

Water Industry Investment Group (WI IG)
Progress of Interventions to Meet the Needs on the Development List
Quarter 4 2025-26

Contents

1. Purpose 2

2. Summary of Current Investment Maturity 3

3. Indicator of overall progress towards the Committed List 5

4. Progress of the development of interventions with Level 1 and 2 appraisals ... 6

5. Summary 10

Appendix A – Inflation Assumption 11

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

Appendix C – PCL Scoring 16

Appendix D - Full list of interventions with Level 1 and 2 appraisals – separate excel file 16

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 March 2026 (Q4 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 (Q3 2025-26 versus Q4 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 final level of investment in Delivery for 2025-26 was £1,065m, with a further £47m in Plan and £41m in Prepare as we enter 2026-27. The total investment in Delivery, in SR21 and SR27, is now over £5.8bn.

The current forecast for 2026-27 is £1,175m with a revised Planned Investment level of £1,184m. An internal action plan is being developed to manage and control investment to individual Management Approach and Delivery Vehicle targets.

The Planned Investment Level at March 26 recognises the remaining available funding for investment as per the SR21 Final Determination recognising the actual and forecast changes in inflation and additional funding received from grant and contributions. Business outperformance is made available when SW Executive leaders have confidence in the delivery of a sustainable cash balance within the Board's risk appetite. As we progress through 2026-27 we anticipate that further funding will be released in order that we are actively and efficiently investing customers' money whilst balancing the risks of delivery of services; as risks reduce, more funding will be released and thereby reduce the quarter-on-quarter reduction presented in Figure 1 below for the Planned Investment Level (PIL).

Work has been undertaken to ensure our live SR27 investment forecast more accurately reflects the profile developed for the SR27 Final Business Plan. The peaks observed in previous quarters have now been reprofiled into adjacent years, resulting in a significantly smoother – and more accurate – profile (Figure 2).

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.

