

Delivery Assurance Group

Progress Report on Performance Against the Committed List for Quarter 4 2021-22

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Progress Report on Performance Against the Committed List for Quarter 4 2021-22

This document sets out how Scottish Water is progressing with the delivery of projects and sub-programmes included on the 'Committed List' and confirms the position up to the end of March 2022 (Quarter 4 2021-22). It has been prepared for the Delivery Assurance Group (DAG).

The content and format of this report is under review by the Investment Reporting Task and Finish Group and Investment Reporting Data Subgroup which in turn report to DAGWG. The amendments made to this report for Q4, contained in the covering note to this paper (DAG 12/22-02), have been made following stakeholder feedback from previous DAGWG and DAG meetings and further developments are being explored.

What We Monitor

Each quarter Scottish Water reports to the DAG on its progress with the delivery of projects and programmes included in the Committed List as follows:

Section 1: Overview - to provide an overview of levels of investment compared to the Delivery Plan and highlight delivery risks that have or may impact the delivery of the projects and programmes on the Committed list.

Section 2: Indicator of Progress of Overall Delivery (**IPOD**) - to provide reassurance to stakeholders on the extent to which overall progress of projects on the Committed List are in line with the forecasts set out when the projects were committed to delivery.

Section 3: Progress of delivery of committed projects within **Water portfolio** - to provide stakeholders with a view of the extent to which projects within the water portfolio are progressing through the governance gates in line with the forecasts set out when these projects were added to the Committed List.

Section 4: Progress of delivery of committed projects within **Wastewater portfolio** - to provide stakeholders with a view of the extent to which projects within the water portfolio are progressing through the governance gates in line with the forecasts set out when these projects were added to the Committed List.

Section 5: Progress of delivery of committed projects within **Customer Engagement, Flourishing Scotland and Support Services (CE&FS&SS) portfolio** - to provide stakeholders with a view of the extent to which projects within the water portfolio are progressing through the governance gates in line with the forecasts set out when these projects were added to the Committed List.

Section 6: Progress in delivering SR15 completion projects - to provide stakeholders with a view of how SW is progressing in delivering projects that were initiated but not completed in the previous Strategic Review period.

Section 1: Overview

The 2021-22 financial year has been a successful transition year with a significant rise in Scottish Water's level of capital investment. The total investment for 2021-22, including responsive repair and refurbishment expenditure, was £799¹ million, £134 million more than the previous year when measured on a consistent basis with that being used for the 2021-27 regulatory period. This marks the largest increase in investment levels in more than a decade, supporting jobs and economic growth throughout Scotland.

Most of this investment (£622.5m), has been in projects and sub-programmes delivering asset replacement, planned repair and refurbishment (£334), enhancement (including flooding) (£232m) and growth (£56m) (classified as "Tier 2" investment). It also includes £97m invested on the delivery of projects that were planned to be completed in the previous period but have been delayed due to the impacts of Covid-19 and/or the realisation of other risks.

This level of Tier 2 investment was £10.5m above the end of year forecast (£612m) and is within the Interim Prospects and Performance report revised range of £600m to £650m. Investment in responsive repair and refurbishment of assets and RCC (Tier 1a) for the year was £176.5m. Our key performance indicator (IPOD) was well within the target range.

This increase in investment is a remarkable achievement when considered in the context of the historic trend among regulated utilities for investment levels to fall at the start of a new regulatory period.

Several things have combined to make this possible, include the new investment planning framework developed with our economic regulator and other stakeholders, our transformation work and forward planning and our success in putting delivery partners in place with sufficient time to plan for greater delivery capacity. We have seen many good examples of innovation, community engagement and carbon reduction across the programme and we are pleased with the collective approach taken with our partners to manage through COVID and the challenging market conditions.

Delivery Risks

We continue to monitor risks that may impact delivering to forecast. These risks fall into 3 broad categories:

- Third Party risk: Potential delays due to third-party issues.
- Construction risk: Unforeseen delays from allowable events or poor performance on site.
- Wider market risks.

The section below provides detail on key risks.

Construction market conditions: Market conditions continue to change and evolve rapidly - cost pressures and availability of materials, labour, and commodities continue to present challenges across the capital programme. Current projections on market conditions continue to vary significantly. There are 4 key areas of activity that we continue to pursue to understand and manage the likely impact of this:

- Price and availability of materials and commodities: - Our procurement teams monitor and report across all of our frameworks fortnightly and will undertake a detailed assessment during Quarter 1 (2022-23) with a particular focus on understanding the

¹ this includes an additional c£53m which was classed as operational expenditure in 2020-2021.

impact of inflated prices in excess of CPI. In addition, our procurement teams are looking at forward buying material (e.g plastic pipes) to manage the risk of future cost increases.

- Commercial Assessments: - We have seen a rise in the number of formal contractual notifications from our delivery partners and expect this to continue. Our assessment will quantify the impact on a project-by-project basis looking at direct and indirect impact.
- Planning: - Our delivery teams are looking at resequencing project design, planning and procurement following extension in lead times for some projects. An example of this is Motor Control Centres which has moved from a 3-month to a 12-month lead time. As part of this review particular consideration will be given to earlier design and procurement.
- Resourcing and Skills: - Our partners are seeing staff turnover levels increase up to 15% in our main alliances. We are working collectively with our partners on strategies to bring new skills in and retain industry skills while recognising that there is no “silver bullet”.

COVID: Following the impact of the omicron variant absence levels are reducing. Version 7 of the safe working guidelines was withdrawn on 18th April 2022 and replaced with a common standard.

Section 2: Indicator of Overall Progress of Delivery

The Indicator of Progress of Overall Delivery (IPOD) provides a high-level measurement of Scottish Water’s progress in delivering the Committed List for projects over £1m². It assesses the progress of these investment projects monitored by DAG across 3 delivery gates³ combining this information to give an overall score.

When projects are added to the Committed List, each milestone is allocated 1 point. Each quarter, the number of points achieved by reaching gates is assessed against the baseline⁴ level for the previous quarter (lower limit) and the subsequent quarter (upper limit). These points are shown as absolute scores.

Scottish Water is considered to be within the target range where the number of points gained lies within the lower and upper limits.

At the end of March 2022, Scottish Water's IPOD position was on track at 332 points, against a range of 229 to 402 points (figure 1).

² Forecast costs at the time of addition to the Committed List.

³ These are start on site, gate 100 (acceptance) and gate 110 (financial close).

⁴ The baselines are determined by the projects forecast dates at the time inclusion in the Committed List.

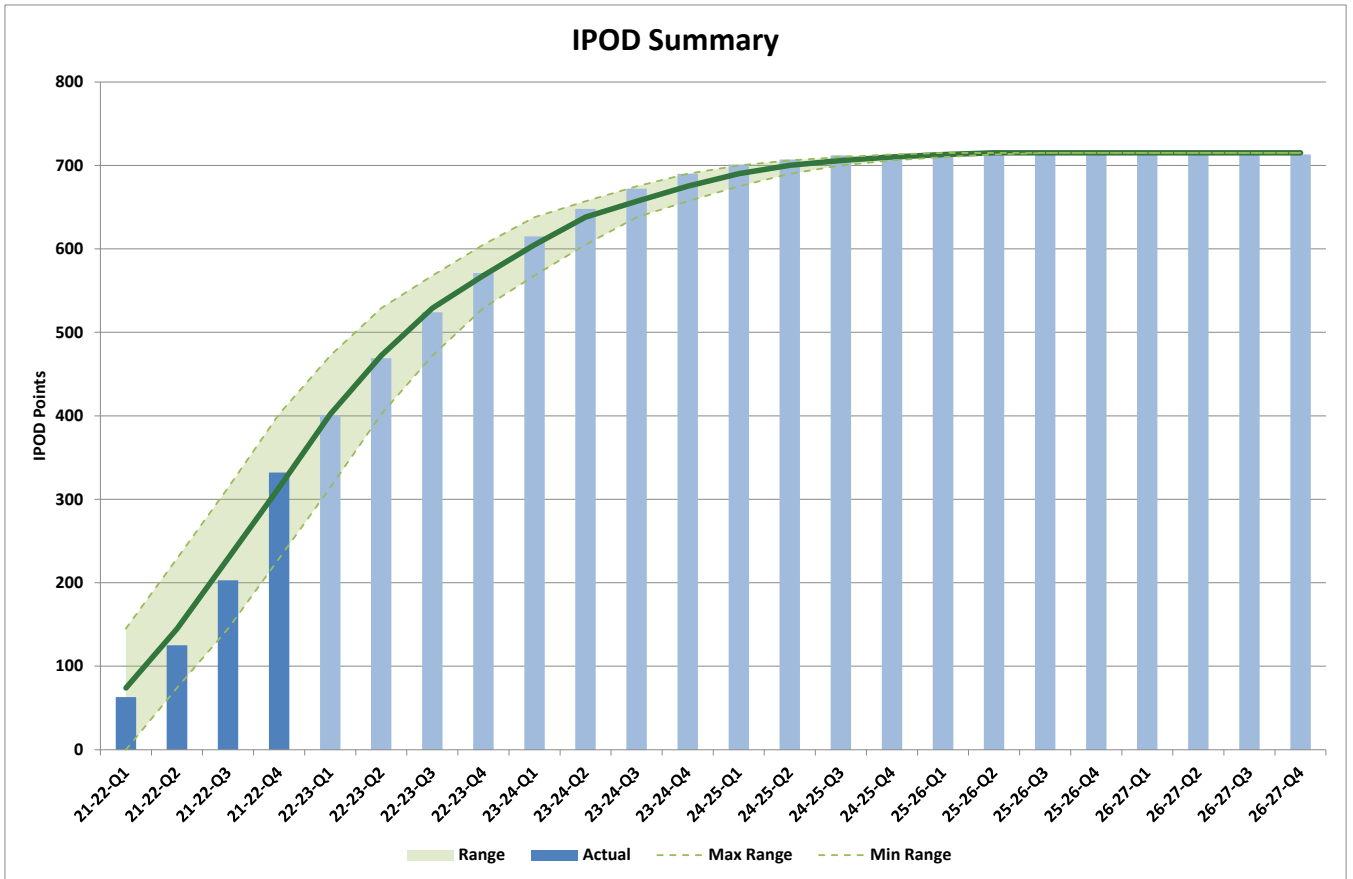


Figure 1: Indicator of progress of Overall Delivery (IPOD) at Quarter 4 2021-2022: The green line in the figure above shows the aggregate of the forecast dates in the Committed List (the baseline). The solid blue bars shows Scottish Water’s actual position, and the light blue bars show the forecast position for future months. The green area above shows the + or – 3 months target range (i.e. is the baseline from the previous and subsequent quarters respectively). Being above this shows that Scottish Water are more than 3 months ahead of their baseline and being below this shows that Scottish water are more than 3 months behind their baseline.

