STRATEGIC REVIEW OF CHARGES 2027-33: FINAL DETERMINATION

12 November 2026

WICS Economic regulation for Scotland's water

Contents

Contents 1
List of figures 4
List of tables 5

Chair Foreword 11

Chief Executive's introduction 12

1 Introduction 13
1.1 Summary of this chapter 13
1.2 Overview of the water industry 13
1.3 Overview of Scottish Water and the water industry stakeholders 14
1.4 What has economic regulation delivered 19
1.5 Strategic Review of Charges 2027-33 21

2 Our approach for SRC27 23
2.1 Summary of this chapter 23
2.2 Our approach in SRC21 24
2.3 Details of the SRC27 process to date 26
2.4 Detail of the final business plan 32
2.5 Scottish Water's assurance of the business plan 34
2.6 Our assessment in the Draft Determination 35
2.7 Draft Determination consultation responses and new information 38
2.8 Our assessment in the Final Determination 43

3 Customer support 43
3.1 Summary of this chapter 43
3.2 Background 45
3.3 Pillars 1 and 2: Evidence and challenge 47
3.4 Pillar 3: Confirmation 55
3.5 Draft Determination consultation responses and new information 59
3.6 Our assessment in the Final Determination 63

4 Levels of service 64
4.1 Summary of chapter 64
4.2 Approach to outcomes 66

4.3 Customer service 71
4.4 Water service 75
4.5 Wastewater and the environment 113
4.6 Carbon emissions, biodiversity and resource recovery 130
4.7 Asset health 143
4.8 Strategic tracker 147
4.9 Our decision 148

5 Capital investment 152
5.1 Summary of chapter 152
5.2 Our approach to investment 153
5.3 Scottish Water's proposed investment programme and supporting evidence 157
5.4 Our review of the investment programme and common themes 159
5.5 Our Draft Determination allowance and consultation responses 161
5.6 Adjustments to the specific investment areas 163
5.7 West Central Bioresources 209
5.8 Asset maintenance investment allowance 226
5.9 Enhancement and growth investment allowance 227
5.10 Assumptions that apply across the whole programme 227
5.11 Additional investment allowances 245
5.12 Deliverability 247
5.13 Our decision 255

6 Operating costs allowances 257
6.1 Summary of chapter 257
6.2 Background 258
6.3 Operating expenditure performance in SRC21 261
6.4 Scottish Water's final business plan proposals for 2027-33 263
6.5 Our Draft Determination allowance, overall consultation responses and new information 264
6.6 Operating expenditure efficiency 266
6.7 Assessing Scottish Water's proposals for additions to operating expenditure 275
6.8 Additional operating expenditure from returning PFI assets 293
6.9 Cost inflation 307
6.10 PFI contract expenditure 311
6.11 Our decision 313

7 Allowances for other income and expenditure 316
7.1 Summary of chapter 316
7.2 Borrowing and other income 317
7.3 Other expenditure 322
8 Safeguards, risk and uncertainty 336
8.1 Summary of chapter 336
8.2 Risk and safeguards 337
8.3 Conditional charge cap for West Central Bioresources 339
8.4 Conditional charge cap to deal with cost uncertainties (previously 'OPEX uncertainties') 348
8.5 Interim Determinations 369
8.6 Conclusion 371
9 Charge caps 371
9.1 Summary of chapter 371
9.2 What are charge caps and how do we calculate them? 372
9.3 Our approach in the Draft Determination 373
9.4 Draft Determination consultation responses and new information 382
9.5 Our approach in the Final Determination 387
9.6 Implications for customer bills and Scottish Water's revenue 393
9.7 Income and expenditure baseline 397
10 Monitoring performance 399
10.1 Summary of chapter 399
10.2 Our proposals in the Draft Determination 400
10.3 Draft Determination consultation responses and new information 401
10.4 Our decisions in the Final Determination 405
11 WICS duties 414
11.1 Summary 414
11.2 WICS statutory duties 414
11.3 WICS duties as a public body 415
11.4 Requirements of the Commissioning letter 418

List of figures

Figure 1: Average household bill in 2026-27 15
Figure 2: Change in average household costs in selected regulated industries since 2006-07 15
Figure 3: Water industry stakeholders 17
Figure 4: Average annual investment per head between 2002-03 and 2024-25 19
Figure 5: Net new debt per head between 2001-02 and 2024-25 20
Figure 6: Proportion of investment financed through debt between 2002-03 and 2024-25 21
Figure 7: Overview of each organisation's role in the SRC process 22
Figure 8: SRC27 timeline 23
Figure 9: Key SRC27 principles 29
Figure 10: Response to consultation questions – All responses 39
Figure 11: Response to consultation questions – Individuals 39
Figure 12: Response to consultation questions – Organisations 40
Figure 13: Process for developing outcomes 46
Figure 14: Responses from household customers prior to seeing the draft business plan 50
Figure 15: Responses from household customers after the draft business plan was presented 51
Figure 16: Positive sentiment on Scottish Water's draft business plan by investment area 52
Figure 17: Household customer views on Scottish Water's proposal and prioritisation of investment area 53
Figure 18: Scottish Water leakage compared to England and Wales performance 77
Figure 19: 3-year average leakage 80
Figure 20: UK whole economy and public sector wage growth 230
Figure 21: Total percentage historical change in weekly earnings 230
Figure 22: Change in CPI and average construction wages 231
Figure 23: Total historical growth in CPI and construction wages 231
Figure 24: Annual productivity forecasts and CMA decision 237
Figure 25: Estimated impact of AI on UK productivity 238
Figure 26: DV4 (and adjusted Scottish Water) capacity versus business plan DV4 investment 250
Figure 27: Total delivery vehicle capacity versus total investment 251
Figure 28: Comparison against deliverability range 253
Figure 29: Scottish Water operating expenditure from 2001-02 to 2024-25 259
Figure 30: SRC21 Final Determination allowances versus actual and forecast expenditure (operating plus PFI expenditure) 262
Figure 31: Scottish Water's operating and PFI expenditure proposal for SRC27 263
Figure 32: Number of water treatment works in the smallest size band 272
Figure 33: Modelled operating expenditure versus efficient benchmark post special factor adjustment 274
Figure 34: Modelled operating expenditure versus efficient benchmark post special factor adjustment including 2025-26 data 275
Figure 35: Scottish Water's additional electricity proposal against the industry average 279

Figure 36: Scottish Water's grid electricity consumption (GWh) 280
Figure 37: WaSCs chemical costs per property 283
Figure 38: Bad debt benchmarking analysis 286
Figure 39: Change in CPI and UK public sector earnings from May 2009 to December 2025 (May 2009 = 1)' 290
Figure 40: Total historical growth in CPI and public sector wages 291
Figure 41: Scottish Water proposal for operating expenditure for the PFI sites in SRC27 295
Figure 42: Operating expenditure associated with returning PFI assets versus benchmark 297
Figure 43: Illustrative savings in PFI fees 299
Figure 44: Scottish Water proposal for total expenditure for the PFI sites in SRC27 300
Figure 45: Allanfearn, Nigg, Persley and Peterhead PFI works total expenditure' 301
Figure 46: Expenditure of PFI sites with a median efficiency challenge on operating expenditure 302
Figure 47: Scottish Water total bioresources expenditure (including Daldowie, excluding other PFI) versus efficient benchmark 306
Figure 48: OBR inflation assumptions used in the Draft Determination (financial year average) .. 308
Figure 49: Comparison of CPI forecasts before and after the Draft Determination 309
Figure 50: Bank of England CPI forecast and WICS' calculated CPIH and RPI assumptions 310
Figure 51: Allowed for operating expenditure 315
Figure 52: Interest rate and principal of loans maturing during the 2027-33 regulatory period ... 323
Figure 53: Interest rates between 2017 to 2026 324
Figure 54: OBR forecast for base rate 325
Figure 55: Weighted average loan term in the 2021-27 regulatory period to date 327
Figure 56: Interest rates between 2017 to 2026 (updated) 328
Figure 57: Weighted average percentage of the way through the year that debt was drawn down 329
Figure 58: Safeguards in SRC27 339
Figure 59: Total change in selected price indices over separate timeframes 358
Figure 60: Timeline of the large electricity users price index over SCR21 360
Figure 61: CPI vs COPI: new works infrastructure (April 2024 = 100) 362
Figure 62: The cash-based approach to setting charge caps for SRC27 373
Figure 63: Cumulative charge profile for Option 2 (real terms) 375
Figure 64: Cumulative charge profile if all conditions are met in full (real terms) 377
Figure 65: Regulatory architecture 406

List of tables

Table 1: Households receiving a discount (excluding vacant exemptions) 16
Table 2: Summary of Scottish Water's final business plan proposal for 2027-33 32
Table 3: Consultation questions 38
Table 4: Investment areas ranked in first place by household customers 51

Table 5: Investment areas ranked in the top three places by household customers 52
Table 6: Scottish Water's business plan proposal – customer service 72
Table 7: WICS draft proposals – customer service 72
Table 8: Customer service outcomes historical performance 74
Table 9: Final Determination – customer service 75
Table 10: Scottish Water's business plan proposal – leakage 76
Table 11: Water distribution investment 79
Table 12: Leakage benefit 79
Table 13: Zonal leakage target 80
Table 14: WICS draft proposals – leakage 81
Table 15: Final Determination – leakage 84
Table 16: Scottish Water's business plan proposal – business demand 85
Table 17: WICS draft proposals – business demand 86
Table 18: Final Determination – business demand 87
Table 19: Scottish Water's business plan proposal – per capita consumption 88
Table 20: WICS draft proposals – per capita consumption 88
Table 21: Final Determination – per capita consumption 90
Table 22: Scottish Water's business plan proposal – low pressure 91
Table 23: WICS draft proposals – low pressure 91
Table 24: Final Determination – low pressure 92
Table 25: Scottish Water's business plan proposal – reliability of supply 93
Table 26: WICS draft proposals – reliability of supply 95
Table 27: Final Determination – reliability of supply 98
Table 28: Scottish Water's business plan proposal – water availability 98
Table 29: WICS draft proposals – water availability 99
Table 30: Final Determination – water availability 100
Table 31: Scottish Water's business plan proposal – water aesthetics 101
Table 32: WICS draft proposals – water aesthetics 102
Table 33: Final Determination – water aesthetics 104
Table 34: Scottish Water's business plan proposal – lead 105
Table 35: WICS draft proposals – lead 106
Table 36: Final Determination – lead 107
Table 37: Scottish Water's business plan proposal – water quality 107
Table 38: WICS draft proposals – water quality 109
Table 39: Final Determination – water quality 111
Table 40: Final Determination – water service 111
Table 41: Scottish Water's business plan proposals – sewer flooding 114
Table 42: WICS draft proposals – sewer flooding 116
Table 43: Historical performance – sewer flooding 116
Table 44: Final Determination – sewer flooding 117

Table 45: Scottish Water's business plan proposal – discharge permit compliance 118
Table 46: WICS draft proposals – discharge permit compliance 119
Table 47: Historical performance – discharge permit compliance 119
Table 48: Final Determination – discharge permit compliance 120
Table 49: Scottish Water's business plan proposals – pollution incidents 121
Table 50: WICS draft proposals – pollution incidents 122
Table 51: Historical performance – pollution incidents 122
Table 52: Final Determination – pollution incidents 123
Table 53: Scottish Water's business plan proposal – unsatisfactory sludge disposal 124
Table 54: WICS draft proposal – unsatisfactory sludge disposal 124
Table 55: Final Determination – unsatisfactory sludge disposal 125
Table 56: Scottish Water's business plan proposals – unsatisfactory intermittent discharges 125
Table 57: WICS draft proposals – unsatisfactory intermittent discharges 126
Table 58: Final Determination – unsatisfactory intermittent discharges 128
Table 59: Final Determination – wastewater and environment 129
Table 60: Scottish Water's business plan proposals – carbon emissions, biodiversity and resource recovery 130
Table 61: WICS draft proposals for carbon emissions, biodiversity and resource recovery if West Central Bioresource proceeds 132
Table 62: Final Determination – Net Zero Emissions 136
Table 63: Final Determination – operational emissions 137
Table 64: Final Determination – investment emissions 140
Table 65: Final Determination – biodiversity and resource recovery 140
Table 66: Final Determination (assuming WCB proceeds) – emissions, biodiversity and resource recovery 142
Table 67: Scottish Water's business plan proposals – asset health 143
Table 68: Scottish Water's business plan proposals – strategic tracker 147
Table 69: Final Determination of performance levels 149
Table 70: Scottish Water's proposed investment 158
Table 71: Business plan investment versus draft allowance for water quality and continuity 169
Table 72: Investment projects with updated reduced allowance 181
Table 73: Summary of decisions on allowances in the Final Determination for water quality and water continuity 182
Table 74: Draft versus final allowance for water quality and continuity 184
Table 75: Business plan investment versus draft allowance for water environment and flows 188
Table 76: Summary of decisions on allowances in the Final Determination for water environment and quantity of flows 195
Table 77: Draft versus final allowance for water environment and flows 196
Table 78: Business plan investment versus draft allowance for growth 197
Table 79: Summary of decisions on allowances in the Final Determination for growth 200

Table 80: Draft versus final allowance for growth 200
Table 81: Business plan investment versus draft allowance for climate change 201
Table 82: Summary of decisions on allowances in the Final Determination for climate change adaptation and mitigation 202
Table 83: Draft versus final allowance for climate change adaptation and mitigation 203
Table 84: Business plan investment versus draft allowance for customers and communities 203
Table 85: Draft versus final allowance for customers and communities 204
Table 86: Business plan investment versus draft allowance for digital 205
Table 87: Draft versus final allowance for digital 205
Table 88: Business plan investment versus draft allowance for transformation and innovation 206
Table 89: Draft versus final allowance for transformation and innovation 206
Table 90: Business plan investment versus draft allowance for support services 207
Table 91: Summary of decisions on allowances in the Final Determination for support services 209
Table 92: Draft versus final allowance for support services 209
Table 93: PFI sites 210
Table 94: West Central Bioresources investment 213
Table 95: WICS draft assurance against Scottish Government's requirements 219
Table 96: WICS final assurance against Scottish Government's requirements 224
Table 97: Asset maintenance investment allowance before frontier-shift efficiency 226
Table 98: WICS maintenance allowance versus top-down maintenance allowance 226
Table 99: SRC21 versus SRC27 allowance for enhancement and growth investment 227
Table 100: Business plan proposal versus draft allowance for real price effects 233
Table 101: Draft versus final allowance for real price effects and labour costs 234
Table 102: Allowed for investment before WICS efficiency challenge 235
Table 103: Regulatory precedent for productivity challenge in UK utilities 239
Table 104: WICS additional efficiency challenge 240
Table 105: WICS Final Determination efficiency challenge 243
Table 106: Draft Determination allowed for investment 245
Table 107: Final Determination allowed for investment 247
Table 108: Estimated range of investment Scottish Water can deliver efficiently in 2027-33 248
Table 109: Final Determination investment allowance 256
Table 110: Final Determination investment allowance by area 257
Table 111: Scottish Water's proposals for additions to base operating expenditure 264
Table 112: Scottish Water base cost models re-run as operating expenditure only relative to benchmark 268
Table 113: Scottish Water and WICS operating expenditure only models relative to benchmark 270
Table 114: WICS decision on additional costs arising in 2025-26 and 2026-27 277
Table 115: Change in Scottish Water's energy costs from 2024-25 281
Table 116: WICS decision on energy costs 282
Table 117: WICS decision on chemical costs 284

Table 118: WICS draft decision on bad debt 287
Table 119: WICS decision on bad debt 287
Table 120: WICS decision on operating expenditure arising from investment 289
Table 121: WICS decision on operating expenditure labour real price effects 292
Table 122: Draft Determination operating expenditure productivity improvements 292
Table 123: WICS decision on operating expenditure productivity improvements 293
Table 124: Public Finance Initiative expiration dates 294
Table 125: Information from the statutory accounts of the company that operates Daldowie 301
Table 126: WICS draft decision on the cost of operating the returning PFI works 303
Table 127: WICS decision on the cost of operating the returning PFI works 307
Table 128: WICS Draft Determination inflation assumptions (financial year average) 308
Table 129: WICS Final Determination inflation assumptions (financial year average) 311
Table 130: Draft Determination PFI contract expenditure allowance in SRC27 311
Table 131: Draft and Final Determination PFI contract expenditure assumptions for 2025-26 312
Table 132: Final Determination PFI contract expenditure allowance in SRC27 312
Table 133: WICS Final Determination operating expenditure allowance 314
Table 134: Assumed use of borrowing 318
Table 135: Net interest allowance for SRC27 326
Table 136: Final Determination closing cash balance profile 330
Table 137: Final Determination net interest allowance for SRC27 330
Table 138: Draft Determination allocation of investment to tax depreciation pools 332
Table 139: Draft Determination taxation allowance for SRC27 332
Table 140: Final Determination allocation of investment to tax depreciation pools 334
Table 141: Final Determination taxation allowance for SRC27 334
Table 142: RCCs allowance for SRC27 335
Table 143: Final Determination RCCs allowance for SRC27 335
Table 144: Evidence required for Scottish Water to access the West Central Bioresources charge cap 347
Table 145: Real price effect composite index (operating expenditure) 357
Table 146: Real price effect composite index (capital expenditure) 357
Table 147: Energy cost RPE already allowed 359
Table 148: Reference values for energy and construction cost indices 364
Table 149: Timeline of adjustments for real price effects 365
Table 150: Calculation for capital enhancement, growth and replacement expenditure (approach 1) 367
Table 151: Weighted average index for total expenditure (approach 1) 367
Table 152: Calculation for operating expenditure (approach 2) 368
Table 153: Calculation for capital enhancement, growth and replacement expenditure (approach 2) 368

Table 154: Calculation for capital maintenance expenditure relating to repairs and refurbishment (approach 2) 368
Table 155: Weighted average index for total expenditure (approach 2) 369
Table 156: Timeline for application for an interim determination 370
Table 157: Annual charge profile for Option 2 (real terms) 375
Table 158: Annual charge profile if all conditions are met in full (real terms) 377
Table 159: Price inflation forecast (CPI in October of previous year) 379
Table 160: WICS Band-D equivalent household growth rate assumption 379
Table 161: WICS non-household growth rate assumption 380
Table 162: WICS change in non-household consumption assumption 381
Table 163: Annual charge profile if all conditions are met in full (real terms) 388
Table 164: Final Determination price inflation forecast 389
Table 165: WICS Final Determination Band-D equivalent household growth rate assumption 390
Table 166: WICS Final Determination non-household growth rate assumption 390
Table 167: WICS Live RV revaluation assumptions 391
Table 168: WICS Final Determination non-household growth assumption with Live RV adjustment 392
Table 169: Revenue impact of Live RV adjustment 392
Table 170: WICS Final Determination change in non-household consumption assumption 393
Table 171: Average household bill if uncertain costs do not materialise 393
Table 172: Average household bill if uncertain costs materialise 394
Table 173: Unmeasured household charges with CPI+2.5% and the conditional charge cap for cost uncertainties (2026-27 prices) 395
Table 174: Unmeasured household charges with CPI+2.5% and the conditional charge cap for cost uncertainties (projected outturn prices) 395
Table 175: Income and expenditure baseline, ... 398
Table 176: Financial strength forecast for SRC27 399
Table 177: Performance monitoring framework elements 400
Table 178: WICS duties as a public body 415
Table 179: Alignment with the existing National Performance Framework 417
Table 180: Requirements of the Commissioning letter 418

Chair Foreword

A Final Determination is ultimately a judgement by the Commission about value. It is about what customers should contribute towards the industry and what they should expect Scottish Water to deliver in return. The decisions set out here will shape Scotland's water industry for the next six years, deliver the Objectives set by Scottish Ministers and support progress towards its vision for 2045.

Scottish Water is publicly owned, commercially run and independently regulated. This distinctive model gives WICS the opportunity to understand the company in depth and set charges based on actual costs and the challenges ahead, while maintaining the independence to challenge, make judgements on behalf of customers and hold the company to account.

There is much to be proud of in this model. Its true strength is the collaborative ethos it has fostered, encouraging organisations to engage openly while respecting their different roles and responsibilities. Throughout this review, we have had constructive and sometimes difficult conversations with Scottish Water, customers, Consumer Scotland, SEPA, DWQR and wider stakeholders about priorities, investment, performance and value. That willingness to engage, challenge and listen is an important strength of Scotland's approach.

We recognise that customers are being asked to contribute more for their water and wastewater services. We have therefore been clear that there must be strong and transparent evidence to support this. Customers paying no more than necessary is the simple principle that guides us. We have challenged Scottish Water to demonstrate that its proposals are efficient, affordable and deliverable, and that every opportunity to manage costs has been fully explored.

We have set challenging but achievable service and efficiency expectations, focused on securing the best possible value for customers, while supporting progress towards the industry's long-term vision. Greater weight has been placed on the areas that customers have made clear they value most.

This Final Determination provides a clear and achievable framework for the years ahead. But it is only the beginning. Its success will ultimately be judged by what customers experience. Scottish Water must now deliver the improvements, performance and value that customers are being asked to fund.

The Commission's judgement and decisions are only possible because of the quality of the analysis and advice provided by colleagues across WICS. We thank them, and everyone who has contributed to this review, for their professionalism, challenge and commitment.

Aidan O'Carroll, Chair

Chief Executive's introduction

This Final Determination marks an important milestone, both for Scotland's water sector and for WICS as a regulator. Throughout SRC27, we have challenged assumptions, tested the evidence and made difficult judgements about how best to serve customers, both now and in the years ahead.

WICS has also changed as an organisation. We have strengthened our structure, clarified responsibilities and reinforced the role of the Executive. These changes help ensure that the Commission has the robust analysis, evidence and assurance it needs to make informed regulatory decisions. Our focus remains on protecting Scottish consumers and supporting our nation's economic development.

A strength of WICS is our understanding of the history of economic regulation. From Professor Stephen Littlechild's work on incentive regulation and Sir Ian Byatt's leadership at Ofwat, to Sir Ian's role as WICS's first Chair and the contribution of my predecessor in establishing Scotland's regulatory framework, we understand how the sector has evolved. The Cunliffe review is the latest chapter in that story. This experience helps us recognise what is worth preserving, learn from the past and identify where regulation needs to change.

We have set out our decisions in detail because it is important that people can see not just what we have decided, but why. The evidence and reasoning behind this determination should be open to scrutiny and challenge. We must be transparent about our judgements and prepared to account for them. That is part of being a credible regulator, and a responsibility we take seriously.

This Final Determination is not the end of the process, rather it is the end of the beginning. What matters now is delivery. This Strategic Review of Charges has given us and Scottish Water a better understanding of the investment required, the costs involved and the outcomes expected. We must use that information to track progress, identify problems early and be clear with customers about what they are getting for their money.

We cannot know exactly what the next six years will bring. Scottish Water will need to respond as circumstances change, and regulation must allow it the flexibility to do so. But flexibility cannot come at the expense of accountability. We will expect Scottish Water to explain its decisions, demonstrate progress and deliver value for customers.

That is the standard I expect of Scottish Water and of WICS. Our responsibility is to protect the interests of current and future customers, and we will remain focused on doing that.

David Satti, Chief Executive Officer

1 Introduction

1.1 Summary of this chapter

1.1.1 This chapter provides an overview of the water industry in Scotland and background on key stakeholders. It lays out the necessary context on Scottish Water's operating model and the benefits delivered through the regulatory system in Scotland. Scottish Water starts from a strong position having lower bills, delivering higher investment and having lower debt compared to other water companies.

1.1.2 As the independent economic regulator of Scottish Water, our role is to determine whether Scottish Water's future plans for charges and spending plans are justified, efficient, and provide value-for-money. We determine this through the Strategic Review of Charges 2027-33 (SRC27), a multi-year, multi-stakeholder process we lead.

1.1.3 The outcome of the SRC27 process is a Final Determination of Charges. This document sets out our Final Determination of charges for the 2027-33 regulatory period. Scottish Water must decide by 11 January 2027 whether to accept our Final Determination.

1.1.4 This chapter is structured as follows:

- Overview of the water industry;
- Overview of Scottish Water and the water industry stakeholders;
- What has economic regulation delivered; and
- Strategic Review of Charges 2027-33.

1.2 Overview of the water industry

1.2.1 Water is a precious resource, essential for both life and our economy. As a society, we rely on Scottish Water to deliver clean, high-quality drinking water at the turn of a tap, responsibly collect and treat wastewater and surface water, and return it to the environment without detriment – all while ensuring these services remain affordable.

1.2.2 The people of Scotland have benefitted considerably from a model where Scottish Water is publicly owned, commercially run and subject to rigorous independent economic regulation. As a result, water charges in Scotland remain among the lowest in the UK (see Figure 1), while Scottish Water has invested the most per person since 2002 (see Figure 4).[1] This investment has enabled Scottish Water to make significant improvements in the levels

[1] This is based on comparing Scottish Water to the water and sewerage companies in England and Wales over the same timeframe.

of service it provides.[2] Scottish Water is among the top-ranking companies in the UK on complaint handling, as measured by the UK Customer Satisfaction Index (UKCSI).[3]

1.2.3 As the economic regulator, we play a key role in ensuring that Scottish Water delivers for the people of Scotland. One of the ways we fulfil this role is by setting caps on Scottish Water's charges through the Strategic Review of Charges. Through this process, we ensure customers pay no more than necessary for essential water and wastewater services. We carefully monitor and report on Scottish Water's performance and investment to ensure it is efficient and effective in delivering high-quality services now and for years to come.

1.2.4 This introduction sets out the necessary context of the water industry as we enter the next Strategic Review of Charges covering the 2027-33 regulatory period.

1.2.5 For reference, figures for investment and expenditure in this document are given in 2024-25 prices unless otherwise stated. Figures for bills and customer savings are given in 2026-27 prices unless otherwise stated.

1.3 Overview of Scottish Water and the water industry stakeholders

1.3.1 Scottish Water is a publicly owned, commercially run organisation responsible for providing water services to around 2.6 million households and wastewater services (covering the removal of foul wastewater and surface water drainage) to around 2.5 million households, which covers 98% and 94% of the population in Scotland respectively.[4]

1.3.2 The vast majority, over 99%, of household customers pay their water and wastewater charges based on their council tax band, with annual charges ranging from £435 for a Band A customer to £1,305 for a Band H customer in 2026-27.

1.3.3 The current average household bill is £537, which compares favourably against other water companies in Great Britain. Charges have also remained broadly in line with inflation over the past two decades, and the average bill has risen much more slowly than the prices for other essential services, indicating great value. These comparisons are shown in Figure 1 and Figure 2 below.

[2] Over the period from 2001-02 to 2022-23, Scottish Water levels of service (as measured by the overall performance assessment metric) has trebled. See Figure 4 in section 2.5 of the WICS Final Methodology.

[3] Scottish Water was ranked top-10 in complaint handling in the latest UKCSI report, 'ICS UKCSI Main Report Jan 2026', January 2026, p.65.

[4] See A tables of Scottish Water's Annual Return for 2024-2025. The percentage of the population connected to water and wastewater is based on Scottish Water's reported population in table A4 divided by the latest estimate of the total population of Scotland reported by the National Records of Scotland of 5,546,900 in mid-2024. National Records of Scotland (2025), 'Mid-2024 Population Estimates', 14 August 2025.

Figure 1: Average household bill in 2026-27[5]

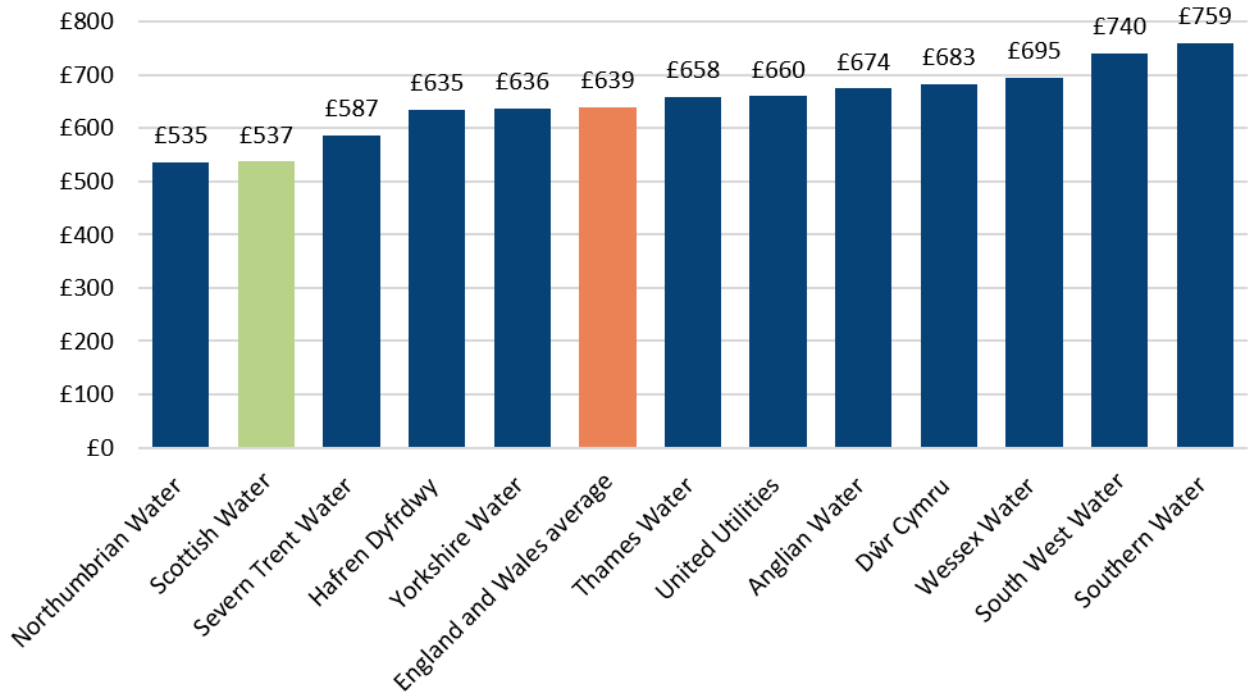
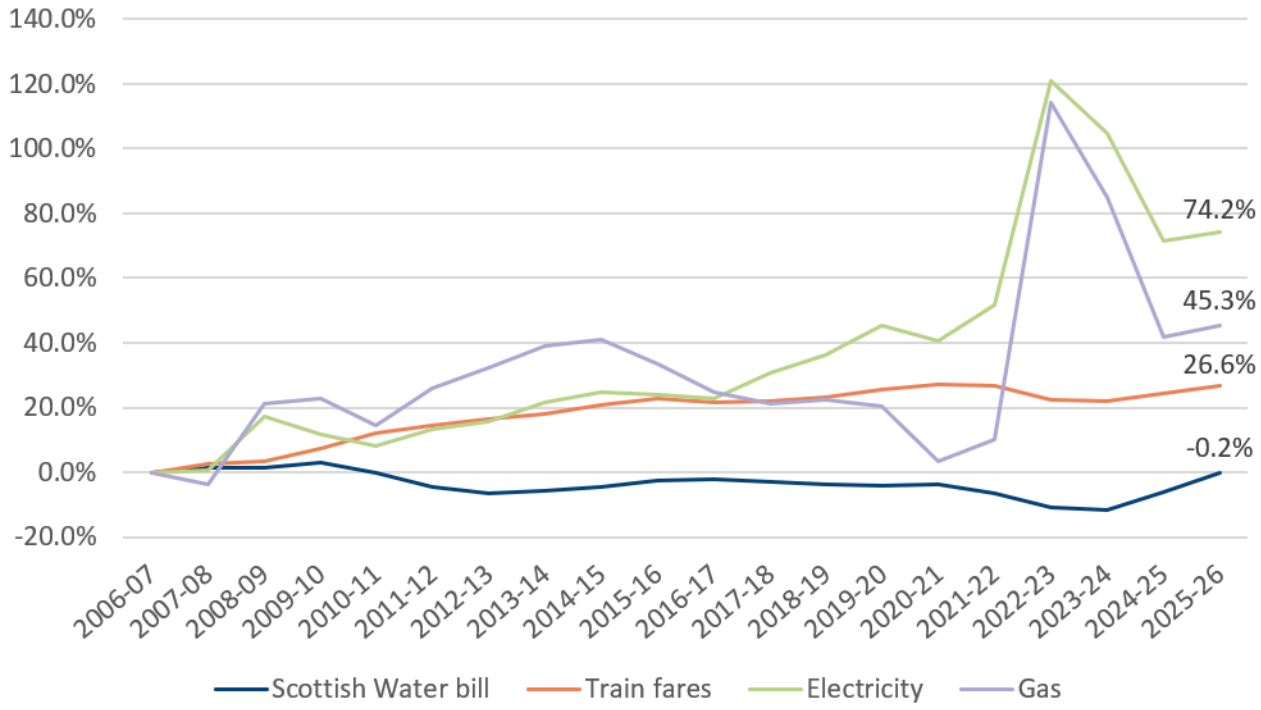


Figure 2: Change in average household costs in selected regulated industries since 2006-07[6]



[5] Figure in outturn prices. Average household bill data for England and Wales companies are sourced from DiscoverWater (2026), 'DiscoverWater: Annual Bill', 2026.

[6] Figure is adjusted for inflation. Office for National Statistics (2026), 'Inflation and price indices', last accessed 13 October 2026.

1.3.4 As a result of Ministers' charging policy, around half of Scottish Water's household customers qualify for a discount or exemption, such as the status discount and the Water Charges Reduction Scheme (WCRS).[7] The status discount includes the single-person discount and provides for discounts of 25% and 50%. WCRS provides a discount of up to 35% for eligible households. These discounts are worth a combined total of over £200 million, with the average discount for an eligible household around one-third of their bill, or £175.[8] Table 1 provides a breakdown of the number of households receiving discounts, disaggregated by discount type. Customers eligible for both discounts receive the higher of the two.

Table 1: Households receiving a discount (excluding vacant exemptions)[9]

Customers	Water	Wastewater
Customers in receipt of WCRS discount only	142,103 (5.4%)	140,174 (5.5%)
Customers in receipt of the status discount only	846,204 (32.0%)	817,477 (32.3%)
Customers in receipt of both WCRS and status discount	315,209 (11.9%)	312,276 (12.3%)
Customers in receipt of a discount	**1,303,516 (49.4%)**	**1,269,927 (50.1%)**
Customers not in receipt of a discount	1,337,018 (50.6%)	1,262,384 (49.9%)

1.3.5 Scottish Water is also a wholesaler of water and wastewater services to licensed providers in the non-household retail market, which was introduced in 2008. The non-household retail market was a world first in allowing businesses, industrial users, charities, and the public sector to choose their water and wastewater suppliers. Around one quarter of Scottish Water's revenue comes from non-households through licensed providers in a competitive retail market regulated by WICS.

1.3.6 Scottish Water's infrastructure comprises 50,000km of water mains, 57,000km of sewers, over 220 water treatment works, over 650 sewage treatment works, and multiple other assets such as reservoirs, dams, and pumping stations. In 2024-25, Scottish Water spent £1,961 million to provide water, sewerage and drainage services. This is required to operate and maintain the water mains, sewers and other works, valued at over £120 billion, and to invest in infrastructure improvements and expansions to meet new demand.

1.3.7 As Scottish Water is publicly owned, any surpluses it generates are reinvested in maintaining and improving this important infrastructure.

[7] Scottish Government (2026), 'Principles of Charging for regulatory period 2027-33', 23 October 2026.
[8] These figures reflect the latest data from the P tables of the Annual Return for 2025-26.
[9] Based on Scottish Water's Annual Return submission for 2025-26. The percentages shown in brackets represent the proportion of customers in receipt of the specified discount.

1.3.8 The water industry involves several other organisations, each with its own roles and responsibilities. Figure 3 shows these organisations.[10] Good outcomes in the sector depend on clear roles and responsibilities, a shared understanding of the evidence base, and consideration of multiple perspectives.

Figure 3: Water industry stakeholders



1.3.9 Below is a summary of the role each stakeholder has in the Scottish water sector:

- The **Scottish Government** sets the overall policy objectives for the water industry. It also acts as the owner of Scottish Water on behalf of the people of Scotland and as a lender to Scottish Water, enabling additional investment in water and wastewater services.
- The **Water Industry Commission for Scotland** (WICS) is the economic regulator of the Scottish water industry. We are responsible for setting charge caps, monitoring Scottish Water's performance and overseeing the functioning of the non-household retail market to ensure it delivers good outcomes.
- The **Drinking Water Quality Regulator for Scotland** (DWQR) ensures that Scottish Water complies with its duties in respect of public drinking water supplies in Scotland. It does this by monitoring Scottish Water's compliance with drinking water quality standards and advising on future investment priorities for public supplies.[11]
- The **Scottish Environment Protection Agency** (SEPA) is the environmental regulator in Scotland with a remit that goes beyond the water sector. Within the water sector, it has a wide-ranging role that involves monitoring, reporting, and

[10] Additional information on the roles of the industry stakeholders is available online at: Scottish Government, 'Water industry governance'.
[11] DWQR also supervises Local Authorities' enforcement of regulations over private water supplies in Scotland, which serve around 2.5% of the population. DWQR (2026), 'Private Water Supplies Annual Report 2024', 12 March 2026.

enforcement of the quality of the water environment in Scotland, and advising on future investment priorities.

