currently being over delivered compared to the baseline provided in June 2024. However, there is a risk several high-risk/high-value outputs will be under-delivered.
- **Supply Chain Capacity:** The supply chain has grown but lacks a clear baseline forecast from the start of SRC21, making it difficult to assess efficiency.
- **Stakeholder Confidence:** Key stakeholders SEPA and DWQR expressed concerns about delivery delays in some areas of the SRC21 programme and rising costs.
- **SRC15 Overruns:** 86 projects were carried over into SRC21, with only 64 completed by 2023/24, indicating underperformance.³

2. SRC27 Programme

- **Scale of Investment:** Proposed investment in the draft business plan of £8.3bn represents a 35% increase over SRC21 and 77% over SRC15 (see Table 1 below).⁴
- **Enterprise Model (DV4):** A new delivery framework is being introduced, aiming for collaborative delivery but importing risks due to scale, transition, and maturity. It also appears to be based on some implicit assumptions and have a potential gap in capacity towards the end of the period.
- **Capacity Risks:** DV4's ramp-up is ambitious. Typically, we might expect such models to have a two-year maturity period, which may not align with delivery timelines but Scottish

³ WICS (2024), 'Scottish Water's Performance 2023-24', November 2024, p. 17. Available at [Scottish Water Performance Report 2023-24 | WICS](#)

⁴ Scottish Water (2025), 'SR27 Draft Business Plan – investing in Scotland's future', June.

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Water currently expecting DV4 to begin in April 2026, 1 year before the start of the SRC27 period.

- **Comparative Insights:** England & Wales water companies faced similar challenges in AMP7 and in short, could be considered to have overspent and underdelivered. AMP8 represents a significant step change in delivery and performance expectations and while 85% of companies are confident in their ability to deliver their objectives, other stakeholders (including the supply chain) appear less certain – with only 40% of suppliers being confident of the same for example.⁵

3. Macroeconomic & Sectoral Analysis

- **Construction Output Forecast:** UK and Scottish construction sectors are expected to stabilize, not expand, suggesting limited spare capacity.
- **Elasticity of Supply:** The sector is responsive to price signals, but regional constraints and competing infrastructure demands may limit responsiveness.
- **Cost Premium Risk:** If demand exceeds capacity, Scottish Water may face price premiums unless investment is rephased – although naturally subjective, continuing real terms cost increases for the sector are distinctly within the bounds of possibility for 2025-30.

1.4 Overall conclusions

We have considered the issues that have emerged from these findings and how they might affect the efficient delivery of investment programmes of increasing sizes.

The table below sets out the size of the investment programmes over the past, current and next price control period, and the equivalent increases for the water sector in England and Wales.

Table 1 Total expenditure⁶

£bn 2023-24 prices	SRC15	SRC21	SRC27
Total investment	4.7	6.2	8.3
% change	-	SRC21 vs SRC15 31%	SRC27 vs SRC21 35%
			SRC27 vs SRC15 77%
E&W equivalent %age change in total investment	-	(PR19 vs PR14) 5%	(PR24 vs PR19) 69%
			(PR24 vs PR14) 77%

⁵ Utility Week, PA Consulting (2025), 'The deliverability divide: From infrastructure pipe dreams to collaborative delivery', 21 October 2025. Available at [The deliverability divide](#)

⁶ Sources:

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Drawing on: the experience of the recent control periods in England and Wales and Scotland and across sectors; emerging information from the start of AMP8 in England and Wales; Scottish Water's supply chain plans and engagement; and our macroeconomic analysis – in relation to Scottish Water's investments programme for SRC27, we would observe the following.

SRC21 represented an approximately 31% uplift in total investment compared to SRC15 and whilst Scottish Water has evidenced some growth in the supply chain and over delivery in some areas. However, there is a risk that several high-risk/high-value outputs will be under-delivered. And in the England and Wales water sector, there is a broad picture of general overspend and under delivery in some key areas for a relative limited increase in the overall investment programme. In the adjacent UK energy network sectors, the picture is slightly more mixed but still supports a general picture of a challenging delivery environment for the current and upcoming control periods.

The investment plans for SRC27 represent a significant step up again for Scottish Water in relation to delivery. Emerging evidence from other sectors and our macroeconomic analysis suggest delivering a significant step change in investment, and the associated outputs, to budget is likely to be challenging. We also note its own supply chain engagement, which appears to rely on some implicit assumptions, requires growth in capacity towards the end of the period to deliver the investment programme. And that materially changing delivery models, even if only for elements the programme, typically takes time to implement and bed in.