Figures 2,3 and 4 below show the IPOD position at Quarter 4 2021/2022 by individual milestone:

Year to date performance on the Start on Site milestone is in the top half of the target range with most projects commencing construction on or earlier than planned across all three portfolios. This increased focus on achieving a site start as planned has ensured that projects presented for approval at Gate 90 are ready to progress to site and that all actions to achieve that site start are understood avoiding potential lengthy delay and additional cost once approval to progress to site has been granted.

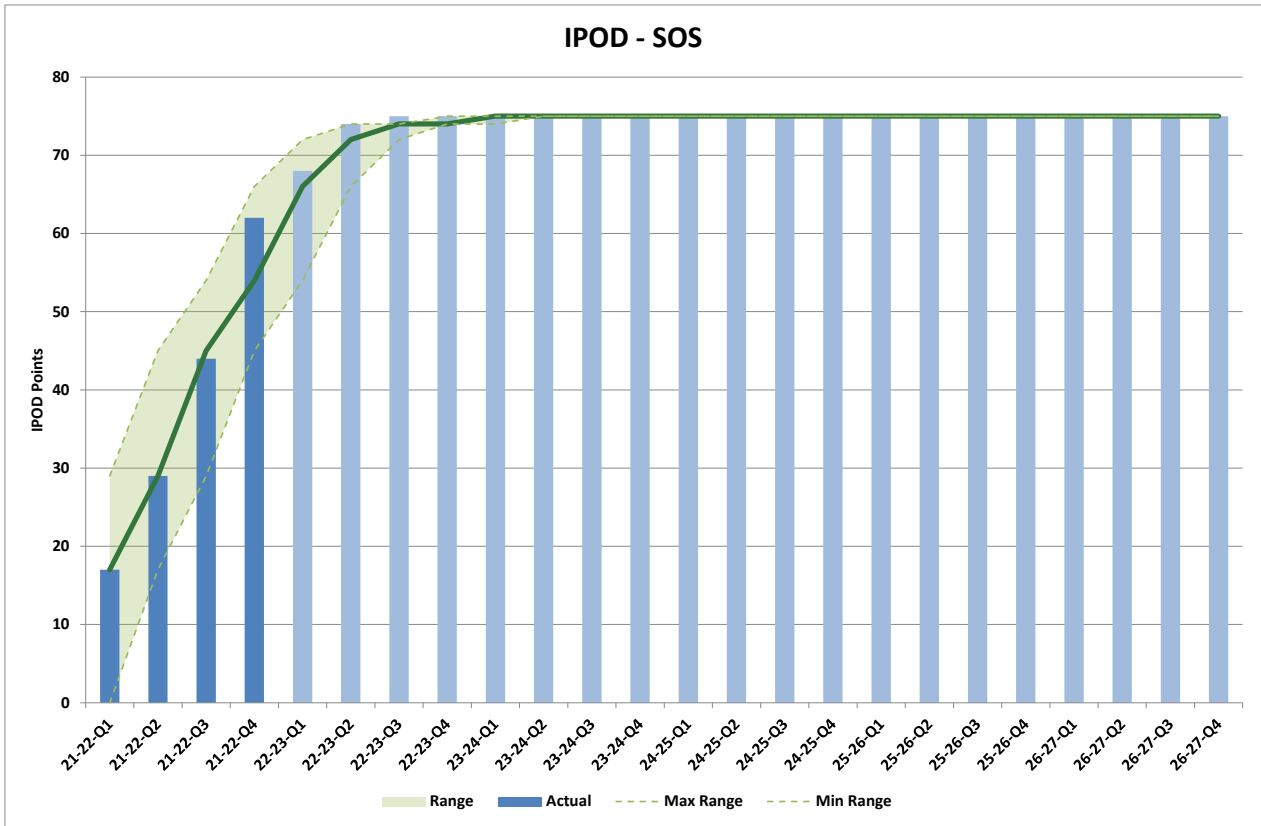


Figure 2: Indicator of progress of Overall Delivery (IPOD) at Quarter 4 2021-2022 for Start on Site

Year to date performance on the Gate 100 (Project Acceptance) milestone is out with the target range (Figure 3) where 146 points were achieved to date, 1 below the target of 147. The realisation of risks for a number of projects has resulted in longer forecast delivery times. The water portfolio is within the target range, however, impacts on the wastewater and CE&FS&SS portfolio have moved the total position out with the target range. Explanation of this movement can be found in Sections 4 & 5.

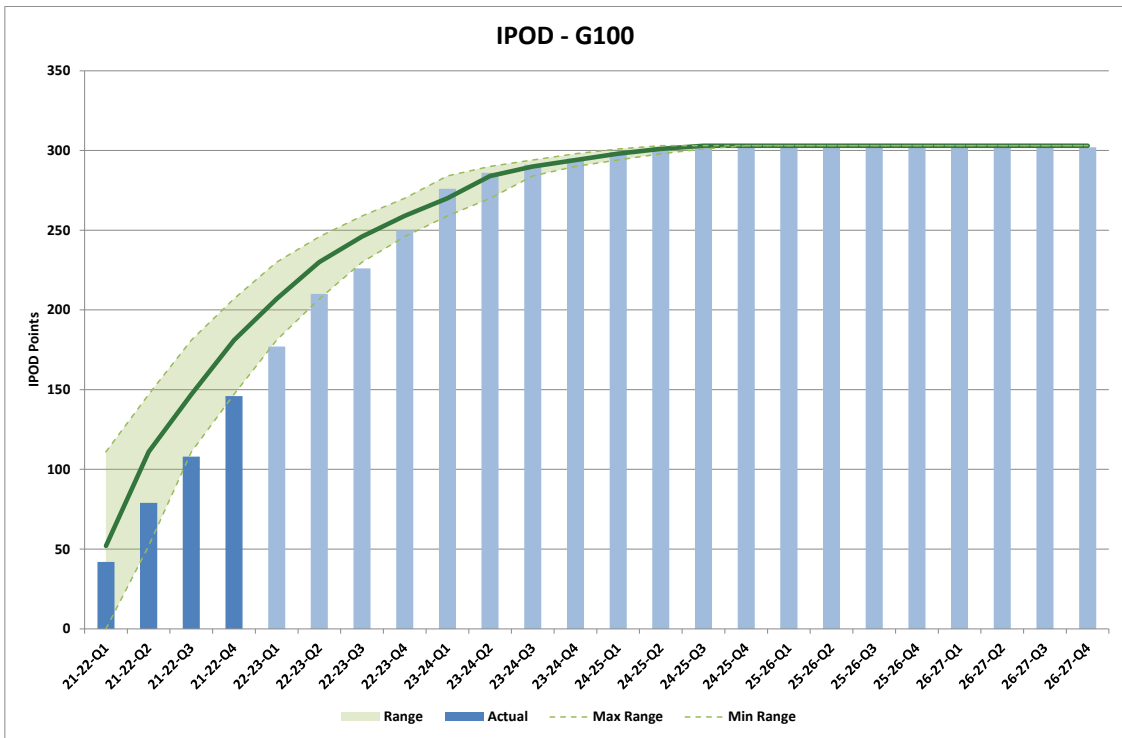


Figure 3: Indicator of progress of Overall Delivery (IPOD) at Quarter 4 2021/2022 for Gate 100 (Project Acceptance)

Year to date performance on Gate 110 (Financial completion) is at the top end of the target range (Figure 4) with most projects achieving financial completion earlier than planned. Increased focus on the financial completion milestone has driven improved commercial behaviours ensuring that outstanding contractual issues are reviewed and concluded in a timely manner allowing projects to be closed without excessive delay and additional cost.

