



14 May 2025

Sir Edward Mountain MSP
Convener
Net Zero Energy and Transport Committee
The Scottish Parliament
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Dear Edward,

I would like to thank the Committee once again for inviting Scottish Water to give evidence last month. I'm writing to provide further detail on some of the issues discussed during the session, as agreed.

As ever, we welcome the opportunity to engage with Members and answer your questions. Please do let us know if we can be of further assistance over the year ahead.

1. How does Scottish Water reinvest funds recovered due to under budget delivery of capital projects? Can you please provide some examples where this has happened?

At any given time, Scottish Water has numerous live projects at various stages of design, planning and delivery. This is part of an overall rolling programme of continual investment that we manage closely. Each project has various gateways, or milestones, which include considering financial aspects of any individual project as well as funding availability across our wider delivery programme. Should further funding become available due to other projects being delivered under budget or for any other reason, we incorporate this into the overall rolling programme and bring other projects forward.

At the end of December 2024 (Q3), we had roughly 9,000 active projects at various stages of development and delivery. Some examples of projects that have been delivered below their estimated budget in recent years are included below:

Project name / description	Estimate at Commitment (£m)	Final investment value (£m)	Variance (£m)
Winchburgh Waste Water Treatment Works – Growth	39.7	35.7	4.0
Bradán Water Treatment Works – Quality	16.5	14.8	1.7
'Main out' of Back Tolsta from North Lochs WTW	10.1	8.9	1.2

Any funding which is not required for the delivery of specific committed projects like these simply becomes available to support other projects across our rolling Capital Programme as a whole. Projects are continually promoted for delivery based upon our investment planning process and priorities, drawing upon all funding available. There is always more demand than the available budget, as you may imagine.

Managing our Capital Programme in this way helps to ensure we can continually invest efficiently and dynamically. This assists us in responding to unforeseen events and also results in greater consistency for the wider construction industry in Scotland.

2. (a) Could you provide details of Scottish Water's capital projects for the 2021-27 regulatory period to-date and whether these were under, on, or over budget?

Scottish Water is on track to deliver just over £1.1 billion of investment this year. We report progress on our capital programme to the Scottish Government and Water Sector stakeholders quarterly as part of our regulatory reporting.

At the end of December 2024 (Q3), we had over 9,000 active projects in development and delivery. This includes 586 larger individual projects and programmes of work that are reported on as part of our *Committed List*, including progress and costs. We monitor whether projects on the *Committed List* are under budget, above budget, or on budget using a measure called Investment Forecast Accuracy at Commitment (IFAC). If the entire programme was on budget, the score would be 100%. At the end of Q3, the IFAC score was 101.7%, which is well within our target range of 95-105%.

As part of our Annual Return to the Water Industry Commission for Scotland we provide details of live projects on an annual basis in Table G6. The 2023-2024 submission can be found at [2023-24 G tables | WICS](#). We would expect the 2024-25 submission to be published by the Autumn of 2025.

2. (b) Could you also provide details about whether the procurement process for these projects was open, selective, or closed tender?

Scottish Water does not tender for each project on an individual basis, unless the value or complexity of the project is significant, when we may use an open competition.

We plan our capital investment programme as a whole and, before each regulatory period, we conduct a thorough tendering process. Our procurement strategies are based on category strategies and market analysis. We use market days to engage with potential suppliers before announcing our requirements through the UK "Find a Tender" system, which is an open process. We use Pre-Qualification processes to select suitable bidders and then an Invitation to Negotiate process to choose the best supply partners. This ensures we get the right capacity and capabilities to deliver our program with quality and value for money for customers.

Once selected, our frameworks generally allocate work based on capability, geography, and performance, but we can also use 'mini competitions' within frameworks if needed.

We are now procuring for our SRC27 investment programme so that arrangements are in place from the start of the next regulatory period. Our Procurement and Supply Chain Management approach plays a key role in the delivery of our investment programme, and we follow The Utilities Contracts (Scotland) Regulations 2016. Our procurement practices are accredited at the highest level, platinum status, by the Chartered Institute of Purchasing & Supply.

To provide some additional information about our procurement:

- Scottish Water spends around £1.4 billion per year buying goods and services and procuring works. This is made up of around £1 billion of investment and around £400 million of operational spend.
- We have around 440 core framework partners across 180 frameworks and c. 640 wider ecosystem suppliers providing localised and specialist services.

- Our supply chain is supporting over 5,000 jobs; and has delivered 1,600 apprentice

and graduate opportunities since 2021.

- Approximately 70% of Scottish Water's supply chain is based in Scotland, accounting for about 90% of our spend.
- Around 80% of our supply chain businesses are classed as small and medium-sized enterprises (SMEs).

The annual procurement report on our website, [Scottish Water Procurement Report 2023-24.pdf](#), provides more information on this.

3. (a) Details about the annual out-performance incentive scheme for Executive Members, including how it relates to delivery of capital projects against budgets (under, on or over budget).

Colleagues across Scottish Water at all levels, including Executive Members are eligible for an Annual Out-performance Incentive Payment (AOIP). The amount paid is based on the extent to which extremely challenging targets, verified by regulators, have been outperformed for the benefit of customers.

Out-performance of our financial plan, our capital investment programme, customer service and customer experience measures, and also strong progress on our Net Zero routemap, are part of the consideration for the AOIP.

To ensure that the AOIP targets remain suitably challenging, the degree of required out-performance has increased. For the 2021-27 regulatory period, an overall performance was agreed, within which annual targets are set.