- **Consumer Scotland** is the levy-funded advocacy body for the water sector in Scotland. Established by the Consumer Scotland Act 2020, Consumer Scotland is accountable to the Scottish Parliament. It works to embed positive consumer outcomes and consumer engagement across all aspects of service delivery in the water industry, in both household and non-household markets. This includes the affordability of services, how water and wastewater services can support a transition to net zero, and how services should be adapted to mitigate the impacts of climate change.[12]
- The **Scottish Public Services Ombudsman** (SPSO) acts as the final stage for handling customer complaints for public sector bodies and departments.

1.3.10 The clarity of water industry stakeholders' roles and responsibilities is in line with international best practice, as recognised by the Organisation for Economic Cooperation and Development (OECD) in its Principles on Water Governance.[13] Having clarity over these roles helps ensure that the industry works in partnership to understand the challenges and build consensus on the appropriate way forward. One example of this partnership approach is the way in which the industry stakeholders (in Figure 3) above review Scottish Water's progress on delivering its investment programme and meeting the Ministerial Objectives.[14]

1.3.11 Alongside the Scottish Government and regulators, other important organisations in the water industry include licensed providers in the non-household market. This market was introduced in April 2008 under the Water Services etc. (Scotland) Act 2005, allowing businesses, public sector bodies, charities and other non-household customers to choose their water provider. The market includes WICS, Scottish Water and Consumer Scotland and the following organisations:

- Licensed providers, who deliver retail services to non-household customers. They must follow set rules and licence conditions.[15] They bill customers for water, sewerage and drainage services, and pay Scottish Water for supplying these services; and
- The Central Market Agency (CMA), which runs the systems that support the market. It keeps records such as meter readings, customer details, and licensed

[12] Consumer Scotland (2025), 'Consumer Scotland Work Programme 2025-26', 27 March 2025.
[13] OECD (2015), 'OECD Principles on Water Governance', 11 May 2015.
[14] Scottish Government (2021), 'Water industry: governance note 2021 to 2027', 23 November 2021.
[15] Retail services are limited to customer-facing activities such as meter reading, managing billing and payment arrangements, bad debt management, and customer enquiries and complaints. Some retailers offer additional value-added services such as advice on water efficiency and management of wastewater discharges.

provider changes, and calculates how much licensed providers need to pay Scottish Water.

1.3.12 Several other organisations are also involved or have an interest in the water industry, including:

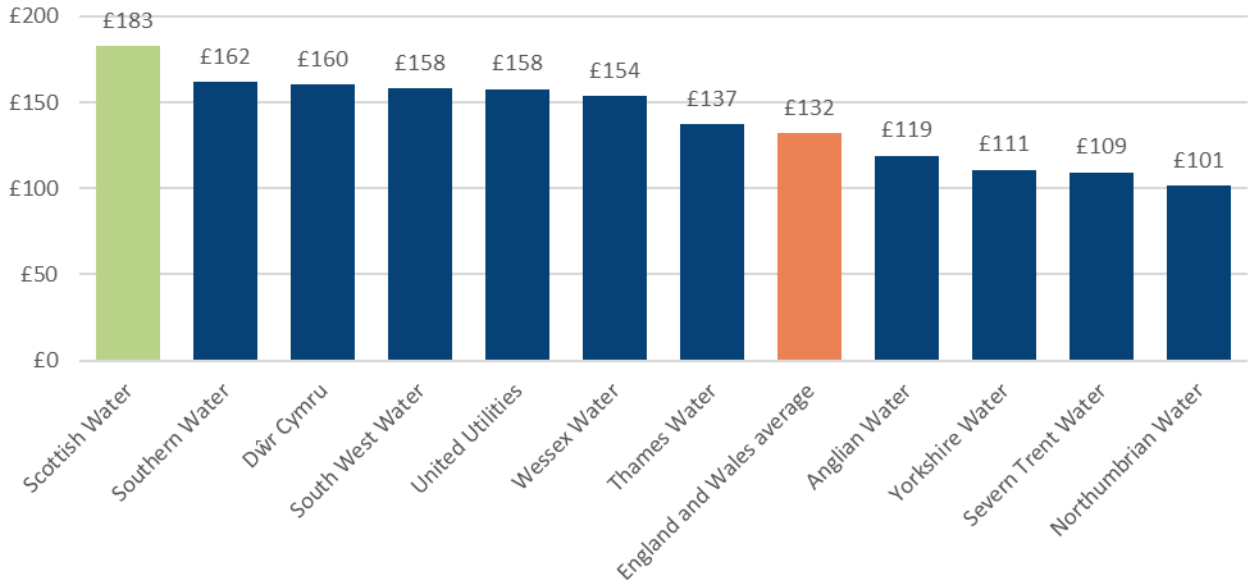
- Suppliers and contractors (known collectively as the 'supply chain') that support the efficient delivery of Scottish Water's operations and capital investment across Scotland;
- Research institutes; and
- The third sector, which includes charities, social enterprises, non-government organisations (NGOs) and voluntary groups.

1.4 What has economic regulation delivered

1.4.1 The overall governance of the water industry in Scotland and our approach to economic regulation have helped bring significant customer benefits over the past two decades. For example, the average annual household bill is around £120 lower than it would have been without the efficiencies Scottish Water has achieved.

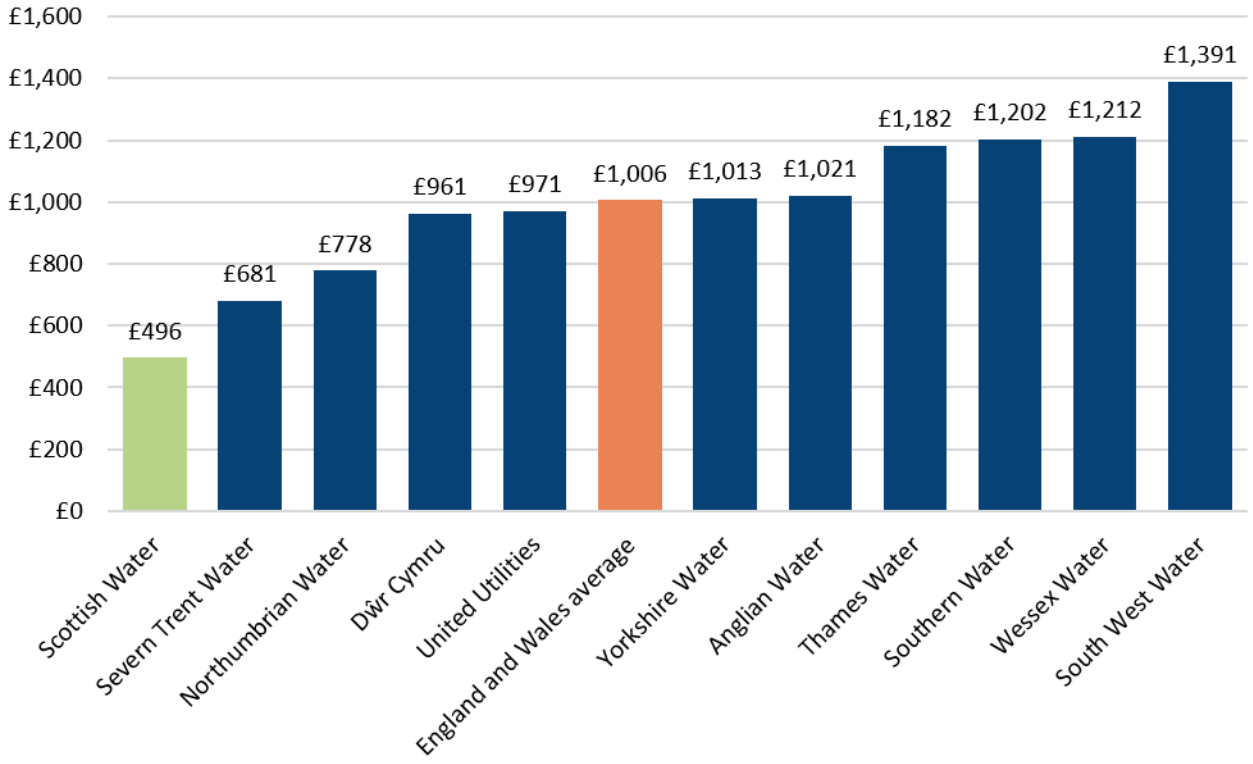
1.4.2 Since 2002, Scottish Water has delivered among the highest levels of investment in the industry, improving levels of service. Scottish Water, with the support of its regulators, has achieved this while having below-average bills and the lowest borrowing per head in Great Britain. Figure 4 and Figure 5 summarise this journey, alongside Figure 1 above.

Figure 4: Average annual investment per head between 2002-03 and 2024-25[16]



[16] Figure in 2024-25 prices.

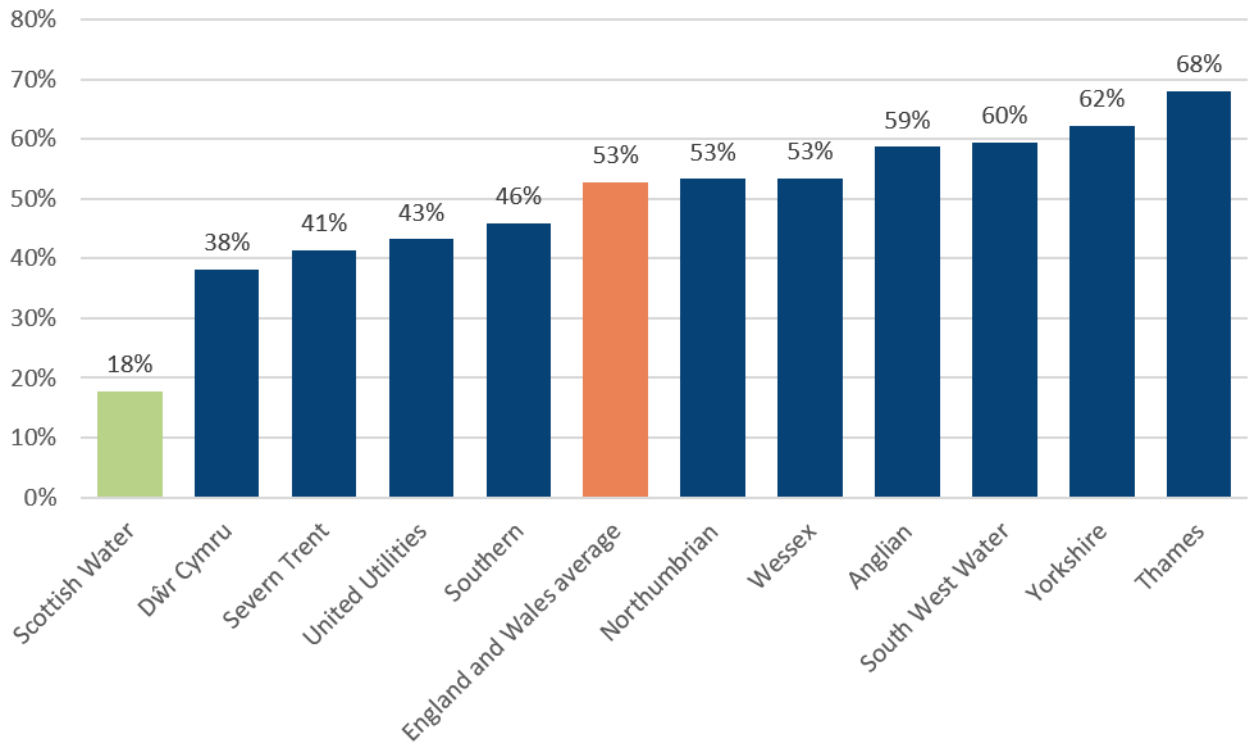
Figure 5: Net new debt per head between 2001-02 and 2024-25[17]



1.4.3 Figure 6 sets out the proportion of investment financed from debt over the period 2002-03 to 2024-25. This shows that bills have remained relatively low while a significant proportion of investment has been funded directly through annual charges rather than borrowing.

[17] Figure in outturn prices.

Figure 6: Proportion of investment financed through debt between 2002-03 and 2024-25



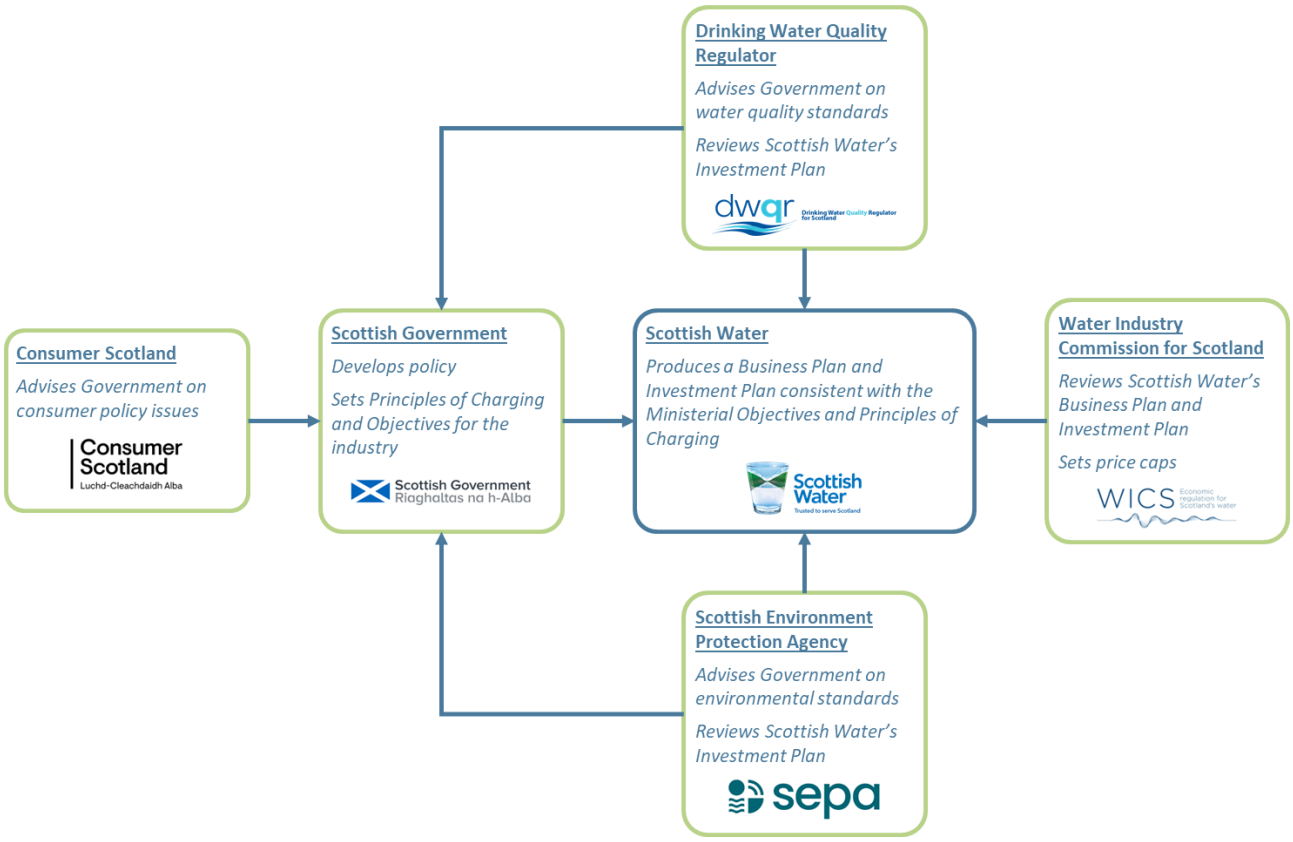
1.4.4 As such, Scottish Water is in a strong position with lower customer bills, higher investment and low debt compared to other water companies in Great Britain.

1.4.5 Scottish Water has made significant progress since the introduction of economic regulation and has considerably improved its performance whilst keeping charges low. However, our regulatory approach must continue to evolve to ensure Scottish Water can make further improvements and deliver the best value for Scottish customers.

1.5 Strategic Review of Charges 2027-33

1.5.1 Every six years, we conduct a process known as the Strategic Review of Charges, which involves setting caps on the charges that Scottish Water raises from its customers. The Strategic Review of Charges serves as a mechanism for WICS to develop the wider policy framework, customer research, and Scottish Water's business plan into a Draft and then a Final Determination of charges, investments, and outcomes. The Strategic Review of Charges is a multi-stakeholder process, with each of the water industry stakeholders having specific roles and responsibilities, as shown in Figure 7.

Figure 7: Overview of each organisation's role in the SRC process



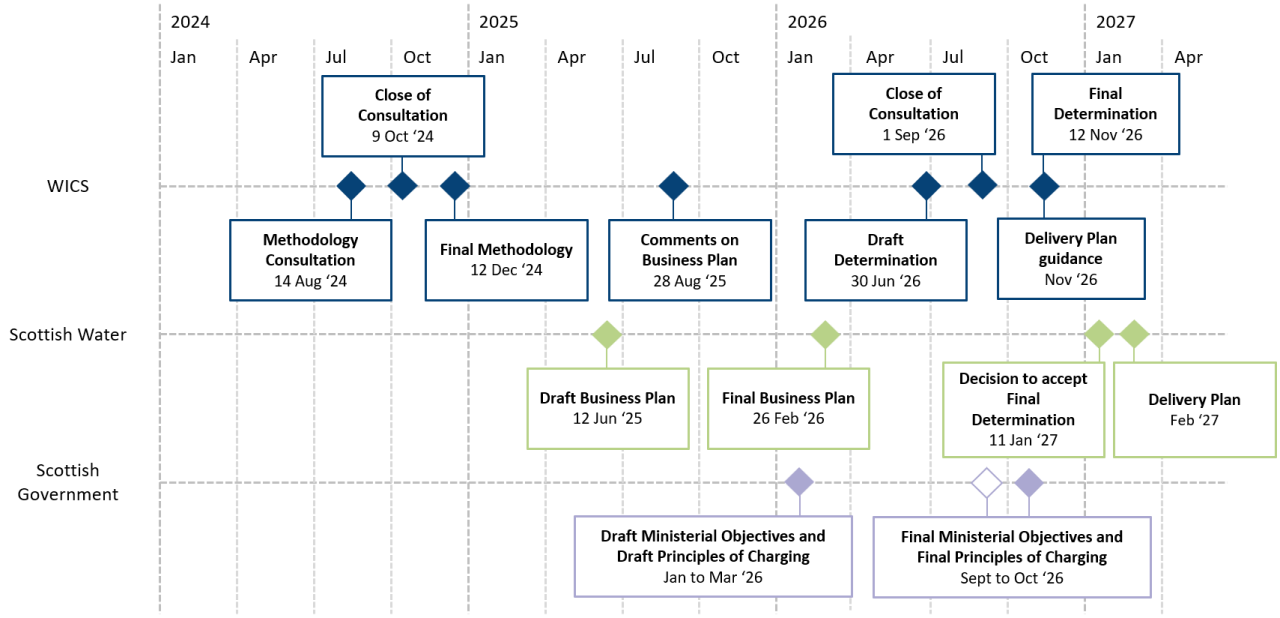
1.5.2 Through this multi-stakeholder process, WICS determines whether Scottish Water's proposals for charges and expenditure are justified, efficient, and provide value-for-money.

1.5.3 Following the Strategic Review of Charges process, Scottish Water then produces a delivery plan that is consistent with the Final Determination. The delivery plan outlines how Scottish Water will meet the requirements of the Final Determination. It also allows Scottish Water to account for changes to forecasts and assumptions from the Final Determination, including changes to the investment programme made through the regulatory change process (previously the investment planning and prioritisation framework), outlined in Chapter 10.

1.5.4 WICS and other industry regulators monitor Scottish Water's performance against the delivery plan, ensuring it is held to account for delivery over the regulatory period.

1.5.5 The next Strategic Review of Charges will set charge caps for the six-year period from 1 April 2027 to 31 March 2033. We refer to this as the Strategic Review of Charges 2027 (SRC27). The timeline for SRC27 is shown in Figure 8 below.

Figure 8: SRC27 timeline



1.5.6 The Final Determination is the final stage of WICS Strategic Review of Charges for the period 2027-33. It considers the responses we received in our Draft Determination consultation and any new information available. Scottish Water has until 11 January 2027 to decide whether to accept our Final Determination.

2 Our approach for SRC27

2.1 Summary of this chapter

2.1.1 This chapter covers our approach for SRC27, including the work that has been undertaken prior to the publication of Scottish Water's business plan, and the key details of the business plan.

2.1.2 SRC27 is an evolution on the long-term regulatory approach introduced at SRC21, underpinned by Ethical Business Practice and Regulation (EBP&R). SRC27 strengthens the elements of the regulatory framework based on our learnings from the SRC21 period. This includes clearer commitments for performance over the regulatory period, further requirements for evidence and assurance, and enhanced accountability.

2.1.3 Our Draft Determination, published in June, accepted a substantial part of Scottish Water's business plan and the basis on which the plan commanded customer support. We accepted that there is a clear need for increased investment and that charges will need to rise above inflation to fund it. However, our Draft Determination considered that Scottish Water must demonstrate that it has identified and taken reasonable steps to improve efficiency before asking customers to pay more. Our Draft Determination also sets out areas where further evidence is required, including on the delivery of the proposed investment programme.

2.1.4 We received 51 responses to our consultation on the Draft Determination, comprising 31 responses from individuals and 20 responses from organisations, which include both the industry stakeholders and wider stakeholders. We have considered the consultation responses, Scottish Water's representations and the new evidence. Taken together, this evidence has informed the changes we have made in the Final Determination, while maintaining the focus on long-term investment, affordability, value for money, and customer protection.

2.1.5 This chapter is structured as follows:

- Our approach in SRC21;
- Details of the SRC27 process to date;
- Detail of the final business plan;
- Scottish Water's assurance of the business plan;
- Our assessment in the Draft Determination;
- Draft Determination consultation responses and new information; and
- Our assessment in the Final Determination.

2.2 Our approach in SRC21

2.2.1 SRC27 is an evolution of the long-term regulatory approach introduced at SRC21, underpinned by Ethical Business Practice and Regulation (EBP&R), which requires candour and transparency in all conversations between the regulator and the regulated company, thereby reducing information asymmetries.[18] EBP&R supports candid discussions essential for building a common understanding and consensus about the nature of the challenges and how best to respond to them, including the long-term challenges such as maintaining an ageing asset base and adapting to climate change.[19]

2.2.2 Our approach in SRC21 was underpinned by a sector vision developed by industry stakeholders in response to a request from the Cabinet Secretary. WICS set charges of CPI+2% in 2021-27 as a first step towards ensuring that Scottish Water would make appropriate progress towards maintaining service and achieving net zero emissions by 2040, in line with the sector vision. This price profile was also underpinned by a challenging assumption of 1% per annum in ongoing productivity improvements.

[18] The principles of EBP&R are set out in Hodges and Steinholtz (2017), 'Ethical Business Practice and Regulation: A Behavioural and Values-Based Approach to Compliance and Enforcement'. Further details on the approach are set out in the WICS Final Methodology. WICS (2024), 'Strategic Review of Charges 2027-2033: Final Methodology', 13 December 2024, pp.36-37.

[19] The supervisory regulation model proposed for the water industry in England and Wales seeks to achieve the same outcome as EBP&R: enabling a deep understanding of a company and its challenges. See Independent Water Commission (2025), 'Independent Water Commission: Final Report', 21 July 2025.

2.2.3 The approach in SRC21 also allowed for £300 million of enhancement and growth investment per year in 2017-18 prices (equivalent to £390 million in 2024-25 prices) to be allocated to projects on an ongoing basis through an investment prioritisation process.[20] This annual allowance for enhancement and growth investment was a long-term average, based on an uplift over previous investment levels. Allowing for a long-term average was one way we sought to demonstrate intergenerational equity by ensuring that customers contribute the same amount each year towards new investments that benefit both them and future customers.

2.2.4 We also explained that, given the need to continue transitioning to increased investment, charges will need to increase by a similar amount in real terms, 1.5% to 2% per annum (equivalent to 9-13% in total over 2027-33), over the 2027-33 regulatory period.[21] This approach sought to protect current and future customers by avoiding sudden price shocks while ensuring that service levels are not compromised.

2.2.5 In accepting the Final Determination for SRC21, Scottish Water committed to developing a transformation plan and making improvements to its asset management practices and data, which was then reflected in an asset management transformation routemap. We consider that Scottish Water needs to continue making progress in both transformation and asset management over the 2027-33 regulatory period.

2.2.6 The main lesson learned from regulating Scottish Water within this new model is that flexibility is critical for Scottish Water to continue to adapt and prioritise its investment throughout the regulatory period. However, this must not come at the cost of Scottish Water's regulators and wider stakeholders being able to monitor the organisation and hold it to account for delivery. Both go hand in hand. Legitimacy and accountability are core elements of any regulatory model.

2.2.7 For SRC27, we have kept the elements that worked well, while evolving the approach to strengthen further elements based on the lessons from SRC21. On the elements that worked well, we have retained the long-term approach underpinned by a long-term sector vision. Scottish Water prepared a long-term strategy setting out how it would contribute to the water sector vision, and our methodology required its business plan to be developed in the context of both.

2.2.8 We have strengthened the approach in several areas to ensure we innovate while retaining areas that have served us well historically. We have raised our expectations for the evidence supporting business plan proposals and for specific, measurable outcomes and performance commitments. We have also strengthened our expectations that Scottish Water demonstrates efficiency, affordability and deliverability, including through more

[20] WICS (2020), 'Strategic Review of Charges 2021-27: Draft Determination', 8 October 2020, p.78.
[21] WICS (2020), 'Strategic Review of Charges 2021-27: Draft Determination', 8 October 2020, p.21.

formal and transparent Board assurance. Finally, we have strengthened customer engagement by involving customers in developing Scottish Water's draft and final business plans, with Consumer Scotland testing whether the final plan commanded their support.

2.2.9 Since we adopted the approach in SRC21, there have been major events, including the recovery from the COVID-19 pandemic and international conflicts, both of which have caused inflationary pressures over the last six years. While these events have added further pressure on investment in the water industry in Scotland, we consider that the analysis conducted for SRC21, which set out that investment will need to increase over the period to 2040, and the long-term approach endorsed by industry stakeholders still stands. Therefore, the long-term approach adopted in SRC21 remains an important starting point in setting charges for the 2027-33 regulatory period.

2.3 Details of the SRC27 process to date

The Commissioning letter, Statement of Objectives and Principles of Charging for SRC27

2.3.1 Scottish Ministers set the policy framework for the Strategic Review of Charges (as set out in section 1.5). The governance framework is based on a clear separation between:

- policy decisions, which are for Ministers, as elected representatives, to take on behalf of the Government;
- regulatory decisions, which are for WICS as the economic regulator; and
- operational decisions, which are for Scottish Water as the service provider.

2.3.2 This clarity of roles and responsibilities enhances legitimacy, accountability and transparency by ensuring that decisions are taken by the bodies best placed to make them, and democratically accountable where appropriate. In particular, Ministers are responsible for setting policy positions in line with the elected Government's priorities, rather than WICS determining public policy matters that can have significant implications for customers (e.g. the extent of cost sharing or cross-subsidisation between customer groups). Ministers set these policy priorities through the Commissioning letter, the Statement of Objectives and the Principles of Charging.

2.3.3 The Scottish Government formally commences the Strategic Review of Charges by issuing a Commissioning letter to WICS.[22] This letter provides WICS with a clear mandate to begin the review and sets the high-level framework for charge setting. It sets out the duration of the regulatory period, the preferred approach for the review, and the overarching timetable. Establishing these parameters at the outset provides clarity and predictability for all stakeholders and ensures that WICS' review of charges aligns with Ministerial expectations.

[22] WICS (2024), 'Strategic Review of Charges 2027-33: Commissioning letter', 12 June 2024.

2.3.4 Following the Commissioning letter, Scottish Ministers then set the overall policy priorities for the water industry. This policy is provided in the form of two statements:

- Statement of Objectives of the Scottish Ministers: covering the outcomes the water industry must meet; and
- Ministers' Principles of Charging: covering how services are paid for and by whom, and the charging arrangements to apply. It sets out the principles for determining the tariffs charged to customer groups for specific services, including eligibility for discounts and the levels of those discounts. The Principles of Charging also set out the maximum amount of lending Ministers are prepared to make available to Scottish Water over the period.

2.3.5 Scottish Government consulted on their Statement of Objectives and Principles of Charging between January 2026 and March 2026.[23]

2.3.6 The Scottish Government also finalised its Ministerial Objectives and Principles of Charging, following its consultation and having reviewed the Draft Determination.[24] The final Ministerial Objectives and Principles of Charging confirm the framework set out in the draft of these documents, both of which formed the basis of our Draft Determination, as outlined in more detail below.

2.3.7 The main changes compared to the earlier draft Ministerial Objectives and Principles of Charging include the following areas:

- The Standard of Service objective now highlights the need for Scottish Water to make improvements in the areas identified as being most important to customers, covering drinking water quality, reliability of water supplies, leakage and protection from internal sewer flooding;
- The Environment objective has been strengthened to make clear that Scottish Water's revised improving urban routemap should include commitments to reduce aesthetic pollution from sewer related debris;
- The Wastewater Treatment and Network Performance objective has been updated to require Scottish Water to publish data from all intermittent discharges as soon as reasonably practicable; and
- The Principles of Charging confirm the borrowing available for investment at £1,020 million.

[23] Scottish Government (2026), 'Water services - investing in and paying from 2027: consultation', 6 January 2026.
[24] Scottish Government (2026), 'Water Industry: Strategic Review of Charges for regulatory period 2027-33: Ministerial Objectives', 23 October 2026; and Scottish Government (2026),'Principles of Charging for regulatory period 2027-33', 23 October 2026.

2.3.8 We engaged further with Scottish Water to confirm that its investment programme from its business plan reflected the updated requirement to publish data on all intermittent discharges. Scottish Water confirmed that the proposed investment is sufficient to deliver the planned monitoring rollout and data publication required, and that it does not identify any further investment requirement arising from the updated Ministerial Objective.

2.3.9 We consider that our Final Determination is consistent with both the final Ministerial Objectives and Principles of Charging.

WICS methodology

2.3.10 WICS published its methodology on 12 December 2024, outlining how we will set charge caps in the Strategic Review of Charges.[25] It provides the approach for the Strategic Review of Charges, a detailed timeline based on the Commissioning letter, and clear expectations for Scottish Water to meet.

2.3.11 The methodology for SRC27 was built on the foundations established in SRC21, while seeking to enhance several areas in response to lessons learned:[26]

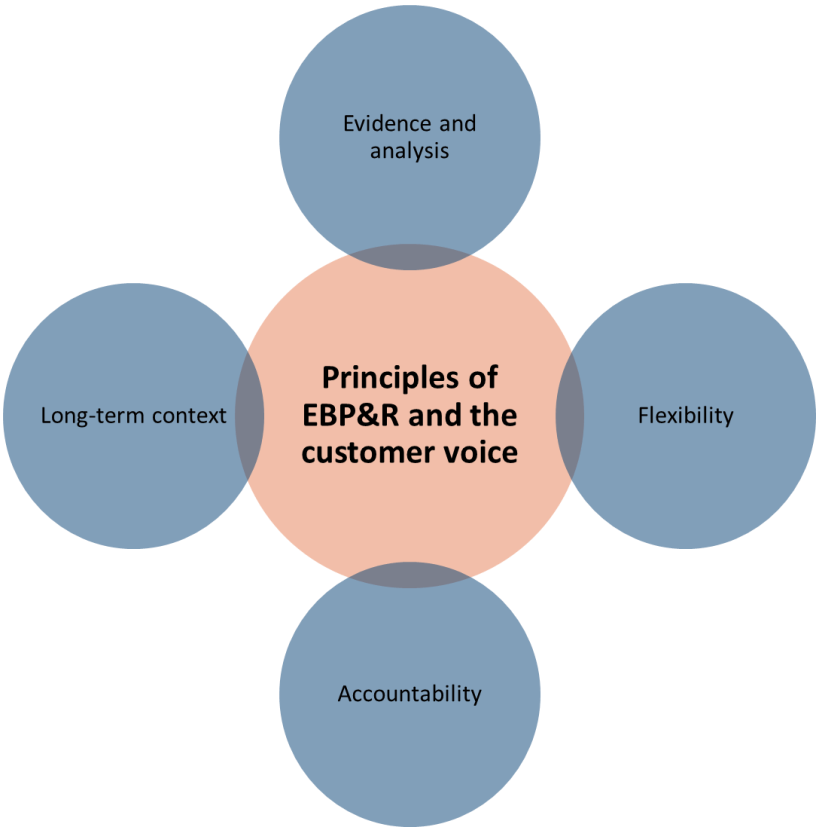
- Setting clearer expectations for Scottish Water's business plan;
- A focus on the quality of the evidence, information, and assurance; and
- The need for timely and comprehensive information covering areas such as financial forecasts, delivery commitments and service targets (referred to as 'a baseline') for the regulatory period to enable stakeholders to hold Scottish Water to account for delivery.

2.3.12 Setting out these elements in the methodology means that it acts as a foundation for the remainder of the process. By establishing our expectations early in the process, we give Scottish Water a clear basis on which it must evidence its plan. In particular, Scottish Water, as the operator and creator of the plan, has a responsibility to provide the necessary evidence and assurance to justify its proposals.

2.3.13 As set out in our Final Methodology, the foundations from SRC21 and lessons learned have led to the following principles for SRC27, shown in Figure 9.

[25] WICS (2024), 'Strategic Review of Charges 2027-33: Final Methodology', 12 December 2024.
[26] These lessons learned and areas for improvement are set out in Chapter 5 of WICS Final Methodology. WICS (2024), 'Strategic Review of Charges 2027-2033: Final Methodology', 12 December 2024, pp.43-50.

Figure 9: Key SRC27 principles



Embedding the principles of ethical business practice and regulation (EBP&R)

2.3.14 Our approach will continue to be underpinned by the principles of EBP&R. We will aim to ensure there is a high level of engagement throughout the Strategic Review of Charges process, consistent with EBP principles and consultation best practice. We will ensure the customer voice is placed at the heart of the decisions taken in SRC27.

A focus on high-quality evidence and analysis

2.3.15 Our approach for SRC27 places even greater emphasis on evidence-based decision making, including demonstrating how risk is understood and taken into account. As such, we have focused on the quality of Scottish Water's evidence and analysis that underpin its plans to meet Scottish Ministers' Objectives in the context of the longer-term water sector vision.

2.3.16 We set out expectations for Scottish Water to demonstrate the links between outcomes, investment need, expenditure and risk. It is then our responsibility to test this evidence, which we have done using a variety of methods, including quantitative analysis and qualitative assessment, and arrive at a judgement by weighing up these considerations. This approach makes effective use of the broad evidence base whilst avoiding an over-reliance on specific modelling outputs.

SRC27 set in the context of the long-term

2.3.17 SRC21 shifted the balance away from short-term investment requirements over a defined regulatory period towards a longer-term approach. This recognised the importance of looking beyond the regulatory period, given the water industry's long-term nature. Our approach for SRC27 maintains this focus, requiring Scottish Water to set out its plans for delivery over the 2027-33 regulatory period as a step towards achieving the longer-term sector vision.

Ensuring clear accountability

2.3.18 Scottish Water must have full ownership and accountability for delivery and its performance during the regulatory control period. However, there needs to be a clear set of financial forecasts and commitments that define what Scottish Water is expected to deliver during 2027-33, which forms a performance baseline. The Final Determination and delivery plan process provides this performance baseline, while the regulatory change process (previously the investment planning and prioritisation framework) allows Scottish Water to make changes where circumstances or evidence change. EBP&R places a greater onus on Scottish Water to explain and document the changes it intends to make through the Water Industry Investment Group (WIIG) and reflect these changes in the annual updates to the delivery plan.[27]

Building appropriate flexibility

2.3.19 We recognise that Scottish Water needs sufficient flexibility to respond effectively to its challenges. In this context, flexibility means that Scottish Water can change how it delivers the regulatory settlement in response to new information, changing risks or opportunities. It should not mean that material changes occur without transparency or accountability.

Scottish Water long-term strategy

2.3.20 Following the methodology, Scottish Water developed a long-term strategy, published in May 2025.[28] Scottish Water highlighted three long-term challenges the water industry is facing:

- Mitigating and adapting to climate change;
- Continuing to invest in the water infrastructure, recognising that the asset base is ageing; and
- Delivering services for the changing population of Scotland.