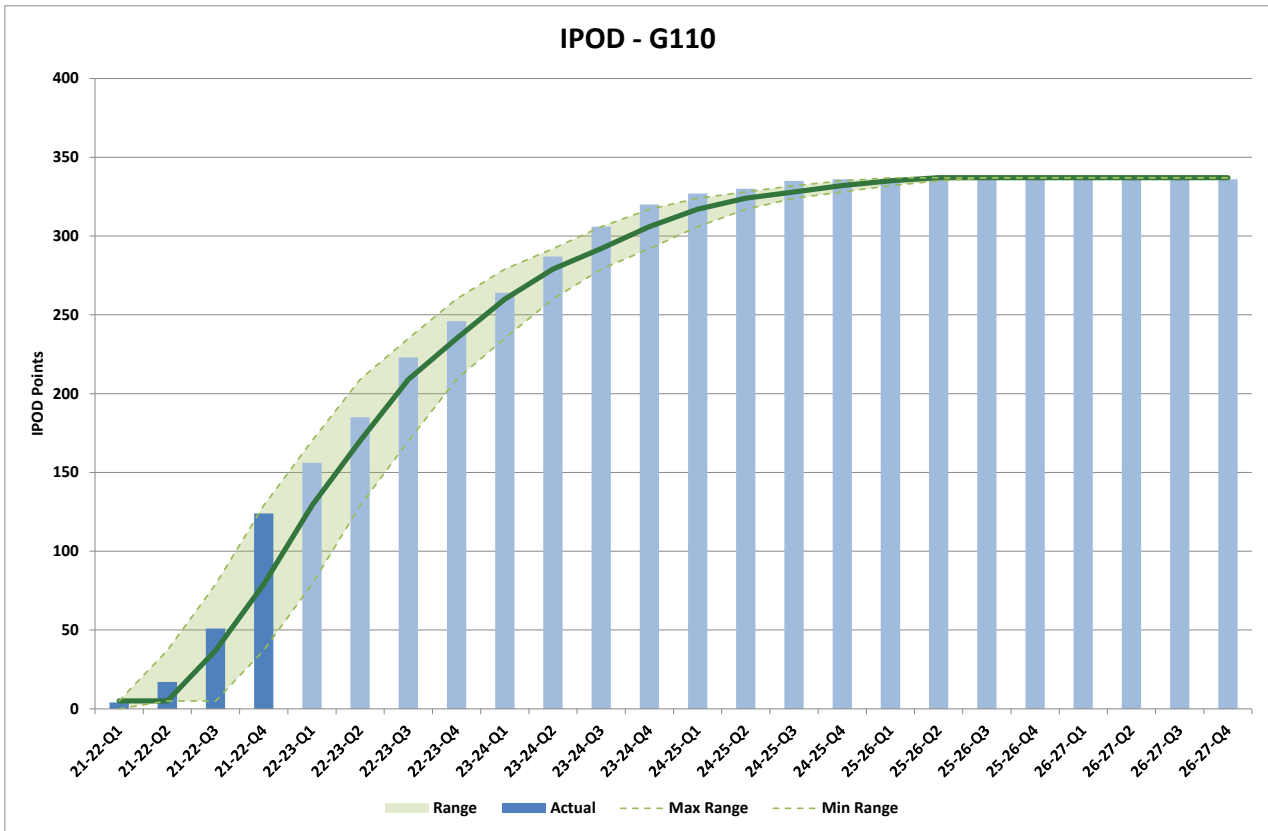


Figure 4: Indicator of progress of Overall Delivery (IPOD) at Quarter 4 2021/2022 for Gate 110 (Financial Completion)

Section 3: Overall Project Progress Water Portfolio

The Water Portfolio comprises 3 sub portfolios: SR15 Completion, Water Quality and Water Supply.

Year to date performance in the water portfolio is at the top end of the target range (Figure 5). Although all three contributing milestones are within the target range, we have seen a significant improvement in milestone attainment at year end driven by the Start on Site and Gate 110 financial completion milestones being delivered earlier than planned on some projects.

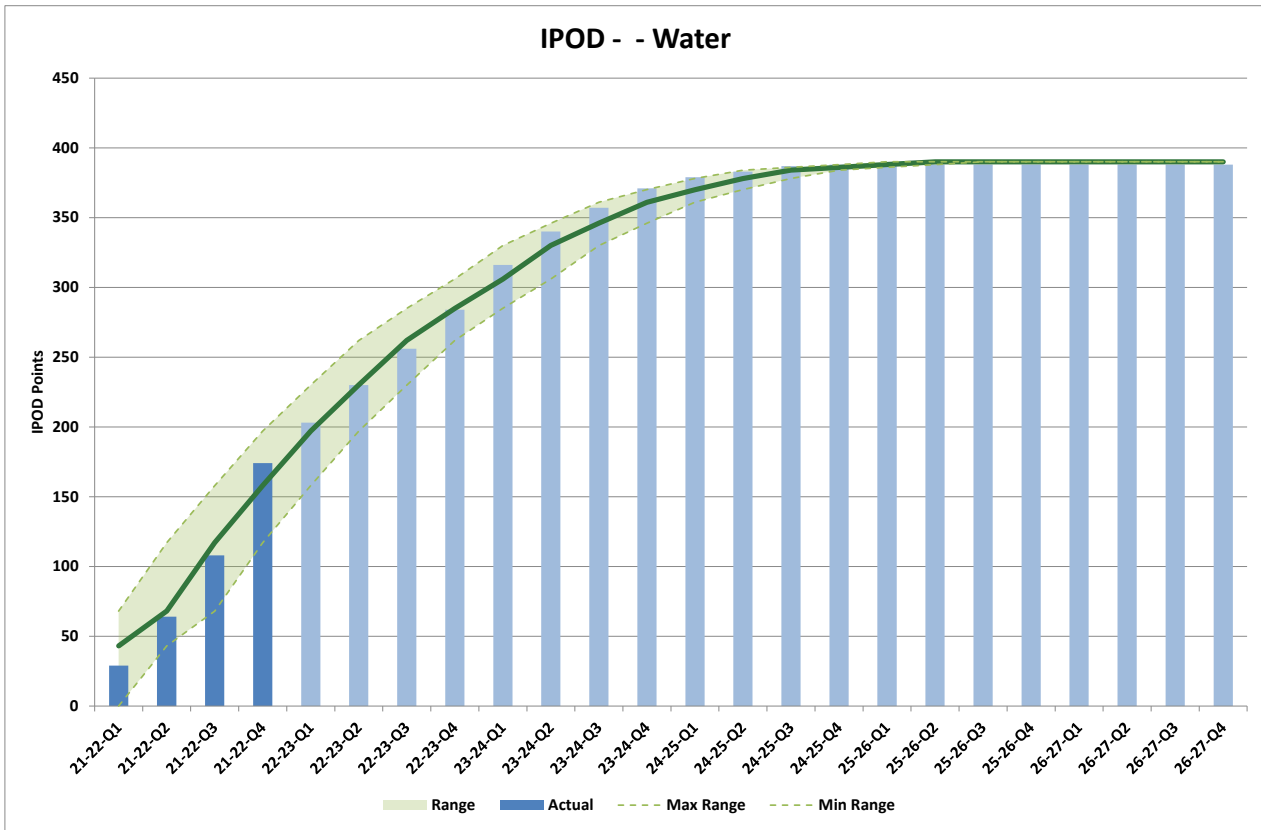


Figure 5: Indicator of progress of Overall Delivery (IPOD) at Quarter 4 2021/2022 for all Water Portfolio projects

Performance on the Start on Site milestone (figure 6) remains strong with two of the sub-portfolios achieving a start on site performance in the top half of the target range with the SR15 sub-portfolio achieving the central plan target. 36 projects have now started on site, 10 of these in Q4 2021-22. 4 Water Supply projects (Munnoch Breach, Improvement to Supply-Demand Balance - Stornoway WRZ, Stonebyres DMA Mains Rehabilitation and Eela WTW Interim Measures) and 2 Water Quality projects (Stornoway WTW - Interim THM and Cryptosporidium measures and Mains Rehabilitation Ph1 Ma2b Patna DMA) have achieved this milestone earlier than planned.

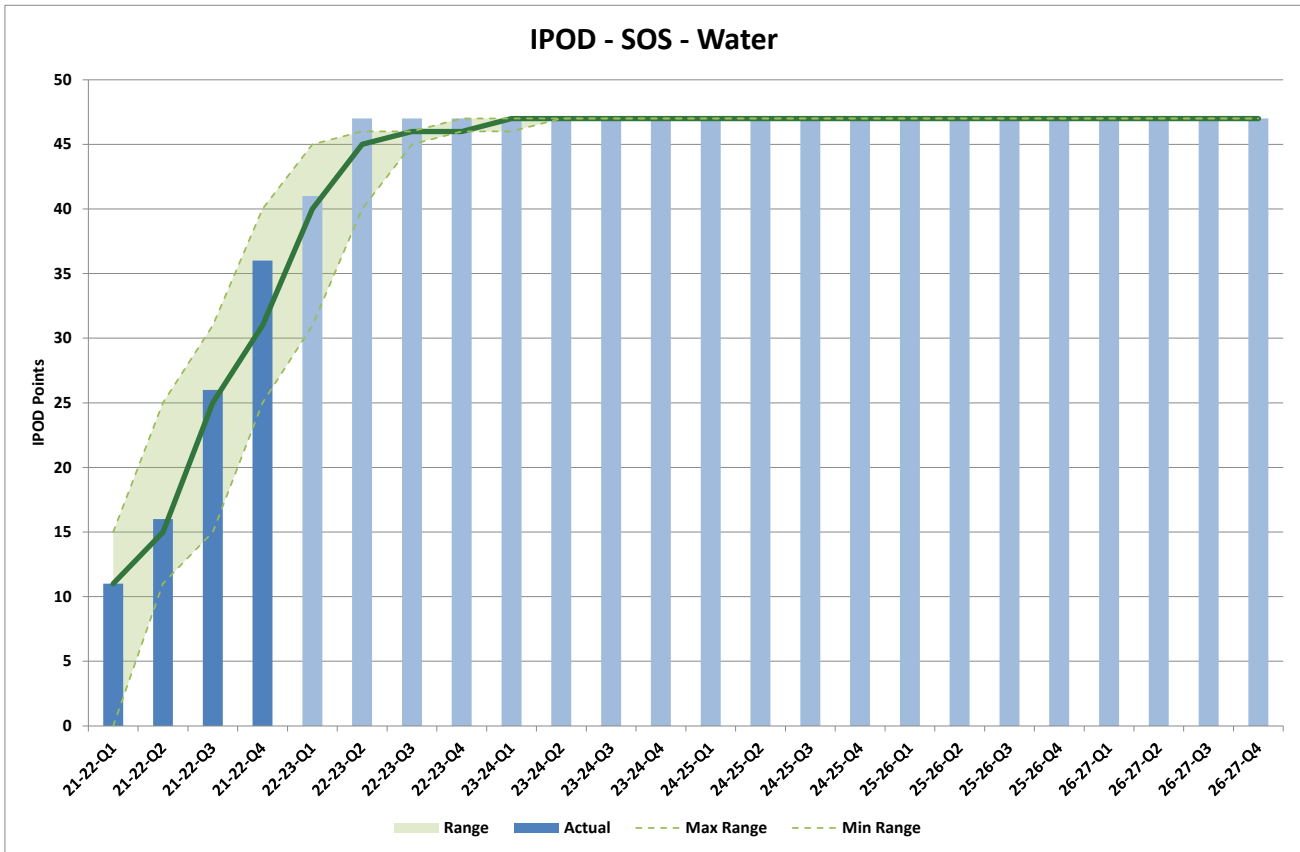


Figure 6: Indicator of progress of Overall Delivery (IPOD) at Quarter 4 2021-2022 for Start on Site of all Water Portfolio projects

Although still within the planned target range we have experienced challenges in achieving the Gate 100 Acceptance milestone (figure 7) on two of the sub-programmes.

