

**Water Industry Investment Group (WI IG)
Progress of Interventions to Meet the Needs on the Development List
Quarter 3 2025-26**

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1. Purpose

This report sets out how Scottish Water is progressing in developing interventions to address the needs on the ‘Development List’ up to the end of December 2026 (Q3 2025-26). It has been prepared for the Water Industry Investment Group (WI IG) set up by Ministers to provide reassurance and report on the delivery of their Objectives.

What Is Monitored

The Development List contains named Needs and Needs associated with repair, refurbish and replacement activities.

Where interventions are forecast to exceed £3m or are novel or contentious, a Level 1 or 2 project investment appraisal is developed to assess the options to deliver the need.

Each quarter Scottish Water reports to WI IG on its progress in developing interventions to address the needs on the Development List. This report includes:

Section 2 – Summary of Current Investment: providing an overview of the current investment forecast over the 6-year investment period.

Section 3 - Indicator of overall Progress towards the Committed List (PCL): to provide reassurance to sector stakeholders on the overall volume of intervention

development relative to what is required to meet expected investment levels in future years.

Section 4 - Progress in the development of interventions with Level 1 and 2 appraisals: to provide reassurance to stakeholders on progress of developing interventions subject to a Level 1 and Level 2 appraisal (and other projects and programmes of interest to stakeholders) and a view of current expectations of when they will reach future appraisal stages.

2. Summary of Current Investment Maturity

The current outturn forecast of investment over the 6-year investment period is provided below (Figure 1). This shows the maturity of investment across the period and how it has developed since the previous quarter (Q2 2025-26 versus Q3 2025-26). Appendix A contains the inflation assumptions used to support the information in Figure 1.

Live Investment is categorised by Plan (Gate 30-60), Prepare (Gate 70/80) and Deliver (Gate 80 -120). The “Deliver” category includes both projects which have been committed for delivery (post Gate 90) and those at detailed design stage but not yet committed.

The level of investment in Delivery for 2025-26 has increased from £1,057m to £1,067m since previously reported in Q2 (blue bars), as projects progress through the Plan and Prepare phases. The total investment in Delivery, in SR21 and SR27, is now over £5.6bn.

The current forecast for 2026-27 is £1,126m with a Planned Investment level of £1,210m. The gap of £84m is fully understood and expected with one quarter to go in 2025-26 and will naturally fill with responsive investment (both Tier 1a and Tier 2) as we enter 2026-27.

Work is currently underway to translate the SR27 investment profiles developed for the SR27 Final Business Plan into this graph. The current profiles in the graph therefore do not currently reflect this. The peaks will be smoothed out into adjacent years once the graph is updated.

The combination of the Live and Non-Live Investment can exceed the Planned Investment Level shown on the figures as interventions can be initiated but will not necessarily be committed. A tabular view of the data represented in the figure is available in Appendix B.