As such and based on our report and engagement in the round, we consider there is a mix of objective, subjective and anecdotal evidence to support the following:

- A higher level of confidence that Scottish Water could deliver an investment programme of around £6bn (2023-24 prices) as:
 - this is similar in size to the current SRC21 programme;
 - Scottish Water has taken steps to update its supply chain and delivery vehicles as part of wider steps to support learning from SRC21, which should help mitigate under-delivery risks;
 - maintaining a similar size investment programme will enable Scottish Water to provide greater focus on securing and embedding its supply chain and new delivery vehicles, a process which inherently takes time and focus and carries risk; and
 - experience from England and Wales, where companies saw a 5% step change in investment over 2020-25 compared to 2015-20, suggests even limited increases in programmes and associated deliverables can create challenges.
- A medium level of confidence that Scottish Water could deliver an investment programme in the region of £7bn (2023-24 prices) as:

Scottish Water SRC15: outturn data is from Scottish Water's Annual Return 2020-21, Table G1. This includes SRC10 completion investment. Inflation adjustment to 2023-24 prices has been done using the financial year average RPI until 2021 and financial year average CPI from 2021-22.

Scottish Water SRC21: outturn data is from Scottish Water's Annual Return 2024-25, Table G1. This includes SRC15 completion investment. Inflation adjustment to 2023-24 prices has been done using the financial year average CPI as per Table G10.

Available at [2024-25 G tables | WICS](#)

Scottish Water SRC27: Scottish Water (2025), 'SR27 Draft Business Plan - Data Tables', Table '5. SRC27 Projects Programmes', column 29 'Total in SRC27', available at [Delivery & Business Plans - Scottish Water](#)

England and Wales companies: PR24 vs PR19 figure is based on data in Ofwat's [PR24 final determinations - City briefing](#); PR19 vs PR14 figure is based on data in Ofwat's PR14 final determination cost documents for each price control ([wholesale](#), [household retail](#) and [non-household retail](#)) and [PR19-final-determinations-Securing-cost-efficiency-technical-appendix.pdf](#);

PR24 vs PR14 is based on the same sources

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- this would represent a 15% uplift on the SRC21 programme (i.e.: around half the uplift SRC21 represented on SRC15);
 - although the uplift is smaller than SRC15 to SRC21 and so potentially relatively more deliverable, the uplift for SRC27 would still be from a higher base level of investment/activity and the absolute levels of investment would also still be higher;
 - delivering this uplift in parallel with the supply chain and delivery vehicle changes (given the understandable maturity and stage of that process) introduces additional complexity, time and risk to delivering the step change in investment from a cost, schedule and quality perspective;
 - delivering this uplift relies on some assumptions (e.g.: about Scottish Water's growth in its internal capacity; the 1:1 responsiveness of some delivery vehicles); and
 - water company performance in Scotland and England & Wales suggests delivering even limited increases in investment programmes and improved outcomes can result in delivery risks and their crystallisation.
- A lower, limited, level of confidence that it could deliver an investment programme of around £8bn (i.e.: broadly in line with its draft business plan) or more in 2023-24 prices as:
 - an £8bn programme would represent around a third uplift on SRC21 – a similar uplift to that it has had to deliver during SRC21;
 - building on the considerations above, this bigger uplift would be from a higher base level of activity and absolute level of investment and it would have to be managed alongside supply chain and delivery model changes;
 - although Scottish Water has engaged with its supply chain early and taken other steps to try and mitigate delivery issues, analysis based on the supply chain's own responses on capacity suggest a potential shortfall towards the end of the period even with a number of stretching assumptions all holding true (e.g.: around internal and supply chain capacity growth; lack of optimism bias; substitutability of work between vehicles; no double counting of supplier capacity across vehicles; etc); and
 - consistent with the above, water company performance in Scotland and England & Wales suggests delivering material increases in investment programmes (and improved outcomes) can result in delivery risks and their crystallisation.

We also note that there are more limited clawback arrangements in the Scottish regulatory framework to protect stakeholders in the event of under-delivery, which may further limit confidence in setting significant increases in investment allowances.

The assessment is in the context of the following potential mitigations that include:

Phased Investment Approach

- Avoid front-loading the SRC27 programme.
- Align delivery with supply chain maturity and capacity growth.

Strengthen Baseline Forecasting

- Establish clear, measurable baselines for outputs and expenditure to enable performance tracking.

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Enterprise Model Risk Mitigation

- Ensure robust onboarding and integration of DV4 partners.
- Monitor cultural and governance risks during transition.

Stakeholder Engagement

- Improve transparency and responsiveness to stakeholder concerns.
- Address enforcement risks proactively, especially around water quality and statutory compliance.

Capacity Planning

- Conduct regional assessments to identify bottlenecks in labour and materials.
- Engage early with contractors to secure capacity and avoid cost premiums

Learning from AMP7 & PR24

- Adopt flexible delivery mechanisms similar to Ofwat's PCD framework.
- Monitor performance rigorously and adjust plans based on delivery progress.