The 2023/24 AOIP payment, as reported in Scottish Water's Annual Report 2023/24 (Page 90) was calculated at 35.3% of salary out of the 40% maximum opportunity for the three Executive Members and the former Chief Executive – further details on the targets and weights for each of the measures can be found on Page 92.

The corporate performance targets that drive the AOIP for 2024/25 are published in our Annual Report 2023/24 (Page 101 & 102). Achievement against those targets is yet to be audited and verified for the year, although in general we believe we have delivered a level of out-performance that should result in AOIP payments for employees at all levels. Once the final data is confirmed and our Remuneration Committee has used that to determine the level of AOIP to be paid, this will be disclosed in our Annual Report for 2024/25.

3. (b) Further information regarding Scottish Water's benefits package for relocation for Executive Members, and if this is available to the wider Scottish Water workforce.

Scottish Water's relocation policy is designed to support any employee whom Scottish Water requires to relocate by a significant distance for business purposes. This includes covering reasonable costs associated with the move, such as packing, transportation, property search assistance, and other necessary expenses up to £30k, with the first £8k being tax exempt under HMRC rules.

The policy also covers a reasonable contribution to LBTT on a property comparable to the one an individual is moving from; and an allowance for temporary accommodation for a period normally limited to 3 months. In the case of the CEO appointment made in 2023, Scottish Water's Remuneration Committee agreed to payment of a temporary accommodation allowance for up to 12 months. As published in our annual report 2023/24, total relocation payments in that year were £73k. A remaining £11k of relocation payments, made after the end of March 2024, are expected to be disclosed in our Annual Report 2024/25.

3. (c) Details about the annual out-performance incentive scheme for the wider Scottish Water workforce.

The AOIP for all direct employees can pay up to £1,145 per person each year based on out-performance of corporate targets. These targets reflect what is most important for success against our Delivery Plan, including measures agreed with the Scottish Government as our owner and our regulators, as well as what is important for customers and employees. The same corporate measures of out-performance that drive incentives for Executive Members are used for the employee AOIP.

In addition to competitive salaries and AOIP, we provide all employees with a range of benefits that help make up a valuable reward proposition. The key benefits include access to the Local Government Pension Scheme (defined benefit) for all employees; incentive plans for all employees; family leave and special care provisions in excess of statutory requirements; health, wellbeing and inclusion support; extensive annual leave provision with the ability to buy/sell holidays; a 35 hour working week; access to retail discounts and credit unions to help money go further and assist with financial planning; sick pay provisions beyond statutory requirements; job security and an internal redeployment programme to facilitate career changes; and ill health retirement and life assurance cover, should the worst happen.

All these benefits are applied from day one of employment, with no minimum service requirement. We also have a track record of supporting employee development through structured training programmes and further education funding, helping people to meet their career potential. We focus on engagement with all employees to allow everyone to feed back on any issue relating to working at Scottish Water, whether that be through their chosen trade union, local employee engagement groups, regular engagement surveys or directly to their managers.

Storm Overflows and Dry Weather Discharges

We were grateful for the opportunity to speak with the Committee further about storm overflows. As Members know, we are keen to increase understanding of the role of storm overflows, particularly as this is closely linked with wider questions about how best to manage rainwater in a changing climate where extreme downpours are becoming more regular.

On careful reflection, and after reviewing our previous evidence from 31st October 2023, we believe it is important to address what we feel may be a misunderstanding about our position in relation to discharges from storm overflows during dry weather.

We do not believe that our statements have, at any time, refuted that these can happen. Rather, we did not agree with the methodology used by one media outlet, and reported by others, in the days preceding our 2023 evidence session. We also have concerns about language used more widely in relation to discharges from storm overflows when they are working as intended to drain heavy rainfall safely from communities: for example, references to “pumping” or “dumping” “raw sewage”. However, we appreciate that there are concerns about the existence of storm overflows and we remain committed to an open and productive dialogue with our customers and the wider public about this.

The approach we have taken to waste water management in Scotland has been based on using extensive studies and environmental understanding to allow us to prioritise investment in areas where using customers’ money can have the greatest environmental benefit.

Through our *Improving Urban Waters Routemap*, we have increased the monitoring and reporting of overflows that discharge into the highest priority waters; and we have over 100 projects currently being developed, designed and delivered to improve water quality further, and to support Scotland’s River Basin Management objectives.

The methodology which has been developed to prioritise storm overflows puts evidence of dry spilling within the highest priority category. More information about this is available at [Prioritisation of Sewer Overflows in Scotland - Scottish Water](#).

This is a complex operational area and, even with monitors in place, it is not easy to determine dry spilling as various factors need to be considered, including:

- whether there are other, separate surface water connections at an outfall which would be expected to have a more regular or continuous natural flow;
- corroborating rainfall data with the data recorded by our monitors to take account of wet weather across the whole catchment and not just at the location of the overflow itself;
- the time difference between when rainfall happens and when the overflow operates;
- the hydraulics of the sewer network across the whole catchment; and,
- whether there are operational events (e.g. blockages) which could explain an instance of a spill.

With greater monitoring, we will have more information which will increase our understanding of how these overflows are operating and we will use this to inform our future investment prioritisation. We will also provide transparent information on performance.

There will be opportunities for further improvement, both delivering projects already in progress and progressing those yet to be defined.

Future improvements build from a starting point where Scotland's water environment is generally of high quality. This has been enabled by significant investment programmes, developed with our regulators and delivered over recent decades.

I hope this letter is helpful in providing more detail on these areas of interest for the Committee.

Yours sincerely

Alex Plant
Chief Executive