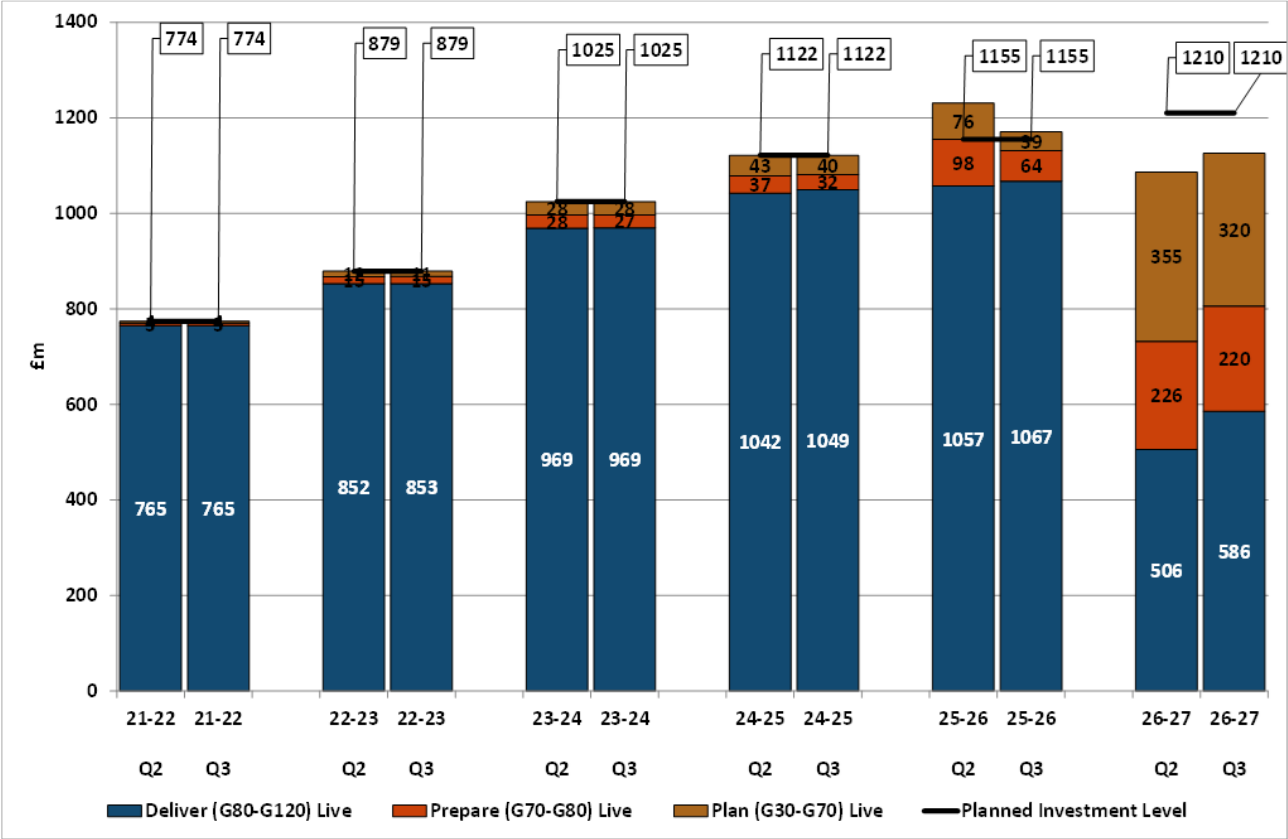


Figure 1: Annual Investment Profile (SR21) – maturity of investment at the end of Quarter 2 2025-26 (previous) and at the end of Quarter 3 2025-26 (current). Note: the figures on the top of the stacks are the Planned Investment Level for each year