[27] The Water Industry Investment Group (WIIG) is the principal forum by which Scottish Water can regularly inform its stakeholders of its progress in delivering the Ministerial Objectives and Final Determination, and provides a change process that gives feedback on proposed adjustments to the programme.
[28] Scottish Water (2025), 'Our Sustainable Future Together: Long term strategy', 25 May 2025.

2.3.21 In its long-term strategy, Scottish Water committed to doing as much as it can through partnership working, transformation, driving efficiency, and reducing demand to reduce the forecast level of investment needed and minimise the funding it requires from customers.[29] Our SRC27 process involves testing Scottish Water's assumptions in these areas and incorporating efficiency into our approach.

Scottish Water draft business plan and our feedback

2.3.22 Scottish Water prepared proposals for how it planned to meet the Statement of Objectives for the six-year period in a manner consistent with the Principles of Charging for the industry. These proposals covered charge caps, investment, scope for efficiency, and service-level targets.

2.3.23 Scottish Water shared its draft business plan with WICS in June 2025, in which it proposed annual charge increases of 4% above inflation over the 2027-33 regulatory period. This profile was positioned to address the challenges of the water industry. These include those mentioned in the long-term strategy, as well as further challenges such as:

- Meeting expectations for the quality of drinking water;
- The return of multiple PFI sites to Scottish Water over the period; and
- Meeting societal expectations for the quality of the water environment.

2.3.24 WICS and other water industry stakeholders gave feedback on Scottish Water's draft business plan.

2.3.25 Our feedback acknowledged the strengths of the draft plan and Scottish Water's efforts to reach this milestone.[30] Our key comments were that further evidence and ambition were needed throughout, particularly for a business plan proposing a CPI+4.0% charge profile. The needs case underpinning the plan lacked sufficient evidence to justify deviating from the forecast charge profile set out in SRC21 of 1.5% to 2% per annum (equivalent to 9-13% in total over 2027-33) over the 2027-33 regulatory period (see paragraph 2.2.4). We also challenged Scottish Water's ambition in both the forecast outcomes and the efficiency of operating expenditure, which would have helped demonstrate the value customers would receive from such a price rise. We also raised concerns that the deliverability of the investment programme had not been fully evidenced within the plan. We considered that further evidence was required to demonstrate that the plan is affordable.

2.3.26 Scottish Water had the opportunity to consider this feedback in finalising its business plan, which it published on 26 February 2026.

[29] Scottish Water (2025), 'Our Sustainable Future Together: Long term strategy', 25 May 2025, p.52.
[30] WICS (2025), 'WICS feedback on Scottish Water's draft business plan', 15 October 2025.

2.4 Detail of the final business plan

2.4.1 The final business plan (which we will refer to as the business plan except when considering the customer research on the draft and final business plan in the next chapter) reflects substantial effort across Scottish Water to assess future challenges, develop investment priorities and build the evidence required to support the proposals contained in the plan. WICS acknowledges the considerable work undertaken by Scottish Water in preparing the plan and engaging constructively throughout the SRC27 process.

2.4.2 The business plan provides Scottish Water's view of the funding it requires over the six years from 2027-33 to meet the Objectives of the Scottish Ministers. It sets out:

- The outcomes customers will receive in line with the Objectives of the Scottish Ministers;
- The investment required to deliver those outcomes;
- The efficient level of expenditure on operating costs;
- The required level of revenue and borrowing;
- Proposed charge caps; and
- The assurance that Scottish Water has conducted on the proposals, including assurance on whether its expenditure forecasts are efficient, the proposed charges are affordable, the investment programme is deliverable, and the plan commands customer support.

2.4.3 The business plan proposed a major programme of investment and operational activity to enable it to respond to the climate emergency, population change and the need to continue investing in the water infrastructure. Scottish Water explained that it sought to achieve an appropriate balance between this need for investment and customers' affordability concerns, recognising the ongoing cost-of-living pressures they face.

2.4.4 A summary of Scottish Water's draft business plan from June 2025 and the final business plan from February 2026 is provided in Table 2.

Table 2: Summary of Scottish Water's final business plan proposal for 2027-33

What's included	Scottish Water's draft business plan (June 2025)	Scottish Water's final business plan (February 2026)	What it means for customers
Charges	Charges increasing in line with CPI+4% per annum (equivalent to 26.5% above inflation over 2027-33).	Charges increasing in line with CPI+3.3% per annum (equivalent to 21.5% above inflation over 2027-33).	Bills would rise each year by inflation plus an additional 3.3%. Over the whole period, this is a total rise of 21.5% above inflation.

What's included	Scottish Water's draft business plan (June 2025)	Scottish Water's final business plan (February 2026)	What it means for customers
Borrowing	Net new borrowing of £170 million per annum in outturn prices (equivalent to £1,020 million over 2027-33).	Same as draft plan.	Scottish Water would borrow from Scottish Government to help fund investment over the period, alongside customer charges and other income. Borrowing helps fund the upfront cost of these investments and reduces the immediate impact on customer bills.
Total investment programme	£8,501 million, a 41% increase compared to the planned 2021-27 programme.	£8,093 million, a 35% increase compared to the planned 2021-27 programme.	More investment is proposed than in the previous period, aimed at maintaining services and meeting new requirements.
Maintaining existing assets	£5,078 million for asset maintenance (27% increase compared to 2021-27).	£5,076 million for asset maintenance.	A larger share of spending would go to repairing, renewing and replacing pipes, treatment works and other assets to keep services reliable.
Improving and expanding services	£3,423 million for enhancement and growth (70% increase compared to 2021-27).	£2,957 million for enhancement and growth (c.45% increase compared to 2021-27).	Additional spending would support upgrades, environmental improvements and capacity for growth (for example, new development and changing standards).
Service and environmental outcomes	A focus on outcomes including improvements in customer experience, a proposed 10% reduction in leakage, and progress towards net zero emissions by 2040.	Further improvements on outcome measures, including water quality contacts and sewer flooding, but lower performance on water interruptions compared to the draft business plan.	Targets include better customer experience, less water lost through leakage, and actions to reduce carbon emissions over time.

What's included	Scottish Water's draft business plan (June 2025)	Scottish Water's final business plan (February 2026)	What it means for customers
Operating costs (day-to-day running)	Operating expenditure of £3,544 million in total over 2027-33 reflecting returning PFI works, higher energy costs and other changes.	Operating expenditure of £3,617 million, a further increase from the draft business plan.	Some day-to-day costs change over time.
Efficiency challenge	0.8% per annum applied to both operating and capital expenditure. For operating expenditure this is an effective 0.66%, as the challenge is not applied to items outside Scottish Water's control (e.g. business rates).	Same as the draft business plan.	The plan assumes year-on-year efficiencies, meaning Scottish Water would need to find savings and work more efficiently while delivering the programme.

2.5 Scottish Water's assurance of the business plan

2.5.1 In our methodology, we required Scottish Water to prepare a Board assurance statement to set out how Scottish Water challenged and assured itself on specific aspects of the business plan. The use of a Board assurance statement reflects the difference in roles and responsibilities between Scottish Water, as operator, and WICS, as economic regulator. Scottish Water's Board owns and assures the business plan, while the Commission independently scrutinises the evidence and reaches its own regulatory judgement. We required that the Board's assurance statement cover the following areas as a minimum:

- That the plan commands customer support;
- Consistency with the long-term sector vision;
- That the plan represents value for money through providing challenging proposals for operating and capital expenditure efficiency and levels of service performance;
- That the plan is deliverable, considering factors such as the capacity of the supply chain in Scotland to deliver the proposed investment programme;
- That the plan maintains appropriate levels of financial strength over the 2027-33 period and beyond; and

- That the data underpinning the plan is accurate and complete, and accompanying commentaries are consistent with the expectations set out in the business plan guidance.

2.5.2 Scottish Water provided its Board assurance statement alongside its business plan. It set out the assurance activities and outcomes, the evidence underpinning each area and how the Board assured itself in each area. Our Draft Determination welcomed that it was signed by the Chair of the Scottish Water Board on behalf of the Board, as this reflects good corporate governance.

2.5.3 In our feedback on the draft business plan submission, we required Scottish Water to provide, alongside the final business plan submission, any impact assessments or relevant publications on how it is performing its statutory duties as a designated public body.[31]

2.5.4 Scottish Water provided the following impact assessments:

- The Consumer Duty impact assessment, which involves the public body considering the impact their strategic decisions will have on consumers;[32] and
- The pre-screening assessment for the Strategic Environment Assessment (SEA), which is a requirement placed on public bodies and private companies providing essential public services, such as utility companies, to assess, consult on and monitor the impact of their plans and programmes on the environment.[33]

2.6 Our assessment in the Draft Determination

2.6.1 Our Draft Determination recognised that Scottish Water produced a comprehensive and substantial business plan. It has engaged constructively throughout the process, shared early proposals and draft plans, and provided a Board assurance statement. This gave us a strong basis for scrutiny.

2.6.2 Our Draft Determination accepted a substantial part of Scottish Water's business plan and the basis on which the plan commanded customer support. We accepted that there is a clear need for increased investment and that charges will need to rise above inflation to fund it.

2.6.3 We also accepted Scottish Water's proposed performance on 21 of the 44 outcomes, the full scope of the enhancement and growth investment programme, Scottish Water's evidence on its current level of efficiency, the areas where Scottish Water will incur

[31] WICS (2025), 'Feedback on Scottish Water's draft business plan', 15 October 2025, p.30.
[32] The Consumer Duty is a requirement from the Consumer Scotland Act 2020 (Consumer Duty).
[33] The SEA is a requirement from Environmental Assessment (Scotland) Act 2005.

additional operating expenditure and several of Scottish Water's financial forecasts, including growth in the chargeable customer base.

2.6.4 However, our Draft Determination considered that Scottish Water must demonstrate that it has identified and taken reasonable steps to ensure its costs are kept as low as possible before asking customers to pay more. This reflected the commitment Scottish Water made as part of its long-term strategy.

2.6.5 Our Draft Determination therefore made targeted interventions in several areas where the evidence did not support the full costs requested, where the link between investment and outcomes needed to be stronger, and where performance expectations should be more stretching. We also considered that Scottish Water could have done more to demonstrate affordability and cost-effectiveness in some investment areas.

2.6.6 We introduced an efficiency challenge of 1% per annum. This reflected our long-term approach established through SRC21, which assumes that Scottish Water should continue to improve its efficiency as it invests in transformation and develops its operating model, ensuring it is well placed to meet future challenges. We also considered that the significant increase in asset maintenance investment should create opportunities for Scottish Water to improve how it manages its assets and reduce the costs of maintaining services over time.

2.6.7 We highlighted in our Draft Determination that our proposed allowance for asset maintenance is around twice the level that would be made available under an econometric approach to setting expenditure allowances, and Scottish Water did not contest this point. We consider that our assumption of efficiency should be assessed alongside broader expenditure allowances, on the basis that these allowances should provide greater scope for Scottish Water to plan and manage its assets proactively and efficiently.

2.6.8 Based on these interventions, our Draft Determination proposed the following package for the 2027-33 regulatory period:

- Charges of CPI+2% per annum over 2027-30, potentially increasing to CPI+2.3% over 2030-33 if uncertain costs arise;
- Stronger targets for 16 of Scottish Water's 44 outcomes, covering those service areas that customers value most highly, such as improving water quality, reducing leakage and reducing sewer flooding incidents;
- Allowed for investment of £7,946 million,[34] comprising:

[34] The £7,946 million is net of a cost challenge of £15 million relating to capitalised labour cost arising from an increase in national insurance contributions. Our Draft Determination removed this expenditure on the basis that it is an economy-wide factor that we expect to be reflected in inflation over time. As Scottish Water's revenues are linked to inflation, we consider that there is a risk that this expenditure is recovered twice through revenues.

- £4,926 million of investment to maintain existing assets to protect service and reduce risk of service failures;
- £2,867 million of enhancement investment to improve drinking water quality, protect the environment, improve services and meet demand from new growth; and
- £168 million of additional investment to achieve improved outcomes in water quality and continuity, environment and customer levels of service.

- Strengthened safeguards, covering:

  - a conditional charge cap for West Central Bioresources (WCB) project, which, at a cost of £560 million, would be the largest project Scottish Water will deliver since it was established in 2002. Customers would only pay the additional WCB element if the project proceeds and the relevant evidence requirements are met.
  - a mechanism for uncertain and uncontrollable costs to protect customers from paying upfront for costs that may not arise, while allowing Scottish Water to recover efficient costs where these are outside its control and properly evidenced.
  - enhanced arrangements for monitoring Scottish Water's performance over the 2027-33 regulatory period.

2.6.9 Taken together, we considered that the Draft Determination provided stronger outcomes for customers while requiring lower charges than Scottish Water had proposed. We therefore considered that the package was consistent with the basis on which customers had supported the business plan, subject to our consultation on the proposals.

2.6.10 Our Draft Determination also highlighted specific areas where we requested further information from Scottish Water, including:

- The outcome of Scottish Water and SEPA's engagement on the misalignment on areas such as the number of Unsatisfactory Intermittent Discharges (UIDs) removed and the proposed target for discharge permit compliance over the 2027-33 regulatory period;
- Further assurances from Scottish Water's Board that it has both the internal capacity and supply chain capacity to deliver the proposed investment in the Draft Determination; and
- Further evidence to be provided on the investment programme and specific investment projects, such as West Central Bioresources.

2.7 Draft Determination consultation responses and new information

2.7.1 We received 51 responses to our consultation on the Draft Determination, comprising 31 responses from individuals and 20 responses from organisations, which include both the industry stakeholders and wider stakeholders.

2.7.2 Our Draft Determination asked 8 questions and provided the opportunity for stakeholders to provide further feedback on areas not covered in the questions. Appendix 1 provides a detailed analysis of the consultation response and how we have considered the feedback received for our Final Determination. In this chapter, we provide an overview of the main themes emerging from the consultation responses.

Overview of consultation questions, responses and main themes arising

2.7.3 Table 3 sets out the consultation questions.

Table 3: Consultation questions

Question	Consultation question
1	To what extent do you agree that the draft determination strikes the right balance between outcomes, investment and charges?
2	To what extent do you agree that our proposals provide sufficient customer protection in SRC27?
3	To what extent do you consider that our proposed targets for outcomes are appropriate?
4	To what extent do you agree with our proposal for capital investment?
5	To what extent do you agree with our proposal for operating expenditure?
6	To what extent do you agree with our proposal to introduce a conditional charge cap?
7	To what extent do you agree with our proposals for monitoring Scottish Water's performance over SRC27?
8	To what extent do you agree with our proposals for monitoring the delivery of Scottish Water's investment programme?

2.7.4 The responses to each question are shown for all responses received (Figure 10) and then disaggregated into responses from individuals (Figure 11) and responses from organisations (Figure 12).

Figure 10: Response to consultation questions – All responses

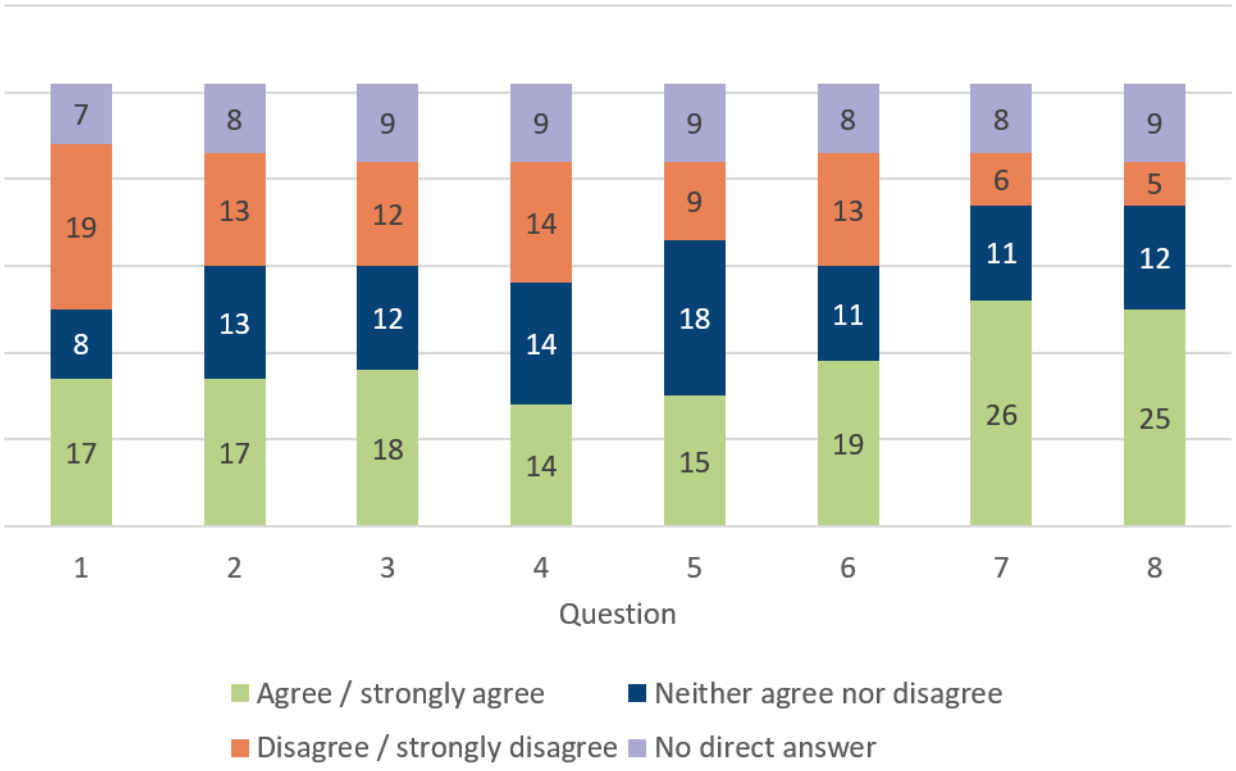


Figure 11: Response to consultation questions – Individuals

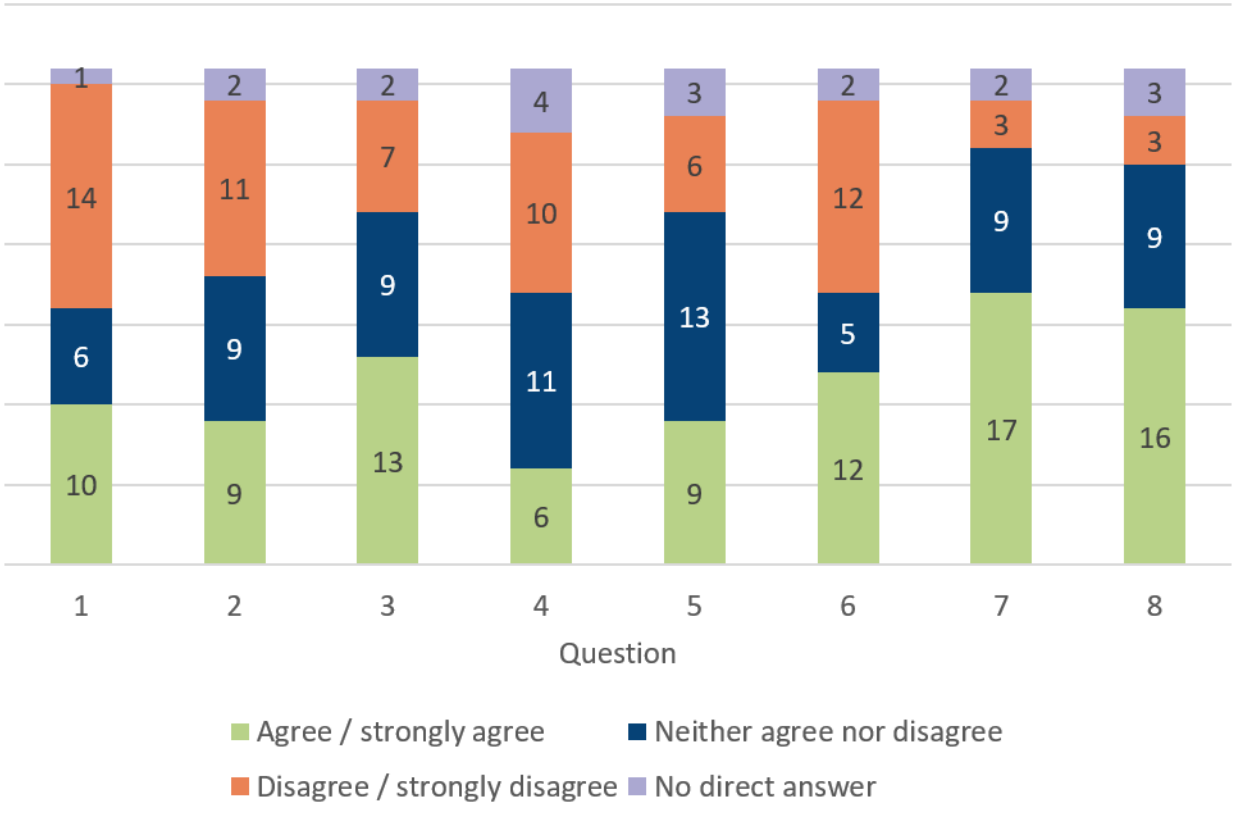
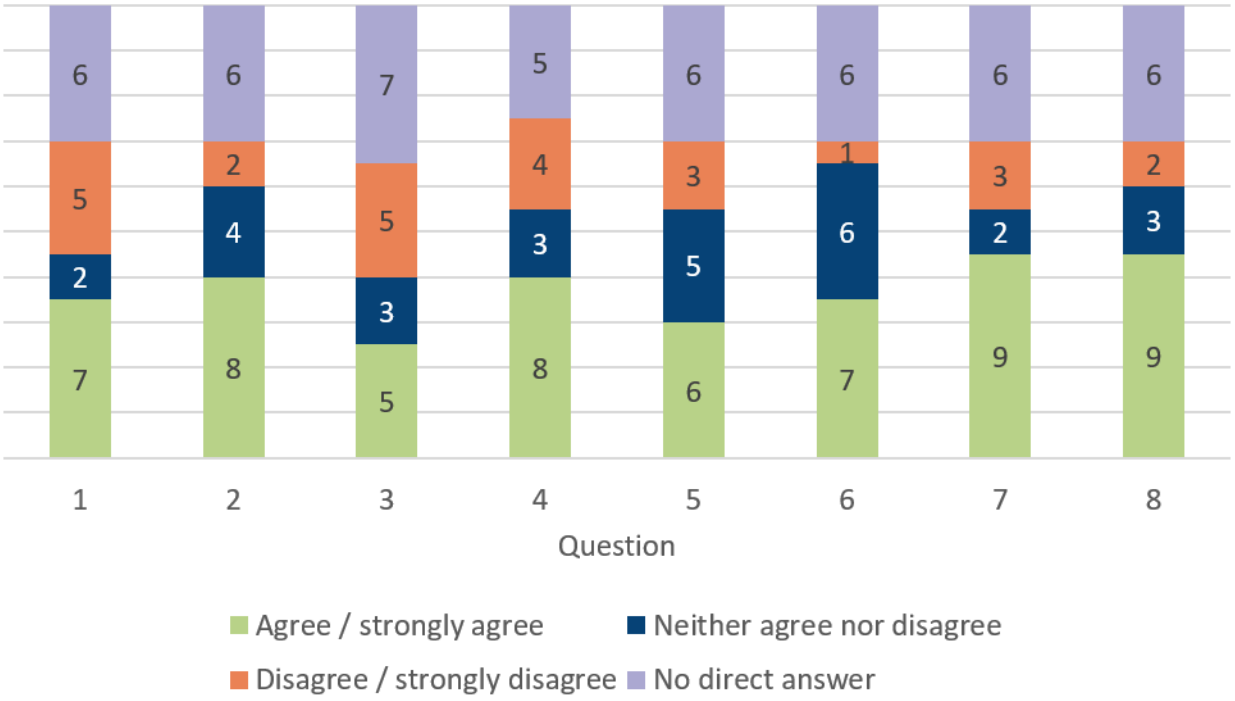


Figure 12: Response to consultation questions – Organisations



2.7.5 Of the responses that provided a direct answer to the questions, with the exception of question 1, there were more respondents who agreed with the Draft Determination proposals than disagreed with it. Using question 1 as an example, where respondents expressed disagreement, there were a range of reasons for doing so. For example:

- Scottish Water's primary concern is that it considers that the proposals in the Draft Determination create an overall package that does not provide sufficient funding to enable delivery of its business plan for the 2027-33 regulatory period.[35]
- 5 responses cited charge levels and the affordability of the CPI+2% charge increase;
- 5 responses cited outcomes, covering the need to ensure outcomes are appropriately defined to the level of stretch in outcomes, especially in relation to environmental performance;[36]
- 4 related to policy areas such as the rateable value methodology for calculating drainage charges, concern over the impact of data centre policies on water availability;
- 2 cited concerns over executive remuneration;
- 1 response commented on Ethical Business Practice and Regulation (EBP&R); and
- 3 provided no reasons.

[35] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 2.2.1 and 2.2.2.
[36] This includes one response that also cited charge levels and another response that also commented on EBP&R.

2.7.6 This shows that where there was disagreement, the disagreement was for a variety of reasons and across a wide spectrum. At one end, respondents who considered that WICS should apply further challenge and, at the other end, respondents who considered that WICS had applied too much challenge.

2.7.7 There were also 7 responses that did not provide a direct answer to this question as per the consultation questionnaire.

2.7.8 We have identified four consistent themes from the consultation responses:

- Need for investment;
- Charge levels;
- The linkage between investment, outcomes and value-for-money; and
- Monitoring and accountability.

2.7.9 Across the consultation questions, respondents generally recognised the need for more investment to improve services, resilience and environmental performance. Some respondents considered that further investment was required to improve environmental performance. Other respondents highlighted uncertainty over deliverability and sought confidence that the programme has been independently scrutinised and targeted at the most material risks. This theme is also in line with the findings from the deliberative research as set out in Chapter 3.

2.7.10 On charge levels, some respondents considered that the proposed charge increases seemed reasonable.

"It seems a reasonable and pragmatic approach"

2.7.11 While other respondents highlighted concerns about charges increasing above inflation, particularly for households and small businesses.

"Raising charges above CPI is going to put pressure on already struggling households."

2.7.12 On the linkage between investment, outcomes, and value-for-money, a strong recurring theme was the need for clearer evidence linking charges and investment to outcomes experienced by customers and communities. There was also a theme of ensuring that the outcomes were appropriately ambitious.

"If customers are being asked to pay above inflation in every year of this period, the targets attached to that money should be genuinely demanding"

"Need to respond quicker to leakage, sewer issues and cleaner water."

2.7.13 The Draft Determination proposals for monitoring and accountability were the ones that most respondents answered agree or strongly agree. This highlights the importance that respondents place on effective monitoring of Scottish Water's performance and holding it to account for delivery over the 2027-33 period. This theme is also in line with the findings from the deliberative research as set out in Chapter 3.

2.7.14 We provide more detail on the specific points raised in the consultation response in each chapter of the Final Determination. We also provide further details on the consultation responses in Appendix 1.

2.7.15 We also considered new information that was not available when preparing the Draft Determination, including Scottish Water's actual performance against outcomes in 2025-26 and its reported financial information for 2025-26, which affects the opening revenue and expenditure for the 2027-33 regulatory period.

Scottish Water's response to requests in the Draft Determination

2.7.16 In our Draft Determination, we required Scottish Water to address the areas highlighted in paragraph 2.6.10.

2.7.17 On discharge permit compliance, Scottish Water revised the forecast performance on the discharge permit compliance outcome measure upward provided it can access £11 million of additional funding.[37] However, we note that this still falls short of SEPA's regulatory position of full compliance, as set out in relation to SEPA's response below.

2.7.18 On deliverability and the additional Board assurance on the deliverability of the investment programme, Scottish Water's Board provided such additional assurance.[38] The additional assurance statement explains how the Scottish Water Board has satisfied itself that Scottish Water has both the internal capacity and supply chain capacity to deliver the programme. It refers to an assessment by Turner and Townsend that gives the Board confidence that Scottish Water has established a credible platform to meet the investment requirements for the 2027-33 regulatory period. The assurance statement also refers to an assessment

[37] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 10.3.3.
[38] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination response – Annex 7 – Additional Board Assurance Statement', 1 September 2026.

of internal capacity by the Scottish Water People Directorate, which it considers supports Turner and Townsend's assessment. We are satisfied with this additional assurance and cover deliverability, and this additional evidence in section 5.12.

2.8 Our assessment in the Final Determination

2.8.1 To ensure that all consultation responses and supporting evidence are fully considered, WICS requested a short extension to the timetable for completing the Final Determination. This recognised that the Commissioning letter from Scottish Ministers requested that the Final Determination should be published by 31 October 2026.[39] The Scottish Government confirmed the extension, which changed the original publication date from 29 October 2026 to 12 November 2026.

2.8.2 We have considered the consultation responses, Scottish Water's representations and the new evidence. Taken together, this evidence has informed the changes we have made to the Final Determination, while maintaining the focus on long-term investment, affordability, value for money, and customer protection.

2.8.3 We consider that Scottish Water has addressed the specific requests in our Draft Determination, covering the three areas in paragraph 2.6.10. We are also satisfied with the additional assurance that Scottish Water's Board has provided on deliverability, noting our concerns from our Draft Determination.

3 Customer support

3.1 Summary of this chapter

3.1.1 This chapter sets out the customer research undertaken to inform SRC27 and explains how that research is embedded at the heart of the SRC27 process.

3.1.2 Our approach to customer engagement is built on the approaches followed in the previous Strategic Review of Charges to ensure that customer views are reflected in the decisions that affect them. This is consistent with the requirements of the Consumer Duty that applies to public bodies and forms the basis of the Memorandum of Understanding (MoU) agreed between Consumer Scotland, Scottish Water and WICS.[40]

3.1.3 Through the MoU, Scottish Water worked with its partners to identify customer priorities, independent challenge from an Independent Customer Group (ICG) then assessed whether the identified priorities were appropriately reflected in its business plan and then the plan was tested in order to understand whether customers supported it. This latter step was

[39] WICS (2024), 'Strategic Review of Charges 2027-33: Commissioning letter', 12 June 2024.
[40] WICS (2024), 'Placing customers at the heart of the Strategic Review of Charges', 11 November 2024.

designed to meet the request from Ministers in the Commissioning letter for the Final Determination to command customer support.[41] This work has been delivered through Consumer Scotland's long-term deliberative research.

3.1.4 This research found broad support for Scottish Water's final business plan. Participants generally viewed the final business plan as balanced, sensible and acceptable. Participants also acknowledged that Scottish Water had listened to consumers and made efforts to balance investment needs with affordability.[42]

3.1.5 However, this support was also conditional on WICS scrutinising the proposed costs in the plan. There was also concern about the cumulative impact of rising household and business costs, the uncertainty about future inflation, and the effect of higher charges on those least able to afford them. Furthermore, participants' confidence in the plan was underpinned by the expectation that WICS would hold Scottish Water to account for delivering the commitments it contained.

3.1.6 As the Draft Determination proposed improved outcomes for lower charges, we considered that such a package was consistent with the basis on which customers supported the business plan. We tested this point during the consultation on the Draft Determination, with responses highlighting themes similar to those that emerged from the deliberative research.

3.1.7 The consultation responses reinforced the findings from the long-term deliberative research undertaken as part of the confirmation pillar. Respondents recognised the need for investment but wanted it to be affordable and deliver value, and they wanted confidence that Scottish Water would be held to account for delivering it. This feedback has helped shape a final decision that balances long-term investment needs with strong customer protection.

3.1.8 We consider that the Final Determination remains consistent with the basis on which customers supported the business plan. As such, we consider that this meets the requirement from the Commissioning letter for the Final Determination to command customer support.

3.1.9 The chapter is structured as follows:

- Background;
- Pillars 1 and 2: Evidence and challenge;
- Pillar 3: Confirmation;
- Draft Determination consultation responses and new information; and

[41] WICS (2024), 'Strategic Review of Charges 2027-33: Commissioning letter', 12 June 2024.
[42] Consumer Scotland (2026), 'SRC27 deliberative research IPSOS key insights report', 11 September 2026, p.3.

- Our assessment in the Final Determination.

3.2 Background

3.2.1 As set out in paragraph 2.3.4, the Ministerial Objectives decide the outcomes that Scottish Water must deliver over the 2027-33 regulatory period, and the type of investment activity Scottish Water should be undertaking. These Objectives are informed by other Scottish Government policies and strategies and also by the views of Scottish Water, Consumer Scotland, DWQR, SEPA and WICS.

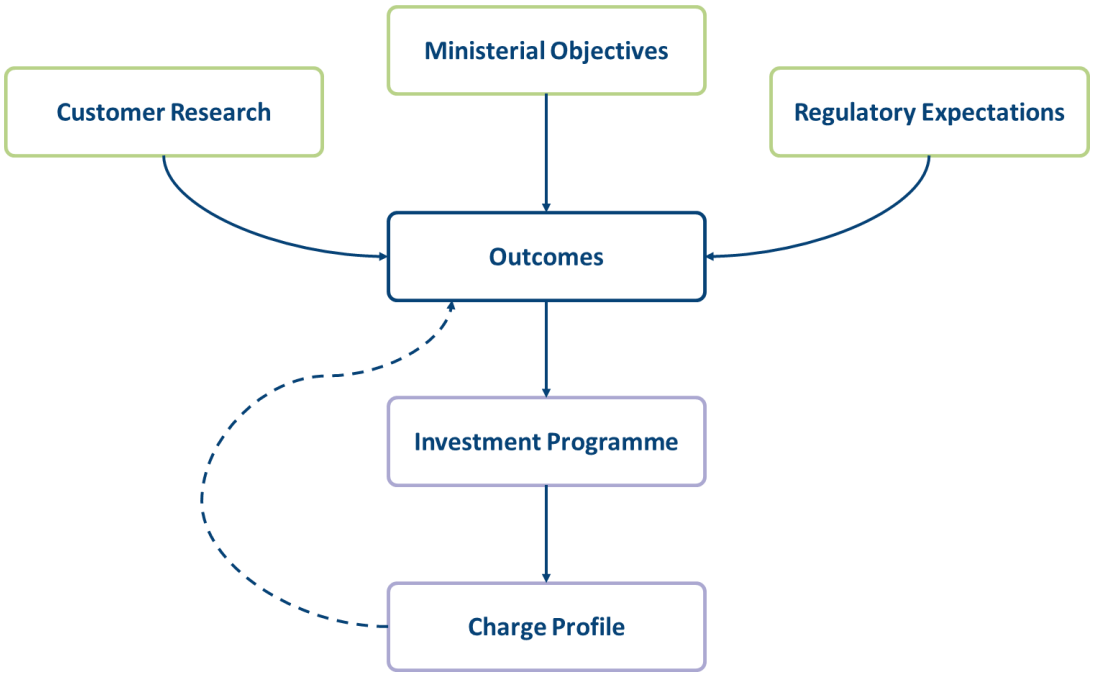
3.2.2 Scottish Water has translated the Ministerial Objectives into more detailed outcome measures. These detailed outcome measures have also been informed by customer priorities identified through customer research and by improvements needed to comply with drinking water quality and environmental regulations.

3.2.3 The detailed outcome measures and the desired performance levels for those measures will impact the investment required over the 2027-33 regulatory period. In developing a business plan, Scottish Water will iterate a range of factors, including:

- The performance levels for the detailed outcome measures;
- The required investment; and
- The charge profile.

3.2.4 Scottish Water will iterate among these factors to develop a business plan that achieves an appropriate balance between charges and service levels, taking account of different considerations such as affordability and deliverability. This process is illustrated in Figure 13.

Figure 13: Process for developing outcomes



3.2.5 Customer research plays a key role in identifying the priority outcome measures as well as the desired performance levels for these measures. Customer research is also important for testing whether customers consider the business plan to achieve an appropriate balance between price and service levels.

3.2.6 To ensure that customers are at the heart of SRC27, Consumer Scotland, Scottish Water and WICS signed a Memorandum of Understanding (MoU)[43] on 11 November 2024 that sets out the principles and programme of joint work on customer engagement. The agreed four Principles are:

- **Empowerment**: Customers and communities will be empowered by setting a clear expectation on Scottish Water to take ownership of its business plan and charges and demonstrate that both command the support of customers and communities;
- **Legitimacy**: Customer research is credible, well-designed, comprehensive, robust, unbiased, inclusive and independent and follows best practice. Scottish Water's business plan clearly reflects customer views, including how they have been incorporated;
- **Collaboration**: Effective coordination and co-design of customer research, building on the principles of Evidence-Based Research; and
- **Independent Challenge**: Scottish Water will be challenged robustly to demonstrate that plans are reflective of customer expectations through an independent group.

[43] WICS (2024), 'Placing customers at the heart of the Strategic Review of Charges', 11 November 2024.