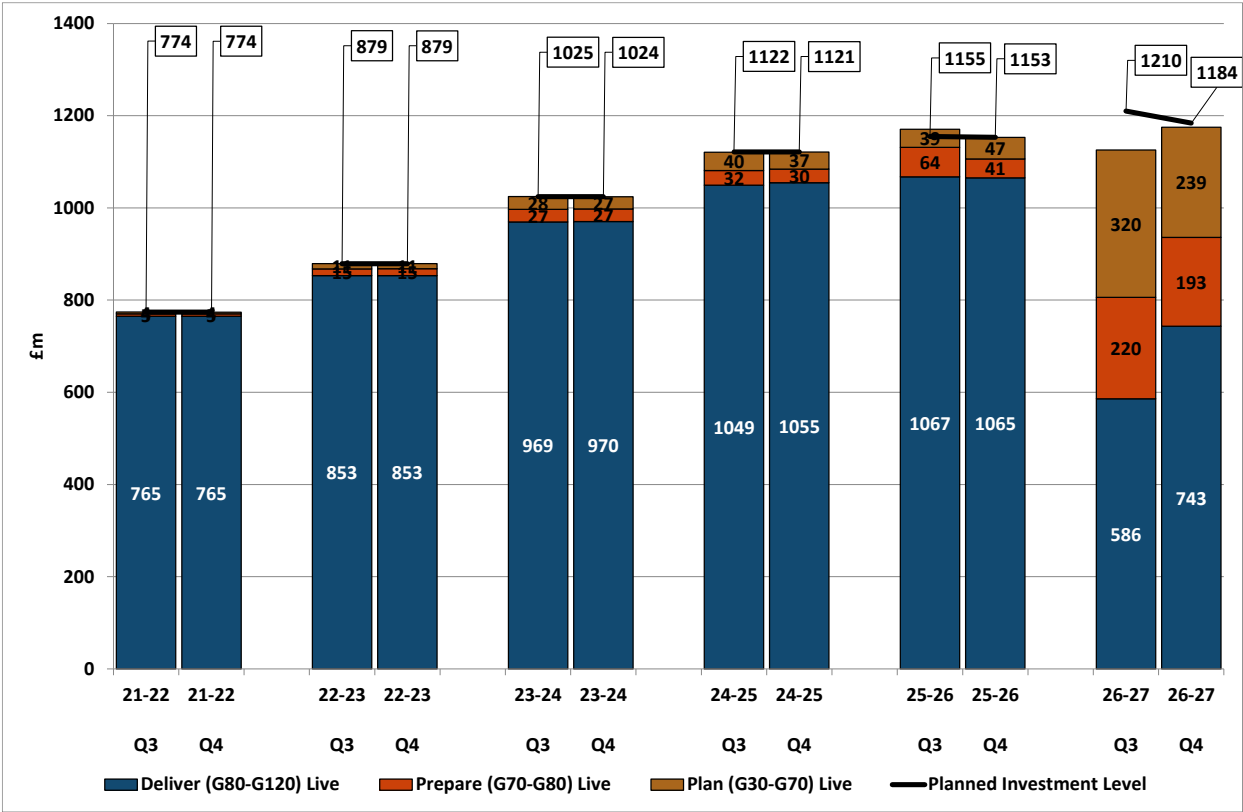


Figure 1: Annual Investment Profile (SR21) – maturity of investment at the end of Quarter 3 2025-26 (previous) and at the end of Quarter 4 2025-26 (current). Note: the figures on the top of the stacks are the Planned Investment Level for each year