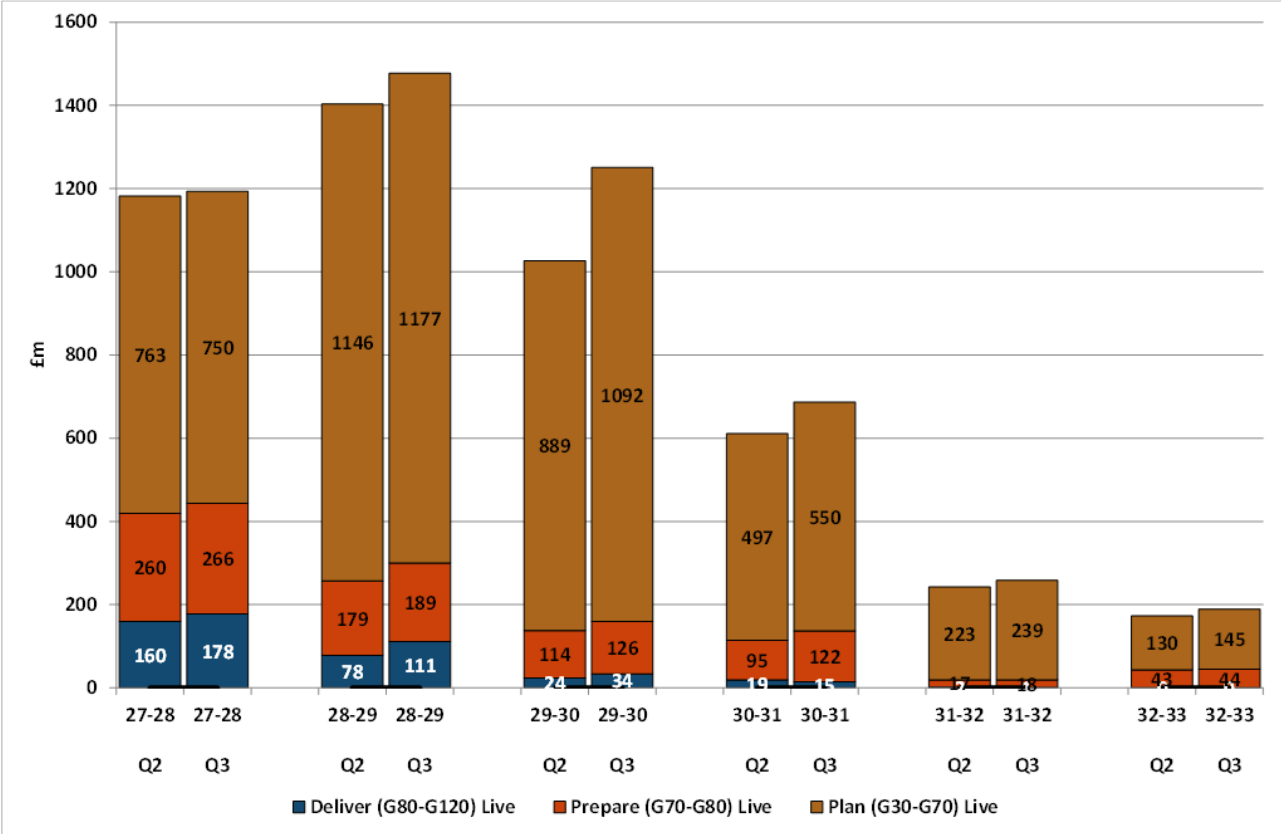


Figure 2: Annual Investment Profile (SR27) – maturity of investment at the end of Quarter 2 2025-26 (previous) and at the end of Quarter 3 2025-26 (current)

3. Indicator of overall progress towards the Committed List

The indicator of Progress towards the Committed List (PCL) is a high-level measure tracking the flow of investment in order to sustain a planned level of workload in future years. This measure assesses whether we are promoting sufficient volumes through the stages in each of its development pathways.

PCL was created using a top-down approach by splitting the investment profile between each development pathway. PCL tracks the impact of project forecasts on future investment levels. An explanation of how PCL is calculated and scored can be found in Appendix C.

Changes may occur due to 'positive' or 'negative' attrition. 'Positive attrition' occurs if forecast costs for an intervention have reduced or if the required delivery timescales have been extended. 'Negative attrition' occurs if forecasts costs have increased, or additional evidence is required which extends the project appraisal process.

Scoring explanation:

- A score of 100% is required to achieve the required investment profile in future years.
- A score of less than 100% indicates that the rate of overall progress in developing interventions may not be sufficient.
- A score of more than 100% indicates that the rate of overall progress is more than sufficient to achieve planned investment levels and will allow prioritisation/choice in what to commit to delivery.

At the end of Q3 2025-26, PCL was 105%. This indicates that we are developing sufficient volumes of investment across the programme to achieve planned investment in future years.

4. Progress of the development of interventions with Level 1 and 2 appraisals

The purpose of this section is to provide:

- An overview of the progress of interventions in Q3 2025-26 that are subject to Level 1 and 2 appraisals¹.
- Highlights from Level 1 or 2 project investment appraisals completed in Q3.
- The full list of interventions with Level 1 and 2 appraisals, with an indication of the anticipated timing, is shown in Appendix D, which is an additional document to this paper.

Q3 review of progress of appraisals

- 9 project investment appraisal stages were progressed with 8 being completed in the quarter and 1 pending approval.
- Of the 8 completed:
 - 6 received first time Investment Group (IG) approval-time I
 - 2 were approved following the provision of further information

Gateway progression

- 6 investment appraisals were approved to progress to the next gateway, with a combined mid-range value of: £33.72m (SR21) and £212.36m (SR27).

Commitment and delivery

- 2 appraisals were approved to progress to commitment and delivery, with a combined mid-range value of: £40.70m (SR21) and £7.45m (SR27)
- 0 project investment appraisal documents have been shared with all sector stakeholders during Q3.

¹ Level 1 appraisals are carried out for needs that require the early identification of placemaking and external partnership involvement. These are likely to be complex and time intensive. Level 2 appraisals are carried out for needs that are likely to require substantive system, programme and project investments and will be subject to a robust economic appraisal. This information reports PIAs in line with the Investment Group LARS approval requirements.