3.2.7 These principles are built into the three pillars of work: Evidence, Challenge, and Confirmation.

3.2.8 The evidence pillar establishes customers' views on issues relating to the business plan and has been core to the development of the plan. Scottish Water has undertaken research to identify customer priorities and incorporate these into the business plan. This research has been conducted with input from the multi-stakeholder Customer Research Co-ordination Group (CRCG), whose membership includes Scottish Water, Consumer Scotland, the Independent Customer Group (ICG), and WICS.

3.2.9 The challenge pillar ensures that the business plan benefits from independent evidence-based challenge. The ICG was established to address this by challenging Scottish Water's understanding and incorporation of customers' needs and expectations into its business plan. This work has been delivered through the ICG's involvement in Scottish Water's customer research programmes, its challenge log, and its assurance report.[44, 45]

3.2.10 The confirmation pillar was developed to meet the request from Ministers in the Commissioning letter for the Final Determination to command customer support. This work has been delivered through Consumer Scotland's long-term deliberative research, covered in section 3.4.[46]

3.3 Pillars 1 and 2: Evidence and challenge

3.3.1 The main research studies that fulfil the evidence pillar have been delivered by Scottish Water, with input from water industry stakeholders through the CRCG. A smaller taskforce, the Research Advisory Group (RAG), was established to deliver the research at pace whilst also ensuring stakeholders' views were heard.

3.3.2 Scottish Water's research was delivered through four studies, the first three of which were qualitative and conducted with customers who had first been given extensive inductions on Scottish Water. The fourth assessed the draft business plan's broad acceptability through a quantitative study, as advocated by the ICG.

- **Study one**[47] sought household and non-household customer views and preferences on three charging scenarios: CPI+2%, CPI+4% and CPI+6.5% and their corresponding investment programmes.
- **Study two**[48] gathered expectations of licensed providers to inform business plan development.

[44] ICG (2026), 'ICG Challenge Log', 26 February 2026.
[45] ICG (2026), 'ICG Final Assurance Report', 26 February 2026.
[46] WICS (2024), 'Strategic Review of Charges 2027-33: Commissioning letter', 12 June 2024.
[47] Scottish Water (2025), 'SR27 Customer Expectations Final Report', 14 May 2025.
[48] Scottish Water (2025), 'SR27 Licensed Providers Research', 24 June 2025.

- **Study three**[49] focused on charge trajectories to understand customers' preferences between a front-loaded increase and steady charge rises.
- **Study four**[50] was a quantitative study with a nationally representative sample to test customer views on a CPI+4% scenario.

Study one: Customer Expectations

3.3.3 The first study provided initial views from customers and their thoughts on the Scottish water industry. Feedback showed that tap water in Scotland is a source of national pride.[51] It was also shown that there were opportunities for further customer outreach and education in areas such as the challenges facing the water industry and the structure of Scottish Water.

3.3.4 There was no conclusive answer on a charging profile preference between the three options provided of CPI+2%, CPI+4% and CPI+6.5%. A common sentiment was that the proposed scenarios did not provide sufficient value for the projected price increases.

Study two: Licensed Providers research

3.3.5 The second study was conducted with licensed providers, whose roles are defined in section 1.3. This study gathered initial views and expectations from participants, followed by a presentation of three high-level investment scenarios: CPI+2%, CPI+4%, and CPI+6.5%. A summary of the feedback from non-household customers was also provided.

3.3.6 Licensed providers expressed positive views of the service they received from Scottish Water for reasons such as accurate billing, responsive account managers, and quick resolution of problems.[52] Their expectations for SRC27 aligned with these reasons, and they expected that water conservation would be a higher priority in the coming period.[53]

3.3.7 In general, licensed providers were not surprised by the feedback that non-household customers had given on each of these three scenarios. They were particularly concerned about the proposed costs. The CPI+4% scenario was viewed as relatively high, and there was a strong feeling that the CPI+6.5% scenario would be a struggle for many businesses to absorb. Across the three scenarios, the outcomes were considered underwhelming, corroborating the sentiments of household and non-household customers in study one.[54]

[49] Scottish Water (2025), 'SR27 Reconvened Groups', 6 June 2025.
[50] Scottish Water (2025), 'SR27 Quantitative Research Final Report', December 2025.
[51] Scottish Water (2025), 'SR27 Customer Expectations Final Report', 14 May 2025, p.64.
[52] Scottish Water (2025), 'SR27 Licensed Providers Research', 24 June 2025, p.8.
[53] Scottish Water (2025), 'SR27 Licensed Providers Research', 24 June 2025, p.10.
[54] Scottish Water (2025), 'SR27 Licensed Providers Research', 24 June 2025, p.15.

Study three: Reconvened groups

3.3.8 The third study was conducted with participants who had previously taken part in Scottish Water's first study. Scottish Water had rebalanced its CPI+4% investment scenario in light of customer feedback. This scenario was presented to participants to gather their views on choice areas of expenditure and to determine whether their feedback had been incorporated into the plan.

3.3.9 After exploring the non-mandatory areas of expenditure, it was found that participants did not have strong challenges to the proposed balance of expenditure in these areas. Most participants agreed that Scottish Water had listened to their feedback from the original research when rebalancing this investment scenario.[55]

3.3.10 This study also explored customer views on a reprofiled charging trajectory. Two bill impact scenarios were presented: the first was a steady increase of CPI+4% each year, and the other was a front-loaded increase of CPI+11% in the first year, followed by CPI+1.47% in subsequent years. During the discussion, the steady increase was seen as a more acceptable trajectory, whereas in the post-task session, the preferences between the two trajectories were more balanced. It was acknowledged that a front-loaded increase could cause affordability concerns and may be challenging for Scottish Water to communicate effectively with less well-informed customers.

Study four: Quantitative research

3.3.11 Scottish Water's quantitative study was conducted on a sample of 1,065 households and 200 non-household customers. This sample was chosen to be representative of the Scottish population. Face-to-face interviews were arranged with 100 of these household customers to ensure that hard-to-reach customers were included in the research. The purpose of utilising a large uninformed audience was to ensure that the results could be used to infer perceptions across all Scottish Water customers.

3.3.12 This study was conducted between the draft and final business plans, so the charging scenario being presented was CPI+4%, as detailed in Scottish Water's draft business plan. Participants were asked questions on affordability, their priority outcome and investment areas, and their views on the overall plan.

3.3.13 The key affordability findings for household customers are summarised below:

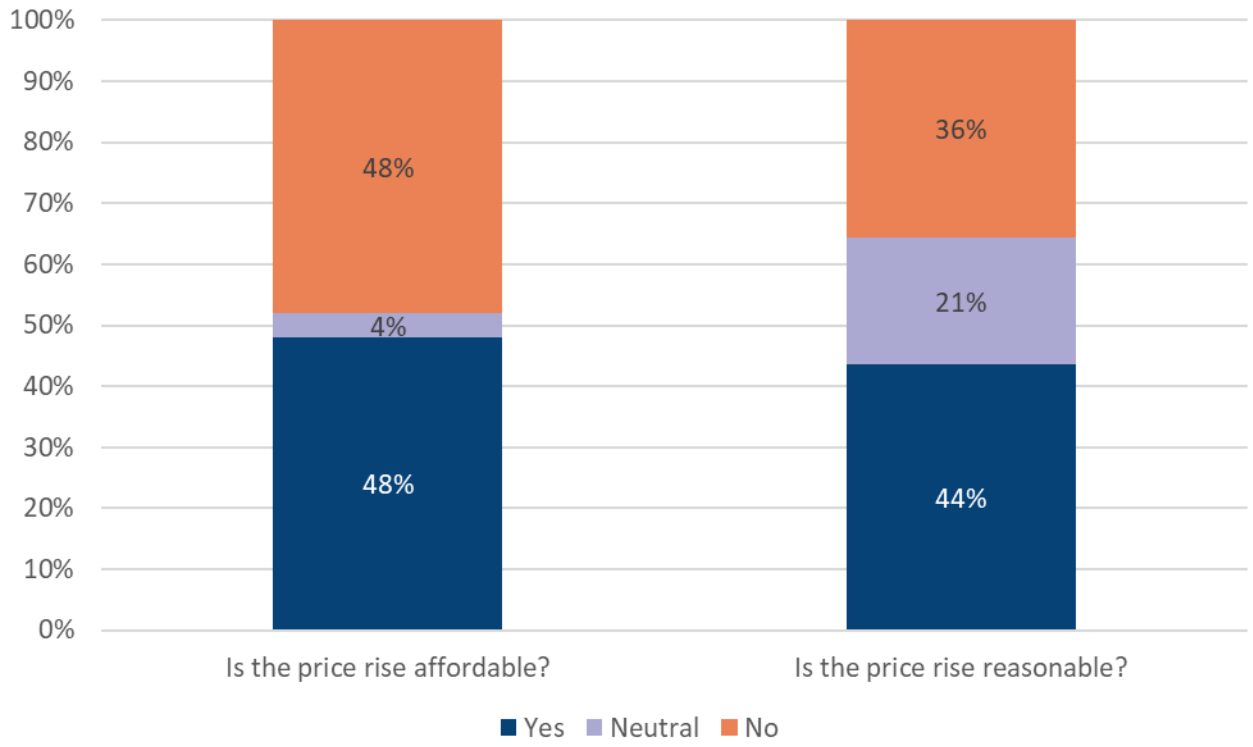
- 61% of household customers struggle to pay their bills at least occasionally (this refers to all bills incurred by the customer, not limited to Scottish Water bills). For 25% of household customers, paying bills is a constant struggle or worse.

[55] Scottish Water (2025), 'SR27 Reconvened Groups', 6 June 2025, p.30.

- Participants were asked their views on the affordability of the CPI+4% scenario, the reasonability of the price rise, and whether the plan offered value for money.

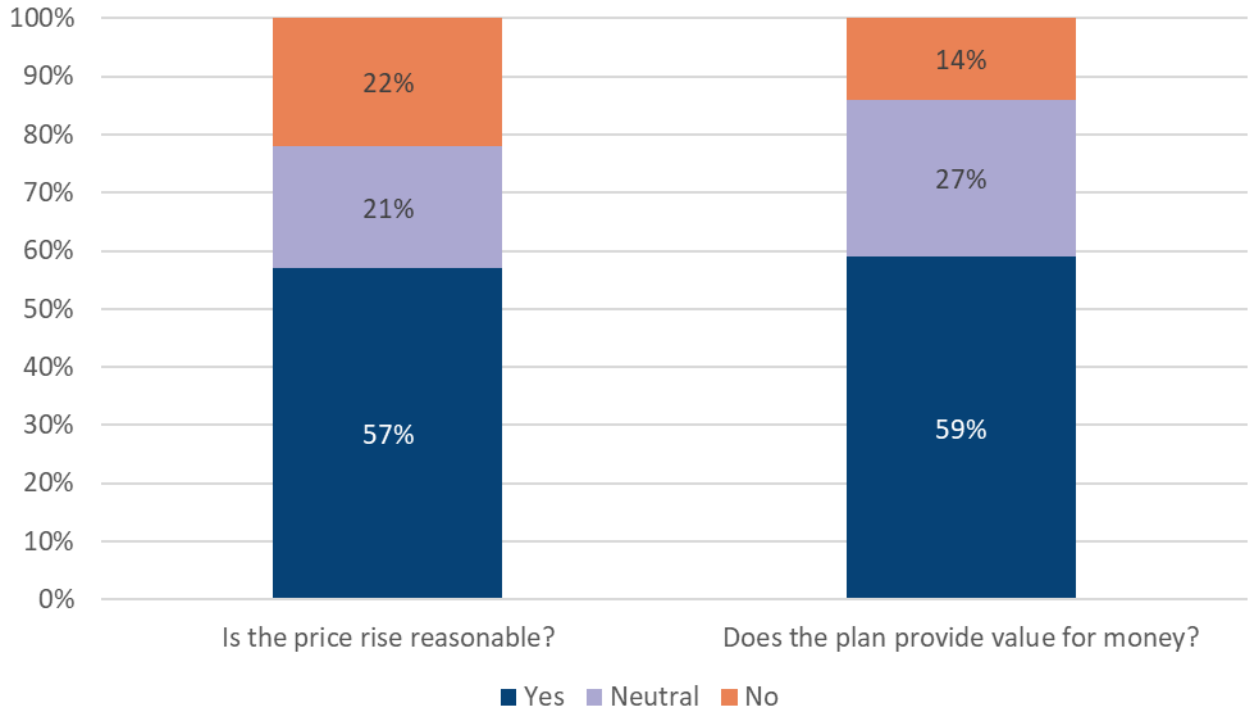
3.3.14 Figure 14 and Figure 15 show the responses from household customers before and after seeing the draft business plan. The price rise was seen as more reasonable once the draft business plan was presented, and there was a positive sentiment that it provided value for money. However, participants were split on whether this price rise would be affordable.

Figure 14: Responses from household customers prior to seeing the draft business plan[56]



[56] Figures may not sum to 100% due to rounding.

Figure 15: Responses from household customers after the draft business plan was presented



3.3.15 This research was based on the draft business plan, and we note that Scottish Water did not test the affordability of the final business plan.

3.3.16 Participants were shown seven investment areas and asked to rank these by importance and assign a score to each area based on their perception of Scottish Water's current performance. Scottish Water then presented detailed proposals for each investment area in SRC27, and invited customers to provide their views on each.

3.3.17 Customers prioritised drinking water quality and a reliable supply of water as the most important investment areas, as shown in Table 4.

Table 4: Investment areas ranked in first place by household customers

Investment area	Percentage of participants ranking each area as the most important area
Drinking Water Quality	40%
Reliable Supply of Water	33%
Internal Sewer Flooding	7%
Reducing Leakage	7%
Reducing Environmental pollution and spills	7%
External Sewer Flooding	3%
Carbon Footprint	3%

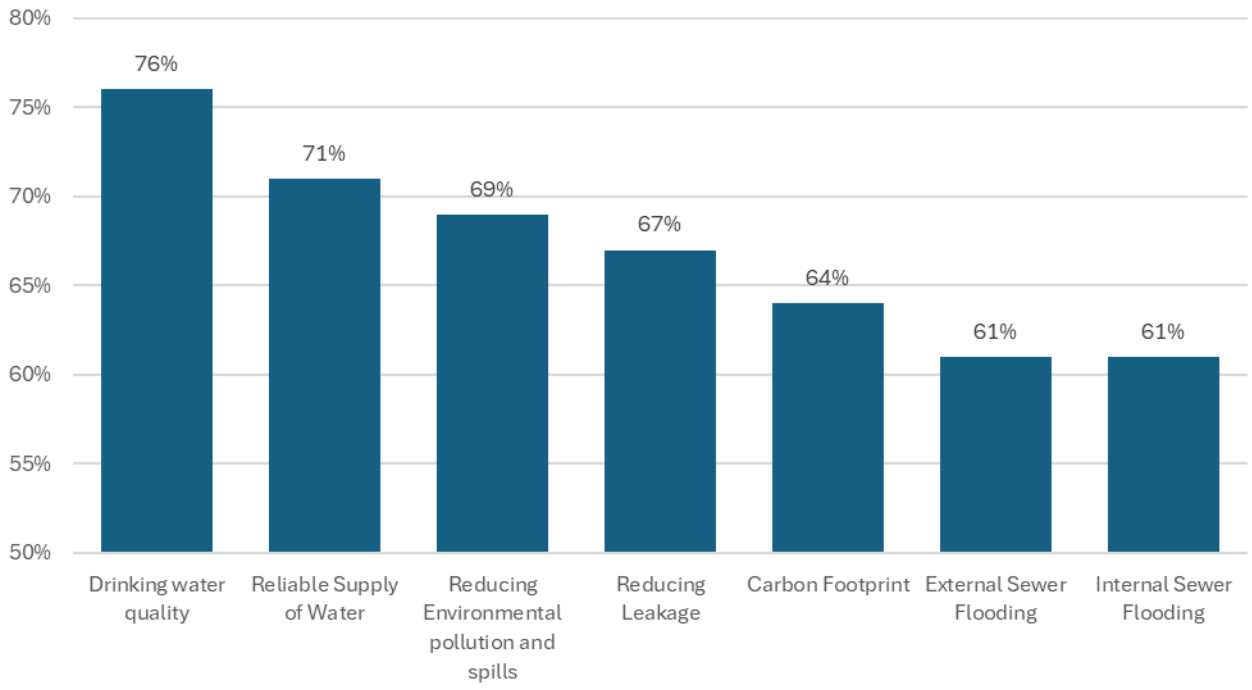
3.3.18 When we expand our view to include the top three investment areas, we see that customers prioritise four areas: drinking water quality, a reliable water supply, internal sewer flooding, and reducing leakage. These results are shown in Table 5.

Table 5: Investment areas ranked in the top three places by household customers

Investment area	Percentage of participants ranking each area within the top three most important areas
Drinking Water Quality	81%
Reliable Supply of Water	77%
Internal Sewer Flooding	40%
Reducing Leakage	40%
Reducing Environmental pollution and spills	26%
External Sewer Flooding	23%
Carbon Footprint	13%

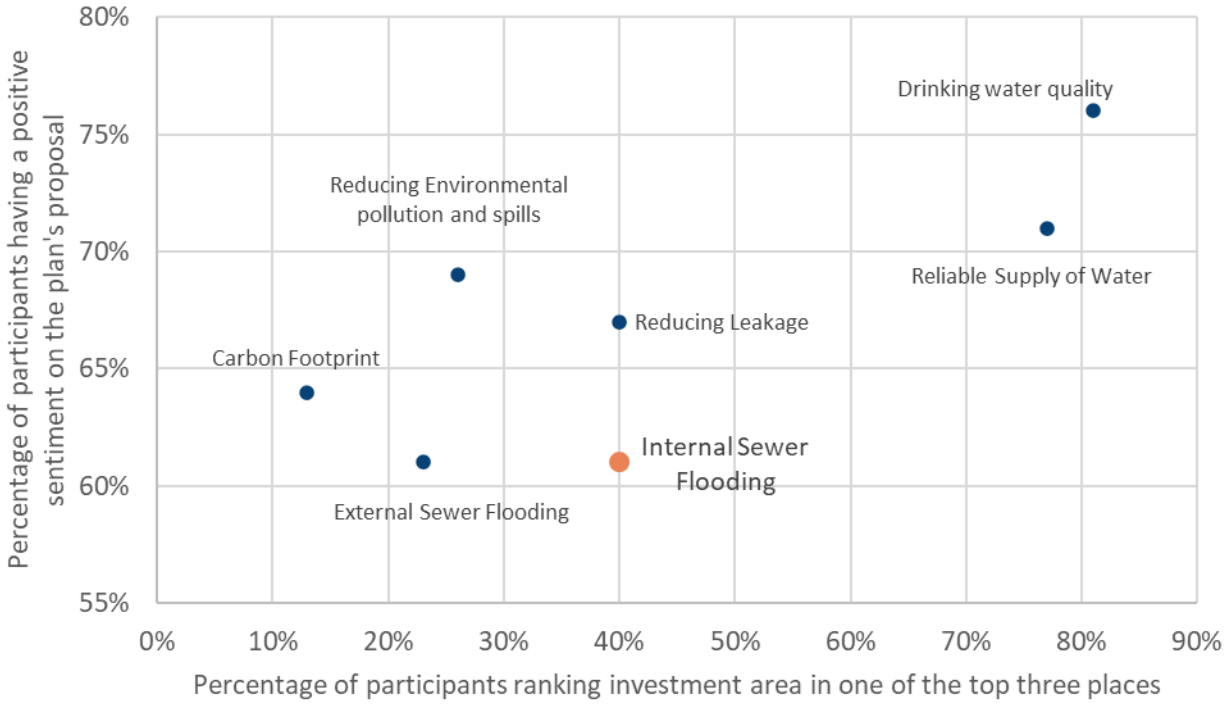
3.3.19 After Scottish Water presented its proposals for each of the seven investment areas, participants were asked to rate each proposal on a 5-point scale from very negative to very positive. The proportion of household customers answering 'very positive' or 'fairly positive' for each investment area is shown in Figure 16.

Figure 16: Positive sentiment on Scottish Water's draft business plan by investment area



3.3.20 Figure 17 shows a scatterplot combining the results of Table 5 and Figure 16.

Figure 17: Household customer views on Scottish Water's proposal and prioritisation of investment area



3.3.21 Based on this research, WICS concluded that customers have shown their top four priority areas are:

- Drinking water quality;
- Reliable water supply;
- Reducing leakage; and
- Internal sewer flooding.

3.3.22 However, Figure 17 suggests that internal sewer flooding (highlighted in orange) is underrepresented in the business plan relative to the other three customer priorities. It scores highly among customers' top three areas, with the same percentage of participants placing it in the top three as for leakage (40%). However, internal sewer flooding scored among the lowest in terms of customer sentiment of the business plan in that area (around 60%).

ICG's role in challenging Scottish Water

3.3.23 As detailed in section 3.2.9, the ICG was established as part of the challenge pillar of the memorandum of understanding. It was given the formal role of providing an assurance report on the quality of the customer research undertaken to inform Scottish Water's business plan, and the extent to which customer views were reflected in the plan.

3.3.24 The ICG also actively contributed to the design and oversight of customer research through the RAG, and it has concluded that it was satisfied that the research was well-designed and credible.

3.3.25 In its assurance report, the ICG confirmed that the customer voice has demonstrably influenced the final business plan. Part of the evidence for this is how customers' top priorities have been accommodated between the draft and final plans, including in the following investment areas:

- Restoration of investment for internal sewer flooding;
- Improvements in drinking water quality and aesthetics; and
- Targets to reduce leakage.

3.3.26 Other key examples of customer influence on the final plan are:

- Reduction of proposed charges from CPI+4% to CPI+3.3% while retaining outcomes;
- Adoption of a smooth charging path;
- Reorientation of net zero expenditure toward projects with direct business and environmental benefit; and
- Protection of resources for customer engagement, research, and awareness campaigns.

3.3.27 The ICG has highlighted that the CPI+3.3% charge profile has not been tested with a nationally representative sample, and therefore, it is not in a position to say whether that charge profile would be affordable. We consider that this is an area where Scottish Water could have provided more evidence to support its business plan proposals.

3.3.28 In addition to affordability, the assurance report highlighted some remaining issues:

- The management of residual risks;
- Mechanisms for ensuring customer voice in any future reprioritisation of investment; and
- Whether the scale of investment in the 2027-33 regulatory period places an undue burden on current bill-payers.

3.3.29 To alleviate the first two concerns, the ICG notes its expectations for:

- Clear processes for involving customers in decisions if risks materialise; and
- Transparent mechanisms for tracking delivery against the plan to reassure customers that their priorities continue to be met.

3.3.30 We cover these two points in relation to investment prioritisation in Chapter 10.

3.3.31 In its overall statement of assurance, the ICG notes that it is satisfied with the quality and rigour of the research. It concludes that customer views have been reflected in and shaped the business plan, and that the plan is reasonable in light of customer priorities.

3.4 Pillar 3: Confirmation

3.4.1 The final pillar seeks to provide confirmation that the final business plan commands customer support. Consumer Scotland has achieved this pillar through its longitudinal deliberative research programme, which was delivered with input from the RAG. A longitudinal research study involves repeatedly interviewing the same participants over an extended period of time, which allows participants to gain a deeper understanding of Scottish Water's role and plan.

3.4.2 There were 105 households and 40 non-household customers consulted in the study. The household customers were further split into two cohorts: cohort 1 comprised 63 customers, representing a broadly representative sample of the Scottish population, and cohort 2 consisted of 42 customers from backgrounds that are often underrepresented in research. A brief summary of each phase is provided below:

- Phase one focused on household customers, exploring initial views and awareness of water and wastewater services in Scotland. It gathered customer feedback on the key issues facing Scottish Water for its draft business plan.[57]
- Phase two engaged both household and non-household customers, and explored Scottish Water's draft business plan and proposed charges in more detail.[58]
- Phase three provided an opportunity for household and non-household customers to review Scottish Water's final business plan and to form conclusions.[59]

3.4.3 The three phases covered the period from December 2024 to May 2026.

3.4.4 The confirmation pillar led by Consumer Scotland is an innovative approach. It is the only example we are aware of involving the same group of customers, whose views have been sought from the early stages of the business plan through to testing whether that plan commands their support.

[57] Consumer Scotland (2025), 'SRC27 longitudinal deliberative research: Findings from phase 1', April 2025.
[58] Consumer Scotland (2025), 'SRC27 longitudinal deliberative research: Findings from phase 2', December 2025.
[59] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Summary findings from phase three of deliberative research', 21 April 2026. The final report is discussed below. Consumer Scotland (2026), 'IPSOS SRC27 longitudinal deliberative research: Findings from phase three', 11 September 2026.

Phase one

3.4.5 Consumer Scotland organised a workshop to gather initial views from customers, followed by three presentations by Scottish Water and opportunities for discussion.

3.4.6 Phase one provided the opportunity to collect customers' unprompted sentiments on the water industry and Scottish Water, prior to the induction that these participants would undergo through the study. A common theme was positive views of drinking water quality in Scotland. There was an acknowledgement of the value of water and the perception that Scotland had an abundance of it.[60]

3.4.7 Phase one also covered Scottish Water's current performance and the key challenges it is facing, namely climate change, population change, and ageing assets. There was surprise at the extent of some of these challenges, particularly the effects of droughts and heavy rainfall, and at the age of some of the infrastructure. Participants were unaware of the extent of water loss due to leakage, though they appreciated the efforts Scottish Water was making to address these challenges.[61] Participants also wanted to better understand the impact of these challenges on future prices.

3.4.8 After Scottish Water's presentations, customers acknowledged the scale of the challenges faced by the water industry, but raised concerns about the impacts of potential price rises on bill-payers.

Phase two

3.4.9 Phase two reconvened the household customers from phase one, and also involved engagement with the 40 non-household customers to gather their initial views. There was generally a good understanding of Scottish Water's role and some awareness that Scottish Water acts as the wholesaler in the market. Sentiments towards Scottish Water were positive, and responses were similar to those of household customers in phase one.

3.4.10 All participants, household and non-household, were provided a summary of Scottish Water's draft business plan, and views were sought on investment areas and the overall plan.

3.4.11 In general, participants were broadly positive about the investment areas set out in the draft business plan. There was an appreciation of the level of ambition and the long-term approach. However, there was some scepticism about the achievability of the outcomes and concern that actual costs could be higher than forecast.

[60] Consumer Scotland (2025), 'SRC27 longitudinal deliberative research: Findings from phase 1', April 2025, p.6.
[61] Consumer Scotland (2025), 'SRC27 longitudinal deliberative research: Findings from phase 1', April 2025, pp.14-17.

3.4.12 Participants did not provide conclusive support for the CPI+4% charge profile. There was concern about the impact of this price rise alongside rising other bills, and about what would happen if inflation ran higher than anticipated.

3.4.13 Customers highlighted some important areas which should be addressed in the final business plan:

- More information on costs and return of connecting new homes;
- A clearer explanation of how investments in drinking water quality are necessitated by tightening regulations;
- Reframing of some net-zero projects to better demonstrate the multiple benefits they will deliver;
- Explaining the impact water conservation could have on reducing bills;
- More information on the processes around discounts and exemptions. We note this area is outside of the remit of Scottish Water and WICS;
- More information on Scottish Water's ability to absorb economic shocks and minimise burden on customers; and
- More focus on customer awareness raising, such as education around reducing water usage.

3.4.14 Participants wanted to better understand the context in which Scottish Water is developing its plan, including:

- How will customers be assured that Scottish Water's plans are as cost-effective as possible?
- How will Scottish Water be held to account over the plan?
- How does Scottish Water compare to the water sector in England and Wales in terms of budgeting and performance measures such as leakage?

Phase three

3.4.15 Phase three took place after the final business plan had been published. It sought to review the changes Scottish Water made between the draft and final business plan and gather participants' views. The fieldwork consisted of a public dialogue workshop with 50 household customers, supplemented by further engagement with household customers from underrepresented groups and individual interviews with non-household participants.

3.4.16 Findings from this phase were presented to WICS and the industry stakeholders on 23 April 2026. Consumer Scotland also wrote to WICS to provide high-level findings to inform WICS

Draft Determination.[62] The full phase 3 report was published on 11 September 2026. This is discussed further from paragraph 3.5.17.[63]

3.4.17 The research concluded that it found support for and acceptance of Scottish Water's final business plan, which was broadly considered balanced and sensible by participant household and non-household consumers.

3.4.18 The research found that the proposed investments in the final business plan are broadly aligned with customer priorities and that the changes made between the draft and final versions reflected customer views. For example, drinking water quality outcomes improved after customer feedback identified it as a key area. Customers appreciated the transparency of the process and the incorporation of their views into the final business plan.

3.4.19 The reprofiled charges were considered more affordable than the profile outlined in the draft business plan. There were still concerns about inflation uncertainty and its impact on charge increases, as well as the cumulative impact of rising bills. Participants also had concerns about the risks of postponing investment, including delaying the removal of high-priority UIDs to allow Scottish Water to remove more medium-priority UIDs. There was also some disappointment with the lower investment in carbon reduction and in maintaining water supply performance, and a view that the business plan might have missed opportunities (e.g. for more ambitious investment).

3.4.20 The findings highlighted that support for the business plan was based on the assumption that WICS would test whether the costs and investment in the final business plan are efficient, that outcomes would be met, and that WICS would hold Scottish Water to account for delivery.

3.4.21 Having reviewed the ICG's report, we were assured that Scottish Water has conducted a comprehensive programme of customer research and that this research was undertaken in line with best practice. We were also assured that the business plan reflects the outcome of this research.

3.4.22 The confirmation found support for and acceptance of Scottish Water's final business plan. As our Draft Determination proposed better outcomes for lower charges, we considered such a package consistent with the basis on which customers supported the business plan. We explained that we would test this through the consultation on the Draft Determination.

[62] Consumer Scotland (2026), 'Strategic Review of Charges (SRC) 2027-33: Phase 3 Confirmation Pillar Outcomes', 21 April 2026.
[63] Consumer Scotland (2026), 'IPSOS SRC27 longitudinal deliberative research: Findings from phase three', 11 September 2026.

3.5 Draft Determination consultation responses and new information

3.5.1 For this chapter, we consider the feedback from the consultation in two categories:

- Feedback from Scottish Water, Consumer Scotland and the ICG on the customer research programme and findings; and
- General feedback on the Draft Determination.

Feedback on the customer research

3.5.2 Scottish Water reiterated several of the points above regarding customer support for the business plan.[64] Scottish Water further considered that the research demonstrated that customers were not simply seeking the lowest possible level of charges, but instead expected the outcomes associated with the plan to be delivered in return for a level of charging representing value for money and had concerns that higher-than-forecast costs could put those outcomes at risk.[65] Scottish Water also noted that it had responded to affordability concerns identified through customer research by making downward adjustments to both costs and scope as it moved from its draft business plan to its final business plan.[66]

3.5.3 Scottish Water considered that customers generally accepted the ambitious nature of the final business plan but raised concerns about whether the proposed outcomes would remain achievable if investment were delayed or reduced.[67] Scottish Water also highlighted findings that some customers were concerned that delaying investment could adversely affect outcomes and increase costs in future regulatory periods.[68]

3.5.4 On this basis, Scottish Water considered that the Draft Determination did not fully address customer concerns that delaying investment could affect outcomes and increase costs in future. This was on the basis that the Draft Determination moved further away from the long-term investment trajectory set out in its long-term strategy and from the balance of outcomes and from the support for the final business plan.[69]

[64] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 3.1.3 and 10.2.1.
[65] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 2.1.5 and 10.2.1.
[66] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 3.1.3.
[67] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 1.3.17.
[68] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 1.3.18.
[69] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 1.3.18.

3.5.5 Consumer Scotland noted that its deliberative research found that customers were generally willing to accept above-inflation increases in charges where there was a clear and credible link to investment and improved outcomes. However, Consumer Scotland emphasised that this support was conditional rather than unconditional.[70]

3.5.6 Consumer Scotland highlighted that customers recognised the need for investment to address ageing assets, climate resilience and service quality, while also placing importance on transparency, accountability and value for money. Consumer Scotland noted that support for higher charges was strongest where customers could clearly understand the benefits being delivered.[71]

3.5.7 Consumer Scotland also observed that customers expected both Scottish Water and WICS to demonstrate that expenditure was efficient, justified and delivering meaningful outcomes. Consumer Scotland noted that customers generally accepted that underinvestment could lead to greater costs and risks in the future. However, customer support for higher charges remained closely linked to confidence that commitments would be delivered and that robust regulatory scrutiny would ensure customers received the benefits they were being asked to fund.[72]

3.5.8 The Independent Customer Group (ICG) welcomed a number of features of the Draft Determination. This included:

- the strengthened performance expectations in areas of particular importance to customers;
- the lower charge cap;
- the principle that customers should not pay in advance for uncertain costs;
- the proposed mechanism for addressing certain uncontrollable costs if they materialise; and
- the arrangements for monitoring delivery against outcomes and outputs.[73]

3.5.9 The ICG considered that the Draft Determination recognised the need for substantial investment while improving outcomes in priority areas for customers within a reduced profile of charges, and therefore represented an attractive package for customers.[74]

3.5.10 At the same time, the ICG noted that customers place a high value on maintaining high-quality water and wastewater services and do not wish to see a reduction in standards. The

[70] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, 1 September, p.5.
[71] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.5.
[72] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.6.
[73] Independent Customer Group (2026), 'Water Industry Commission Draft Determination for SRC27: ICG response', 1 September 2026, paragraph 8.
[74] Independent Customer Group (2026), 'Water Industry Commission Draft Determination for SRC27: ICG response', 1 September 2026, paragraph 9.

ICG further observed that significant differences remained between Scottish Water's business plan and the Draft Determination regarding operating expenditure, capital expenditure, efficiency assumptions, and performance outcomes. The ICG considered that the deliverability of these differing assumptions and the associated level of risk were a concern for customers and therefore welcomed WICS' willingness to reconsider aspects of the Draft Determination if further convincing evidence were presented.[75]

General feedback on the Draft Determination

3.5.11 Question 1 of the Draft Determination consultation sought views on the overall package of the Determination by asking whether the Draft Determination strikes the right balance between outcomes, investment and charges. As set out in Figure 10 which shows the response to each question, for question 1:

- 17 respondents answered 'agree' or 'strongly agree';
- 8 respondents answered 'neither agree nor disagree';
- 19 respondents answered 'disagree' or 'strongly disagree'; and
- 7 respondents provided no direct answer.

3.5.12 Paragraph 2.7.5 set out the range of different reasons respondents cited when answering 'disagree' / 'strongly disagree' and we do not repeat them in this chapter. As set out above, at one end, some respondents considered that WICS should apply further challenge given affordability and cost-of-living concerns, and at the other end, other respondents, such as Scottish Water, considered that WICS had applied too much challenge.

3.5.13 Respondents who answered 'agree' or 'strongly agree' gave several reasons, including:

- 3 considered that the balance appears reasonable
- 3 supported the need for further service improvements, including leakage reduction and internal sewer flooding;
- 2 supported the focus on long-term resilience; and
- 9 provided no further comment.

3.5.14 There was also recognition of the need to ensure that any increase in charges is linked to evidence of customer benefits and value-for-money.

3.5.15 Of the 8 respondents who answered 'neither agree nor disagree':

- 2 respondents provided comments on charges, with one respondent willing to pay higher charges for better outcomes and the other considering that charges should be kept below inflation;

[75] Independent Customer Group (2026), 'Water Industry Commission Draft Determination for SRC27: ICG response', 1 September 2026, paragraphs 10 and 11.

- 1 respondent had concerns over capacity for firefighting and requested further action;
- 1 respondent highlighted concern over policy for data centres; and
- 4 respondents provided no further comment.

3.5.16 Across the other 7 consultation questions, the consistent theme was that respondents recognised the need for investment but wanted it to be affordable and deliver value, and they wanted confidence that Scottish Water would be held to account for delivering it.

New information

3.5.17 Consumer Scotland published the full phase 3 report on 11 September 2026, which built on the high-level findings presented prior to the Draft Determination. As explained in section 3.4, the purpose of the research was to test whether the final business plan commanded customer support.

3.5.18 In summary, the conclusion of the report aligned with the high-level findings previously presented. In particular, the research concluded that there was broad support for the final business plan, which was described as a balanced, sensible and acceptable approach.[76] However, their support was conditional on WICS scrutinising the proposed costs in the plan and regulatory oversight to ensure that charges would deliver value for customers.