7 projects in the SR15 Completion programme have been reforecast; 3 of these (Yarrowfues WTW main-out, Back Tolsta and Ness WTW) due to 3rd party issues, 3 due to construction risks being realised (South Edinburgh Service Resilience, Ringford WTW and Uig WTW) and 1 (Fair Isle) where concerns raised by the community over Covid meant that access to the island was restricted.

The delivery of 7 projects in the Water Quality sub programme had to be reforecast; 4 (Whitehillocks WTW, Pateshill WTW, Glenlatterach WTW and Loch Ness Regional WTW Scheme) due to construction risks being realised and a further 2 (Bradán WTW and Daer CWT) due to additional scope being required to complete the projects. An additional project Kirkmichael WTW has been returned to the Plan stage to review alternative option as the operational solution identified has proven to be ineffective. 2 service reservoir repair projects at Aberdeen Kirkhill and Rochomie have been completed earlier than planned.

The Water Supply sub-portfolio remains on track with milestone achievement within the planned range. We continue to work with the delivery teams to understand and learn from the challenges to improve the forecast and delivery of new projects as they are developed.

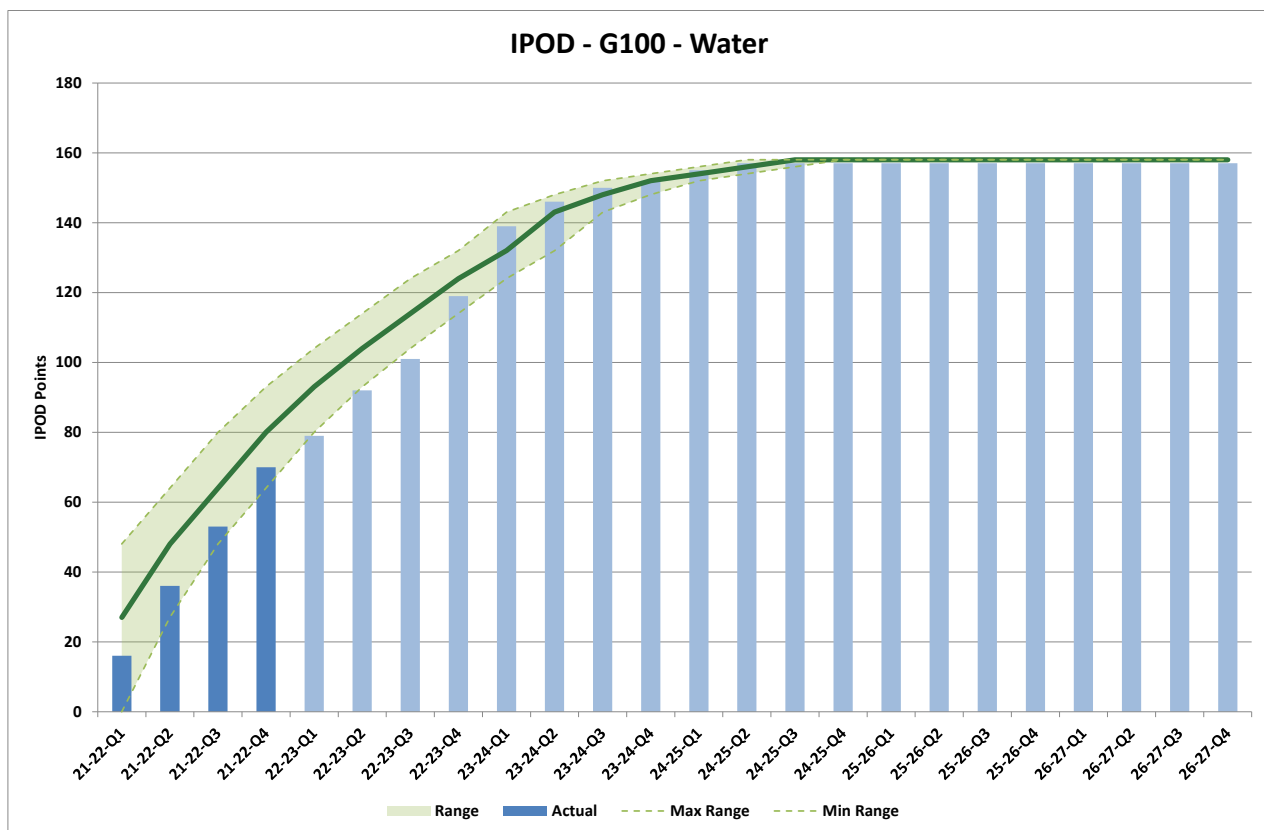


Figure 7: Indicator of progress of Overall Delivery (IPOD) at Quarter 4 2021/2022 for Gate 100 (Project Acceptance) of all Water Portfolio projects

Performance on the Gate 110 Financial Completion milestone (figure 8) remains strong with two of the sub-portfolios achieving a start on site performance above the top half of the target range with the Water Quality sub-portfolio achieving the central plan target (Figure 8). 68 projects have now achieved Gate 110, 35 of these in Q4 2021-22. 29 projects have achieved this milestone earlier than planned with 2 Water Supply projects, 3 Water Quality projects and 3 SR15 Completion projects forecasting to be delivered later than planned as outstanding commercial issues are yet to be resolved.

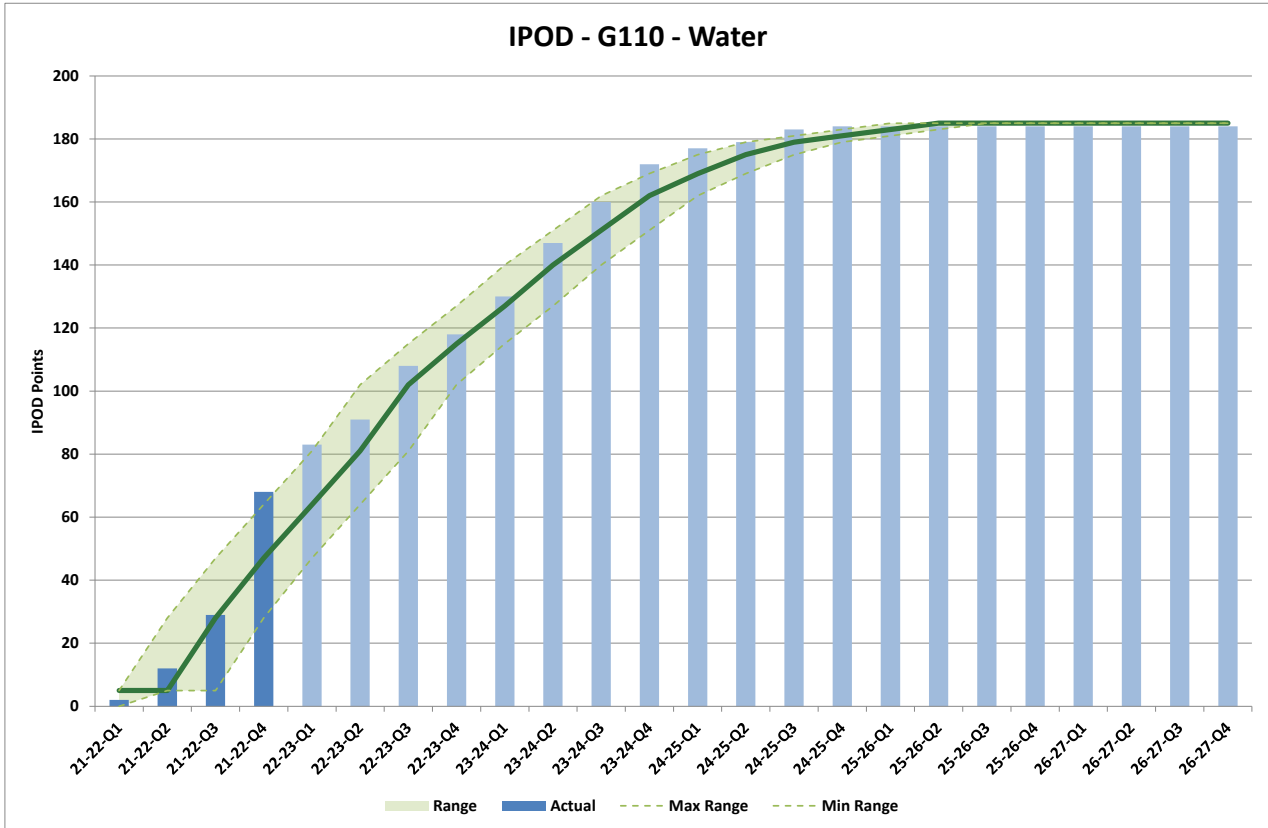


Figure 8: Indicator of progress of Overall Delivery (IPOD) at Quarter 4 2021/2022 for Gate 110 (Financial Completion) of all Water Portfolio projects

Section 4: Overall Project Progress Wastewater Portfolio

The Wastewater Portfolio comprises 3 sub portfolios: SR15 Completion, Wastewater Treatment and Wastewater Network.