Rolling progress for the previous quarters is summarised in Table 1 below:

Table 1: BAU PIA Metrics

	Q4 (2024-25)	Q1 (2025-26)	Q2 (2025-26)	Q3 (2025-26)
Decisions taken to IAG/IG with L1 & L2 PIA	7	3	3	8/9
First time approval rate	7/7 (100%)	2/3 (67%)	0/3 (0%)	8/9 (89%)
Mid-Range Value of work progressing	£287.0m	£512.41m	£130.91m	£294.23m

Highlights from project investment appraisals completed within Q3 are included in Table 2 below:

Table 2: Project Investment Appraisal Highlights

Project	5045570000 SR21 ES Torra WTW
Stage	Stage 4 (G80/90) – Project Appraisal for Commitment
Date	24 NOV 2025
Summary	Purpose: The Torra Water Treatment Works (WTW) project aims to resolve capacity, water quality, compliance, and asset condition issues at Torra WTW, while also enabling the planned relocation of the existing transportable treatment unit (TTU) to Crathie WTW.

Background: Torra WTW supplies drinking water up to 0.81MI/d for c.2,000 customers on Islay (and is the largest of three WTWs on Islay). It is operating at capacity and cannot meet forecast growth. The works faces capacity shortfalls, non-compliance risks with disinfection policy, elevated total organic carbon (TOC) and trihalomethanes (THM) exceedances, iron/manganese exceedances, obsolete control systems, and asset condition concerns. In addition, the existing TTU, installed in 2021 to relieve demand pressures, must be transferred to Crathie WTW by 2027 due to membrane obsolescence.

Preferred Option: Option 4b - to construct a new 1.4MI/d nanofiltration WTW on a greenfield site adjacent to the existing facility. This option provides increased capacity to meet current and future demand, improves drinking water quality and operational resilience, and enables the release of the existing TTU for redeployment to Crathie in 2027.

Key Risks and Challenges:

- Design assumes use of the I/O link system (technology managing inlet and outlet data at the WTW), with adoption still pending, creating a risk of re-design and delays if the solution is not confirmed.
- Proposed spiral membranes lack current Scottish Government approval due to supply chain changes and lack of UK re-testing facilities.
- Power supply is no longer a significant risk due to phased SPEN supply and temporary generators. It remains monitored but is effectively managed.
- Potential nesting bird impacts if construction starts from March onwards.
- CPI has been calculated to February 2025, any inflation beyond this point will require additional uplift to the contract value, creating exposure to increased operational and capital costs not currently included in the LBE.

Expected Benefits and Outcomes:

- Increased treatment capacity supporting current demand and projected growth.
- Improved microbiological safety, reduced disinfection by-products (DBP) exposure, and better aesthetic water quality (iron/manganese and discolouration improvements).
- Enhanced supply resilience and enabling economic growth across the service area.
- Release of TTU for reuse at Crathie, reducing future investment pressures.

Recommendation: To seek IG approval of the G80/90 Investment Appraisal to proceed with Option 4b, constructing a new 1.4Ml/d nanofiltration WTW on a greenfield site adjacent to the existing facility, with an LBE of £31.58m, and to add the Torra WTW project to the Committed List.

Decision: The IG approved the recommendation for the 5045570000 SR21 ES Torra WTW project to proceed to commitment and delivery, and to progress for final approval by the Scottish Water Board, as the project value exceeds £20m. The IG also recognised the outstanding technical and regulatory issues including membrane approval and decommissioning, and requested contact be made with Scottish Government and an update to the Scottish Water Board paper.

Note: Financial Assessment:

- SR21 (2021-27): Capital expenditure £24.13m
- SR27 (2027-33): Capital expenditure £7.45m

Project **5074430000 Seafield PFI WwTW – SR21 Sludge Treatment Assets**
 Odour Improvement

Stage **Stage 3b (G70) – To proceed to the new appraisal gateway**

Date **09 DEC 2025**

Summary **Purpose:** The Seafield PFI WwTW project aims to address customer and community contacts and engagement in relation to malodour emanating from the Seafield WwTW, while also relieving constraints within the sludge treatment process that can lead to sludge build-up within the Primary Settlement Tanks (PSTs) and supporting progress to Stage 4, based entirely on wording used in the source document.

Background: The Case for Change and Need is around customer and community contacts and engagement regarding malodour from Seafield WwTW. Community concern increased due to delays in delivery and the ongoing level of complaints. The recommended option at Stage 3a was Option 1: sludge treatment capacity investment, addressing constraints within the sludge treatment process that can lead to sludge build-up within the PSTs. Stirling Water Seafield Ltd (the PFI Service Company) completed detailed design and tendering, with construction costs higher than Stage 3a estimates. Operational improvements have reduced PST sludge depth exceedances and however, odour contacts increased again during 2025/26, reversing recent reductions and prompting renewed community concern. A revised procurement approach and an alternative “minimum regrets scope” option was identified in March 2025 to provide additional sludge storage and manage odour risk.