3.5.19 Examining the report in more detail, customers showed strong support for investment in drinking water quality, maintaining core services and tackling leakage. Many participants welcomed the increased focus on discoloured water and viewed water quality as a top priority.[77] Participants generally supported the commitment to reduce leakage by 10% by 2033, although some felt even greater emphasis should be placed on leakage, particularly when compared with other investment areas.[78]

3.5.20 Participants understood the need to rebalance investment to improve affordability. However, concerns remained about postponing investment, particularly the decision to defer work on 16 high-priority Unsatisfactory Intermittent Discharges (UIDs). More broadly, participants worried that reducing investment in some areas now could shift costs into future charging periods.[79]

[76] Consumer Scotland (2026), 'IPSOS SRC27 longitudinal deliberative research: Findings from phase three', 11 September 2026, p.36.
[77] Consumer Scotland (2026), 'IPSOS SRC27 longitudinal deliberative research: Findings from phase three', 11 September 2026, p.16.
[78] Consumer Scotland (2026), 'IPSOS SRC27 longitudinal deliberative research: Findings from phase three', 11 September 2026, p.18.
[79] Consumer Scotland (2026), 'IPSOS SRC27 longitudinal deliberative research: Findings from phase three', 11 September 2026, p.29.

3.5.21 The reduction in proposed charges from CPI+4% in the draft business plan to CPI+3.3% in the final business plan was widely welcomed and seen as evidence that Scottish Water had listened to customer concerns about affordability.[80] There was broad agreement that the revised charge profile represented a reasonable compromise between affordability and investment needs.[81] However, concerns remained about broader affordability pressures amid the cumulative impact of rising living costs and uncertainty about future inflation.[82]

3.5.22 Participants sought further assurance that all possible efficiencies had been explored before costs were passed on to customers. The expectation placed on WICS was that it would rigorously examine the assumptions underpinning the final business plan, challenge Scottish Water over delayed investments, assess whether the targets were realistic and achievable, and ensure that the proposed customer charges were justified.[83]

3.5.23 Support for the CPI+3.3% charge profile was strongly linked to confidence that customers would see tangible benefits from investment. Participants were generally prepared to accept above-inflation increases where these would deliver better water quality, improved environmental outcomes, and long-term resilience.[84]

3.6 Our assessment in the Final Determination

3.6.1 We have considered the final report from the deliberative research and the responses to the Draft Determination consultation.

3.6.2 In our Draft Determination, we explained that, as the Draft Determination proposed improved outcomes for lower charges, we considered it consistent with the basis on which customers supported the business plan. We tested this position through consultation. The consultation responses received following publication of our Draft Determination reinforced this position. Respondents recognised the need for significant investment; however, they consistently emphasised affordability, value for money and accountability. This feedback has helped shape a final decision that balances long-term investment needs with strong customer protection.

[80]Consumer Scotland (2026), 'IPSOS SRC27 longitudinal deliberative research: Findings from phase three', 11 September 2026, p.29.
[81]Consumer Scotland (2026), 'IPSOS SRC27 longitudinal deliberative research: Findings from phase three', 11 September 2026, p.36.
[82]Consumer Scotland (2026), 'IPSOS SRC27 longitudinal deliberative research: Findings from phase three', 11 September 2026, pp.30-31.
[83]Consumer Scotland (2026), 'IPSOS SRC27 longitudinal deliberative research: Findings from phase three', 11 Septembe r 2026, p.38.
[84]Consumer Scotland (2026), 'IPSOS SRC27 longitudinal deliberative research: Findings from phase three', 11 September 2026, p.34.

3.6.3 The ICG also noted that the Draft Determination represented an attractive package for customers, recognising that it improved outcomes in priority areas for customers within a reduced profile of charges.

3.6.4 Consumer Scotland also observed that customers expected both Scottish Water and WICS to demonstrate that expenditure was efficient, justified and delivering meaningful outcomes. We consider this an important point, recognising that the support from the deliberative research was not unconditional. The research was undertaken within a framework where customers expected WICS to scrutinise and challenge the efficiency and appropriateness of costs before determining the final package of investment and charges.

3.6.5 On this basis, we do not consider that the Draft Determination moved Scottish Water further away from the long-term investment trajectory set out in its long-term strategy and from the balance of outcomes and from the support for the final business plan (paragraph 3.5.4). This is on the basis that we did not defer investment and only intervened in our Draft Determination where we did not consider that the evidence supported the full costs requested. Our approach was consistent with the scrutiny of the plan that customers sought.

3.6.6 We consider that the Final Determination remains consistent with the basis on which customers supported the business plan. As such, we consider that this meets the requirement from the Commissioning letter for the Final Determination to command customer support.

3.6.7 Chapter 4 provides our assessment of Scottish Water's proposed performance on the detailed outcome measures.

4 Levels of service

4.1 Summary of chapter

4.1.1 This chapter covers the outcomes that Scottish Water will deliver over the 2027-33 regulatory period. In its business plan, Scottish Water proposed 49 outcome measures showing the benefits that customers and society will receive from the proposed investment. These are the measures that industry stakeholders will use to hold Scottish Water to account for its performance and delivery during the regulatory period.

4.1.2 In our Draft Determination, we considered that Scottish Water has not fully evidenced the link between the investment programme and forecast performance on the outcome measures. However, we accepted Scottish Water's proposals for 21 outcomes and updated the targets for 21 outcome measures. Of the 21 updated targets, we required better

performance on 16, and the remaining 5 were treated differently because they depend on the West Central Bioresources project proceeding.

4.1.3 We strengthened the targets in the four priority areas identified from the customer research, as highlighted in paragraph 3.6.73.3.21:

- Drinking water quality;
- Reliability of supply;
- Reduction in leakage; and
- Protection from internal sewer flooding.

4.1.4 On this latter area, the customer research identified that sewer flooding is underrepresented in the business plan. As such, we also intervened to make £50 million of additional investment available to Scottish Water to further reduce the number of properties or areas at risk of sewer flooding.

4.1.5 Following the Draft Determination, Ministers finalised their Objectives. These confirm that Scottish Water must maintain or improve service levels in the 2027-33 regulatory period compared with the position at 31 March 2027. These are also strengthened to ensure that improvements are made in the four areas that matter most to customers, as set out above (see paragraph 4.1.3).

4.1.6 Our Final Determination targets for the outcomes align with these Objectives, with improvements in the four areas above in line with our Draft Determination.

4.1.7 Of the 16 that we challenged in our Draft Determination, we are pleased that Scottish Water accepted the additional stretch for 8 of the 16 outcomes. For the remaining 8, we adopt a tailored approach, using ranges for some of them to define the minimum expected performance and a stretch target. For other outcomes, we consider the proposed performance to be a minimum and believe that Scottish Water has scope to outperform these targets.

4.1.8 Overall, the Final Determination has strengthened targets for 18 of the 49 outcomes relative to the forecasts in the final business plan.[85] Our Final Determination allows an additional £95 million in investment to further reduce leakage and sewer flooding, and to remove more unsatisfactory intermittent discharges (UIDs).

4.1.9 The chapter is structured as follows:

[85] For the 16 outcomes with strengthened targets from the Draft Determination, we have aligned with Scottish Water's forecast for leakage reduction in areas with a supply-demand balance deficit; however, we now include the number of UIDs, UIDs removed and customers supplied by systems not capable of meeting peak demand. The Final Determination includes 48 outcomes, as we rejected Strategic Tracker proposed outcome from Scottish Water's final business plan

- Approach to outcomes;
- Detailed assessment of each outcome by area; and
- Our decision.

4.2 Approach to outcomes

Methodology, Scottish Water Business Plan and WICS' Draft Determination

4.2.1 As set out in section 3.2, Scottish Water has translated the Ministerial Objectives into more detailed outcome measures. These detailed outcome measures have also been informed by customer priorities identified through customer research and by improvements needed to comply with drinking water quality and environmental regulations. The detailed outcome measures and the desired performance levels for those measures will impact the investment required over the 2027-33 regulatory period. As such, there should be a strong linkage between the proposed outcomes and the proposed expenditure.

4.2.2 We worked with Scottish Water and the industry stakeholders over the past two years to develop an initial list of around 40 candidate measures. These candidate measures draw on Scottish Water's existing measures, standard industry measures used by other economic regulators and best practice in asset management. In our Final Methodology, we explained that Scottish Water can decide on the final composition of these outcome measures, taking account of the priorities identified from customer research and the composition of its investment programme.

4.2.3 In the draft Ministerial Objectives, the standards of service objective (objective 1) proposed that Scottish Water's performance is monitored via these measures. The standard of service Objective also proposed that Scottish Water maintain or improve levels of service in the 2027-33 period compared to the position at 31 March 2027.[86]

4.2.4 In its final business plan, Scottish Water adopted and included forecasts for 40 outcome measures from the WICS methodology and proposed the remaining four require further development before being adopted in SRC27.[87] In addition, Scottish Water proposed five further measures, bringing the total to 49 outcome measures.

4.2.5 In our Draft Determination, our overall observation was that Scottish Water had not evidenced the link between the proposed outcome measures and the investment programme. In the absence of this evidence, we reviewed each of Scottish Water's proposed outcome measures and forecast performance on these measures, taking account of:

[86] Scottish Government (2026), 'Water services: investing in and paying from 2027', 6 January 2026, p.28.
[87] These are: communities experience measure (1.06), river water quality (1.33), biodiversity and nature based solutions (final measure) (1.42), and resource recovery (1.43).

- Scottish Water's past performance;
- Feedback from water quality and environmental regulators;
- Scottish Water's proposed expenditure in that area; and
- Comparisons to other water and sewerage companies in Great Britain.

4.2.6 We also considered feedback from other industry stakeholders, such as DWQR and SEPA, who both commented on the scope for more ambition on some of the outcome measures, recognising the levels of investment requested by Scottish Water. Furthermore, we recognised that Scottish Water could improve the levels of service without the need for capital investment through enhancing its operating practices. For example:

- Scottish Water has recently restructured its operating model: "bringing together planning, maintenance and operations into two new Water and Waste Water Directorates and creating a new Customer Service Directorate. Holding accountabilities across the entire end-to-end process for water and waste water will help us to deliver faster, at lower cost and unlock innovation. And, by bringing together our core external and internal customer service functions into a new Customer Service Directorate, we can continue to champion the customer voice and aim to further improve the quality of service whilst also ensuring value for money."[88]
- DWQR has identified that there is a scope to improve some levels of service and avoid incidents through better operating practices.[89]

4.2.7 Based on this assessment, our Draft Determination accepted Scottish Water's business plan proposals for 21 outcomes, stretched targets for 21 outcomes, rejected 2 proposed outcomes and agreed that 5 outcomes need further development.

4.2.8 Our Draft Determination proposed making available £50 million of unallocated investment to enable Scottish Water to achieve the improvements in both internal and external sewer flooding. We also proposed a further £118 million of unallocated investment to enable Scottish Water to make further improvements beyond the forecasts set out in the Draft Determination.

Draft Determination consultation responses

4.2.9 Consultation question 3 asked to what extent respondents considered that our proposed targets for outcomes are appropriate.

- 18 respondents answered 'agree' or 'strongly agree';
- 12 respondents answered 'neither agree nor disagree';

[88] Scottish Water (2026), 'Final Business Plan 2027-2033 – investing in Scotland's future', 26 February 2026, p.112.
[89] DWQR (2025), 'Public Supplies Annual Report 2024', 10 September 2025, p.38.

- 12 respondents answered ‘disagree’ or ‘strongly disagree’; and
- 9 respondents provided no direct answer.

4.2.10 Respondents who answered ‘agree’ or ‘strongly agree’ gave several reasons, including:

- 5 identified reliability of supply, leakage reduction, water quality and/or sewer flooding as priorities;
- 3 supported the framework and the additional ambition in the Draft Determination; and
- 10 provided no further comment.

4.2.11 Respondents who answered ‘disagree’ or ‘strongly disagree’ gave several reasons, including:

- 2 considered that performance falls short, given the scale of investment proposed or the increase in charges;
- 3 requested further improvements on unsatisfactory intermittent discharges and environmental performance;
- 4 considered that the outcome measures should be expanded to include a broader set of measures, such as volumes and flows for firefighting, storm overflow spill frequency and duration and engagement with licensed providers;
- 1 respondent also expressed concerns about the overall framework; and
- 4 provided no further comment.

4.2.12 Respondents who answered ‘neither agree nor disagree’ raised similar points to those highlighted above.

4.2.13 Scottish Water explained that it does not consider that the revised targets set by WICS for leakage reduction, per capita consumption, repeat interruptions to supply, discolouration contacts, drinking water compliance, and WWTW permit compliance are deliverable.[90] In its response to the Draft Determination, of the 18 outcomes that had a more stretching target or were questioned, Scottish Water accepted the proposed performance on 8 outcomes, but proposed revised forecasts for the remaining 8 outcomes, dependent on utilising the £168 million in unallocated investment to achieve the revised forecast. Scottish Water aligned with its target from its final business plan for a further two outcomes.[91]

4.2.14 Scottish Water considered that increased performance on outcomes beyond the levels proposed in the final business plan is contingent on the Final Determination:

[90] Scottish Water (2026), ‘Strategic Review of Charges 2027-33 Draft Determination: consultation response’, 1 September 2026, paragraph 2.3.2.
[91] Scottish Water (2026), ‘Strategic Review of Charges 2027-33 Draft Determination: consultation response’, 1 September 2026, paragraphs 2.2.5 and 4.3.1.

- confirming the allocation of the £168 million proposed in the Draft Determination; and
- addressing the concerns we have raised in the Draft Determination regarding the proposed efficiency and/or cost challenges.[92]

4.2.15 Scottish Water also explained that it focused on opening position for the regulatory period and the 2032-33 end position in proposing revised forecasts in the Draft Determination response. It proposed confirming the annual profile baseline in the delivery plan.[93]

4.2.16 Scottish Water also informed WICS of a change in assumptions for estimating carbon emissions for wastewater, which increased the assumed level of operational carbon emissions. However, it did not provide updated forecasts for the outcomes in its response to the Draft Determination consultation. Scottish Water provided restated forecasts for outcomes over the 2027-33 regulatory period on 18 September 2026.

4.2.17 Consumer Scotland welcomed the emphasis on measurable outcomes and clear accountability for delivery in the Draft Determination. Consumer Scotland considered that it is important that customers can clearly understand the benefits they are expected to receive in return for higher charges. Consumer Scotland considered that the success of the regulatory framework should ultimately be assessed by the difference it makes to customer experiences and consumer wellbeing.[94]

4.2.18 DWQR welcomed the proposed suite of outcome performance measures. It noted that, subject to the introduction of appropriate governance arrangements, these measures should provide a valuable framework for assessing performance, supporting risk-based decision-making, and informing future investment priorities.[95] SEPA noted that, as outcomes are WICS performance metrics, any resolution of misalignment or agreement on final positions is ultimately a matter for WICS to determine.[96]

4.2.19 Overall, we consider that respondents welcomed stronger targets for leakage, sewer flooding, drinking-water quality, and reliability, and supported WICS pushing Scottish Water to improve. There was support for ambitious performance targets, provided they are aligned with credible evidence and with recognition that delivering these targets will require adequate funding.

[92] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 4.1.5.
[93] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 4.1.5.
[94] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.6.
[95] DWQR (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 31 August 2026, p.2.
[96] SEPA (2026), 'SEPA feedback on WICS Draft Determination of Charges 2027-2033', 31 August 2026, p.4.

4.2.20 Some respondents questioned whether the outcomes were sufficiently ambitious for the scale of investment, and in particular, there were concerns around wastewater outcomes. Another concern was that the outcome framework was not broad enough, with insufficient focus on customer outcomes and no measures related to firefighting.

4.2.21 Specific feedback on individual outcomes is covered in each outcome area below.

New information

4.2.22 We now have an additional year of performance for several of the outcomes following Scottish Water's annual return submission for 2025-26. Scottish Water proposed revised forecasts for 2026-27 based on this additional year.

4.2.23 Following the Draft Determination, Ministers finalised their Objectives.[97] These confirm that Scottish Water must maintain or improve service levels in the 2027-33 regulatory period compared with the position at 31 March 2027. The final Ministerial Objectives were also strengthened to ensure that improvements are made in the four areas that matter most to customers:

- Drinking water quality;
- Reliability of supply;
- Reduction in leakage; and
- Protection from internal sewer flooding.

Our final decision on the overall approach

4.2.24 The SRC process involves Scottish Water preparing a business plan consistent with the Ministerial Objectives, informed by customer research and engagement with stakeholders. The outcomes in the business plan reflect several factors, including the requirements in the Ministerial Objectives, the investment programme and deliverability and the priorities of customers and Scottish Water's regulators. Our role is to test whether these outcomes provide value for money, given the levels of investment. It is not our role to prioritise across the outcomes.

4.2.25 For the Final Determination, we set targets based on a minimum level of performance on the outcomes for years 3 (2029-30) and 6 (2032-33). Scottish Water has the flexibility to set annual targets for each outcome for the remaining years, subject to alignment with the targets in the Final Determination for years 3 (2029-30) and 6 (2032-33), and with the requirements of the Ministerial Objectives (see paragraph 4.2.23). We expect Scottish

[97] Scottish Government (2026), 'Water Industry: Strategic Review of Charges for regulatory period 2027-33: Ministerial Objectives', 23 October 2026.

Water to set a credible path to meeting the Final Determination targets in years 3 (2029-30) and 6 (2032-33) and explain it.

4.2.26 For some outcomes, we propose a range in line with the Ministerial Objectives and a stretch target. This applies to outcomes where there is greater uncertainty over performance (e.g. repeat interruptions to supply, recognising that it is a new outcome measure), or where there is an expectation of full compliance (e.g. serious pollution incidents).

4.2.27 We also reiterate the principles for the outcomes from the Final Methodology, including:[98]

- Annual targets should be stretching while maintaining the incentive for outperformance; and
- Scottish Water should engage with stakeholders to ensure that they have confidence in the measures and targets.

4.2.28 We received some feedback on the outcomes framework and individual measures. We consider the outcomes to be measurable aspects of service-level performance, spanning a range of areas. We consulted on the outcome measures as part of the draft business plan guidance in 2024, which then informed our final methodology in December 2024. Furthermore, these underpinned the basis for customers' review of the business plan as part of the deliberative research. We therefore confirm these measures for SRC27. However, we will review the outcome framework and measures in future Strategic Reviews of Charges, learning the lessons from SRC27.

4.2.29 The remaining sections of this chapter cover each outcome in turn.

4.3 Customer service

Scottish Water's proposed performance in the business plan

4.3.1 There are six outcomes related to customer service included in the business plan, one of which is still under development. Four of these relate to customer expenditure measures (CEMs), which are measures of Scottish Water's service that combine a qualitative survey-based component with a quantitative component that measures the volume of events and issues impacting customers. This is measured separately for Scottish Water's household, non-household (i.e. wholesale), and developer services.

4.3.2 The table below shows Scottish Water's proposed performance by the end the period.

[98] WICS (2024), 'Strategic Review of Charges 2027-2033: Final Methodology', 12 December 2024, p.133.

Table 6: Scottish Water's business plan proposal – customer service

Line ref	Level of Service	2026-27 (SW forecast)	Year 6 2032-33	% Change from forecast year to year 6
1.01	dCEM Developer Customer Experience Measure	83.25	84.23	1.2%
1.02	nhCEM Non Household Customer Experience Measure	89.56	90.17	0.7%
1.03	R-MeX Retailer Experience Measure	9.0	9.0	0.0%
1.04	hCEM Household Customer Experience Measure	87.62	88.35	0.8%
1.05	UKCSI UK customer Satisfaction Index	77.9	77.9	0.0%
1.06	Communities experience measure (Not available)			

Our assessment in the Draft Determination

4.3.3 Given past performance and proposed levels of service, WICS considered that the targets are credible and sufficiently stretching. WICS accepted the profile for outcomes 1.01, 1.02, 1.03, 1.04, and 1.05, as proposed by Scottish Water.

4.3.4 Scottish Water had not proposed an outcome to measure communities' experience. Our Draft Determination explained that we expect Scottish Water to develop and agree on a suitable community experience measure with stakeholders in the first year of the 2027-33 regulatory period for inclusion in the delivery plan for the second year of the period, 2028-29. WICS' draft proposals for customer service outcome measures in the 2027-33 regulatory period are summarised in Table 7.

Table 7: WICS draft proposals – customer service

Line ref	Level of Service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.01	dCEM Developer Customer Experience Measure	82.90	83.25	84.23	1.6%	1.2%
1.02	nhCEM Non Household Customer Experience Measure	89.3	89.56	90.17	1.0%	0.7%
1.03	R-MeX Retailer Experience Measure	9.0	9.0	9.0	0.0%	0.0%
1.04	hCEM Household Customer Experience Measure	87.30	87.62	88.35	1.2%	0.8%
1.05	UKCSI UK customer Satisfaction Index	77.9	77.9	77.9	0.0%	0.0%
1.06	Communities experience measure (Not available)					

Draft Determination consultation responses and new information

4.3.5 Scottish Water provided an update on its community experience measure. Scottish Water explained that they intend to use the Awareness and Behaviour Change (ABC) tracker to

meet the requirement to introduce the community experience measure. This is while continuing to develop a complementary measure or reporting approach for community engagement. Scottish Water explained that it established this plan through stakeholder engagement with ICG, Consumer Scotland and WICS.[99]

4.3.6 In the business plan technical appendix 14, Scottish Water explained that the ABC tracker will be a weighted score of survey results of questions relating to awareness, opportunity and motivation, as well as the behaviour outcomes of per capita consumption (PCC) and sewer blockages.[100] WICS did not comment on this measure in its Draft Determination because we considered it too immature, and there was no data on either historical or forecast performance. We also considered that there has not been sufficient engagement on the measure and the proposal to use it as a proxy for the community experience measure.

4.3.7 Consumer Scotland's Draft Determination consultation response set out its expectations for such a measure to achieve the following objectives:[101]

- capture an understanding of community priorities, shared values and collective aspirations, while providing a clear line of sight between community engagement, the influence communities have on decision-making, the changes made as a result, and the outcomes ultimately delivered. This would help demonstrate the value of engagement and its contribution to better decision-making.
- support Scottish Water's ambition to work in meaningful partnership with consumers and communities throughout investment planning and delivery. It should move beyond the number of engagement events, communications or participants, and instead reflect the extent to which communities have influenced decisions, shaped investment choices and experienced improved outcomes as a result. It should also capture how engagement has strengthened relationships between Scottish Water and the communities it serves. Importantly, communities should be able to see that their views have been heard and taken into account.

4.3.8 In terms of new information, Scottish Water's annual return submission for 2025-26 includes performance in 2025-26 for outcome 1.01, 1.02, 1.04 and 1.05. Table 8 shows performance in the four years to 2025-26 and a four-year average (where available). There was a change in methodology for outcome 1.01 in 2024-25, resulting in a step increase in the measure.

[99] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, Paragraphs 7.2.1 to 7.2.3.
[100] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 014 – Performance Monitoring', 26 February 2026, p.32.
[101] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.21.

Table 8: Customer service outcomes historical performance

Line ref	Level of Service	2022-23	2023-24	2024-25	2025-26	4-year average
1.01	dCEM Developer Customer Experience Measure	77.0	78.8	82.9	84.7	80.9
1.02	nhCEM Non Household Customer Experience Measure	86.7	89.7	89.3	87.8	88.4
1.04	hCEM Household Customer Experience Measure	86.4	86.6	87.3	87.5	87.0
1.05	UKCSI UK customer Satisfaction Index	77.7	77.1	77.9	76.9	77.4

4.3.9 The performance in the four outcomes in 2025-26 is broadly in line with historical performance.

Our assessment in the Final Determination

4.3.10 WICS accepted the profile for the outcomes 1.01, 1.02, 1.03, 1.04, and 1.05 proposed by Scottish Water.

4.3.11 WICS does not consider that the proposed ABC tracker meets the expectations of stakeholders for the communities experience measure. We expect Scottish Water to develop and agree on a suitable community experience measure with Consumer Scotland and other stakeholders in the first year of the 2027-33 regulatory period for inclusion in the annual delivery plan refresh, if required, in 2028-29.

4.3.12 WICS' Final Determination for customer service outcome measures in the 2027-33 regulatory period is summarised in Table 9.

Table 9: Final Determination – customer service

Line ref	DP ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.01	**1.32**	dCEM Developer Customer Experience Measure	82.90	84.70	83.25	83.75	84.23	1.6%	1.2%
1.02	**1.31**	nhCEM Non Household Customer Experience Measure	89.30	87.80	89.56	89.87	90.17	1.0%	0.7%
1.03	**1.33**	R-MeX Retailer Experience Measure	9.0	8.6	9.0	9.0	9.0	0.0%	0.0%
1.04	**1.30**	hCEM Household Customer Experience Measure	87.30	87.50	87.62	87.99	88.35	1.2%	0.8%
1.05	**1.34**	UKCSI UK customer Satisfaction Index	77.9	76.9	77.9	77.9	77.9	0.0%	0.0%
1.06	**1.35**	Communities experience measure (Not available)							

4.4 Water service

4.4.1 There are 18 measures, including one new measure proposed by Scottish Water, which relate to the provision of water services. Each one is covered in turn below.

Leakage

Scottish Water's proposed performance in the business plan

4.4.2 Leakage is one of the priority areas identified from the customer research (see paragraph 3.3.21). Scottish Water proposed to reduce the three-year average leakage from the 2024-25 level by 9.9% by 2032-33, as measured by outcome 1.07.

4.4.3 For areas with a supply-demand balance deficit, Scottish Water proposed to reduce the three-year average by 12.9% over the same period, as measured by outcome 1.08.

4.4.4 The table below shows Scottish Water's proposed performance by the end of the period.

Table 10: Scottish Water's business plan proposal – leakage

Line ref	Level of Service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.07	Percentage reduction of three-year average leakage		1.1%	9.9%		
1.08	Leakage reduction in areas with supply-demand balance deficit		1.5%	12.9%		

Our assessment in the Draft Determination

4.4.5 WICS considered that the leakage targets were partially evidenced, as the level of expenditure proposed across water distribution should deliver greater reductions. WICS proposed setting targets for a 15.7% reduction in outcome 1.07 and a 20.4% reduction in outcome 1.08.

4.4.6 Since achieving sizeable leakage reductions of approximately 5% per annum in the 2010s, leakage performance has plateaued, averaging a 0.4% reduction between 2022-23 and 2024-25.

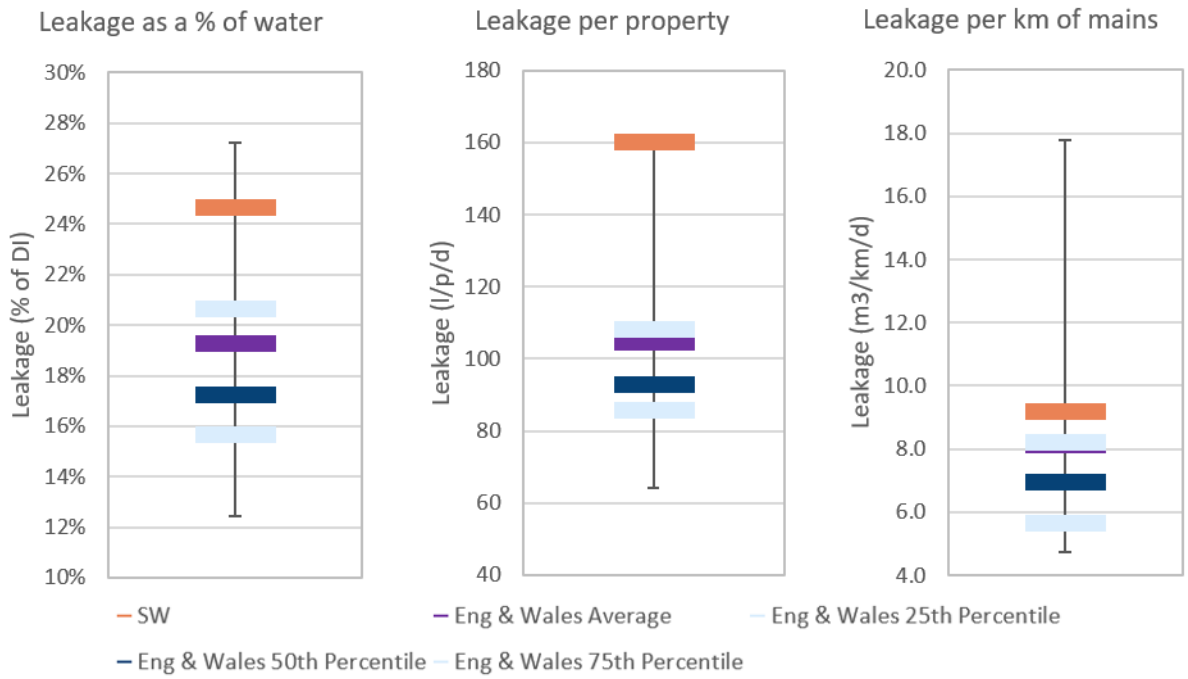
4.4.7 Furthermore, Scottish Water's level of leakage in 2024-25 remained higher than most companies in England and Wales on a range of metrics:

- Approximately 25% of input into the system, which compares to 17% in England and Wales;
- 160 litres per property per day (l/p/d), which compares to 93 l/p/d in England and Wales; and
- 9.2 m^3 per km per day (m^3/km/d) of water mains, which compares to 7.0 m^3/km/d in England and Wales.[102]

4.4.8 Figure 18 below shows the distribution of performance in England and Wales in 2024-25, with Scottish Water's performance (SW) against the England and Wales average performance, 25th percentile, 50th percentile, and 75th percentile. Scottish Water is among the companies with the highest leakage levels, based on leakage as a percentage of water put into the supply system, per property per day, and per kilometre of mains.

[102] An m^3 is equivalent to 1,000 litres.

Figure 18: Scottish Water leakage compared to England and Wales performance



4.4.9 We therefore considered that there was scope for Scottish Water to significantly reduce its leakage:

- Scottish Water's current leakage is higher compared to almost all companies in England and Wales, so there is scope for reductions;
- It has the funding to do this, given its proposed water distribution investment programme in the 2027-33 regulatory period; and
- It is a priority for customers.

4.4.10 The following paragraphs set out how we assessed an appropriate target for leakage for the Draft Determination.

4.4.11 Scottish Water's target of 400 megalitres per day (Ml/d) in 2032-33 represented a 48 Ml/d reduction from the forecast 2026-27 position.[103] We sought to understand the components contributing to the 48 Ml/d reduction. Technical appendix 2 of the business plan provided limited information on how this target is to be achieved. From the supporting evidence provided in the water availability, demand and resilience evidence pack, our understanding of how Scottish Water plans to achieve the forecast leakage reduction was as follows:[104]

- 25 Ml/d from the installation of business smart meters;

[103] A megalitre is 1 million litres.
[104] Scottish Water (2026), 'SR27 evidence base evidence pack water availability, demand and resilience', 26 February 2026.

- 20 Ml/d from direct leakage management (Active Leakage Control and pressure management); and
- 3 Ml/d from mains rehabilitation.

4.4.12 Scottish Water proposed £785 million of investment in water distribution and demand management activities (£686 million) and trunk mains (£99 million).[105] However, it was unclear how the proposed investment relates to Scottish Water's proposed 48 Ml/d reduction in leakage from the forecast 2026-27 position.

4.4.13 Of the £785 million, the only investment that appeared to have a leakage benefit assigned was the £19 million for "Reduce leakage (380Mld) and customer consumption (140 lpd)", which was forecast to deliver a 20 Ml/d reduction in leakage by 2032-33.[106] We also assumed that:

- The £130 million of investment in maintenance activities on sections of water mains with recurring interruptions to supply relates to the 3 Ml/d of leakage reduction associated with mains rehabilitation; and
- The £20 million of investment associated with managing and reducing losses from the transmission and distribution networks relates to offsetting the natural rate of rise.[107]

4.4.14 These leakage benefits would account for all the leakage benefits associated with distribution mains (23 Ml/d of the 48 Ml/d in paragraph 4.4.11). However, that left investment in mains distribution that appears to deliver no further leakage benefit.

4.4.15 As a conservative estimate, we assumed there was at least an additional £473 million of investment that will yield a leakage benefit. Table 11 shows those activities.

[105] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 002 – Water Continuity', 26 February 2026, pp.42-43.
[106] The cost per Ml/d of leakage reduction is below Ofwat's PR24 allowance of £1.1m per Ml/d. See Ofwat (2024), 'PR24 Final Determinations - Expenditure allowances', 19 December 2024, p.194.
[107] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 002 – Water Continuity', 26 February 2026, p.15.

Table 11: Water distribution investment

Service area	Intervention	Investment (£m)
Distribution mains	AC mains replacement	143
	Maintenance activities to reduce loss of service	261
	Manage and reduce CSPL	4
	Pressure management	1
Trunk mains	Trunk mains supply interruptions maintenance	5
	Liberton trunk mains	7
	Maintain trunk mains	52
	Total	**473**

4.4.16 To make a high-level assessment of the likely reduction in leakage from this activity, we used the following approach, based on data from Ofwat's price review in 2024 (known as PR24) for the England and Wales water industry:

- We used information from Ofwat's PR24 leakage enhancement expenditure model, allocating company expenditure purely for asset renewal;
- From this dataset, comprising 8 companies, we calculated the total benefit (65.9 Ml/d) and cost (£853.4 million) from these companies;
- We then estimated the leakage benefit for £1 million of asset renewal investment, which was 0.08 Ml/d per £m; and
- We conservatively applied the unit benefit to Scottish Water's renewal proposals, comprising £404 million for AC mains renewal and loss of service reduction investment (assuming the investment to reduce recurring interruptions to supply is covered by the 3 Ml/d leakage benefit), resulting in a total leakage renewal benefit of 31.2 Ml/d additional leakage reduction.

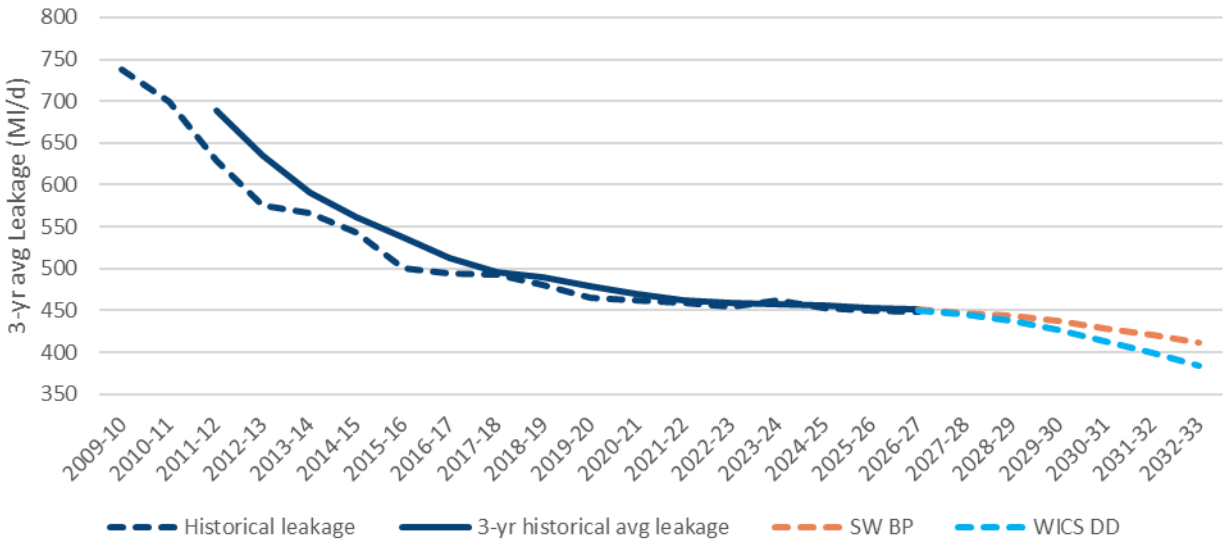
4.4.17 We provide the calculation in Table 12 below.

Table 12: Leakage benefit

Calculation step	Source / Calculation	Unit	Value
Sum of PR24 mains renewal expenditure proposals	PR24 Leakage Enhancement Expenditure Model	£m	853.43
Sum of mains renewal benefit	PR24 Leakage Enhancement Expenditure Model	Ml/d	65.91
Unit leakage renewal benefit	Calc: Renewal benefit / Renewal expenditure	Ml/d per £m	0.08
Scottish Water AC mains + supply interruption renewal	Scottish Water's final business plan	£m	404
Leakage benefit	Calc: Unit renewal benefit * SW mains renewal £m	Ml/d	31.2

4.4.18 Applying this additional reduction as a glide path resulted in final leakage targets of 369 Ml/d in 2032-33 (Scottish Water's final business plan target of 400 Ml/d less an additional 31 Ml/d) and 385 Ml/d, based on the 3-year rolling average over 2030-31 to 2032-33. This target still left leakage above the industry average in England and Wales in 2024-25 (leakage as a percentage of distribution input). Figure 19 shows the level of leakage from 2009-10 to 2024-25 and the forecast over the 2027-33 regulatory period.