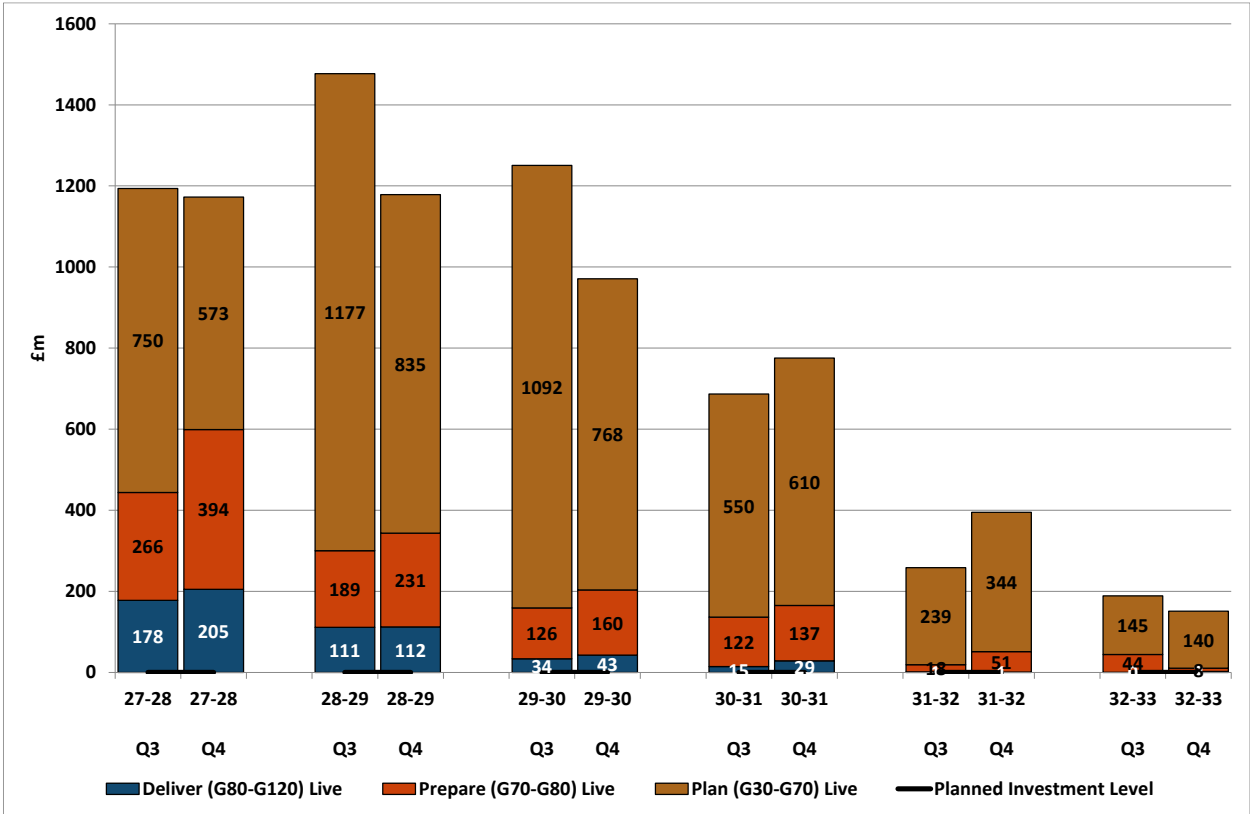


Figure 2: Annual Investment Profile (SR27) – maturity of investment at the end of Quarter 3 2025-26 (previous) and at the end of Quarter 4 2025-26 (current)

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 Q4 2025-26, PCL was 107.4%. 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 Q4 2025-26 that are subject to Level 1 and 2 appraisals.
- Highlights from Level 1 or 2 project investment appraisals completed in Q4.
- The full list of interventions with Level 1 and 2 appraisals, with an indication of the anticipated timing, which is shown in Appendix D, an additional document to this paper.

Q4 review of progress of appraisals

- 6 project investment appraisal stages were progressed during Q4, with all 6 completed in the quarter.
- All 6 appraisals received first time approval from the Investment Group (IG).

Gateway progression

- 4 investment appraisals were approved to progress to the next gateway, with a combined value of: £2.9m (SR21) and £49.3m (SR27).

Commitment and delivery

- 1 appraisal was approved to progress to commitment and delivery, with a combined value of: £10.582m (SR21) and £5.126m (SR27).

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	3	3	9	6
First time approval rate	2/3 (67%)	0/3 (0%)	8/9 (89%)	6/6 (100%)
Mid-Range Value of work progressing	£512.41m	£130.91m	£294.23m	£67.91m

Highlights from project investment appraisals completed within Q4 are included in Table 2 below:

Table 2: Project Investment Appraisal Highlights

Project	5424350000 SR21 Glenlatterach WTW
Stage	Stage 3a (G50) – To proceed to the next appraisal gateway
Date	23 FEB 2026
Summary	Purpose: The Glenlatterach Water Treatment Works (WTW) project aims to address non-compliance with the 2023 regulatory standard for haloacetic acids (HAA) and other water quality needs at Glenlatterach WTW, while enabling future installation of enhanced organics removal if required. Background: Glenlatterach WTW, built in 1950, supplies approximately 37,000 customers across parts of Moray. The works draws water from a peatland catchment that is sensitive to runoff and erosion, contributing to elevated organic content in raw water. Since January 2023, HAA levels have exceeded regulatory thresholds, resulting in a Letter of Commitment to the Drinking Water Quality Regulator (DWQR). Asset capability limitations across coagulation, clarification and disinfection processes contribute to disinfection by-product risks. Preferred Option: The appraisal identifies Option 3 – Upgrade Existing Works as the preferred option. This option is selected because it provides the required regulatory risk reduction through targeted process maximisation measures, while remaining significantly lower cost than constructing a new water treatment works and allowing for future enhancement should further intervention be required. Key Risks and Challenges: • Ongoing regulatory exposure associated with haloacetic acids • Disinfection by-product formation linked to raw water quality and asset condition • Chlorate exceedances related to disinfection processes • Microbiological risk associated with asset condition • Lack of resilience to drought due to yield and capacity deficits • Asset capability and health and safety risks • Per- and Poly-Fluoroalkyl Substances (PFAS) assessed as above long term tolerable • Algal taste and odour risks requiring monitoring