Year to date performance in the Wastewater portfolio is within the target range (Figure 9). We have seen a significant improvement in milestone attainment at year end driven by the Start on Site and Gate 110 financial completion milestones being delivered earlier than planned on some projects. We have experienced challenges in achieving the Gate 100 acceptance milestone as project risks are realised and this milestone is out with the target range.

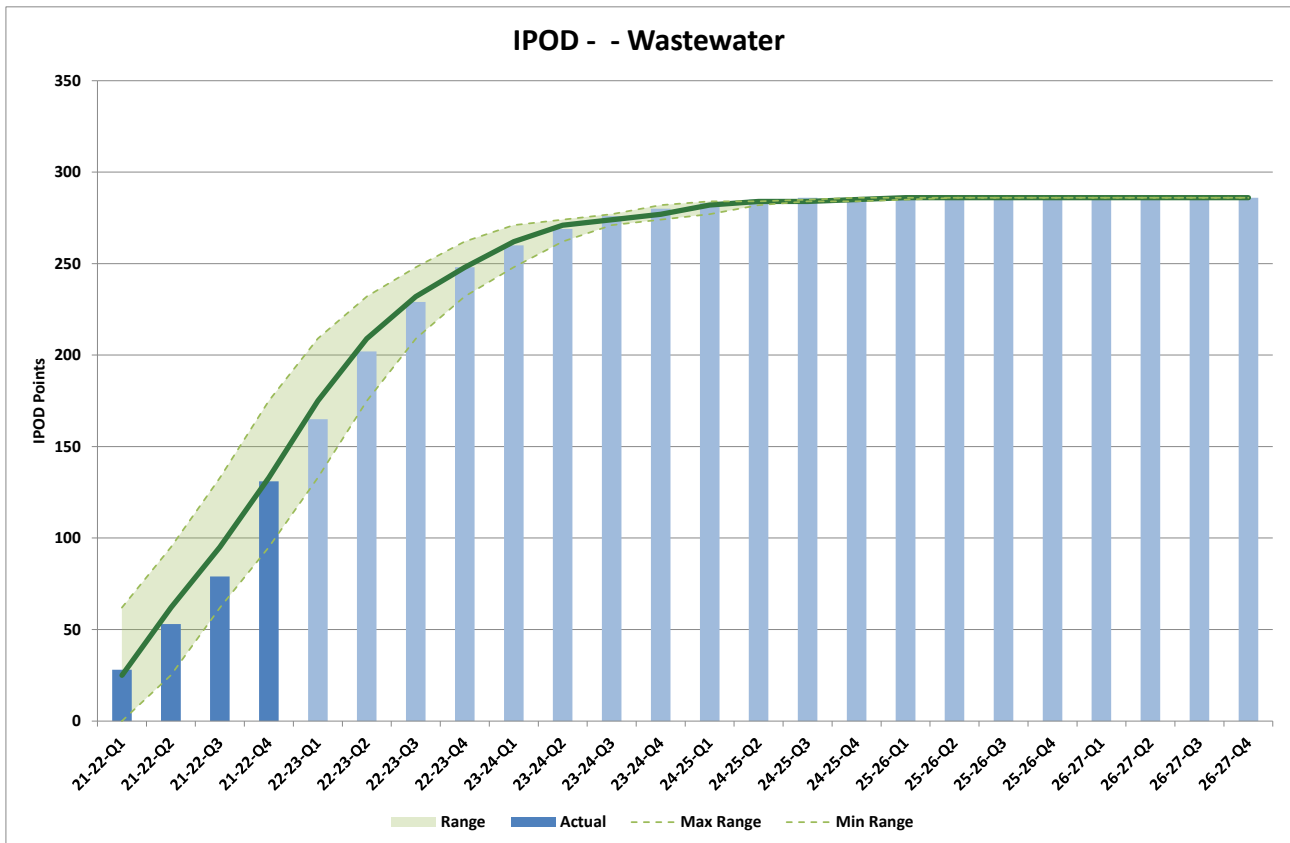


Figure 9: Indicator of progress of Overall Delivery (IPOD) at Quarter 4 2021/2022 for all Wastewater Portfolio projects

Performance on the Start on Site milestone (figure 10) remains strong with two of the sub-portfolios achieving a Start on Site performance within the target range (Figure 10) with the SR15 sub-portfolio achieving all 10 planned starts on site within the year.

20 projects have now started on site, 7 of these in Q4 2021-22. 2 SR15 Completion projects (Main Street Newtonmore and Milnby Weir Eel Pass), 1 Wastewater Network project (Kirkconnel Pipe Bridge) and 4 Wastewater Treatment projects (Lochwinnoch WwTW - Inlet Screw Pumps Refurbishment, East Linton WwTW – Growth, Oldmeldrum STW - Surface Aerator Replacement & Temp SAF Install and Newton Septic Tank). The delivery of East Linton growth had previously been reforecast due to protracted commercial discussion to confirm the target cost on the project. Both Newton Septic Tank and Kirkconnel Pipe Bridge have achieved this milestone earlier than planned.

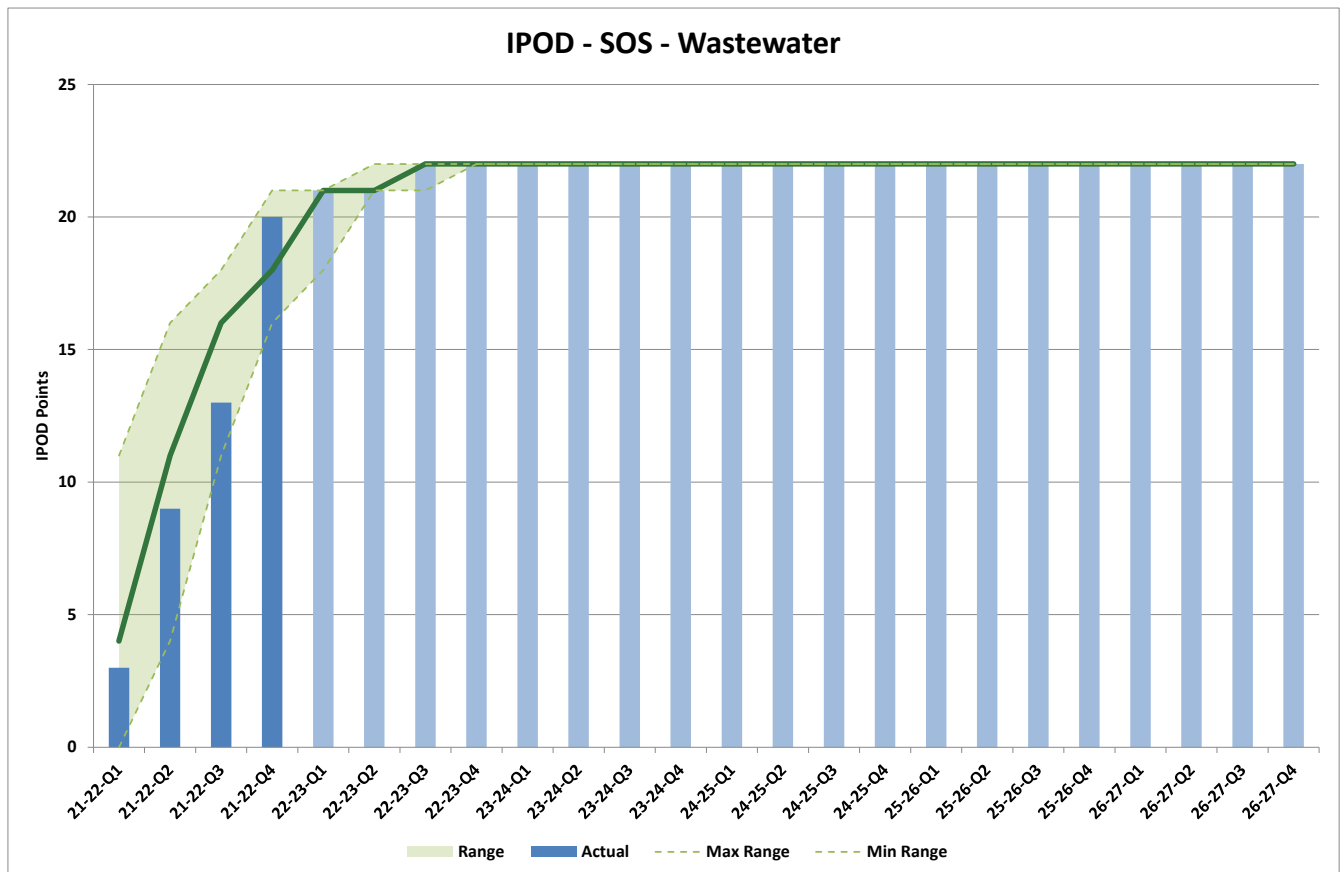


Figure 10: Indicator of progress of Overall Delivery (IPOD) at Quarter 4 2021-2022 for Start on Site of all Wastewater Portfolio projects

The Gate 100 milestone (figure 11) has experienced challenges as delivery risks have been realised across all three sub-portfolios and is now out with the target range. 17 projects across all three sub-portfolios have been completed this quarter. However, the delivery of a number of projects had to be reforecast.

In the SR15 Completion sub-portfolio the delivery of 4 projects has been reforecast. 2 of these (Londornoch WTW Sludge Lagoon Upgrade and Savalbeg WTW Sludge Lagoon Upgrade) due to construction risks being realised and an additional 2 (S087 UID Scotwood Overflow and S043 UID Cambuslang Road Richmond Laundry) due to 3rd party issues associated with the provision of wayleave agreements to supply permanent power.

In the Wastewater Network Sub-portfolio, the delivery of 10 projects has been reforecast, 4 (Claredon Place Dunblane, Infra-Kingdom Park, Dunfermline Wellwood Wastewater Infrastructure and CAS Compliance Improvements - Networks East & North) due to 3rd party issues with land and road access. Construction risks have been realised for a further 5 projects and additional scope was identified for an additional project (Shieldhall WWTW Grade 5 HC Sewer Ph1) to allow the project to be delivered.