Figure 19: 3-year average leakage



4.4.19 For zonal leakage, Scottish Water proposed a similar metric to its total leakage outcome, using a three-year average for zones which are currently in deficit. It proposed a target reduction of 12.9% at the end of the 2027-33 regulatory period, in absolute terms from 233 Ml/d in 2024-25 to 203 Ml/d in 2032-33.

4.4.20 To apply a comparable outcome level for zonal leakage, we applied the same percentage challenge calculated for the total leakage target. This resulted in a leakage target at the end of the SRC period of 186 Ml/d, a reduction compared to 2024-25 of 20.4%, as shown in Table 13.

Table 13: Zonal leakage target

Item	Ref	Leakage reduction	% increase
BP total leakage reduction target	A	9.9%	
WICS DD total leakage reduction target	B	15.7%	
Increase in total leakage reduction target	C=B/A – 1		58%
BP zonal leakage reduction target	D	12.9%	
Increase in zonal leakage reduction target	C		58%
WICS DD zonal leakage reduction target	D*(1+C)	20.4%	

4.4.21 WICS' draft proposals for the leakage outcome measures in the 2027-33 regulatory period are summarised in Table 14.

Table 14: WICS draft proposals – leakage

Line ref	Level of Service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.07	Percentage reduction of three-year average leakage		1.1%	15.7%		
1.08	Leakage reduction in areas with supply-demand balance deficit		1.5%	20.4%		

Draft Determination consultation responses and new information

4.4.22 Scottish Water disagreed with our further challenge on leakage in the Draft Determination. It disagreed with our assessment that mains rehabilitation would improve its leakage position, explaining that the case was flawed because the PR24 Final Determination was based on the leakage benefit from cast iron mains renewal rather than AC mains renewal. It also considered that the final business plan included a 3 Ml/d leakage benefit from mains renewal based on SRC21 renewal information and provided the underlying calculations. It also reviewed its calculation for its Draft Determination response and included this additional benefit in its revised proposal, resulting in a 3-year average target for 2032-33 of 410 Ml/d. Finally, it proposed utilising £12 million of the unallocated funding from the Draft Determination to achieve an additional 1% leakage reduction, resulting in a 405 Ml/d 3-year average target in 2032-33 (an 11.1% reduction).[108]

4.4.23 Regarding zonal leakage, Scottish Water disagreed with WICS' further challenge on the basis that WICS' proposed approach of proportioning is too simplistic and does not account for differences in the Sustainable Economic Level of Leakage (SELL). It explained that the business plan targets reduced leakage to the SELL and that it is not economically feasible to go further. Scottish Water included an additional 3 Ml/d of leakage reduction to recover from missing recent targets. This reduces the 2032-33 3-year average target to 203 Ml/d (a 13.1% reduction). [109]

4.4.24 All other consultation respondents supported WICS' further challenge on leakage at the Draft Determination.

[108] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, pp.5-8.
[109] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, pp.8-10.

- Consumer Scotland, while welcoming WICS further challenge on leakage, were unclear whether leakage reduction would address long-run water resources challenges and requested Scottish Water to provide more evidence of the prioritisation of leakage over other options to improve the resource position.[110]
- Scottish Water's Independent Customer Group also welcomed WICS' strengthened leakage reduction target.[111]
- SEPA welcomed the inclusion of leakage reduction investment and associated targets particularly in supply-demand deficit areas.[112]
- One licensed provider also welcomed the focus on leakage in other areas.

4.4.25 Seven other responses specifically mentioned leakage, with several recognising the need for further progress. One respondent raised concerns about the use of aggregate measures and noted that the absence of sub-national targets constitutes a gap.

4.4.26 As set out in paragraph 4.2.23, the final Ministerial Objectives confirmed leakage as one of the areas where improvements are required over the 2027-33 regulatory period.

Our assessment in the Final Determination

4.4.27 In our Draft Determination, we challenged Scottish Water to consider the additional leakage benefits from their £534 million of mains replacement activities over the 2027-33 regulatory period. In its response, Scottish Water did not provide any additional evidence for or against our assessment that mains renewal will reduce leakage.

4.4.28 We continue to believe that the leakage benefit from asset renewal over 2027-33 should deliver at least some further leakage benefit to be included in the leakage targets. Scottish Water explained in its Draft Determination response that the leakage benefit from the 1,130km of renewal was already factored into its business plan leakage target. Scottish Water also explained that 323km of mains renewal resulted in a 1.4 Ml/d leakage benefit over the 2021-27 regulatory period.[113] Scottish Water has not provided further information to support this statement. Furthermore, Scottish Water has not referenced its assessment that Ofwat's PR24 mains renewal was for cast-iron mains only.[114] Following a review of Ofwat's PR24 publications, we have not been able to validate this point.

4.4.29 Turning to unallocated funding proposals, Scottish Water's Draft Determination response proposed to utilise £12 million of unallocated investment to achieve an additional 6 Ml/d

[110] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.22.
[111] Independent Customer Group (2026), 'Water Industry Commission Draft Determination for SRC27: ICG Response', 1 September 2026, p.2.
[112] SEPA (2026), 'SEPA Feedback on WICS Draft Determination of Charges 2027-2033', 31 August 2026, p.6.
[113] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, paragraph 2.2.6.
[114] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, paragraph 2.2.5.

of leakage reduction.[115] Given that WICS, as well as all other consultation respondents, support further leakage reductions, we accept Scottish Water's proposal.

4.4.30 We also consider Scottish Water's position that its AC mains renewal programme is not primarily leakage driven, as is the rest of its mains renewal programme. We recognise that the leakage benefits of non-leakage-driven mains renewal programmes are uncertain. As such, we confirm that Scottish Water's revised Draft Determination response target of 405 Ml/d is the minimum acceptable target for the 2027-33 regulatory period. This incorporates and updates Scottish Water's estimate of leakage savings as a result of mains renewal and the utilisation of unallocated investment.

4.4.31 There is the potential for Scottish Water's mains renewal activity to deliver additional leakage benefits in the 2027-33 regulatory period. We have updated our original estimate in our Draft Determination that used evidence from Ofwat's Final Determinations in PR24 to estimate the potential leakage benefit from non-leakage-driven main renewal. This calculation is provided below:

- Our approach at Draft Determination took an average from the available company information in England and Wales. Using a lower value from the PR24 leakage-reduction dataset reduces the unit benefit from mains renewal;
- Our Draft Determination was predicated on a leakage benefit of 0.024 Ml/d per km of renewal;
- Scottish Water's business plan uses 0.004 Ml/d per km (~20% of the PR24 average leakage benefit);
- Taking the 10th percentile of the PR24 dataset results in a 0.007 Ml/d per km leakage benefit. Applying this to Scottish Water's 1,130km of mains renewal produces an 8.5Ml/d total leakage saving. Subtracting the 3Ml/d Scottish Water considers it has already incorporated into its leakage target results in an additional 5.5 Ml/d leakage saving from asset renewal; and
- Applying this 5.5 Ml/d reduction along a linear glide path produces a 1-year 2032-33 target of 387 Ml/d (392 Ml/d – 5.5 Ml/d), resulting in a 3-year average of 401 Ml/d. We consider this an appropriate and achievable stretch target for leakage.

4.4.32 For Deficit Zone leakage, Scottish Water considered in its Draft Determination response that WICS' proportioning approach was too simplistic and did not account for zonal SELL differences. Scottish Water explained that the original target reduced leakage to the Sustainable Economic Level (SELL) and that it would not be economical to go further.[116]

[115] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, paragraph 2.2.8.
[116] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, paragraph 2.3.5.

4.4.33 We have some concerns that Scottish Water is not yet operating at its SELL in water-stressed areas, as well as the lack of any evidence to support its claims. However, we agree that there is insufficient broader information to effectively assess the leakage benefits of the asset renewal programme. As such, we modify our approach for the Final Determination in the same way as we have for the overall leakage target. We consider Scottish Water's revised Draft Determination response target of 203 Ml/d (3-year average value) as the minimum acceptable target for the 2027-33 regulatory period.

4.4.34 We also consider that there is potential for additional leakage benefits, so we estimate an achievable stretch target in the following manner:

- Calculate the potential additional leakage saving for Scottish Water using the 10th percentile of the PR24 dataset: 5.46 Ml/d / 392 Ml/d = 1.4%;
- Apply that percentage to the zonal leakage target: 1.4% * 194 Ml/d = 2.7 Ml/d;
- Apply the additional leakage saving to the 1-year zonal leakage target: 194 Ml/d – 2.7 Ml/d = 191 Ml/d; and
- Calculate the resulting 3-year average leakage: 201 Ml/d.

4.4.35 We consider this an appropriate and achievable stretch target for zonal leakage using existing allowances.

4.4.36 WICS' final decision for the leakage outcome measures in the 2027-33 regulatory period is summarised in Table 15.

Table 15: Final Determination – leakage

Line ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.07	Percentage reduction of three-year average leakage		0.1%	0.9%	4.5%	11.3%		
1.08	Leakage reduction in areas with supply-demand balance deficit		0.2%	0.5%	4.3%	12.9%		

4.4.37 We also recognise the need to consider leakage at a more disaggregated sub-national level. As such, we require that Scottish Water provide this information in its investment appraisals for supply-demand balance investment at a water resource zone level. We will also consider whether to include sub-national measures of leakage in the information that we collect annually from Scottish Water, known as the Annual Return.

Business Demand

Scottish Water's proposed performance in the business plan

4.4.38 Scottish Water proposed a 14.9% reduction of three-year average measured business demand from a 2024-25 baseline.

4.4.39 The table below shows Scottish Water's proposed performance by the end of the period.

Table 16: Scottish Water's business plan proposal – business demand

Line ref	Level of Service	2026-27 (SW forecast)	Year 6 2032-33	% Change from forecast year to year 6
1.09	Percentage reduction of consumption at non-household premises	3.3%	14.9%	

Our assessment in the Draft Determination

4.4.40 WICS accepted the proposal, given the uncertainty around business demand.

4.4.41 Business demand has been falling in recent years; however, there has not been a consistent trend since 2016-17 due to the consumption volatility resulting from reporting changes and the impact of the Covid-19 pandemic affecting working patterns.

4.4.42 The trend prior to 2016-17 was an annual reduction in demand of 1.8% per annum, whereas the forecast 'base' reduction in demand between 2024-25 and 2032-33, as forecast by Scottish Water, is 1.1%. In our feedback to Scottish Water's draft business plan, we explained that its analysis suggested that a 1% annual reduction over the 2027-33 regulatory period, before considering any other initiatives that may further reduce business demand, was appropriate.[117]

4.4.43 The increase in the roll-out of smart meters over the period may also drive further efficiencies than Scottish Water currently predicts, as it will improve the demand-reduction services offered by licensed providers in the non-household retail market.

4.4.44 Scottish Water did not provide the assumptions it used in the business plan to estimate the benefits of its smart metering programme. We estimated 150 litres of consumption saved per meter per day, based on the volumes saved and the number of meters installed. Information from PR24 in England and Wales suggests a similar saving per meter. As a result, we consider this a reasonable assumption for Scottish Water to make.

[117] WICS (2025) 'WICS feedback on Scottish Water's Draft Business Plan', 15 October 2025, p.82.

4.4.45 WICS' draft proposals for the business demand outcome measure in the 2027-33 regulatory period is summarised in Table 17.

Table 17: WICS draft proposals – business demand

Line ref	Level of Service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.09	Percentage reduction of consumption at non-household premises		3.3%	14.9%		

4.4.46 In the Draft Determination, we also recommended that an area for further improvement is the detailed wording of the outcome, which must exclude any step changes in demand resulting from major users closing operations, such as ExxonMobil Mossmorran. The outcome should also exclude any potential step changes in demand arising from major new users, such as those in emerging industries like data centres.

Draft Determination consultation responses and new information

4.4.47 In its table summarising its proposed outcomes, Scottish Water categorised the business demand outcome as 'accepted'. It did not further discuss the outcomes in its Draft Determination response.[118]

4.4.48 Consumer Scotland requested Scottish Water and WICS develop updated non-household consumption projections that better reflect changing demand patterns. In particular, re-assessing whether the existing 1% per annum reduction assumption is likely to continue. It also advocated for a sectoral approach to better understand different consumption patterns.[119]

4.4.49 We expect, as a matter of course, that Scottish Water will improve its demand forecasting across all areas over the 2027-33 regulatory period.

4.4.50 One respondent considered that licensed providers should be better engaged by Scottish Water, with increased collaboration to reduce consumption, make efficiency improvements, and promote operational and behavioural changes. Licensed providers should be fully involved in the development and delivery of demand reduction initiatives. It explained that smart metering will require coordinated action across the whole market to achieve the maximum benefit.

[118] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, p.1.
[119] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.22.

4.4.51 We expect Scottish Water to do this as part of its smart meter programme and as part of wider improved business retail market engagement activities in the 2027-33 regulatory period.

4.4.52 One licensed provider also requested a stronger emphasis on water efficiency, including incentive schemes and tariffs. It welcomed further engagement on tariff structures. We welcome future engagement in the 2029 review of wholesale charging.

Our assessment in the Final Determination

4.4.53 We accepted Scottish Water's business plan proposal for business demand. Scottish Water did not propose any updates or additional commentary on the measure in its Draft Determination response. We therefore set the original business plan target as our minimum expectation. We confirm that the outcome definition excludes the changes from major users closing operations.

4.4.54 WICS' final decision for the business demand outcome measure in the 2027-33 regulatory period is summarised in Table 18.

Table 18: Final Determination – business demand

Line ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.09	Percentage reduction of consumption at non-household premises		-1.7%	3.3%	6.7%	14.9%		

Per Capita Consumption

Scottish Water's proposed performance in the business plan

4.4.55 Scottish Water proposed a metric based on the three-year average domestic per-capita consumption (PCC), as measured by its small-area monitor. It estimated that per capita consumption was around 150 litres per person per day (l/p/d) between 2012-13 and 2016-17, rising to 165 l/p/d in 2018-19 due to a change in Scottish Water's methodology. It then increased again to 190 l/p/d in 2020-21 as home working increased over the Covid-19 pandemic. Since then, it has fallen to 179 l/p/d in 2024-25, a 1.5% annual decline.

4.4.56 Scottish Water proposed a reduction in PCC to:

- 177 l/p/d in 2027-28, a fall of 0.2% per year over 2025-26 and 2026-27; and
- 174 l/p/d by 2032-33, a fall of 0.4% per year.

4.4.57 The table below shows Scottish Water's proposed performance by the end of the period.

Table 19: Scottish Water's business plan proposal – per capita consumption

Line ref	Level of Service	2026-27 (SW forecast)	Year 6 2032-33	% Change from forecast year to year 6
1.10	Three-year average per capita consumption (litres/person/day)	178	174	-2.2%

Our assessment in the Draft Determination

4.4.58 We set a target to reduce the PCC to 165 l/p/d by 2032-33.

4.4.59 Scottish Water explained that its projections are based on a gradual return to work following the Covid pandemic, as well as the possibility of some small increase in customer awareness of water usage during dry weather spells.[120]

4.4.60 Over the period from 2021-22 to 2024-25, following the Covid pandemic, there has been an average reduction in PCC of 1.5% per year in Scotland, compared to Scottish Water's forecast average reduction in PCC of 0.3% per year over the 2027-33 regulatory period. Scottish Water's proposals, therefore, are not fully evidenced.

4.4.61 We considered a reasonable assumption is a 1% annual decline in consumption up to 2032-33. This resulted in a 3-year average PCC target for 2032-33 of 165 l/p/d.

4.4.62 WICS' draft proposals for the per capital consumption outcome measure in the 2027-33 regulatory period is summarised in Table 20.

Table 20: WICS draft proposals – per capita consumption

Line ref	Level of Service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.10	Three-year average per capita consumption (litres/person/day)	179	178	165	-7.6%	-7.3%

4.4.63 We invited Scottish Water to provide in its response to the Draft Determination a robust model of future consumption based on external parameters, such as changes in working patterns, increased use of water-saving devices in the home, and changes in household behaviour, to inform an evidence-based forecast.

Draft Determination consultation responses and new information

4.4.64 Scottish Water disagreed with our additional challenge at the Draft Determination to go further on PCC. It returned to its original position, with a gradual return to office use,

[120] Scottish Water (2026), 'SR27 Final Business Plan: Table 1 Commentary', 26 February 2026, p.53.

reducing domestic consumption slightly. It considered that consumption reductions in England and Wales are due to metering programmes, and that there is no relevant benchmark figure from England and Wales to compare.[121]

4.4.65 Stakeholders welcomed WICS' further Draft Determination challenge on PCC, and several considered that the additional challenge did not go far enough. For example:

- SEPA desired a stronger focus on demand reduction. It considered that water efficiency measures should be maximised before exploring additional resource extraction options. It requested a commitment to developing an ambitious future target to reduce PCC.[122]
- Consumer Scotland welcomed WICS' Draft Determination challenge for a stronger PCC target. However, it considered that this additional target was not ambitious enough to address long-term water resource challenges. It requested that Scottish Water show more ambition to increase consumer awareness of water scarcity and encourage water-saving behaviours.[123]

Our assessment in the Final Determination

4.4.66 Scottish Water disagreed with WICS' Draft Determination in its consultation response. It provided no further evidence, and restated its original case that its forecasts are based on a further post-Covid gradual return to offices.[124] It provided commentary that any England and Wales comparisons are inappropriate due to metering and that there are no suitable benchmarks for comparison.[125]

4.4.67 We agree that PCC is somewhat outside management control without investment. As with all other stakeholders' consultation responses, we consider that Scottish Water could be more ambitious in its efforts to educate or change behaviour that might improve PCC over the 2027-33 regulatory period.

4.4.68 Given that PCC is somewhat outside management control, we set a minimum expectation that PCC will reduce according to Scottish Water's proposed profile for the 2027-33 regulatory period, but rebasing for the larger reduction in 2025-26 than it forecast in its business plan. We set out our steps for calculating this below:

[121] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, pp.10-12.
[122] SEPA (2026), 'SEPA Feedback on WICS Draft Determination of Charges 2027-2033', 31 August 2026, p.6.
[123] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.21-22.
[124] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, paragraph 2.4.5.
[125] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, paragraphs 2.4.6 and 2.4.7.

- Updating the 3-year average forecast for PCC to reflect the actual PCC in 2025-26, resulting in a starting point of 177.67;
- Applying Scottish Water's final business plan annual % reductions of 0.2% in 2026-27 and 0.4% 2027-28 to 2032-33; and
- Resulting in a 2032-33 3-year average of 173.27 (173) litres/person/day of PCC.

4.4.69 Scottish Water has also not set out the benefit its activities over 2027-33 will have on the PCC outcome. Additionally, as the impacts of climate change become increasingly apparent, we expect a downward trend, both due to Scottish Water's awareness campaigns and as customers become more aware of their water consumption. We therefore set a stretch target of double Scottish Water's assumed percentage reductions. This produces a 3-year average PCC of 169 l/p/d.

WICS decision

4.4.70 We set a minimum PCC target for 2032-33 of 173 l/p/d, rebasing Scottish Water's original glide path for the larger-than-forecast reduction in PCC in 2025-26. We also set a stretch target of a 3-year average PCC of 169 l/p/d.

4.4.71 WICS' final decision for the per capita consumption outcome measure in SRC27 is summarised in Table 21.

Table 21: Final Determination – per capita consumption

Line ref	Level of Service	2024-25 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.10	Three-year average per capita consumption (litres/person/day)	179	178	175	173	-3.1%	-2.3%

Low Pressure

Scottish Water's proposed performance in the business plan

4.4.72 Scottish Water has overseen a reduction in the number of low-pressure properties from 47 in 2022-23 to 22 in 2024-25. It then proposed allowing the number of properties on the low-pressure register to increase to 39 by 2028-29, before reducing it to 26 in 2032-33. Scottish Water stated that it based its forecasts on the historical trend of an additional 6 properties per year, with £12 million investment activity profiled over the 2027-33 regulatory period to remove properties from the register.[126]

[126] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 002 – Water Continuity', 26 February 2026, p.43.

4.4.73 The table below shows Scottish Water's proposed performance by the end of the period.

Table 22: Scottish Water's business plan proposal – low pressure

Line ref	Level of Service	2026-27 (SW forecast)	Year 6 2032-33	% Change from forecast year to year 6
1.11	Number of properties on the low pressure register	30	26	-13.3%

Our assessment in the Draft Determination

4.4.74 Scottish Water did not provide:

- Evidence for the level of increase over the period (based on historical trends); and
- The rationale for allowing the performance level to deteriorate in the period.

4.4.75 Scottish Water had not yet evidenced why it forecast performance to deteriorate in the final years of the 2021-27 regulatory period. In the interests of ensuring customers receive a consistent level of service, we proposed setting this outcome to a level consistent with recent performance. This is 20 properties per year for the 2027-33 regulatory period.

4.4.76 WICS' draft proposal for the low-pressure outcome measure in the 2027-33 regulatory period is summarised in Table 23.

Table 23: WICS draft proposals – low pressure

Line ref	Level of Service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.11	Number of properties on the low pressure register	22	30	20	-9.1%	-33.3%

Draft Determination consultation responses and new information

4.4.77 Scottish Water accepted the start and end levels in WICS' additional challenge in its Draft Determination. It revised its 2026-27 forecast and stated that it is appropriate to maintain the register at the average of 20 properties over the 2027-33 regulatory period.[127]

4.4.78 One respondent highlighted that measures such as properties on the low-pressure register, and supply interruptions do not establish whether the network can provide the volume and

[127] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, p.12.

flow required for operational firefighting. Their operational experience is that flow rates are not currently always sufficient for firefighting.

Our assessment in the Final Determination

4.4.79 Scottish Water accepted WICS' Draft Determination start and end point targets in its Draft Determination response.[128] It considers it appropriate to maintain levels at an average of 20 over the 2027-33 regulatory period.[129] Our final decision is to set the minimum target for this measure at 20 properties (i.e. the maximum number of properties which can be on the low pressure register), and we consider outperformance is achievable beyond this level.

4.4.80 WICS' final decision for the low-pressure outcome measure in the 2027-33 regulatory period is summarised in Table 24.

Table 24: Final Determination – low pressure

Line ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.11	Number of properties on the low pressure register	22	15	25	20	20	-9.1%	-20.0%

4.4.81 We considered the response requesting additional outcomes capturing flow rates for firefighting, and we recognise that this is an important area. It is Scottish Water's responsibility as the operator to comply with all relevant legislation. We will engage further with Scottish Water on these matters.

Reliability of supply

Scottish Water's proposed performance in the business plan

4.4.82 Reliability of supply is one of the priority areas identified from customer research (see paragraph 4.1.3). Scottish Water proposed three outcome measures covering reliability of supply:

- Unplanned interruptions greater than 6 hours, excluding 3rd party (outcome 1.12);
- Average minutes lost due to water supply interruptions (over 3 hours) (outcome 1.13); and
- Repeat interruptions to water supply (outcome 1.14).

[128] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, paragraph 2.5.1 p.12.
[129] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, paragraph 2.5.2 p.12.

4.4.83 For each measure, Scottish Water proposed a flat target for the 2027-33 regulatory period, citing rising burst frequencies.

4.4.84 The table below shows Scottish Water's proposed performance by the end of the period.

Table 25: Scottish Water's business plan proposal – reliability of supply

Line ref	Level of Service	2026-27 (SW forecast)	Year 6 2032-33	% Change from forecast year to year 6
1.12	Unplanned interruptions greater than 6 hours, excluding 3rd party	7,000	7,000	0.0%
1.13	Average minutes lost due to water supply interruptions (over 3 hours)	15.0	15.0	0.0%
1.14	Repeat interruptions to water supply (number of postcodes)	240	240	0.0%

Our assessment in the Draft Determination

4.4.85 We proposed strengthening the targets for each of these outcomes. This reflected the priority assigned to this area by customers, the limited evidence explaining the deterioration in performance, and the significant investment levels in water mains renewal over the 2027-33 regulatory period.

4.4.86 For unplanned interruptions, Scottish Water provided five years of data from 2020-21 to 2024-25 to inform the forecast. We considered a longer time series, additional data on burst frequency, and the linkage between investment and performance over the 2027-33 regulatory period would provide significantly stronger evidence. It had achieved around 6,000 weighted properties in three of the five years, with a large increase in 2021-22 at least in part due to adverse weather. It had also achieved its best performance to date in 2024-25, with 5,000 weighted properties, partly due to benign weather conditions. Furthermore, Scottish Water also achieved 5,000 properties in its draft 2025-26 performance.[130] A target of 7,000 weighted properties over the period was therefore not suitably stretching.

4.4.87 Over the last 5 years, Scottish Water has seen a decline in unplanned interruptions while increasing its mains renewal programme. After replacing 0.11% of its water mains annually between 2020-21 and 2024-25,[131] Scottish Water proposed to increase its rate of water mains asset renewal over the 2027-33 regulatory period to 0.41%.[132] This includes

[130] The 2025-26 value is from the WICS review of the performance measures that feed into the Scottish Water Annual Outperformance Incentive Plan (AOIP), received in April 2026 ahead of the full Annual Return submission in June.
[131] Annual Returns 2020-21 to 2024-25, Table D5.
[132] Final Business Plan Tables, line 2.42, and lines 3a.17-3a.22.

accelerating the replacement of asbestos cement mains. The target did not reflect the high level of expenditure in this area.

4.4.88 We proposed setting an initial target of 5,000 weighted properties, consistent with current performance.

4.4.89 For average minutes lost, WICS proposed strengthening the targets for this outcome based on recent performance. The expected level of investment in mains replacement and benchmarking against other water companies also supported the proposed target. We set a 2032-33 target of 10.4 minutes (10 minutes 24 seconds).

4.4.90 Scottish Water provided 4 years of historical evidence for the metric. Over the period, the average minutes lost has fallen from 16.2 in 2021-22 to 10.4 in 2024-25. Its proposed target of 15 minutes over the 2027-33 regulatory period was not fully evidenced.

4.4.91 The comparison of mains replacement activities over the 2021-27 and 2027-33 regulatory periods in paragraph 4.4.87 also applies to the minutes lost outcome measures. As such, even if performance worsens over the remainder of the 2021-27 regulatory period, we expect the number of minutes lost to revert to a downward trend, given the level of mains replacement over the 2027-33 regulatory period.

4.4.92 We proposed setting the starting point for the outcome in 2025-26 at 13.9 minutes, which is the four-year average. We considered a straight line glide path reduction from 2025-26 of 0.5 minutes per year to achieve its best performance in recent years in 2032-33 of 10.4 minutes (10 minutes 24 seconds).

4.4.93 For repeat interruptions to water supply, WICS proposed strengthening the target due to the level of ambition and the expected impact of investment in mains replacement. We set a 2032-33 target of 170 postcodes.

4.4.94 The historical trend increases from 170 in 2021-22 to 220 in 2024-25. Scottish Water suggested that the trend is forecast to increase to 300 in 2028-29 before the mains renewal programmes begin to deliver benefits. Scottish Water proposed a 2032-33 target of 240 postcodes, which is higher than recent performance levels in 3 of the last 4 years. There was insufficient evidence to justify these higher levels, particularly given the investment in this area.

4.4.95 We therefore proposed to set the starting point in 2027-33 for the outcome at 220 postcodes, which is around the median of the four years' historical data supplied by Scottish Water. Given the mains renewal programme, we proposed reducing the number of postcodes by 10 per year to reach 170 by the end of the 2027-33 period, which was in line with the best recorded performance over the last four years (2021-22). The annual

reduction is consistent with Scottish Water's proposed glide path between 2028-29 and 2032-33.

4.4.96 WICS' draft proposals for the reliability of supply outcome measures in the 2027-33 regulatory period are summarised in Table 26.

Table 26: WICS draft proposals – reliability of supply

Line ref	Level of Service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.12	Unplanned interruptions greater than 6 hours, excluding 3rd party	5,047	7,000	5,000	-0.9%	-28.6%
1.13	Average minutes lost due to water supply interruptions (over 3 hours)	10.6	15.0	10.4	-0.0%	-30.7%
1.14	Repeat interruptions to water supply (number of postcodes)		240	170		-29.2%

Draft Determination consultation responses and new information

4.4.97 Regarding the unplanned reductions outcome, Scottish Water accepted WICS' additional Draft Determination challenge, but proposed a reduced glide path over the 2027-33 regulatory period, starting from 5,500 interruptions. It explained that this reflects the recent 3-year average at the start of the price control, and that reductions reflect planned investment and operational improvements.[133]

4.4.98 For average minutes lost to water supply interruptions, Scottish Water proposed a slightly lower target reflecting strong 2025-26 performance. Scottish Water's revised target would result in 10.0 minutes lost in 2032-33, compared to 10.4 minutes that WICS proposed in the Draft Determination.[134]

4.4.99 For repeat water supply interruptions, Scottish Water disagreed with WICS' further Draft Determination challenge. It explained that WICS' selected year to use as the benchmark was not representative of a typical year, as it occurred during the Covid pandemic. It also explained that WICS' proposed reduction of 70 postcodes would require an additional 400km of mains renewal to achieve the target. Scottish Water's 2032-33 target of 221 had been set to maintain service standards by the end of the 2027-33 period. It expects performance to deteriorate over the first few years of the new period, then decline towards the end of the period as the benefits of mains renewal are realised. In addition, Scottish

[133] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, p.13.
[134] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, p.13.

Water has adjusted its historical time series, after making an error in its business plan by omitting new postcode information.[135]

4.4.100 Consultation respondents welcomed our additional challenge on water continuity measures. Both Consumer Scotland [136] and Scottish Water's Independent Customer Group[137] welcomed the strengthened targets.

4.4.101 As set out in paragraph 4.2.23, the final Ministerial Objectives confirmed reliability of supply as one of the areas where improvements are required over the 2027-33 regulatory period.

Our assessment in the Final Determination

4.4.102 For unplanned interruptions, Scottish Water broadly accepted WICS' Draft Determination challenge in its Draft Determination response. It accepted our proposed 2032-33 target of 5,000 interruptions. [138] However, it considered that an opening position of 5,500 interruptions would be more appropriate based on recent performance.

4.4.103 We accept Scottish Water's proposals as a minimum performance level. We set 5,000 interruptions as the minimum level of performance, and we consider there is potential to outperform this given the sizeable investment programme in this area.

4.4.104 For average minutes lost, Scottish Water proposed a more stretching target in its Draft Determination response. This follows our proposal for a significantly reduced target from Scottish Water's original business plan proposals. Scottish Water justified the lower target based on stronger-than-expected recent performance and anticipated further improvements in operational performance in the near future.[139] We welcome Scottish Water's further challenge in this area.

4.4.105 We accept Scottish Water's proposal and set 10.0 minutes lost in 2032-33 as the minimum level of performance. We consider that there are opportunities to outperform this, given the size of the investment programme in this area.

[135] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, pp.14-16.
[136] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.24-25.
[137] Independent Customer Group (2026), 'Water Industry Commission Draft Determination for SRC27: ICG Response', 1 September 2026, p.2.
[138] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, paragraph 2.6.1.
[139] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, paragraph 2.6.1.

4.4.106 For repeat interruptions to supply, Scottish Water has restated the historical values due to an error it made in its business plan. It used old postcodes in its analysis, which, when updated, have led to changes in the historical time series.[140]

4.4.107 Our Draft Determination disagreed with Scottish Water's proposed deterioration in performance and set a glide path to the lowest historical position, starting from Scottish Water's higher opening position. In its Draft Determination response, Scottish Water disagreed with our challenge. It provided an updated profile showing deterioration in performance in the early years of the 2027-33 period, followed by an improvement towards the end of the period, achieving the 2025-26 performance level of 221 postcodes.

4.4.108 We welcome the additional information Scottish Water provided as part of its Draft Determination response. Scottish Water considers that using values from the Covid-19 pandemic to set the performance benchmark is not appropriate, as they were not representative of a typical year.[141] Scottish Water has not provided any evidence as to why it was not appropriate; however, we have chosen to omit these from the time series for the purposes of setting an appropriate target.

4.4.109 Scottish Water's approach to justifying the target involves estimating additional postcodes and reductions using historical averages.[142] Scottish Water has not explained why using a historical average is appropriate for the future. In its proposal, Scottish Water does not consider opportunities for further operational improvements to reduce the frequency of repeat interruptions. We therefore conclude that Scottish Water has not provided sufficient evidence for its proposal in this area. We set a minimum performance level to be holding performance flat by 2029-30, before achieving an upper-quartile level by the end of the period. This results in a 2029-30 minimum target of 221 and a 2032-33 minimum target of 210.

4.4.110 An appropriate stretch target is to achieve the historical best performance by the end of the period along a linear glide path, producing a 2029-30 stretch target of 211 and a 2032-33 stretch target of 200.

4.4.111 WICS' final decision for the reliability of supply outcome measures in the 2027-33 regulatory period is summarised in Table 27.

[140] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, p.14.
[141] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, paragraph 2.8.5.
[142] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, p.48.

Table 27: Final Determination – reliability of supply

Line ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.12	Unplanned interruptions greater than 6 hours, excluding 3rd party	5,047	5,169	5,500	5,300	5,000	-0.9%	-9.1%
1.13	Average minutes lost due to water supply interruptions (over 3 hours)	10.6	9.5	11.6	10.8	10.0	-5.7%	-13.8%
1.14	Repeat interruptions to water supply (number of postcodes)	200	221	231	221	210	+5.0%	-9.1%

Water availability

Scottish Water's proposed performance in the business plan

4.4.112 Scottish Water included two outcomes in the water availability area measured by the number of customers supplied by systems not capable of meeting demand during the worst historic drought and peak demand.

4.4.113 The table below shows Scottish Water's proposed performance by the end of the period.

Table 28: Scottish Water's business plan proposal – water availability

Line ref	Level of Service	2026-27 (SW forecast)	Year 6 2032-33	% Change from forecast year to year 6
1.15	Customers supplied by systems not capable of meeting demand during a worst historic drought	2,805,000	2,564,000	-8.6%
1.16	Customers supplied by systems not capable of meeting peak demand	876,000	876,753	0.1%

Our assessment in the Draft Determination

4.4.114 WICS accepted Scottish Water's proposals in this area. However, we suggested further refinement of these outcome measures to deliver a more robust and justifiable target.

4.4.115 WICS' draft proposals for the water availability outcome measures in the 2027-33 regulatory period is summarised in Table 29.

Table 29: WICS draft proposals – water availability

Line ref	Level of Service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.15	Customers supplied by systems not capable of meeting demand during a worst historic drought		2,805,000	2,564,000		-8.6%
1.16	Customers supplied by systems not capable of meeting peak demand		876,000	876,753		0.1%

Draft Determination consultation responses and new information

4.4.116 In its table summarising its proposed outcomes, Scottish Water categorised both water availability outcomes as 'accepted'. It did not further discuss the outcomes in its Draft Determination response.

4.4.117 Consultation respondents regularly brought up the key need for improved understanding of drought and water scarcity, and its importance. SEPA welcomed the recognition of drought and water scarcity and requested greater prominence in future consideration.[143] One respondent requested significant focus on implementing climate resilience measures.

4.4.118 We welcome the inclusion of the measures in the outcomes framework and look forward to Scottish Water building on these measures in the 2027-33 regulatory period.

Our assessment in the Final Determination

4.4.119 Scottish Water classified the two water availability outcome measures as 'accepted' in its Draft Determination Response.[144] It did not discuss them further.

4.4.120 Our view from the Draft Determination is unchanged that these measures require a more robust and justifiable target. We expect them to be revised in-period as Scottish Water improves its understanding of the measurement of the long-term availability of its assets. Scottish Water should follow the process set out in Chapter 10 for proposing in-period outcomes. We set a minimum target for year 6 (2032-33) for performance to be no worse than the forecast for 2026-27. With this in mind, we have made a minor adjustment to the 'Customers supplied by systems not capable of meeting peak demand' outcome, rounding the 2032-33 target to exactly 876,000 customers.

[143] SEPA (2026), 'SEPA Feedback on WICS Draft Determination of Charges 2027-2033', 31 August 2026, p.6.
[144] Scottish Water (2026), 'Strategic Review of Charges Draft Determination: consultation response', 1 September 2026, paragraph 4.4.1.

4.4.121 WICS' final decision for the water availability outcome measures in the 2027-33 regulatory period is summarised in Table 30.

Table 30: Final Determination – water availability

Line ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.15	Customers supplied by systems not capable of meeting demand during a worst historic drought	2,690,000	2,790,206	2,805,000	2,876,000	2,564,000	-4.7%	-8.6%
1.16	Customers supplied by systems not capable of meeting peak demand	484,000	948,585	876,000	913,000	876,000	+81.0%	0.0%

Water aesthetics

4.4.122 Measures 1.17 to 1.23 relate to the quality of the drinking water customers receive, which is one of the priority areas identified from the customer research (see paragraph 3.3.17). This encompasses several areas, including water aesthetics, sample quality parameters, and drinking water risks and incidents. We have grouped these measures into water aesthetics (measures 1.17 and 1.18), lead (measures 1.19 and 1.20) and water quality (measures 1.21, 1.22 and 1.23). This first section relates to water aesthetics.