	Expected Benefits: Implementation of the preferred option is expected to deliver: • Reduced haloacetic acid and disinfection by-product risk • Improved compliance with DWQR regulatory requirements • Improved treatment process performance • Reduced water quality, health and safety risks • Flexibility to introduce enhanced organics removal if required Recommendation: Seek Investment Group (IG) approval of the Stage 3a (Gate 50) Investment Appraisal to proceed with Option 3, upgrading the existing Glenlatterach WTW through process maximisation measures and to proceed to the next gateway appraisal. Decision: The IG approved project to proceed to the next gateway appraisal. The IG supported progression of Option 3, delivering process maximisation first followed by upgrade, and noted that the engineering design enables future installation of ion exchange if required. The IG also acknowledged that the option will be included in the DV4 Enterprise initial programme for development, with longer term measures to be progressed through a strategic options appraisal for the area. Note: Financial Assessment Assumption: • SR21 (2021-27) Capital £0.5m; Operational £0m • SR27 (2027-33): Capital £11.4m; Operational £1.9m
Project	5074430000 Seafield PFI WwTW – SR21 Sludge Treatment Assets Odour Improvement
Stage	Stage 4 (G90) – For commitment and delivery
Date	09 MAR 2026
Summary	Purpose: The Seafield PFI Wastewater Treatment Works (WwTW) – SR21 Sludge Treatment Assets Odour Investment project aims to address customer and community contacts in relation to malodour emanating from Seafield WwTW, while also providing additional sludge storage capacity to reduce the risk of sludge build-up in the primary settlement tanks. Background: There is a long running issue of customer and community contacts in relation to malodour emanating from Seafield WwTW, attracting considerable community and stakeholder engagement. The Seafield Strategic Odour Review identified the need for further changes to the operation, management and assets at Seafield WwTW. This investment delivers on a recommendation from that review to provide additional sludge storage capacity, reducing the risk of sludge build-up in the primary settlement tanks. Preferred Option: The preferred option (Option 1) at Stage 4 is unchanged from Stage 3b and comprises construction of an additional thickened sludge holding tank and one centrifuge cake silo, together

	with associated ancillaries. The option removes single points of failure in the sludge processing and increases sludge storage capacity. Key Risks and Challenges: • Delay in finalising the PFI contract variation. • Need to extend the tender validity period beyond April 2026. • Metals market volatility impacting contract price. • Securing an amended Waste Management Licence (WML) for the sludge treatment centre. • Costs beyond the PFI Service Company liability cap, including geopolitical, extreme weather and change in law events, borne by Scottish Water. • Additional costs if the contractor becomes insolvent or fails to meet the implementation longstop date. Expected Benefits: • Additional sludge storage capacity at Seafield WwTW. • Removal of single points of failure in sludge processing. • Reduced risk of sludge build-up in the primary settlement tanks. • Potential to support a future sludge cake reception centre, subject to a future business case. Recommendation: Seek Investment Group (IG) approval of the Stage 4 (Gate 90) Investment Appraisal to proceed with Option 1 – sludge treatment capacity investment, comprising construction of an additional thickened sludge holding tank (900 m³) and one centrifuge cake silo (500 m³) with associated ancillaries, and to seek final approval from the Scottish Water Board to enter into a variation to the PFI contract to deliver the project. Decision: The IG approved the project to proceed to seek approval from the Scottish Water Board for commitment and delivery. The IG noted the need to confirm governance milestone dates, 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. It was also noted that the commercial team will continue to support the finalisation of the contract. Scottish Water Board approved the project on 25 March 2026. Note: Financial Assessment Assumption • SR21 (2021-27): Capital £10.582m • SR27 (2027-33): Capital £5.126m
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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 Q4 Progress to Committed List (PCL) score was 107.4%, indicating that the rate of overall progress is more than sufficient to achieve planned investment levels.
- Note the progress on Project Investment Appraisals.

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%	3.4%	3.4%

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

Plan Prepare Deliver (PPD) stage comparing investment forecast at the end of Q3 2025-26 (previous) and at the end of Q4 2025-26 (current) investment.