Preferred Option: Option 1 - sludge treatment capacity investment is the preferred option as it removes single points of failure within the existing sludge treatment process, increases sludge storage capacity, reduces the risk of odour release, and meets the original recommendation of the Seafield Strategic Odour Review to provide additional sludge storage and reduce the risk of odour release from the PSTs. The option also provides a basis for supporting a future sludge cake reception centre, subject to a future business case.

Key Risks and Challenges:

- Risk that the proposed option does not reduce the malodour sufficiently to address customer concern.
- Construction can only commence once an acceptable PFI contract variation is agreed between parties.

- Requirement to finalise risk allocation, testing and commissioning requirements, and agree all capital, operational and maintenance costs with the PFI Service Company.
- Planning permission and SEPA Waste Management License are conditions precedent for construction, with risk of conditions being imposed or applications refused.
- PFI Service Company construction phase exclusions including asbestos, supply-chain impacts, geopolitical events, pandemic effects, extreme weather, steel tank cost increases, and areas where only budgetary costs are provided.
- Need for the PFI Service Company to extend the construction offer validity period.

Expected Benefits and Outcomes:

- Reduces odour risk by increasing sludge storage capacity and removing single points of failure in the sludge treatment process.
- Improves community experience through fewer odour events.
- Strengthens operational resilience by improving control of sludge levels in the PSTs.
- Provides future flexibility by creating assets that could support a future sludge cake reception centre, subject to a business case.
- Lowers overall cost and carbon compared with the Stage 3a scope due to refined design and updated cost assessment.

Recommendation: To seek IG approval of the Stage 3b Investment Appraisal to proceed with Option 1, sludge treatment capacity investment, with a most likely LBE of £14.7m (*capital costs including plan overhead spend to date, prepare overhead, contingency, and Scottish Water contingency*), and add the project to the Committed List.

Decision: The IG approved the recommendation for the ‘5074430000 Seafield PFI WwTW – SR21 Sludge Treatment Assets Odour Improvement’ project to proceed to the next appraisal stage. The group highlighted the need to align the project start and payment schedule with the April 2026 financial profile, ensure payment capability before external commitments and maintain transparent communication with stakeholders throughout the process. It was also noted that the commercial team will continue to support the finalisation of the contract.

Note: The IG requested the project to return to IG for Gate 90 (project commitment) approval, after which final approval will be sought from the Scottish Water Board before being added to the Committed List.

Note: Financial Assessment:

- SR21 (2021-27): Capital expenditure assumption £9.5m
- SR27 (2027-33): Capital expenditure assumption £5.2m

Appendix D - Full list of interventions with Level 1 and 2 appraisals

See separate excel file.

5. Summary

The WI IG members are asked to:

- Note the maturity of the current Investment Forecast.
- Note that the Q3 Progress to Committed List (PCL) score was 105%, indicating that the rate of overall progress is more than sufficient to achieve planned investment levels.
- Note the progress on Project Investment Appraisals.

Appendices

Appendix A – Inflation Assumption

The revised inflation assumption used are shown in Table 1. We recognise that some costs within our capital programme are increasing at a greater rate than the current CPI projection. We continue to assess and monitor this Capital Price Inflation value to allow us to better understand potential cost increases across the programme.

Table A: CPI Assumption (%)

Inflation Assumption	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Current Inflation Assumption	4.0%	10.1%	5.7%	2.4%	3.2%	2.2%

Appendix B - Tabular information for Figure 1: 12 Year Investment Profile

Plan Prepare Deliver (PPD) stage comparing investment forecast at the end of Q2 2025-26 (previous) and at the end of Q3 2025-26 (current) investment.