Scottish Water's proposed performance in the business plan

4.4.123 As shown in Table 31, Scottish Water proposed that taste and odour contacts are maintained through the 2027-33 regulatory period at the most recent outturn figure, 0.51 contacts per 1,000 population. For discolouration and aeration contacts, it proposed a 10% reduction to 1.90 contacts per 1,000 population by the end of the 2027-33 regulatory period.

4.4.124 The table below shows Scottish Water's proposed performance by the end of the period.

Table 31: Scottish Water's business plan proposal – water aesthetics

Line ref	Level of Service	2026-27 (SW forecast)	Year 6 2032-33	% Change from forecast year to year 6
1.17	Taste and odour contacts per 1,000 population[145]	0.51	0.51	0.0%
1.18	Discolouration and aeration contacts per 1,000 population	2.11	1.90	-10.0%

Our assessment in the Draft Determination

4.4.125 We proposed more ambitious profiles for both of aesthetics measures. For taste and odour contacts, we proposed maintaining 0.46 contacts per 1,000 population throughout the 2027-33 regulatory period, which is lower than the level Scottish Water proposed to maintain. For discolouration and aeration, we proposed a 36.9% reduction to 1.33 contacts per 1,000 population in 2032-33.

4.4.126 Our proposals were based on several factors. Firstly, we heard feedback from DWQR that:

- Further assurance was required to ensure that Scottish Water's business plan addresses emerging issues that could impact taste and odour contacts; and
- Issues with Scottish Water's customer contact processing may mean that the number of contacts is underestimated.

4.4.127 Our starting position for taste and odour 0.46 contacts per 1,000 population, which was the 3-year average performance between 2022-23 and 2024-25. We accepted Scottish Water's forecast starting position for discolouration contacts because it represented better performance than the 3-year average.

4.4.128 We noted that Scottish Water's performance in this area is behind that of the companies in England and Wales. The most relevant comparator for these measures in England and Wales is customer contacts about water quality, which includes both taste and odour contacts and discolouration and aeration contacts. When combining all customer contacts about water aesthetics, Scottish Water has considerably more contacts than the median performance in England and Wales, and more than the worst-performing company in 2024-25. The majority of these contacts relate to discolouration.

[145] Forecast performance in 2026-27 and 2032-33 for all water quality contact outcomes in this document is calculated based on a population of 5,443,756 reported in 2024-25.

4.4.129 The median water quality contact challenge in England and Wales for PR24 was a 26% reduction. Scottish Water's proposed challenge amounts to a 10% reduction in total contacts, which is equal to the smallest challenge set for PR24.[146]

4.4.130 Finally, we considered that the level of investment proposed in the business plan justified greater ambition. In addition to the £84 million of identified investment relating to water aesthetics, we also considered that the proposed investment in water quality, water continuity and mains replacement would yield secondary benefits in aesthetics.

4.4.131 Considering these factors, we proposed to match the median PR24 challenge for England and Wales, adjusting for the length of the regulatory period to give a 30% reduction in total contacts. Our challenge focused on discolouration and aeration to address the higher proportion of actual contacts and the concerns highlighted by DWQR in this area. We proposed maintaining taste and odour contacts at the most recent 3-year average of 0.46 contacts per 1,000 population, recognising emerging challenges as noted by DWQR.

4.4.132 We noted DWQR's comments that contact measures may underestimate the actual number of contacts received. We committed to working with Scottish Water and DWQR to ensure the methodologies for these measures are robust.

4.4.133 WICS' draft proposals for the water aesthetics outcome measures in the 2027-33 regulatory period is summarised in Table 32.

Table 32: WICS draft proposals – water aesthetics

Line ref	Level of Service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.17	Taste and odour contacts per 1,000 population	0.50	0.51	0.46	-9.2%	-10.2%
1.18	Discolouration and aeration contacts per 1,000 population	2.49	2.11	1.33	-46.6%	-36.9%

Draft Determination consultation responses and new information

4.4.134 In its response to the Draft Determination, Scottish Water amended our proposals for both water aesthetics measures.

4.4.135 For taste and odour contacts, where we had proposed maintaining 0.46 contacts per 1,000 population through the period, Scottish Water proposed a glidepath from 0.51 to 0.46

[146] Ofwat (2025), 'Key Dataset 1: Outcomes data', 19 June 2025.

contacts through the period. It also proposed an additional £15 million to achieve this path, based on making improvements at Glenfarg Water Treatment Works.[147]

4.4.136 For discolouration contacts, Scottish Water disagreed with our proposal based on the view that it is not achievable with the allowed funds, and that WICS had overestimated the impact of mains replacement on discolouration performance. It requested £5 million of additional funding to achieve 1.80 contacts per 1,000 population by 2032-33, an improvement on the final business plan value of 1.90.[148] We also note that DWQR raised concerns over the feasibility of our original target in its response to our Draft Determination.[149]

4.4.137 Since the Draft Determination, DWQR, Scottish Water and WICS have agreed to rename outcome 1.18 from "discolouration and aeration contacts per 1,000 population" to "discolouration contacts per 1,000 population", and to change its definition accordingly to exclude aeration contacts.

4.4.138 Six other respondents also specifically recognised the importance of drinking water quality to customers.

4.4.139 As set out in paragraph 4.2.23, the final Ministerial Objectives confirmed water quality as one of the areas where improvements are required over the 2027-33 regulatory period.

Our assessment in the Final Determination

4.4.140 For taste and odour contacts, WICS has accepted Scottish Water's proposed phasing, because the most recent 3-year average has increased since the Draft Determination. We have altered the profile slightly to correct for an error in Scottish Water's calculation of the 2025-26 figure. This reduces the 3-year average from 2023-24 to 2025-26 and therefore our starting point, meaning our opening value, starts slightly lower, but finishes at the same value of 0.46 contacts per 1,000 population in 2032-33.

4.4.141 However, we do not accept Scottish Water's request for an additional £15 million to achieve this path. Based on subsequent feedback from DWQR, we consider that reductions in contacts can be achieved through operational improvements.

[147] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, pp.19-20.
[148] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, pp.21-23.
[149] Drinking Water Quality Regulator for Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 31 August 2026, p.2.

4.4.142 We consider this to be the minimum acceptable performance, given the requirement set by the Ministerial Objectives for improvement in drinking water quality.[150]

4.4.143 For discolouration contacts, WICS notes the concerns from both DWQR and Scottish Water around the achievability of our Draft Determination target. Based on subsequent engagement with DWQR, we consider that Scottish Water's target of 1.80 contacts per 1,000 population by the end of the 2027-33 regulatory period is a significant but achievable reduction. This sets a robust performance trajectory and will require the improvements to Scottish Water's approach to discolouration complaints that DWQR considers necessary.

4.4.144 Following feedback from Scottish Water and DWQR, we are accepting the revised profile for discolouration contacts proposed by Scottish Water in its Draft Determination response. We have altered the profile slightly to correct for an error in Scottish Water's calculation of the 2025-26 figure. This reduces the 3-year average from 2023-24 to 2025-26 and therefore our starting point, meaning our opening value, starts slightly lower, but finishes at the same value of 1.80 contacts per 1,000 population in 2032-33.

4.4.145 However, we are not accepting Scottish Water's proposal to spend £5 million of additional funding to achieve this outcome. Based on subsequent feedback from DWQR, we consider that there is scope to improve through operational practices. This is our minimum expected performance level, with scope for outperformance.

4.4.146 WICS' final decision for the water aesthetics outcome measures in the 2027-33 regulatory period is summarised in Table 33.

Table 33: Final Determination – water aesthetics

Line ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.17	Taste and odour contacts per 1,000 population	0.50	0.50	0.51	0.48	0.46	-8.8%	-9.8%
1.18	Discolouration contacts per 1,000 population[151]	2.11	2.22	2.14	1.97	1.80	-14.5%	-16.0%

[150] Scottish Government (2026), 'Water Industry: Strategic Review of Charges for regulatory period 2027-33: Ministerial Objectives', 23 October 2026.

[151] The 2024-25 figure for this outcome differs from the 2024-25 figure used in the Draft Determination due to the exclusion of aeration contacts. The 2026-27 value is the latest 3-year average, which differs from the value in Scottish Water's Draft Determination response because Scottish Water's value was incorrectly calculated.

Lead

Scottish Water's proposed performance in the business plan

4.4.147 Scottish Water proposed to remove 3,000 lead communication pipes per annum from the network in the 2027-33 regulatory period, reducing the estimated number of lead pipes by 42% between 2027 and 2033. It proposed that the forecast removal of lead communication pipes will drive a 0.1% improvement in the indicator of lead in customer supply pipes in the 2027-33 regulatory period.

4.4.148 Scottish Water also proposed an additional measure to track the number of lead communication pipes removed at 3,000 per annum, for a total of 18,000 over the 2027-33 regulatory period.

4.4.149 The table below shows Scottish Water's proposed performance by the end of the period.

Table 34: Scottish Water's business plan proposal – lead

Line ref	Level of Service	2026-27 (SW forecast)	Year 6 2032-33	% Change from forecast year to year 6
1.19	Estimated number of lead pipes remaining in public network	43,154	25,154	-41.7%
1.20	Indicator of lead in customers supply pipes	98.01%	98.15%	0.1%
1.45	Scottish Water lead pipes in the public network removed in SRC27	0	18,000	

Our assessment in the Draft Determination

4.4.150 We engaged with DWQR to inform our Draft Determination. DWQR noted that progress in this area is essential to deliver a lead-free Scotland in the longer term, which is a Ministerial Objective. It also noted that a significant portion of lead removal will be completed opportunistically through other investment programmes and, as such, the achievement of lead outcomes is linked to those programmes.

4.4.151 We proposed to adopt Scottish Water's performance profile on both the number of lead pipes remaining and the indicator of lead in customer supply pipes. For the number of lead pipes remaining, this is because Scottish Water plans to remove lead pipes faster than its historical average annual removal rate, putting it on track to meet its commitment to remove all lead piping from the public network by 2045. We noted that Scottish Water planned to re-baseline the total number of lead communication pipes before the start of the period.[152] We committed to considering the results of this work when they become available and to re-evaluating Scottish Water's position against its 2045 target, with any

[152] WICS (2025), '2024-25 Annual Return – B tables commentary', 27 November 2025, p.151.

resulting change in investment to be dealt with through the investment change process discussed in Chapter 10.

4.4.152 Regarding Scottish Water's proposed additional measure, we considered the number of lead communication pipes removed to be an investment output rather than an outcome, but proposed adopting Scottish Water's profile.

4.4.153 We accepted the profile for the indicator of lead in customer supply pipes. This reflects that the metric is affected not only by lead communication pipes, but also by lead pipes within property boundaries. The latter is the responsibility of the property owner and therefore outside Scottish Water's direct control.

4.4.154 WICS' draft proposals for the lead outcome measures in the 2027-33 regulatory period are summarised in Table 35.

Table 35: WICS draft proposals – lead

Line ref	Level of Service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.19	Estimated number of lead pipes remaining in public network	47,154	43,154	25,154	-46.7%	-41.7%
1.20	Indicator of lead in customers supply pipes	97.99%	98.01%	98.15%	0.17%	0.14%
1.45	Scottish Water lead pipes in the public network removed in SRC27			18,000		

Draft Determination consultation responses and new information

4.4.155 Our Draft Determination did not contest Scottish Water's proposals for measures 1.19 and 1.20. We did not receive further feedback on these measures in the consultation.

4.4.156 As set out in paragraph 4.2.23, the final Ministerial Objectives confirmed water quality as one of the areas where improvements are required over the 2027-33 regulatory period.

Our assessment in the Final Determination

4.4.157 For lead measures, our Final Determination decision is the same as our Draft Determination decision. We accept Scottish Water's proposed profiles on measures 1.19 and 1.20. We accept the proposed profile on the new measure 1.45.

4.4.158 WICS' final decision for the lead outcome measures in the 2027-33 regulatory period is summarised in Table 36.

Table 36: Final Determination – lead

Line ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.19	Estimated number of lead pipes remaining in public network	47,154	45,696	43,154	34,154	25,154	-46.7%	-41.7%
1.20	Indicator of lead in customers supply pipes	97.99%	98.24%	98.01%	98.08%	98.15%	0.16%	0.14%
1.45	Scottish Water lead pipes in the public network removed in SRC27				9,000	18,000		

Water quality

Scottish Water's proposed performance in the business plan

4.4.159 Scottish Water proposed a 0.02% improvement in total drinking water compliance, rising to 99.95% by 2032-33.

4.4.160 On the drinking water quality risks measure, Scottish Water forecast an overall reduction of 12% over the 2027-33 regulatory period, with a slight increase from 2027-28 to 2028-29.

4.4.161 Scottish Water forecast that the number of DWQR-declared incidents would fall by 1 per annum in the 2027-33 regulatory period, to 25 in 2032-33.

4.4.162 The table below shows Scottish Water's proposed performance by the end of the period.

Table 37: Scottish Water's business plan proposal – water quality

Line ref	Level of Service	2026-27 (SW forecast)	Year 6 2032-33	% Change from forecast year to year 6
1.21	Total drinking water compliance	99.93%	99.95%	0.0%
1.22	Drinking water quality risks across all systems above long-term tolerable threshold.	5,201	4,568	-12.2%
1.23	Number of DWQR declared incidents	30	25	-16.7%

Our assessment in the Draft Determination

4.4.163 In the Draft Determination, we proposed to accept Scottish Water's profiles for drinking water quality risks and the number of DWQR incidents. However, we proposed a more ambitious profile for total drinking water compliance. Our reasons are explained below.

4.4.164 We engaged with DWQR to inform our Draft Determination. We heard feedback from DWQR that:

- the total compliance measure was not aligned with the regulatory measure used by DWQR, as it included non-regulatory cryptosporidium samples;
- water quality failures and incidents can be avoided not only by investing in assets but also by making operational and procedural improvements as noted in paragraph 4.2.6 and acknowledged by Scottish Water's business plan, which notes that 33% of DWQR-declared incidents are due to people or procedural factors;[153]
- emerging issues such as climate change would make the forecast improvement in incidents challenging;
- the water quality risks measure is immature, has not been confirmed as reliable, and is not aligned with DWQR's focus on significant risks.

4.4.165 To address the misalignment noted above between DWQR's compliance measure and Scottish Water's, we proposed using the DWQR measure for water quality compliance, which includes regulatory samples only. To reflect this, we used the compliance figure from the DWQR annual report for 2024 (99.94%) as a baseline going into the 2027-33 regulatory period.[154]

4.4.166 We proposed a stronger challenge on drinking water compliance because of the significant sum of investment proposed for water quality and the significant volume of water impacted by these improvements, and because Scottish Water's performance is low compared to the companies in England and Wales. We proposed a 0.03% performance improvement target (from our new DWQR-aligned baseline of 99.94% at the end of 2026/27), which aligned Scottish Water's 2032-33 performance with that in England and Wales between 2021 and 2024. This took into account both Scottish Water's new operating model and the potential for improvements in operating practices, as noted in paragraph 4.2.6.

4.4.167 Scottish Water acknowledged that its drinking water compliance is below the overall compliance in England and Wales. The Drinking Water Inspectorate publishes annual drinking water reports for England and Wales, which include its national-level assessment of overall drinking water compliance in public supplies.[155] Overall compliance between 2021 and 2024 has averaged 99.97% for both England and Wales, compared to Scottish Water's average total compliance of 99.93% over a similar period. Scottish Water expects that, as a result of the proposed improvement, its performance in 2032-33 will be similar to that of the leading companies in England and Wales in 2022. Given performance in

[153] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 001 – Water Quality', 26 February 2026, p.12.
[154] Drinking Water Quality Regulator (2025), 'Drinking water Quality in Scotland 2024 – DWQR Annual Report – Public Supplies', September 2025, p.6.
[155] Drinking Water Inspectorate (2025), 'Annual Report – The Chief Inspector's Report', 16 July 2025.

England and Wales will likely improve further over the PR24 and PR29 regulatory periods, we expect that Scottish Water will continue to have lower compliance than the English and Welsh companies by the end of the 2027-33 regulatory period.

4.4.168 Overall, given the magnitude of the investment proposed for water quality, the proportion of treated water capacity proposed to be improved, and Scottish Water's performance relative to companies in England and Wales, we proposed a more ambitious target for total water quality compliance which would have reached 99.97% by 2032-33.

4.4.169 Considering the absence of historical data and the need for further development of the water quality risks metric, WICS proposed to adopt Scottish Water's profile at Draft Determination. We also proposed to continue to monitor and engage further with Scottish Water and DWQR on the measure's development to ensure it is fit for purpose.

4.4.170 Our draft decision was to accept Scottish Water's profile on the number of DWQR-declared incidents, recognising the effort required to achieve this reduction, given recent performance and the potential impact of operational improvements as discussed in paragraph 4.2.6.

4.4.171 WICS' draft proposals for the water quality outcome measures in the 2027-33 regulatory period are summarised in Table 38.

Table 38: WICS draft proposals – water quality

Line ref	Level of Service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.21	Total drinking water compliance[156]	99.93%	99.93%	99.97%		
1.22	Drinking water quality risks across all systems above long-term tolerable threshold.	5,625	5,201	4,568	-18.8%	-12.2%
1.23	Number of DWQR declared incidents	34	30	25	-26.5%	-16.7%

Draft Determination consultation responses and new information

4.4.172 Scottish Water accepted our proposal to align its total drinking water compliance metric with that used by DWQR. However, it amended our proposed profile on the basis it was not achievable, and that 2025-26 performance was worse than what we assumed in the Draft Determination. Scottish Water proposed using £32 million in additional funding to achieve 99.96% compliance by the end of the 2027-33 regulatory period, which is higher

[156] Because WICS proposed a different methodology for this measure to that used by Scottish Water, the percentage changes between Scottish Water's figures and our 2032-33 target were not fair comparisons and were omitted.

than the final business plan target of 99.95% but lower than the Draft Determination target of 99.97%.[157]

4.4.173 DWQR also noted in its response that it had concerns over whether our target for total compliance was achievable.[158]

4.4.174 Since the Draft Determination we have engaged with Scottish Water and DWQR on the water quality risks measure, and have agreed to adjust the definition and reporting of this measure until DWQR's new risk assessment and management framework is fully embedded. In the interim, we will require Scottish Water to receive a statement each year from DWQR that Scottish Water is managing its drinking water quality risks appropriately.

4.4.175 Six other respondents also specifically recognised the importance of drinking water quality to customers.

4.4.176 As set out in paragraph 4.2.23, the final Ministerial Objectives confirmed water quality as one of the areas where improvements are required over the 2027-33 regulatory period.

Our assessment in the Final Determination

4.4.177 We accept the profile in Scottish Water's response to our Draft Determination, which achieves 99.96% compliance by 2032-33, and set this as the Final Determination target. However, we do not accept Scottish Water's proposal to use an additional £32 million to achieve this profile. Based on subsequent engagement with DWQR, we consider that compliance improvements are possible through better operation of drinking water assets. As such, we expect the Final Determination profile to be achieved without further funding.

4.4.178 Regarding the water quality risks outcome, following tripartite engagement between WICS, DWQR and Scottish Water after the Draft Determination, we have agreed to adjust the measure. DWQR will introduce a new reporting methodology for significant risks for implementation over the early years of the 2027-33 regulatory period. It would therefore be inappropriate to set a target using the legacy measure that will only exist for a short period. Such an approach could have unintended consequences, including resulting in inefficient investment decisions.

4.4.179 However, given the criticality of this service area, customers will not be adequately protected if we do not set an outcome in this area. We have therefore agreed with DWQR and Scottish Water that, in the interim, DWQR will provide Scottish Water with an independent statement each year confirming that Scottish Water is managing its water

[157] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, pp.17-19.
[158] Drinking Water Quality Regulator for Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 31 August 2026, p.2.

quality risks appropriately. This qualitative measure will replace the numerical measure for the initial years of the 2027-33 regulatory period, until the new reporting methodology is introduced and a robust mid-period baseline can be established. The setting of this new measure will follow the approach to adjusting outcomes mid-period that we set out in Chapter 10.

4.4.180 No changes to the target profile for the number of DWQR declared incidents have been proposed by Scottish Water, DWQR or WICS. As such, we confirm the profile proposed in Scottish Water's final business plan is the target profile set in the Final Determination.

4.4.181 WICS' final decision for the water quality outcome measures in the 2027-33 regulatory period is summarised in Table 39.

Table 39: Final Determination – water quality

Line ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.21	Total drinking water compliance[159]	99.935%	99.914%	99.920%	99.945%	99.960%	0.025%	0.040%
1.22	Drinking water quality risks across all systems above long-term tolerable threshold.				Qualitative assessment from DWQR until measure implemented			
1.23	Number of DWQR declared incidents	34	36	30	28	25	-26.5%	-16.7%

WICS decision

4.4.182 Following the consultation responses we received for our draft proposals and our updated assessments in the preceding sub-sections, WICS' final targets for water service outcome measures in the 2027-33 regulatory period are summarised in Table 40.

Table 40: Final Determination – water service

Line ref	DP ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.07	**1.09**	Percentage reduction of three-year average leakage		0.1%	0.9%	4.5%	11.3%		

[159] The 2024-25 figure has been recalculated in line with the new methodology for the measure in order to allow comparison between 2024-25 and the target for 2032-33.

1.08	**1.10**	Leakage reduction in areas with supply-demand balance deficit		0.2%	0.5%	4.3%	12.9%		
1.09	**1.11**	Percentage reduction of consumption at non-household premises		-1.7%	3.3%	6.7%	14.9%		
1.10	**1.12**	Three-year average per capita consumption (litres/person/day)	179	178	178	175	173	-3.1%	-2.3%
1.11	**1.13**	Number of properties on the low pressure register	22	15	25	20	20	-9.1%	-20.0%
1.12	**1.14**	Unplanned interruptions greater than 6 hours, excluding 3rd party	5,047	5,169	5,500	5,300	5,000	-0.9%	-9.1%
1.13	**1.15**	Average minutes lost due to water supply interruptions (over 3 hours)	10.6	9.5	11.6	10.8	10.0	-5.7%	-13.8%
1.14	**1.16**	Repeat interruptions to water supply	200	221	231	221	210	+5%	-9.1%
1.15	**1.17**	Customers supplied by systems not capable of meeting demand during a worst historic drought	2,690,000	2,790,206	2,805,000	2,876,000	2,564,000	-4.7%	-8.6%
1.16	**1.18**	Customers supplied by systems not capable of meeting peak demand	484,000	948,585	876,000	913,000	876,000	+81.0%	0.0%
1.17	**1.04**	Taste and odour contacts per 1,000 population	0.50	0.50	0.51	0.48	0.46	-8.8%	-9.8%
1.18	**1.05**	Discolouration contacts per 1,000 population	2.11	2.22	2.14	1.97	1.80	-14.5%	-16.0%
1.19	**1.06**	Estimated number of lead pipes remaining in public network	47,154	45,696	43,154	34,154	25,154	-47%	-42%
1.20	**1.07**	Indicator of lead in customers supply pipes	97.99%	98.24%	98.01%	98.08%	98.15%	0.16%	0.14%

1.21	**1.01**	Total drinking water compliance	99.935%	99.914%	99.920%	99.945%	99.960%	0.03%	0.04%
1.22	**1.02**	Drinking water quality risks across all systems above long-term tolerable threshold.				Temporary qualitative assessment			
1.23	**1.03**	Number of DWQR declared incidents	34	36	30	28	25	-26%	-17%
1.45	**1.08**	Estimated number of lead pipes removed from public network			0	9,000	18,000		

4.5 Wastewater and the environment

4.5.1 There are 11 outcomes related to wastewater flows and environment included in the business plan, one of which (river water quality) is under development. These are covered in turn below.

Internal and external sewer flooding

Scottish Water's proposed performance in the business plan

4.5.2 Internal sewer flooding is one of the priority areas identified from the customer research (see paragraph 3.3.18). The customer research also identified that it was underrepresented in the business plan, given customer preferences (see paragraph 3.3.22). Scottish Water proposed four outcome measures covering internal and external sewer flooding:

- Number of internal sewer flooding incidents per 10,000 sewer connections (outcome 1.24);
- Number of properties at risk of internal sewer flooding per 10,000 sewer connections (outcome 1.25);
- Number of external sewer flooding incidents per 10,000 sewer connections (outcome 1.26); and
- Number of areas at risk of external sewer flooding per 10,000 sewer connections (outcome 1.27).

4.5.3 The table below shows Scottish Water's proposed performance by the end of the period.

Table 41: Scottish Water's business plan proposals – sewer flooding

Line ref	Level of Service	2026-27 (forecast)	Year 6 2032-33	% Change from forecast year to year 6
1.24	Number of internal sewer flooding incidents per 10,000 sewer connections[160]	1.57	1.48	-5.7%
1.25	Number of properties at risk of internal sewer flooding per 10,000 sewer connections	1.47	1.47	0.0%
1.26	Number of external sewer flooding incidents per 10,000 sewer connections	10.43	11.16	7.0%
1.27	Number of areas at risk of external sewer flooding per 10,000 sewer connections	11.35	11.88	4.7%

4.5.4 Scottish Water proposed a small improvement in internal sewer flooding incidents, no change in the number of properties at risk of internal sewer flooding, and deterioration of performance in external sewer flooding and the number of areas at risk of external sewer flooding. At the same time, Scottish Water included £970 million of capital expenditure for managing the quantity of flows, of which £367 million is for enhancement.

Our assessment in the Draft Determination

4.5.5 Scottish Water had not explained the forecast deterioration in performance from actual performance to the end of the 2021-27 and early years of the 2027-33 regulatory period in internal and external sewer flooding incidents and properties at risk.

4.5.6 WICS proposed strengthening the targets for the four sewer flooding measures, primarily due to Scottish Water not evidencing the deterioration in recent historical performance.

4.5.7 For the number of internal sewer flooding incidents per 10,000 connections (outcome 1.24), WICS set the starting point at 1.35 internal sewer flooding incidents per 10,000 connections, which is around the 3-year average of actual historical performance between 2022-23 and 2024-25. The performance during the period was then set to reduce by 5.7%, as proposed by Scottish Water. This resulted in a reduction in internal sewer flooding incidents from 1.57 per 10,000 connections based on Scottish Water's forecast for 2026-27 to 1.27 per 10,000 connections in 2032-33, equivalent to 342 properties by 2032-33.[161]

4.5.8 For the number of properties at risk of internal sewer flooding per 10,000 connections (outcome 1.25), WICS set the starting point in line with the 2024-25 position rolled forward by the 10-year average additions of 50 properties per annum, and 39 reduction included in the SRC21 programme, resulting in a starting point of 1.39 properties. We then applied two

[160] Forecast performance in 2026-27 and 2032-33 on the sewer flooding outcomes in this document is calculated per 2,690,000 connections reported in 2024-25.
[161] This is based on 2,690,000 sewer connections reported in 2024-25.

adjustments. Firstly, the performance during the period was set to reduce by 5.7%, in line with the forecast performance for internal sewer flooding incidents per 10,000 connections (outcome 1.24). Secondly, we applied a further adjustment to reflect customer views that this area is under-represented in the business plan. This adjustment moved Scottish Water back to the 2024-25 position. We made an additional £40 million of investment available to Scottish Water to enable it to reach this position.

4.5.9 For external sewer flooding incidents per 10,000 connections (outcome 1.26), WICS proposed setting the starting point at 9.52 external sewer flooding incidents per 10,000 connections, which is around the 3-year average between 2022-23 and 2024-25. We used the 3-year average instead of the proposed 10-year average, as it better reflects recent levels of service to customers. The performance during the period was set to maintain this position.

4.5.10 For the number of areas at risk of external sewer flooding per 10,000 connections (outcome 1.27), WICS proposed to set the starting point at the 2024-25 position rolled forward by the 10-year average additions of 108 areas per annum, and the reduction of 70 areas included in the SRC21 programme, as proposed by Scottish Water, resulting in a starting point of 11.37. We then applied two adjustments: the performance during the period was set to maintain this position in line with forecast performance on the outcome of external sewer flooding incidents (outcome 1.26). We then applied a further adjustment to move Scottish Water back to the 2024-25 position, in line with the approach for the number of properties at risk of internal sewer flooding measure (see paragraph 4.5.8). We made £10 million of investment available to Scottish Water to enable it to reach this position.

4.5.11 WICS' draft proposals for the sewer flooding outcome measures in the 2027-33 regulatory period are summarised in Table 42.

Table 42: WICS draft proposals – sewer flooding

Line ref	Level of service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.24	Number of internal sewer flooding incidents per 10,000 sewer connections	1.05	1.57	1.27	20.8%	-18.8%
1.25	Number of properties at risk of internal sewer flooding per 10,000 sewer connections	1.17	1.47	1.17	0%	-20.5%
1.26	Number of external sewer flooding incidents per 10,000 sewer connections	6.12	10.43	9.52	55.7%	-8.7%
1.27	Number of areas at risk of external sewer flooding per 10,000 sewer connections	10.82	11.35	10.83	0.0%	-4.6%

Draft Determination consultation responses and new information

4.5.12 The actual performance in 2025-26 was better than the 3-year average from 2022-23 to 2024-25 for both internal and external sewer flooding incidents (as set out in Table 43).

Table 43: Historical performance – sewer flooding

Line ref	Level of service	2022-23	2023-24	2024-25	2025-26
1.24	Number of internal sewer flooding incidents per 10,000 sewer connections	1.42	1.57	1.05	1.12
1.25	Number of properties at risk of internal sewer flooding per 10,000 sewer connections	1.23	1.23	1.17	1.19
1.26	Number of external sewer flooding incidents per 10,000 sewer connections	13.21	9.24	6.12	5.60
1.27	Number of areas at risk of external sewer flooding per 10,000 sewer connections	10.03	10.38	10.82	11.04

4.5.13 Scottish Water revised its 2026-27 forecasts for the four outcomes in its Draft Determination consultation response. It accepted our draft decision for the internal and external sewer flooding incident outcomes. For outcomes on properties at risk of internal sewer flooding and on areas at risk of external sewer flooding, Scottish Water accepted our draft decision but proposed a different performance profile for the period.[162]

[162] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, pages 30-34.

4.5.14 Consumer Scotland welcomed the additional £50 million of funding allocated in the Draft Determination to address sewer flooding, an issue that consumers participating in Consumer Scotland's deliberative research consistently identified as a priority for the 2027-33 period. Consumer Scotland considered this a positive example of consumer priorities being reflected in regulatory decision-making and welcomed the increased focus on delivering outcomes that matter most to consumers. Consumer Scotland noted that it will be important for the benefits achieved to be clearly measured and communicated so that consumers can see how additional funding is contributing to improved protection for homes and businesses.[163]

4.5.15 Two other respondents specifically cited sewer flooding as a priority area for customers.

4.5.16 As set out in paragraph 4.2.23, the final Ministerial Objectives confirmed internal sewer flooding as one of the areas where improvements are required over the 2027-33 regulatory period.

Our assessment in the Final Determination

4.5.17 WICS' final decision for the sewer flooding outcome measures in the 2027-33 regulatory period is summarised in Table 44. We have made an additional £50 million of investment available to Scottish Water to enable it to reach this position.

Table 44: Final Determination – sewer flooding

Line ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.24	Number of internal sewer flooding incidents per 10,000 sewer connections	1.05	1.12	1.46	1.31	1.27	20.8%	-13.0%
1.25	Number of properties at risk of internal sewer flooding per 10,000 sewer connections	1.17	1.19	1.29	1.28	1.17	0.0%	-9.5%
1.26	Number of external sewer flooding incidents per 10,000 sewer connections	6.12	5.60	10.06	9.52	9.52	55.7%	-5.3%
1.27	Number of areas at risk of external sewer flooding per 10,000 sewer connections	10.82	11.04	11.29	11.09	10.83	0.0%	-4.1%

[163] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.18.

Discharge permit compliance

Scottish Water's proposed performance in the business plan

4.5.18 Discharge permit compliance was proposed to remain at a flat performance of 96.4%, which equals 21 non-compliant wastewater treatment works. This is consistent with the average performance over 2022-23 to 2024-25.

4.5.19 Table 45 shows Scottish Water's proposed performance by the end of the period.

Table 45: Scottish Water's business plan proposal – discharge permit compliance

Line ref	Level of Service	2026-27 (forecast)	Year 6 2032-33	% Change from forecast year to year 6
1.28	Percentage compliance with SEPA discharge permits	96.37%	96.37%	0.0%

Our assessment in the Draft Determination

4.5.20 We engaged with SEPA to inform our Draft Determination. SEPA considered that this proposal may fall short of the Ministerial Objectives. It also noted that the definition should specify whether it refers to final effluent compliance or licence compliance.

4.5.21 WICS had concerns that Scottish Water had not engaged with SEPA on the measure for percentage compliance with SEPA discharge permits (outcome 1.28). Furthermore, Scottish Water's Board assurance statement explained that the business plan is consistent with the Ministerial Objectives, which SEPA did not appear to agree with.

4.5.22 For the Draft Determination, we adopted Scottish Water's proposal to maintain performance at 96.4% in the absence of Scottish Water and SEPA agreeing on an alternative forecast. However, we expected Scottish Water and SEPA to agree on a target that is consistent with the Ministerial Objectives and to provide it to us by 1 September 2026. In the absence of further information, we considered setting a target in the Final Determination informed by either Scottish Water's maximum performance on this measure of 97.2% in 2024-25, or observed performance in England and Wales. On this latter point, in England and Wales, the 3-year median outturn compliance is 98.8%, with a minimum 3-year average performance of 97.9% over 2022-23 to 2024-25.

4.5.23 WICS' draft proposals for the discharge permit compliance outcome measure in the 2027-33 regulatory period is summarised in Table 46.

Table 46: WICS draft proposals – discharge permit compliance

Line ref	Level of service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.28	Percentage compliance with SEPA discharge permits	97.2%	96.4%	96.4%	-0.9%	0.0%

Draft Determination consultation responses and new information

4.5.24 In 2025-26, Scottish Water's discharge permit compliance was 95.6% (26 failing wastewater treatment works). This is shown in Table 47.

Table 47: Historical performance – discharge permit compliance

Line ref	Level of service	2022-23	2023-24	2024-25	2025-26
1.28	Percentage compliance with SEPA discharge permits	95.17%	96.39%	97.25%	95.52%

4.5.25 In England and Wales, the outturn 3-year median outturn compliance including 2025-26 performance is 98.5%, with a minimum 3-year average performance of 95.4%.

4.5.26 In its Draft Determination consultation response, Scottish Water explained that achieving "levels of performance seen in England & Wales would require substantive levels of investment. With SEPA's focus on a broader range of WwTW compliance through EPAS (Environmental Performance Assessment Scheme), it is not evident to us that they would want Scottish Water to invest in this way."[164]

4.5.27 Scottish Water proposed to utilise £11 million of unallocated investment "to install additional monitoring and control equipment to identify risks earlier and to respond to these proactively, seeking to stretch performance to meet an expected outcome in a typical year to 96.7% (19 out of the 580 works failing permit final effluent standards)."[165]

4.5.28 SEPA's consultation response explained that "As the body responsible for regulating compliance with Scotland's environmental legislation, SEPA's minimum expectation is for operators to achieve and maintain full compliance with environmental regulations and licence conditions, although we note that the draft determination reflects the Ministerial Objective is for Scottish Water to "maintain and improve" compliance. In considering performance measures and our response, we are mindful that the current metrics may

[164] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 4.2.6.
[165] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 4.2.9.

evolve during the regulatory period as the Environmental Performance Assessment Scheme (EPAS) is implemented."[166]

4.5.29 Another respondent considered that WICS should resolve the discrepancy between Scottish Water and SEPA in the Final Determination.

Our assessment in the Final Determination

4.5.30 WICS did not accept Scottish Water's proposal to utilise £11 million of unallocated investment. We do not consider that Scottish Water has evidenced the need for additional funding to achieve the target for the percentage compliance with SEPA discharge permits at wastewater treatment works.

4.5.31 We decided to set 96.4% as the minimum performance and a stretch target of 100%. The range aligns with the Ministerial Objectives for Scottish Water to maintain or improve performance. The stretch target represents SEPA's expectation that operators achieve and maintain full compliance. However, as we have explained to SEPA, the investment programme is not consistent with Scottish Water achieving this stretch target in the range.

4.5.32 WICS' final decision for the discharge permit compliance outcome measure in the 2027-33 regulatory period is summarised in Table 48.

Table 48: Final Determination – discharge permit compliance

Line ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.28	Percentage compliance with SEPA discharge permits	97.2%	95.52%	96.4%	96.4%	96.4%	-0.9%	0.0%

Pollution incidents

Scottish Water's proposed performance in the business plan

4.5.33 Scottish Water proposed two outcome measures covering pollution incidents:

- Number of serious pollution incidents (outcome 1.29); and
- The total number of pollution incidents from a sewerage asset affecting the water environment per 10,000km of sewer (outcome 1.30).