The delivery of 11 projects in the Wastewater Treatment programme has also been reforecast. 4 of these due to 3rd party issues around nesting birds and power (Canonbie WwTW - Upgrade Growth, Burrelton WwTW – Growth, Banchory WwTW - Growth and Ellon WwTW – Growth). 6 are due to general construction risks. 1 project (Kirkconnel STW) required additional scope to allow the project to be completed. We continue to work with the delivery teams to understand the challenges encountered and to allow this learning to be incorporated into new projects as they are developed.

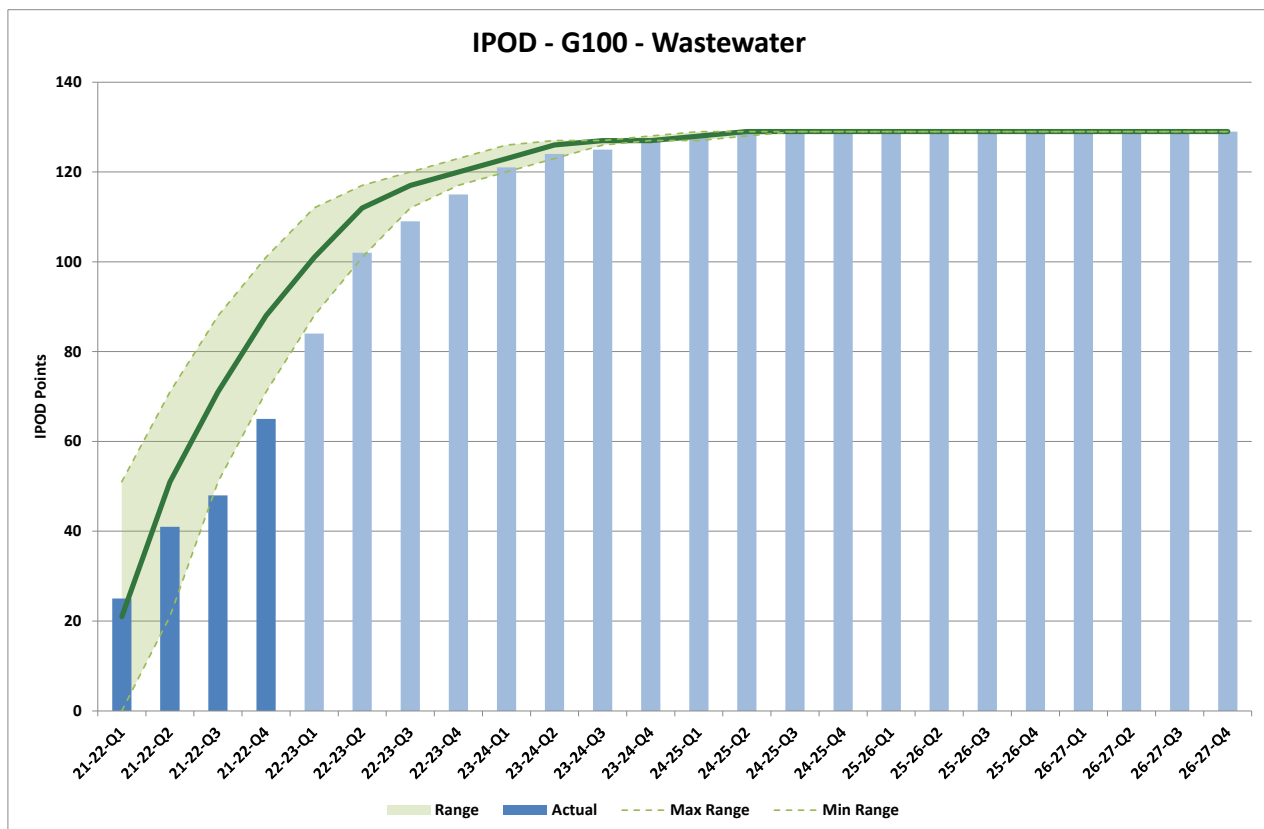


Figure 11: Indicator of progress of Overall Delivery (IPOD) at Quarter 4 2021-2022 for Gate 100 (Project Acceptance) of all Wastewater Portfolio projects

Performance on the Gate 110 Financial Completion milestone (figure 12) remains strong with all three sub-portfolios being within the target range. 46 projects have now achieved Gate 110, 23 of these in Q4 2021-22. 21 projects have achieved this milestone earlier than planned with 1 Wastewater Network project (Southpark Avenue Barrhead - Repair Sewer) and 1 Wastewater Treatment project (Ardoch STW) forecasting to be delivered later than planned as outstanding commercial issues are yet to be resolved.

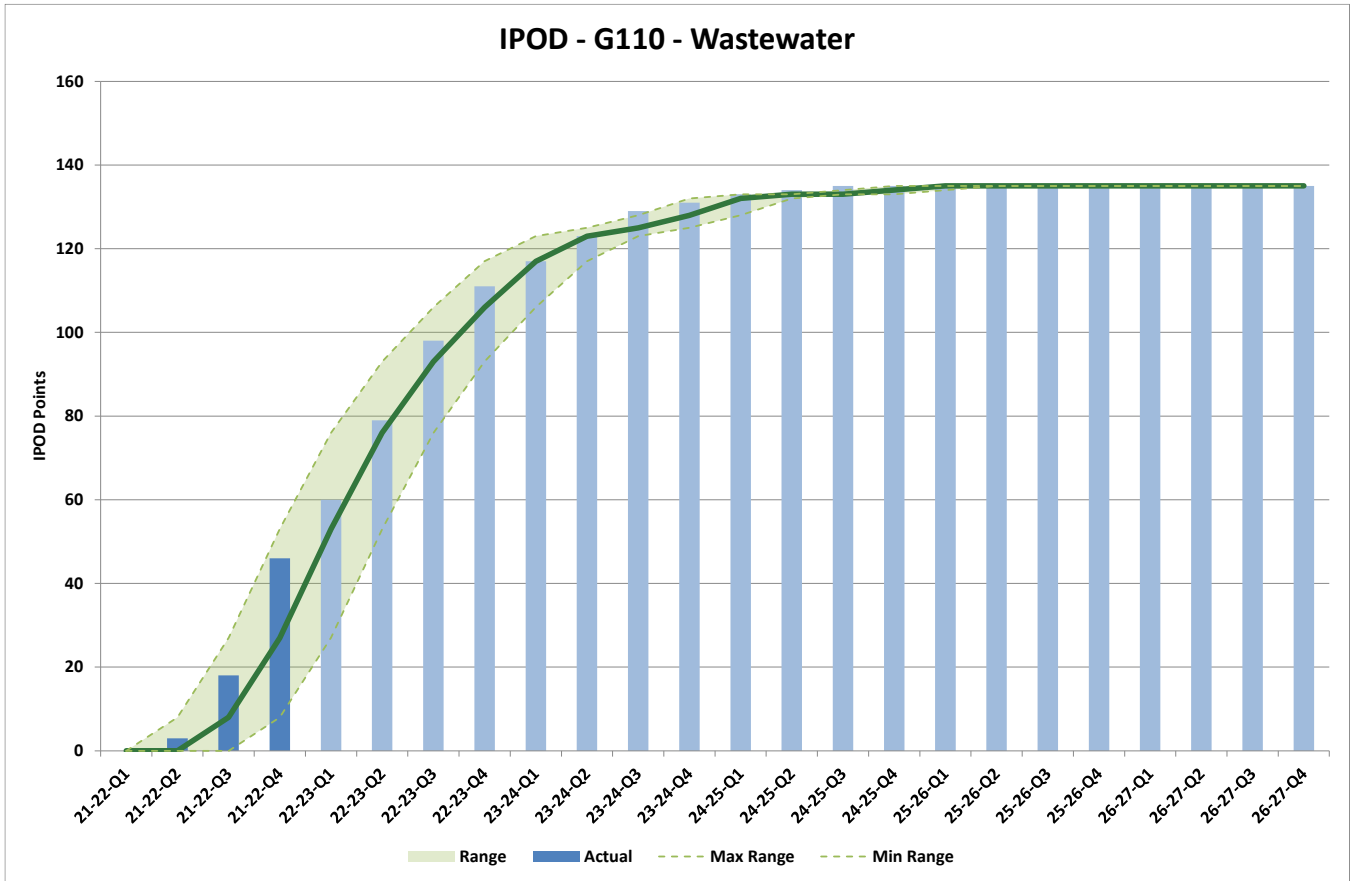


Figure 12: Indicator of progress of Overall Delivery (IPOD) at Quarter 4 2021-2022 for Gate 110 (Financial Completion) of all Wastewater Portfolio projects

Section 5: Overall Project Progress CE&FS&SS Portfolio

The CE&FS&SS Portfolio comprises 4 sub portfolios: Digital, Flourishing Scotland, Property and Estates and Other Services.

Year to date performance is at the top end of the target range (Figure 13). We have seen an improvement in milestone attainment at year end driven by the Start on Site and Gate 110 financial completion (Figure 15) milestones being delivered earlier than planned on some projects. We have experienced some challenges in achieving the Gate 100 acceptance milestone (Figure 14) as project risks are realised and this milestone is reported as out with the target range.