6 Year Investment £m - 2021-22	Previous Q2	Current Q3	Variance
Plan Live	4.1	3.9	-0.3
Prepare Live	5.3	5.3	0.1
Deliver Live	764.7	764.9	0.2
Total	774.1	774.1	0.0
Planned Investment Level	774.1	774.1	0.0

6 Year Investment £m - 2022-23	Previous Q2	Current Q3	Variance
Plan Live	11.8	11.2	-0.6
Prepare Live	14.8	14.9	0.1
Deliver Live	852.5	852.9	0.4
Total	879.1	879.1	0.0
Planned Investment Level	879.1	879.1	0.0

6 Year Investment £m - 2023-24	Previous Q2	Current Q3	Variance
Plan Live	28.3	27.8	-0.6
Prepare Live	27.6	27.4	-0.2
Deliver Live	968.7	969.4	0.8
Total	1024.6	1024.6	0.0
Planned Investment Level	1024.6	1024.6	0.0

6 Year Investment £m - 2024-25	Previous Q2	Current Q3	Variance
Plan Live	42.6	40.0	-2.6
Prepare Live	36.5	31.8	-4.7
Deliver Live	1041.8	1049.1	7.3
Total	1121.0	1121.0	0.0
Planned Investment Level	1121.6	1121.6	0.0

6 Year Investment £m - 2025-26	Previous Q2	Current Q3	Variance
Plan Live	76.4	39.2	-37.1
Prepare Live	97.7	64.0	-33.7
Deliver Live	1057.0	1067.5	10.5
Total	1231.1	1170.7	-60.4
Planned Investment Level	1155.0	1155.0	0.0

6 Year Investment £m - 2026-27	Previous Q2	Current Q3	Variance
Plan Live	354.6	319.8	-34.8
Prepare Live	226.2	219.7	-6.5
Deliver Live	505.6	586.0	80.4
Total	1086.4	1125.6	39.2
Planned Investment Level	1210.0	1210.0	0.0

6 Year Investment £m - 2027-28	Previous Q2	Current Q3	Variance
Plan Live	763.0	749.7	-13.3
Prepare Live	259.6	265.9	6.3
Deliver Live	159.7	177.9	18.3
Total	1182.2	1193.5	11.3
Planned Investment Level	0.0	0.0	0.0

6 Year Investment £m - 2028-29	Previous Q2	Current Q3	Variance
Plan Live	1145.7	1176.9	31.2
Prepare Live	179.2	188.7	9.5
Deliver Live	77.9	111.5	33.6
Total	1402.8	1477.0	74.2
Planned Investment Level	0.0	0.0	0.0

6 Year Investment £m - 2029-30	Previous Q2	Current Q3	Variance
Plan Live	889.1	1091.7	202.6
Prepare Live	113.7	125.6	11.9
Deliver Live	23.8	33.5	9.7
Total	1026.6	1250.8	224.2
Planned Investment Level	0.0	0.0	0.0

6 Year Investment £m - 2030-31	Previous Q2	Current Q3	Variance
Plan Live	497.2	550.4	53.1
Prepare Live	94.6	121.7	27.1
Deliver Live	19.1	14.7	-4.4
Total	611.0	686.8	75.8
Planned Investment Level	0.0	0.0	0.0

6 Year Investment £m - 2031-32	Previous Q2	Current Q3	Variance
Plan Live	223.0	239.3	16.3
Prepare Live	17.4	17.8	0.4
Deliver Live	1.8	1.4	-0.4
Total	242.2	258.4	16.2
Planned Investment Level	0.0	0.0	0.0

6 Year Investment £m - 2032-33	Previous Q2	Current Q3	Variance
Plan Live	129.6	144.6	14.9
Prepare Live	43.0	43.8	0.9
Deliver Live	0.3	0.4	0.1
Total	172.9	188.8	15.9
Planned Investment Level	0.0	0.0	0.0

Appendix C – PCL Scoring

Each month the average promotion rate through the gates – Project Initiation, Option Appraisal, Option Confirmation, Project Promotion, Project Approval and Delivery Approval – is compared against the average baseline promotion rate for each gate. This is summarised giving a total actual flow rate vs a total baseline flow rate and this generates a % and the score.

Each project contributes PCL points, per gate, as follows:

Its LBE (Latest Best Estimate) divided by the total number of gates passed on its progression from Project Initiation to Delivery Approval

For example, a larger PPD (Plan Prepare Deliver) project with an LBE of £6m, and that passes through all six governance gates from Initiation to Delivery Approval, inclusive, will contribute £1m (£6m / 6 gates) to the PCL score each time a gate is passed.

Small Value projects, meanwhile, typically have a shorter path to delivery i.e. Initiation and Delivery Approval inclusive, and as such contribute their LBEs divided by 2 each time those gates are achieved.

Appendix D - Full list of interventions with Level 1 and 2 appraisals – separate excel file