6 Year Investment £m - 2021-22	Previous Q3	Current Q4	Variance
Plan Live	3.9	3.5	-0.3
Prepare Live	5.3	5.3	0.0
Deliver Live	764.9	765.1	0.2
Total	774.1	774.0	-0.1
Planned Investment Level	774.1	774.1	0.0

6 Year Investment £m - 2022-23	Previous Q3	Current Q4	Variance
Plan Live	11.2	10.7	-0.5
Prepare Live	14.9	15.1	0.1
Deliver Live	852.9	853.1	0.2
Total	879.1	878.9	-0.1
Planned Investment Level	879.1	879.1	0.0

6 Year Investment £m - 2023-24	Previous Q3	Current Q4	Variance
Plan Live	27.8	26.8	-1.0
Prepare Live	27.4	27.2	-0.3
Deliver Live	969.4	970.4	0.9
Total	1024.6	1024.3	-0.3
Planned Investment Level	1024.6	1024.6	0.0

6 Year Investment £m - 2024-25	Previous Q3	Current Q4	Variance
Plan Live	40.0	37.0	-3.0
Prepare Live	31.8	29.6	-2.2

Deliver Live	1049.1	1054.7	5.6
Total	1121.0	1121.3	0.4
Planned Investment Level	1121.6	1121.6	0.0

6 Year Investment £m - 2025-26	Previous Q3	Current Q4	Variance
Plan Live	39.2	46.7	7.5
Prepare Live	64.0	40.8	-23.2
Deliver Live	1067.5	1065.3	-2.2
Total	1170.7	1152.8	-17.9
Planned Investment Level	1155.0	1153.0	-2.0

6 Year Investment £m - 2026-27	Previous Q3	Current Q4	Variance
Plan Live	319.8	239.0	-80.8
Prepare Live	219.7	192.6	-27.2
Deliver Live	586.0	743.4	157.4
Total	1125.6	1175.0	49.4
Planned Investment Level	1210.0	1184.0	-26.0

6 Year Investment £m - 2027-28	Previous Q3	Current Q4	Variance
Plan Live	749.7	573.3	-176.4
Prepare Live	265.9	394.1	128.2
Deliver Live	177.9	205.2	27.3
Total	1193.5	1172.6	-20.9
Planned Investment Level	0.0	0.0	0.0

6 Year Investment £m - 2028-29	Previous Q3	Current Q4	Variance
Plan Live	1176.9	835.4	-341.5

Prepare Live	188.7	230.9	42.3
Deliver Live	111.5	112.4	0.9
Total	1477.0	1178.8	-298.3
Planned Investment Level	0.0	0.0	0.0

6 Year Investment £m - 2029-30	Previous Q3	Current Q4	Variance
Plan Live	1091.7	767.5	-324.2
Prepare Live	125.6	160.4	34.8
Deliver Live	33.5	42.8	9.3
Total	1250.8	970.7	-280.0
Planned Investment Level	0.0	0.0	0.0

6 Year Investment £m - 2030-31	Previous Q3	Current Q4	Variance
Plan Live	550.4	610.0	59.7
Prepare Live	121.7	136.7	15.0
Deliver Live	14.7	28.6	13.9
Total	686.8	775.4	88.6
Planned Investment Level	0.0	0.0	0.0

6 Year Investment £m - 2031-32	Previous Q3	Current Q4	Variance
Plan Live	239.3	343.7	104.4
Prepare Live	17.8	50.6	32.9
Deliver Live	1.4	0.7	-0.6
Total	258.4	395.0	136.6
Planned Investment Level	0.0	0.0	0.0

6 Year Investment £m - 2032-33	Previous Q3	Current Q4	Variance
Plan Live	144.6	140.5	-4.1

Prepare Live	43.8	8.3	-35.6
Deliver Live	0.4	2.3	1.9
Total	188.8	151.0	-37.8
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