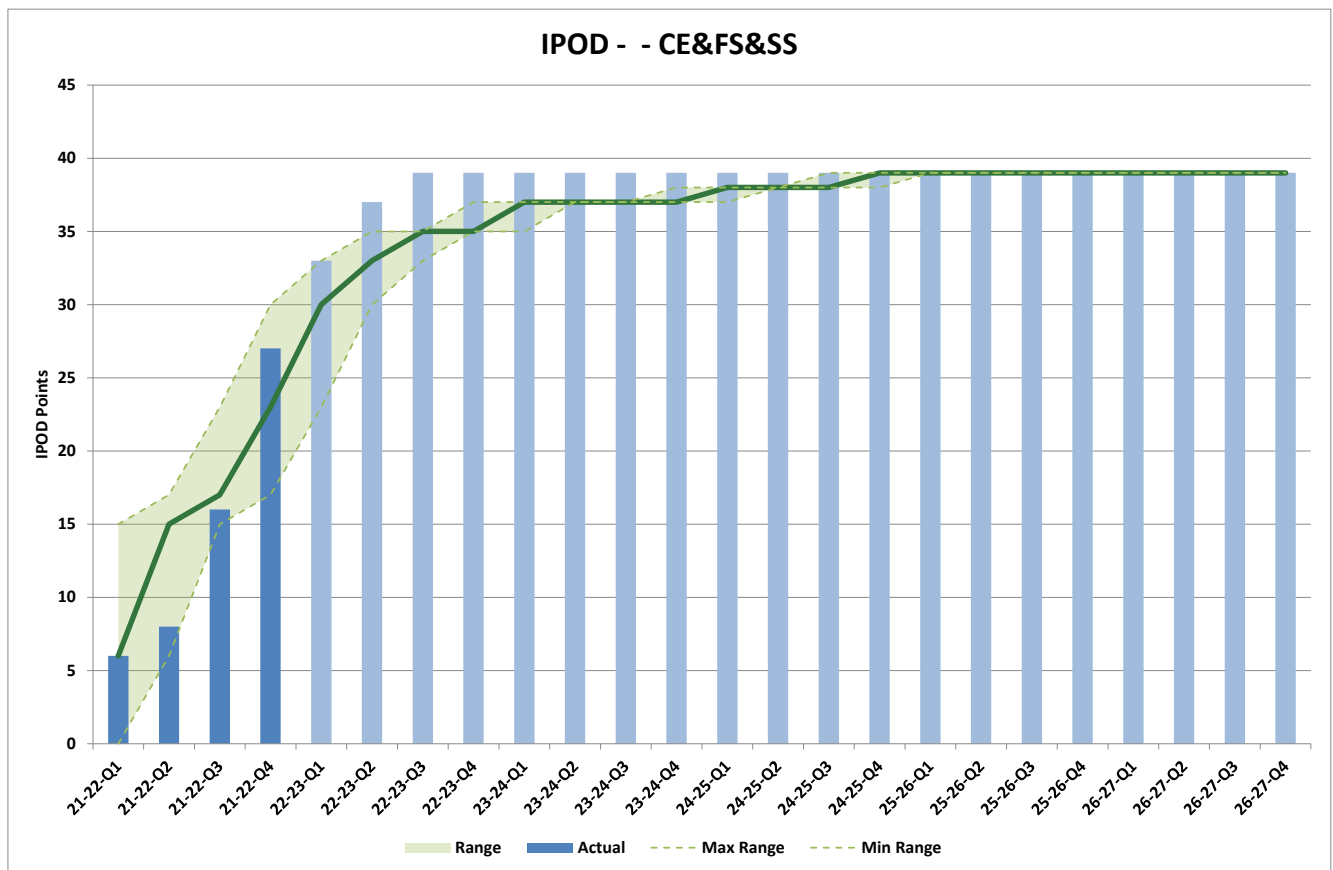


Figure 13: Indicator of progress of Overall Delivery (IPOD) at Quarter 4 2021/2022 for all CE&FS&SS Portfolio projects

Performance on the Start on Site milestone (Figure 14) remains strong with one of the sub-portfolios (Other Services) achieving a Start on Site performance in the top half of the target range with the Digital and Flourishing Scotland sub-portfolios achieving the central plan target. 6 projects have now started on site, 1 of these (Field Services Transformation) in Q4 2021-22.

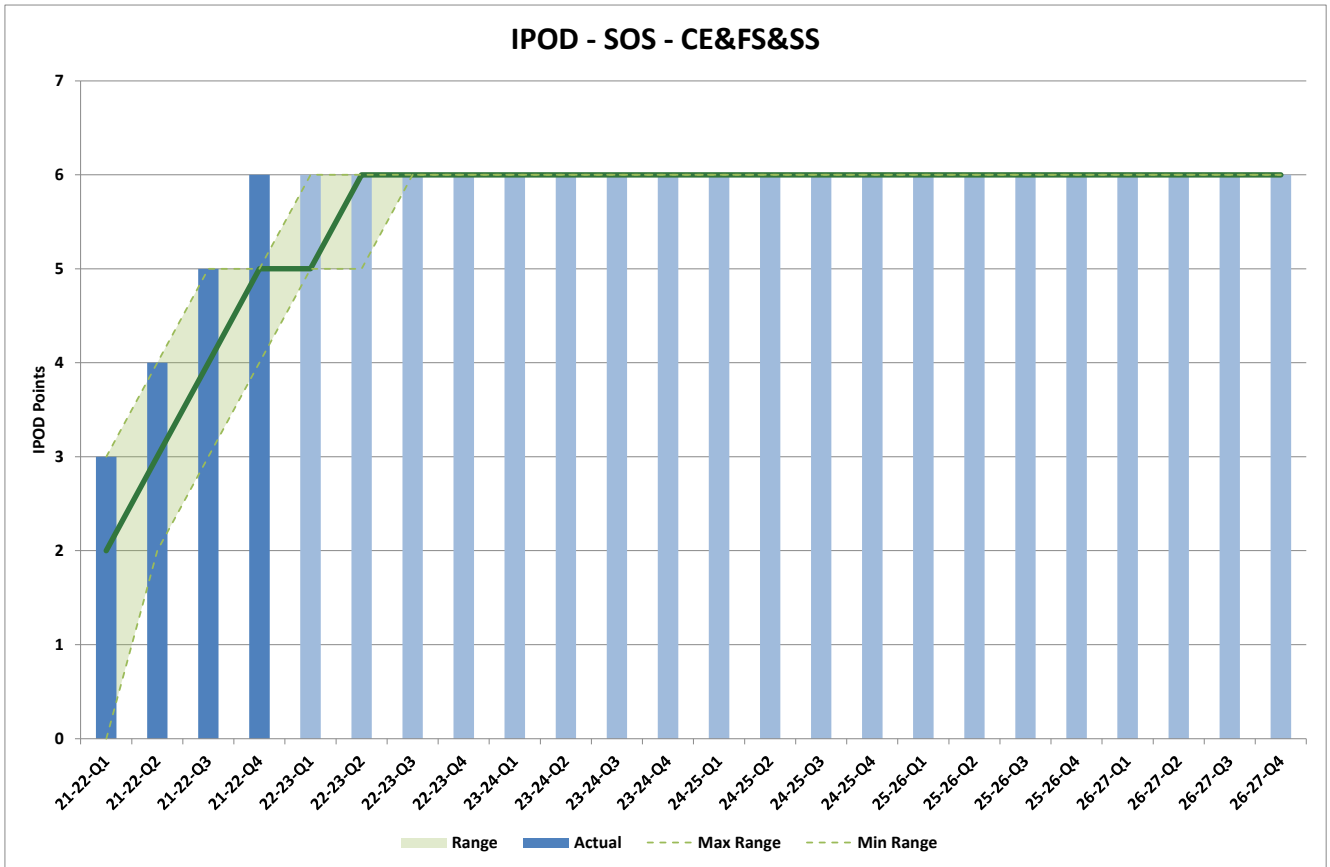


Figure 14: Indicator of progress of Overall Delivery (IPOD) at Quarter 4 2021-2022 for Start on Site of all CE&FS&SS Portfolio projects

Although 3 of the 4 sub-portfolios are within the planned range the Gate 100 milestone (Figure 15) is out with the range due to challenges in the Digital programme where 2 projects (Cost Investment Intelligence Project - EES & SWISS Strategic Refresh Upgrade and IR18 Security Operations Tools) have been reforecast. 2 Digital projects were completed this quarter (Windows 10 Upgrade and IR18 Legacy Infrastructure) together with 1 project from the Other Services sub-portfolio (Non-Complex Service Delivery (NCSD) Phase 3) and 1 from the Property & Estates sub-portfolio (O&D- Dumfries Office - Marchmount & Lincluden Depots) which was reforecast due to 3rd party engagement with BT over the provision of a comms link.

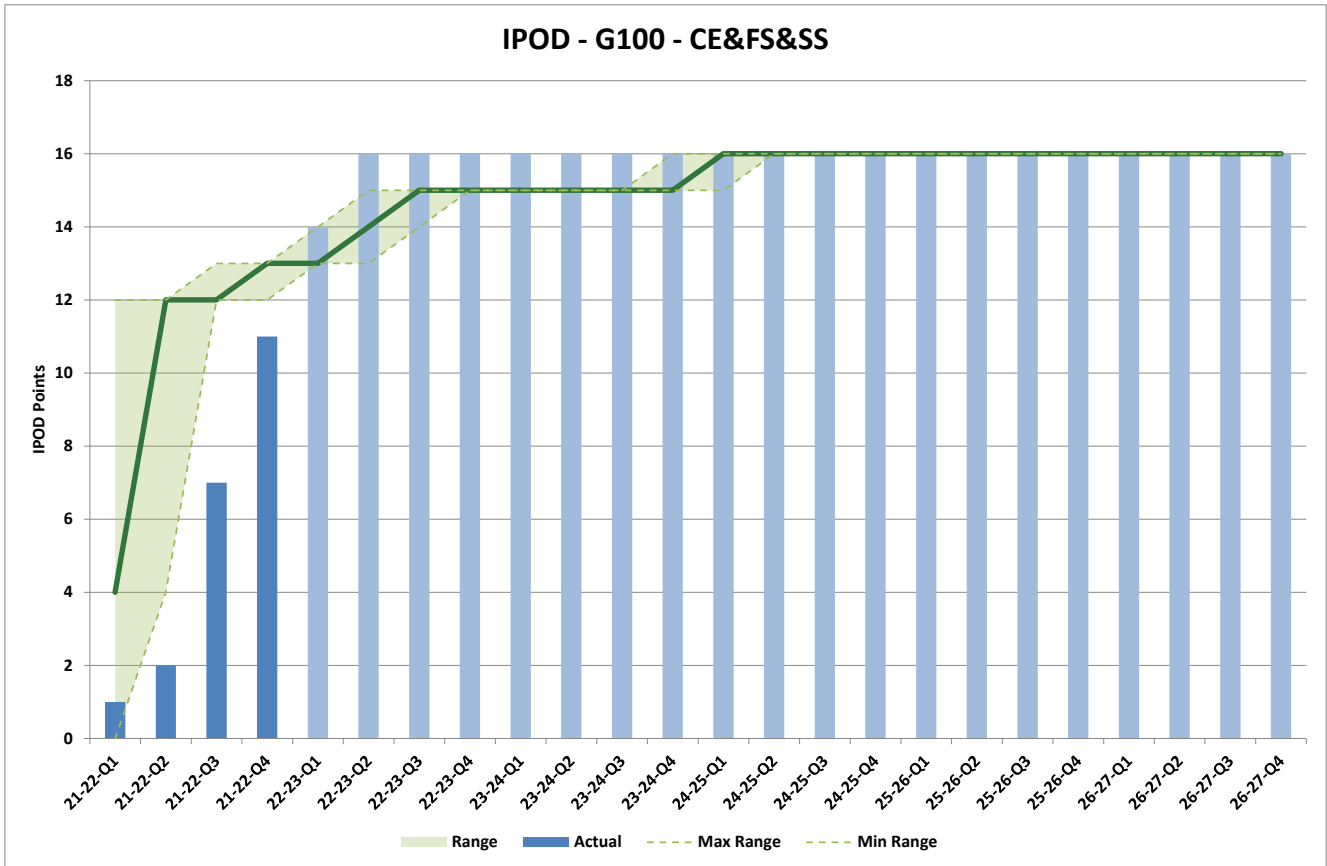


Figure 15: Indicator of progress of Overall Delivery (IPOD) at Quarter 4 2021-2022 for Gate 100 (Project Acceptance) of all CE&FS&SS Portfolio projects

As with the other portfolios we have seen an increase in Gate 110 achievement over the last quarter as the project teams focus on closing out residual commercial issues. This milestone is at the within the target range (Figure 16). This has been driven by delivery within the Digital programme where 10 projects have achieved Gate 110 to date with 6 of those (Windows 10 Upgrade, Oracle ULA Exit, Microsoft Teams, IR18 Legacy Infrastructure, IR18 Network Segregation Datacentre) being achieved in Q4. 1 project in the Property and Estates sub-portfolio (O&D- Dumfries Office - Marchmount & Lincluden Depots) is forecasting delivery later than planned. Both Flourishing Scotland and Other Services sub-portfolios have no Gate 110 target at this time.

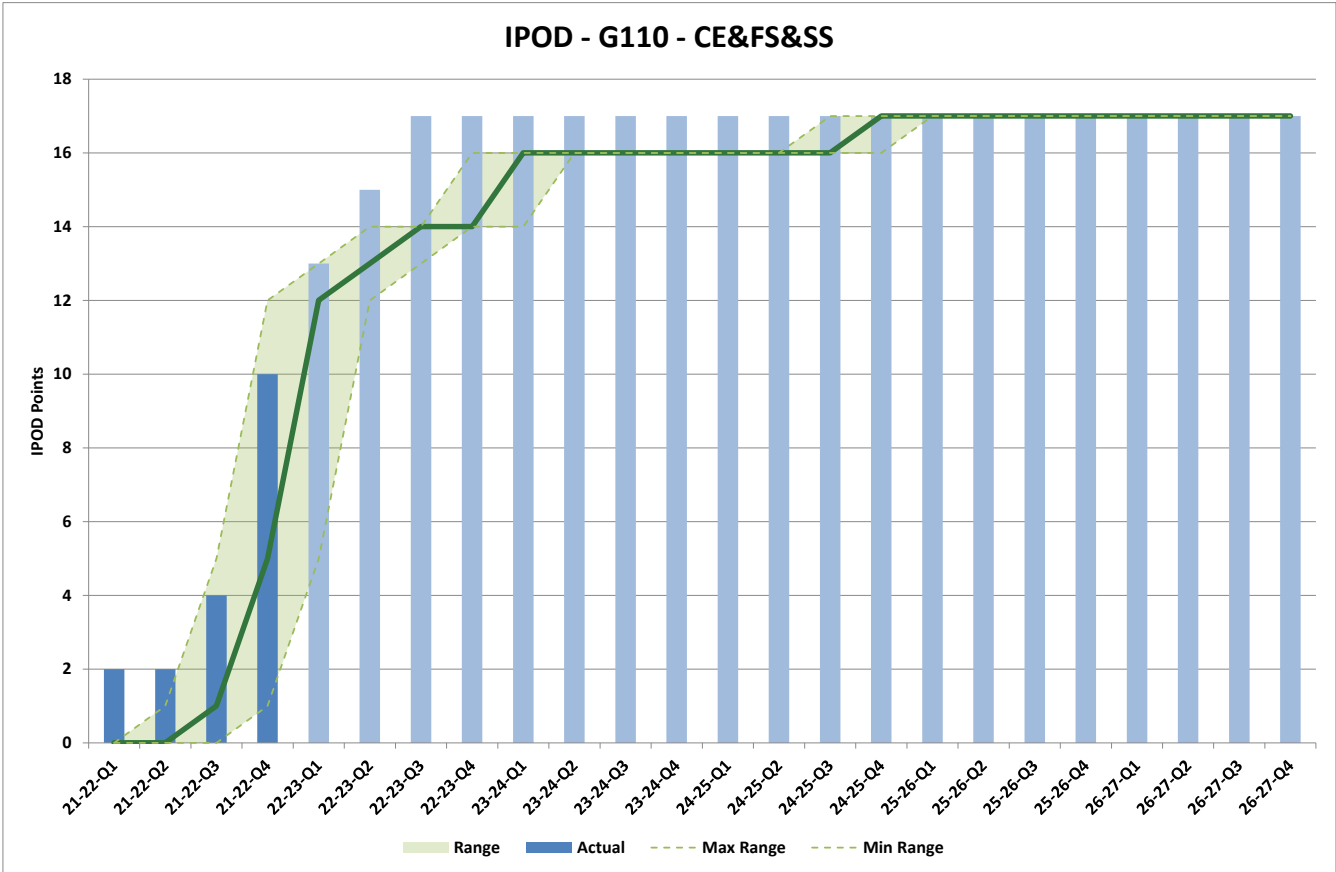


Figure 16: Indicator of progress of Overall Delivery (IPOD) at Quarter 4 2021-2022 for Gate 110 (Financial Completion) of all CE&FS&SS Portfolio projects

Section 6: Progress in delivering SR15 Completion projects

At the end of Q4 2021-22 we had planned to have 68 of the 86 delayed SR15 projects complete on site with the customer receiving benefit (Table 1). Unfortunately, due to the realisation of further risks on these projects 21 have still to achieve Gate 100 acceptance. 6 of these are now forecasting acceptance in Q1 2022-23 with a further 7 in Q2 2022-23. All apart from Yarrowfues WTW main-out are forecasting acceptance by the end of Q4 2022-23.

A significant number of projects have been impacted by Covid delays, and the safe systems of work adopted to combat the risk to the workforce or the public. In addition to this these projects have also been impacted by “normal” delivery risk. The delivery of 8 projects has been reforecast due to 3rd party issues. These are predominantly land and permanent power connection to the site. The delivery of a further 9 projects has been reforecast due to construction risks being realised. A further 4 projects have been delayed as additional scope is required to complete the project. An example of this is at Daer WTW where when the tank was drained down and available for inspection, it became evident that additional repair work was required before the tank could be put back into supply.

| Stage | Delayed Projects | | | Planned Projects | | |
|-----------------------|------------------------|----------------------|----------|------------------------|----------------------|----------|
| | Forecast at March 2021 | Actual at Q4 2021-22 | Variance | Forecast at March 2021 | Actual at Q4 2021-22 | Variance |
| Pre Start on Site | 4 | 6 | 2 | 5 | 7 | 2 |
| In Construction | 14 | 33 | 19 | 14 | 15 | 1 |
| Construction Complete | 68 | 47 | -21 | 38 | 35 | -3 |
| Total | 86 | 86 | 0 | 57 | 57 | 0 |

Table 1: SR15 completion programme project status.

The SR15 projects originally planned for delivery post March 2021 are progressing well with 35 of the planned 38 Gate 100 acceptance forecast being achieved. 2 projects (Improvement to Supply-Demand Balance - Stornoway WRZ and Water Quality Improvement - Camps RSZ) have been delivered ahead of plan. While 5 projects have been impacted by delays; Kirkmichael WTW has been returned to the plan stage as the promoted solution was not successful, Milnby Weir missed a weather window to all construction, Wick East DMA, Ringford WTW, and Water of Lieth Batch 10 were impacted by design / construction delays.

Conclusion

The DAG is invited to note that:

- At the end of year 1 of the new regulatory period Scottish Water's total investment was £799⁵ including £622.5m invested in projects and sub-programmes delivering asset replacement, planned repair and refurbishment, enhancement and growth (£56m).
- Scottish Water's IPOD position at 332 points is on track against the forecast dates in the Committed List.
- Breaking this down to Portfolio level, while the delivery of some projects have been subject to risks being realised, all 3 portfolios are on track at year-end.
- Of the 86 SR15 delayed projects; 6 remain in development, 47 have achieved Acceptance and are providing benefit to customers, and the remaining 33 projects are in construction.

⁵ this includes an additional c£53m which was classed as operational expenditure in 2020-2021



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