4.5.34 Serious pollution incidents were proposed to be at a 3-year average level and gradually decrease to 5 by the end of the period. The performance in 2024-25 was 5 serious pollution incidents. Scottish Water's proposal for total pollution incidents did not include any

[166] SEPA (2026), 'SEPA feedback on WICS Draft Determination of Charges 2027-2033', 31 August 2026, p.4.

reduction in the metric and proposed keeping performance stable at 34.8 total pollution incidents per 10,000km of sewers.

4.5.35 The table below shows Scottish Water's proposed performance by the end of the period.

Table 49: Scottish Water's business plan proposals – pollution incidents

Line ref	Level of Service	2026-27 (forecast)	Year 6 2032-33	% Change from forecast year to year 6
1.29	Number of serious pollution incidents	8	5	-37.5%
1.30	The total number of pollution incidents from a sewerage asset affecting the water environment per 10,000km of sewer[167]	34.8	34.8	0.0%

Our assessment in the Draft Determination

4.5.36 We engaged with SEPA to inform our Draft Determination. SEPA welcomed the ambition to reduce serious pollution incidents; however, it noted that maintaining performance on total pollution incidents may fall short of the Ministerial Objectives.

4.5.37 Given the level of expenditure on asset maintenance and enhancement, WICS considered that Scottish Water should make improvements in reducing pollution incidents. The proposed levels in 2032-33 would be worse than those of most companies in England and Wales in 2024-25.

4.5.38 For example, in England and Wales, the 3-year median outturn number of serious pollution incidents by water companies is 2.7. A 3-year average to 2024-25 for 8 out of 11 companies is below 8 serious pollution incidents.[168] Ofwat set an expectation of 0 serious pollution incidents for all English and Welsh companies, with penalties applied for more than 1 incident.

4.5.39 For serious pollution incidents (outcome 1.29), WICS set the level of service for 2027-28 at 5 serious pollution incidents, in line with the reported performance for 2024-25. We then expected Scottish Water to maintain a maximum of 5 serious pollution incidents per year until 2029-30, before reducing to no more than 4 serious pollution incidents between 2030-31 and 2032-33. It broadly followed Scottish Water's proposed profile and was based on WICS judgement drawing on Scottish Water's past performance and actual performance in England and Wales.

[167] Forecast performance in 2026-27 and 2032-33 on the pollution incidents measure in this document is calculated per 55,203km of sewers reported in 2024-25.
[168] Ofwat (2026), 'Historical performance trends for PR24 V6.0', 15 January 2026.

4.5.40 For total pollution incidents per 10,000km of sewers (outcome 1.30), WICS proposed to set performance in line with Scottish Water's best performance in recent years of 31.5 total pollution incidents.[169] Ofwat set an expectation for English and Welsh water companies to improve in a comparable total pollution incidents measure. It set a common performance commitment level (PCL) in 2029-30 of 18.63. This is a decrease of 30% and 44% compared to PCL in 2024-25 and outturn 3-year average performance to 2024-25, respectively.[170] Furthermore, the companies in England and Wales have to fund these improvements from operating and maintenance investment and we are allowing Scottish Water higher maintenance investment than the companies in England and Wales.[171] As such, we considered that Scottish Water should be able to significantly outperform these estimates.

4.5.41 WICS' draft proposals for the pollution incidents outcome measures in the 2027-33 regulatory period are summarised in Table 50.

Table 50: WICS draft proposals – pollution incidents

Line ref	Level of service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.29	Number of serious pollution incidents	5	8	4	-20.0%	-50.0%
1.30	The total number of pollution incidents from a sewerage asset affecting the water environment per 10,000km of sewer	34.4	34.8	31.5	-8.5%	-9.5%

Draft Determination consultation responses and new information

4.5.42 Scottish Water reported 3 serious pollution incidents in 2025 and 37.1 total pollution incidents from sewerage assets per 10,000km of sewer. This is shown in Table 51 below.

Table 51: Historical performance – pollution incidents

Line ref	Level of service	2022-23	2023-24	2024-25	2025-26
1.29	Number of serious pollution incidents	10	10	5	3
1.30	The total number of pollution incidents from a sewerage asset affecting the water environment per 10,000km of sewer	38.9	31.5	34.4	37.1

[169] Environment Agency and Natural England (2022), 'Water industry strategic environmental requirements (WISER)', 11 May 2022.
[170] Ofwat (2025), 'Key Dataset 1: Outcomes data', 19 June 2025.
[171] Ofwat (2025), 'PR24 Final Determinations: Expenditure allowances', p.276, 20 December 2024.

4.5.43 In its Draft Determination consultation response, Scottish Water accepted the draft proposal for the serious pollution incidents outcome. For the total pollution incidents outcome, it requested an additional £10 million funding to reach what Scottish Water called its best performance of 32.5 incidents per 10,000km of sewer in 2023.[172] In further engagement, Scottish Water confirmed that their performance in 2023 was 31.5, as stated in the WICS Draft Determination.

4.5.44 SEPA explained in its consultation response that "any serious pollution incident is unacceptable, given the potential consequences for the environment and the communities affected. In relation to pollution incidents, SEPA considers that greater ambition is both achievable and necessary to support continued improvement in environmental performance."[173]

Our assessment in the Final Determination

4.5.45 Actual performance in 2025-26 supports our draft proposal to decrease the number of serious pollution incidents targets.

4.5.46 We do not consider that Scottish Water evidenced the need to utilise unallocated investment to achieve the target for total pollution incidents, and therefore, we have not allowed for this additional funding.

4.5.47 WICS' final decision for the pollution incidents outcome measures in the 2027-33 regulatory period is summarised in Table 52.

Table 52: Final Determination – pollution incidents

Line ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.29	Number of serious pollution incidents	5	3	7	5	4	-20.0%	-42.9%
1.30	The total number of pollution incidents from a sewerage asset affecting the water environment per 10,000km of sewer	34.4	37.1	36.2	33.1	31.5	-8.5%	-13.0%

[172] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 4.4.1-4.4.2.
[173] SEPA (2026), 'SEPA feedback on WICS Draft Determination of Charges 2027-2033', 31 August 2026, p.4.

Sludge disposal

Scottish Water's proposed performance in the business plan

4.5.48 Percentage unsatisfactory sludge disposal was proposed to remain at 0%, consistent with historical performance in this area.

4.5.49 The table below shows Scottish Water's proposed performance by the end of the period.

Table 53: Scottish Water's business plan proposal – unsatisfactory sludge disposal

Line ref	Level of Service	2026-27 (forecast)	Year 6 2032-33	% Change from forecast year to year 6
1.31	Percentage unsatisfactory sludge disposal	0%	0%	0%

Our assessment in the Draft Determination

4.5.50 WICS expected the performance in this outcome to remain at 0% unsatisfactory disposal over the 2027-33 regulatory period consistent with Scottish Water's proposal.

4.5.51 WICS' draft proposal for the unsatisfactory sludge disposal outcome measure in the 2027-33 regulatory period is summarised in Table 54.

Table 54: WICS draft proposal – unsatisfactory sludge disposal

Line ref	Level of service	2024-25 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.31	Percentage unsatisfactory sludge disposal	0%	0%	0%	0%	0%	0%

Draft Determination consultation responses and new information

4.5.52 Percentage unsatisfactory sludge disposal in 2025-26 was 0%. We did not receive any consultation feedback on this outcome measure.

Our assessment in the Final Determination

4.5.53 WICS confirms the Final Determination target is 0% unsatisfactory sludge disposal throughout the 2027-33 regulator period.

4.5.54 WICS' final decision for the unsatisfactory sludge disposal outcome measure in the 2027-33 regulatory period is summarised in Table 55.

Table 55: Final Determination – unsatisfactory sludge disposal

Line ref	Level of service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.31	Percentage unsatisfactory sludge disposal	0%	0%	0%	0%	0%	0%

UIDs

Scottish Water's proposed performance in the business plan

4.5.55 Scottish Water proposed to remove 150 unsatisfactory intermittent discharges (UIDs) during the period. This will result in 712 UIDs remaining at the end of the period out of a total of over 4,200 intermittent discharges.[174]

4.5.56 The table below shows Scottish Water's proposed performance by the end of the period.

Table 56: Scottish Water's business plan proposals – unsatisfactory intermittent discharges

Line ref	Level of Service	2026-27 (forecast)	Year 6 2032-33	% Change from forecast year to year 6
1.32	Unsatisfactory intermittent discharges	862	712	-17.4%
1.46	Unsatisfactory intermittent discharges removal	0	150	

Our assessment in the Draft Determination

4.5.57 We engaged with SEPA to inform our Draft Determination. SEPA's view was that addressing 150 UIDs falls short of the expectation to resolve approximately 25% of the current total over 2027-33 regulatory period. SEPA expects the greater of 25% of the remaining UIDs or 150 UIDs to be removed over the 2027-33 regulatory period. It further highlighted that the UIDs removed during the 2027-33 regulatory period should be in addition to 108 UIDs committed to be delivered by December 2027 under river basin management plan 3 (RBMP3). Furthermore, SEPA considered that any removals of UIDs resolved solely through data cleansing should not count towards the reduction.

4.5.58 For outcome 1.32, WICS accepted Scottish Water's proposal.

4.5.59 As explained in section 5.11, in the Draft Determination, we allowed Scottish Water additional water quality, water continuity and water environment investment of £118

[174] Total intermittent discharges figure includes combined sewer overflows that operate in the event of an overloaded sewer, emergency overflows at pumping stations that operate in the event of mechanical or electrical failure, storm overflows at inlets to works, and storm tank discharges that operate in the event that a works has reached capacity.

million, which is not attached to particular projects or programmes. Scottish Water had the option to use some of this unallocated investment for UIDs to address SEPA's concerns, which would have further enhanced performance.

4.5.60 We also agreed with SEPA that any removals solely due to better information should not count towards proposals, and, if such removals are identified, the baseline will be updated to reflect them.

4.5.61 Scottish Water also proposed adding a new outcome showing UIDs removed (business plan line 46). WICS considered that this is best reported as an output of the investment programme.

4.5.62 WICS' draft proposals for the unsatisfactory intermittent discharge measure in the 2027-33 regulatory period are summarised in Table 57.

Table 57: WICS draft proposals – unsatisfactory intermittent discharges

Line ref	Level of service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.32	Unsatisfactory intermittent discharges	892	862	712	-20.2%	-17.4%

Draft Determination consultation responses and new information

4.5.63 In its Draft Determination consultation response, Scottish Water proposed to remove a further 18 UIDs by utilising £33 million of the unallocated investment. It explained that this would address SEPA's expectation to remove 25% of the remaining UIDs during the 2027-33 regulatory period. Scottish Water also proposed adding an outcome measure showing the number of UIDs removed.[175]

4.5.64 SEPA confirmed in its consultation response that they maintain the expectation that at least 25% of the remaining UIDs are resolved during the 2027-33 regulatory period.[176]

4.5.65 Another respondent highlighted that the measures do not capture the environmental and public health outcomes that discharge permits exist to secure. In particular, they considered that permit compliance is not a proxy for environmental performance or public health protection. The respondent proposed broader measures, such as storm overflow spill frequency and duration per monitored overflow (event duration monitoring), with a

[175] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 4.5.1-4.5.16.
[176] SEPA (2026), 'SEPA feedback on WICS Draft Determination of Charges 2027-2033', 31 August 2026, p.5.

dry/ near dry spilling sub measure. Three further responses raised concerns over UIDs and their impact on the water environment.

4.5.66 The final Ministerial Objectives explain that Scottish Water must:

- "publish an Improving Urban Waters Routemap covering the period 1 January 2028 to 31 December 2033 which sets out how improvements to its infrastructure are expected to contribute effectively to river basin management planning objectives and reducing aesthetic pollution from sewage related debris";
- "continue to implement measures to protect designated bathing waters achieving 'sufficient' or better classifications from its assets, in order to avoid deterioration of the bathing waters classifications"; and
- "prepare and implement investment plans that address known impacts of its assets on designated bathing waters classified as 'poor', to increase the status to 'sufficient' or better classification, by dates to be specified by SEPA."[177]

WICS assessment for the Final Determination

4.5.67 We welcome that Scottish Water and SEPA resolved the difference on whether the UIDs remaining from River Basin Management Plan 3 (RBMP3) count towards the UIDs that Scottish Water proposed to remove over the 2027-33 regulatory period.

4.5.68 WICS accepts Scottish Water's proposal to utilise £33 million of the unallocated investment to remove a further 18 UIDs, recognising SEPA's expectations for additional UIDs to be removed. This will enable Scottish Water to remove 168 UIDs over the 2027-33 regulatory period, which is more than 2.5 times the number Scottish Water expects to remove over the 2021-27 regulatory period.[178]

4.5.69 WICS also requires Scottish Water to report its performance on UIDs, including the number and duration of spills as part of the information collected annually from Scottish Water, known as the Annual Return. We will continue to review whether to expand these measures to cover broader performance and assess whether they could form part of the outcome measures in the future.

4.5.70 WICS' final decision for the unsatisfactory intermittent discharges outcome measure for the 2027-33 regulatory period is summarised in Table 58. We expect SEPA to monitor the removal of the UIDs and separately update the Water Industry Investment Group on progress.

[177] Scottish Government (2026), 'Water Industry: Strategic Review of Charges for regulatory period 2027-33: Ministerial Objectives', 23 October 2026.
[178] Scottish Water expects to remove 61 in total by the end of quarter 4 2026-27. Scottish Water (2026), 'Improving Urban Waters – UIDs programme Quarterly Update 2026-27, Quarter 1', September 2026.

Table 58: Final Determination – unsatisfactory intermittent discharges

Line ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.32	Unsatisfactory intermittent discharges	892	888	854	788	686	-23.1%	-19.7%
N/A	Unsatisfactory intermittent discharges removed				66	168		
1.33	River water quality							

River water quality

Scottish Water's proposed performance in the business plan

4.5.71 Scottish Water did not propose an outcome to measure river water quality.

Our assessment in the Draft Determination

4.5.72 WICS expected Scottish Water to develop and agree a river water quality measure with SEPA and WICS ahead of the start of the 2027-33 regulatory period.

Draft Determination consultation responses and new information

4.5.73 In its Draft Determination consultation response, Scottish Water explained that "the measure will not be developed for the start of SR27 and it has been referred to SEPA given their regulatory oversight in this area."[179]

4.5.74 SEPA's consultation response explained that "as robust Water Framework Directive measures already exist to assess water quality performance, SEPA considers that the creation of a separate metric would add limited value and duplicate existing monitoring and reporting arrangements. SEPA will continue to assess, measure and report Scottish Water's environmental compliance through our established Environmental Performance Assessment Scheme (EPAS)."[180]

Our assessment in the Final Determination

4.5.75 The lack of progress in this area means WICS are unable to include a relevant outcome in this Final Determination. We will continue to work with Scottish Water and SEPA to ensure that the outcome measures capture the wider impact of Scottish Water's activities on the water environment.

[179] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 7.4.1.
[180] SEPA (2026), 'SEPA feedback on WICS Draft Determination of Charges 2027-2033', 31 August 2026, p.5.

WICS decision

4.5.76 Following our draft proposals and our updated assessments in the preceding sub-sections, WICS' final targets for wastewater and environment outcome measures in the 2027-33 regulatory period are summarised in Table 59.

Table 59: Final Determination – wastewater and environment

Line ref	DP ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.24	**1.19**	Number of internal sewer flooding incidents per 10,000 sewer connections	1.05	1.12	1.46	1.31	1.27	20.8%	-13.0%
1.25	**1.20**	Number of properties at risk of internal sewer flooding per 10,000 sewer connections	1.17	1.19	1.29	1.28	1.17	0.0%	-9.5%
1.26	**1.21**	Number of external sewer flooding incidents per 10,000 sewer connections	6.12	5.60	10.06	9.52	9.52	55.7%	-5.3%
1.27	**1.22**	Number of areas at risk of external sewer flooding per 10,000 sewer connections	10.82	11.04	11.29	11.09	10.83	0.0%	-4.1%
1.28	**1.23**	Percentage compliance with SEPA discharge permits	97.2%	95.52%	96.4%	96.4%	96.4%	-0.9%	0.0%
1.29	**1.24**	Number of serious pollution incidents	5	2	7	5	4	-20.0%	-42.9%
1.30	**1.25**	The total number of pollution incidents from a sewerage asset affecting the water environment per 10,000km of sewer	34.4	37.1	36.2	33.1	31.5	-8.5%	-13.0%
1.31	**1.26**	Percentage unsatisfactory sludge disposal	0%	0%	0%	0	0%	0%	0%
1.32	**1.27**	Unsatisfactory intermittent discharges	892	888	854	788	686	-23.1%	-19.7%
N/A	**1.28**	Unsatisfactory intermittent discharges removed				66	168		
1.33	**1.29**	River water quality							

4.6 Carbon emissions, biodiversity and resource recovery

Scottish Water's proposed performance in the business plan

4.6.1 There are 10 measures relating to carbon emissions, biodiversity and resource recovery. In addition, Scottish Water proposed two related measures in its final business plan. Each one is covered in turn below.

4.6.2 Table 60 shows Scottish Water's proposed performance on these measures. Scottish Water did not propose performance profiles for measures 1.42 and 1.43 as they were not yet sufficiently developed.

Table 60: Scottish Water's business plan proposals – carbon emissions, biodiversity and resource recovery

Line ref	Level of Service	2026-27 (SW forecast)	Year 6 2032-33	% Change from forecast year to year 6
1.34	Net Zero Emissions (tCO2e)[181]	319,416	198,126	-38.0%
1.35	Operational emissions (water) (tCO2e)	37,267	9,688	-74.0%
1.36	Operational emissions (wastewater) (tCO2e)	140,224	71,291	-49.2%
1.37	Percentage reduction in operational emissions compared to 2006-07 baseline	61.58%	82.47%	33.9%
1.38	Operational emissions (net emissions) (tCO2e)	168,782	54,529	-67.7%
1.39	Investment emissions (tCO2e)	150,634	143,597	-4.7%
1.40	Carbon capture/sequestration (tCO2e)	-8,708	-26,450	203.7%
1.41	Biodiversity and Nature Based Solutions (interim measure) (m^2 of land)	0	4,500	
1.42	Biodiversity and Nature Based Solutions (final measure)			
1.43	Resource recovery			
1.46[182]	Scottish Water Net Operational emissions with preset conversion factors similar to Ofwat (tCO2e)	215,750	92,816	-57.0%
1.47[183]	Scottish Water investment intensity carbon factor	83%	51%	-38.6%

4.6.3 During the determination process for SRC21, Scottish Water committed to reaching net zero emissions across both operational and capital emissions by 2040, and to generate 300% of the energy it uses through hosted wind and renewables by 2030.[184] Scottish Water

[181] Emissions are expressed in tonnes of carbon dioxide equivalents (tCO2e).
[182] Referenced in Scottish Water's Final Business Plan as 1.47.
[183] Referenced in Scottish Water's Final Business Plan as 1.48.
[184] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 007 – Climate Change Mitigation', 26 February 2026, p.18.

created a Net Zero Emissions Routemap outlining its plans to meet these and other emissions commitments.[185]

4.6.4 We note from the customer research testing whether the plan commands customer support that there was some disappointment among participants with lower investment in carbon reduction (see paragraph 3.4.19). Therefore, we take this into account in our assessment of Scottish Water's performance in this area.

Our assessment in the Draft Determination

4.6.5 In our Draft Determination, we accepted Scottish Water's proposals for operational emissions and carbon capture because we recognised their ambition in comparison to water companies in England and Wales. We applied a cost challenge on carbon capture because Scottish Water's cost per hectare was higher than comparable investment in England and Wales as well as Scottish Water's own historical investment.

4.6.6 Our Draft Determination presented target profiles both including and excluding WCB for the measures impacted by wastewater operational emissions (1.34, 1.36, 1.37 and 1.38), recognising that the charge cap placed specific conditions around the progression of the West Central Bioresources (WCB) project. We calculated the profiles, excluding WCB, based on the emissions that Scottish Water expects the upgrade to eliminate.[186, 187]

4.6.7 We set Scottish Water a more ambitious challenge for investment emissions. This was based on assumptions that the reductions in capital expenditure we set out would proportionally reduce investment emissions, and that Scottish Water should achieve an equivalent reduction to the 5% proposed in related bespoke performance commitments in England and Wales for PR24. We also calculated a profile for investment emissions without WCB, with 40% of the project cost made conditional on our price cap. Our challenge recognised opportunities for innovation in the sector and reflected our view that further progress was needed in this area, given the small forecast reduction relative to operational emissions and the expectation that capital investment would become Scottish Water's most significant source of carbon emissions during the 2027-33 regulatory period.

4.6.8 This also resulted in a greater challenge to the net-zero emissions measure.

4.6.9 We did not set a profile for the final biodiversity measure in the Draft Determination because it was still being developed in partnership with NatureScot. We accepted Scottish

[185] Scottish Water (2020), 'Net Zero Emissions Routemap', 13 September 2020.
[186] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 010 – West Central Bioresource', 26 February 2026, p.8.
[187] WICS (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 30 June 2026, p.99.

Water's performance profile for the interim measure due to the lack of historical data and the expected focus on the final measure for the 2027-33 regulatory period.

4.6.10 We did not set a profile for resource recovery in the Draft Determination because the measure was not developed.

4.6.11 Table 61 shows WICS' draft proposals for carbon emissions, biodiversity, and resource recovery measures in the 2027-33 regulatory period, assuming that the WCB project proceeds.

Table 61: WICS draft proposals for carbon emissions, biodiversity and resource recovery if West Central Bioresource proceeds

Line ref	Level of service	2024-25 (actual)	2026-27 (SW forecast)	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.34	Net Zero Emissions (tCO2e)	325,480	319,416	185,980	-42.9%	-41.8%
1.35	Operational emissions (water) (tCO2e)	52,390	37,267	9,688	-81.5%	-74.0%
1.36	Operational emissions (wastewater) (tCO2e)	168,044	140,224	71,291	-57.6%	-49.2%
1.37	Percentage reduction in operational emissions compared to 2006-07 baseline	52%	62%	82%	57.7%	33.9%
1.38	Operational emissions (net emissions) (tCO2e)	220,084	168,782	54,529	-75.2%	-67.7%
1.39	Investment emissions (tCO2e)	105,395	150,634	131,451	24.7%	-12.7%
1.40	Carbon capture/sequestration (tCO2e)	-350	-8,708	-26,450	7457.1%	203.7%
1.41	Biodiversity and Nature Based Solutions (interim measure) (m2 of land)			4,500		
1.42	Biodiversity and Nature Based Solutions (final measure)					
1.43	Resource recovery					
1.46	Scottish Water Net Operational emissions with preset conversion factors similar to Ofwat (tCO2e)		215,750	92,816		-57.0%
1.47	Scottish Water investment intensity carbon factor		83%	51%		-38.6%

Draft Determination consultation responses and new information

4.6.12 Since the Draft Determination, Scottish Water has notified us of material changes to the assumed volume of nitrous oxide produced from wastewater treatment, which result in a 7-fold increase in modelled nitrous oxide wastewater process emissions. Nitrous oxide is a highly potent greenhouse gas with a global warming potential almost 300 times greater than that of carbon dioxide. As such, this change will result in a significant increase in Scottish Water's reported operational emissions. Over the 2027-33 regulatory period, Scottish Water plans to roll out nitrous oxide monitoring at sites that cover the majority of the population, resulting in a shift from modelled to actual emissions values. While the

impact of this shift is uncertain, it is expected to reduce reported emissions during the period.

4.6.13 The coinciding effects of this increase in conversion factors and Scottish Water's shift to monitoring means that there is considerably more uncertainty in the operational emissions measures at the Final Determination than there was at the time of the Draft Determination. For this reason, Scottish Water did not propose profiles for the affected measures in its Draft Determination consultation response but instead engaged with WICS separately, before submitting a proposal to WICS to adjust the profiles of the affected emissions measures in September.[188]

4.6.14 In short, Scottish Water proposes to:

- Uplift profiles for the affected measures by the estimated impact of the change in conversion factors;
- Recalculate the 2006-07 operational emissions baseline used in measure 1.37 with the new factors and calculate a new percentage reduction from this figure;
- Update Scottish Water's net operational carbon emissions performance measure to the new conversion factors and freeze them for the duration of the 2027-33 regulatory period;
- Work with external technical experts to create a new methodology to report the benefit of interventions targeting process emissions on a site-by-site basis, by monitoring process emissions before and after an intervention; and
- Update emissions measures to include emissions from chemicals used in water and wastewater processes, which increase emissions by 10,000 tCO2e per annum for both water and wastewater, a total increase of 20,000 tCO2e per annum.

4.6.15 In the section below covering our final assessment, we set out our view of Scottish Water's proposed adjustments and how we are addressing the associated uncertainty at this late stage in the SRC process.

4.6.16 Regarding investment emissions, Scottish Water's response to the Draft Determination disagreed with our target for the following reasons:

- Scottish Water believes that we applied a factor based on comparison to targets in England and Wales twice;
- Scottish Water disagrees with the volume of investment emissions that we attributed to West Central Bioresource;
- Lower investment costs do not automatically result in lower investment emissions;

[188] Scottish Water (2026), 'SR27 – Proposed changes to Carbon Outcomes in Table 1 relating to wastewater treatment process emissions accounting factors', letter dated 18 September 2026.

- Scottish Water considers that the bespoke targets we cite from England and Wales are not comparable to our investment emissions metric; and
- Scottish Water considers that the extra £168 million we allowed for additional enhancement to achieve our Draft Determination outcomes will increase the volume of investment emissions, resulting in an increase in its projected investment emissions since the final business plan.

4.6.17 We address each of these points in turn in the relevant section below.

4.6.18 In its proposal to update operational emissions figures to account for the change to process emissions described above, Scottish Water also included a profile for investment emissions, which is higher than that in its Draft Determination response. No explanation was provided for this change.

4.6.19 Scottish Water's Draft Determination response explained that the final biodiversity measure will not be ready for use at the start of the 2027-33 regulatory period, and that baseline projections will be available in the first two years of the period. Scottish Water's Annual Return for 2025-26 noted that the standard methodology for the final measure will be set out in its 2026 Biodiversity Report.[189]

4.6.20 Scottish Water agreed that the resource recovery metric is not ready to be used and proposed to continue to develop it during the 2027-33 regulatory period.

4.6.21 Consumer Scotland noted in its response to our Draft Determination that it would welcome WICS requiring Scottish Water to better evidence whether it can credibly achieve net zero by 2040 through the proposed activities and investment.[190]

WICS assessment for the Final Determination

4.6.22 Scottish Water's proposed reductions in operational emissions assume the implementation of its preferred option for future operation of the Daldowie Sludge Treatment Centre from 2031-32 onwards. WICS' views on the conclusion of the Daldowie PFI contract and the future operation of the site are set out in section 5.7.

4.6.23 There is a material difference in both operational and investment emissions based on whether or not Scottish Water's proposed upgrade at Daldowie, which Scottish Water refers to as West Central Bioresource (WCB), is progressed. We accounted for this difference in our Draft Determination emissions profiles. However, for the purpose of setting targets in the Final Determination, we have assumed that WCB will proceed.

[189] WICS (2026), 'WICS Annual Return 2025/26 Commentary: Section C – Carbon Emissions and Net Zero', 2 October 2026, p.55.
[190] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.25.

4.6.24 This is because we were notified late in the SRC process of a material change in the nitrous oxide conversion factors used in the UK water industry, as discussed in paragraph 4.6.12. Scottish Water provided us with updated profiles for the affected measures, which assume the benefit resulting from WCB.[191] Considering the uncertainty created by this change and the late stage at which it was raised, we do not consider it useful to recalculate the estimated impact of WCB on operational emissions, which would now be substantially different from our assumption at the Draft Determination. In the event that Scottish Water does not meet the requirements of the conditional charge cap on WCB and the project does not proceed, we expect Scottish Water to set out the impact on the affected emissions measures through the annual delivery plan refresh, as outlined in Chapter 10.

Net zero emissions

4.6.25 Our final decision for the net zero emissions measure is the sum of our decisions for operational emissions, investment emissions and carbon capture, which are discussed in turn below. This profile is significantly higher than our Draft Determination profile due to the projected increase in wastewater process emissions.

4.6.26 Our profile is lower than the profile Scottish Water put forward in its September proposal for two reasons:

- We are not accepting Scottish Water's proposal to include an estimate for emissions from chemicals; and
- Scottish Water included an unexplained increase in investment emissions, which should not be affected by an increase in wastewater process emissions.

4.6.27 We agree with Consumer Scotland that Scottish Water should provide further assurance on how its activities and investment will keep it on track to achieve net zero in 2040. The importance of this is highlighted by the recent change to wastewater process emissions reporting discussed above, which materially increases Scottish Water's projected operational emissions and causes significant uncertainty. WICS understands that Scottish Water will publish an updated Net Zero Emissions Routemap in the second half of 2027, which we expect to account for the changes that have taken place and explain the impact on Scottish Water's plans to achieve net zero by 2040.

4.6.28 Our final decision for net zero emissions is shown in Table 62.

[191] Scottish Water (2026), 'SR27 – Proposed changes to Carbon Outcomes in Table 1 relating to wastewater treatment process emissions accounting factors', letter dated 18 September 2026.

Table 62: Final Determination – Net Zero Emissions

Line ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.34	Net Zero Emissions	328,259	318,033	515,014	452,718	396,846	22%	-23%

Operational emissions

4.6.29 We have considered Scottish Water's proposal to adjust the operational emissions measures based on the estimated impact of the nitrous oxide conversion factor change discussed above. We accept the updated proposals for operational emissions measures, excluding emissions from chemicals.

4.6.30 We accept Scottish Water's recalculation of the 2006-07 baseline based on the updated conversion factors, again excluding the estimate for emissions associated with chemicals. For the purpose of measure 1.37 (percentage reduction in operational emissions compared to the 2006-07 baseline), the 2006-07 baseline is changed from 462,000 to 682,000 tCO2e. This changes Scottish Water's reduction in operational emissions since 2006-07 to 59% in 2032-33, compared to 82% in the Draft Determination.

4.6.31 We accept Scottish Water's proposal to update the additional net operational emissions measure to the new nitrous oxide factors and fix these factors for the duration of the 2027-33 regulatory period. This ensures that actual performance reflects only changes resulting from Scottish Water's actions, rather than further updates to factors or assumptions.

4.6.32 We accept Scottish Water's proposal for reporting the benefits associated with process interventions, subject to continued development in partnership with external technical experts.

4.6.33 However, we have not received sufficient evidence on emissions from chemicals to include these in our profiles for the 2027-33 regulatory period at this stage. Scottish Water reported emissions from chemicals for the first time in 2025-26 and noted in its commentary to the 2025-26 Annual Return that the measure is not yet stable.[192] The estimate used in the proposed 2027-33 target profiles is 10,000 tCO2e per annum for water treatment and 10,000 tCO2e per annum for wastewater treatment. We recognise that reporting emissions from chemicals aligns with the Scottish Government's 2026 guidance to public bodies, which extends expectations for reporting on supply chain emissions. However, for the purposes of monitoring and reporting Scottish Water's performance, we consider that including an immature estimate for chemicals at this stage would add further uncertainty to the uncertainty already existing following the changes to Scottish Water's

[192] WICS (2026), 'WICS Annual Return 2025/26 Commentary: Section C – Carbon Emissions and Net Zero', 2 October 2026, p.5.

wastewater process emissions reporting. We expect that the chemicals reporting to WICS will be developed alongside the new reporting methodology to be implemented mid-period following the rollout of process emissions monitoring.

4.6.34 As a result of these changes, the profiles in the Final Determination are around 200,000 tCO2e higher than those included in the final business plan and Draft Determination.

4.6.35 We will continue to monitor Scottish Water's progress in monitoring its nitrous oxide emissions, with a view to redefine operational emissions reporting during the 2027-33 regulatory period. As its understanding of its emissions improves over the 2027-33 regulatory period, Scottish Water should use its annual delivery plan refresh to reflect changes to forecasts in line with the process set out in Chapter 10.

4.6.36 Our final decision for operational emissions measures is shown in Table 63.

Table 63: Final Determination – operational emissions

Line ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.35	Operational emissions (water)	52,390	49,598	37,267	21,760	9,688	-82%	-74%
1.36	Operational emissions (wastewater)	168,044	157,645	335,821	299,372	268,847	60%	-20%
1.37	Percentage reduction in operational emissions compared to the 2006-07 baseline	52%	55%	45%	53%	59%	13%	31%
1.38	Operational emissions (net emissions)	222,864	206,893	364,379	302,931	252,085	15%	-31%
1.46	Scottish Water Net operational emissions with preset conversion factors similar to Ofwat	222,864		411,177	349,489	275,121	25%	-33%

Investment emissions

4.6.37 Scottish Water made several points on investment emissions, as covered in paragraph 4.6.16, namely:

- Scottish Water believes that we applied a factor based on comparison to targets in England and Wales twice;
- Scottish Water disagrees with the volume of investment emissions we attribute to West Central Bioresources;
- Lower investment costs do not automatically result in lower investment emissions;

- Scottish Water considers that the bespoke targets we cite from England and Wales are not comparable to our investment emissions metric; and
- Scottish Water considers that the extra £168 million we allowed for additional enhancement to achieve our Draft Determination outcomes will increase the volume of investment emissions, resulting in an increase in its projected investment emissions since the final business plan.

4.6.38 Regarding Scottish Water's first point on investment emissions, Scottish Water has not fully understood the methodology we used to calculate our Draft Determination profile. Our methodology was as follows:

- We divided Scottish Water's forecast investment emissions by its proposed investment to determine the investment emissions factor (in tCO2e/£m) implicit in Scottish Water's proposal for each year of the 2027-33 regulatory period.
- We then multiplied these implicit factors by the value of investment proposed in our Draft Determination to determine the investment emissions which would result from our allowed investment, using Scottish Water's implicit emissions factor. This increased the in-period reduction to 10%.
- We multiplied this 10% by the ratio of the equivalent challenge in England and Wales (5%, which rises to 6% when accounting for the longer regulatory periods in Scotland) to Scottish Water's proposed challenge (4.7%). This increases the reduction to 12.7%. We distributed this reduction evenly between the 6 years of the 2027-33 regulatory period.
- We calculated the annual emissions factors implied by this new profile, which we used to determine the investment emissions associated with the West Central Bioresource project. We used 40% of the value of West Central Bioresource for this calculation, because this is the proportion of the project value which is subject to our conditional price cap, as detailed in paragraph 9.3.5.

4.6.39 The comparison factor to England and Wales is only applied once, in the third step. As such, we disregard this point.

4.6.40 On the second point on investment emissions, as noted above, our methodology assumes that 40% of the cost of West Central Bioresource (WCB) is subject to the conditional charge cap, with the remainder expected to be invested elsewhere should the project not proceed. This is the reason for the difference between our figure for the project and Scottish Water's.

4.6.41 On the third point on investment emissions, we accept that lower costs may not result in lower investment emissions. We also note that, where our Draft Determination proposed

challenges to investment, it stated that the challenge related to cost rather than investment activities.

4.6.42 However, we also note that there is considerable uncertainty around investment emissions because the measurement tools and methods are relatively immature. We also expect some activities to reduce both cost and investment emissions. These include, for example, reducing the quantity of materials used, making greater use of refurbished products, or substituting lower-carbon products.

4.6.43 Additionally, Scottish Water's final business plan explains that investment emissions are calculated by multiplying annual carbon intensity figures by investment.[193] This aligns with the methodology we used to calculate our Draft Determination target (before the application of benchmarking against companies in England and Wales) as explained above. As such, we followed Scottish Water's own methodology.

4.6.44 Considering these points and taking an in-the-round approach, we have removed the reduction in investment emissions resulting from capital expenditure cost challenges for our Final Determination profile of minimum expected performance. However, given the uncertainty around this measure and the potential for outperformance described above, we have added stretch targets based on the cost-saving reductions that could be achieved. We discuss this further in paragraph 4.6.48 below.

4.6.45 On the fourth point on investment emissions, we agree that the bespoke targets relating to embodied emissions in England and Wales are limited in their applicability to Scottish Water. For PR24, there were four bespoke performance commitments related to investment emissions: capital carbon (Severn Trent Water), embodied greenhouse gas emissions (with separate metrics for South West Water and United Utilities Water), and lower-carbon concrete assets (Anglian Water). All of these measures target a minimum 5% reduction through the PR24 period. The bespoke metrics for Severn Trent and South West Water do not measure absolute emissions and, as such, are qualitatively different from Scottish Water's measure. The remaining two metrics for United Utilities and Anglian Water do measure absolute emissions, but only for a specified portion of the investment programme (WINEP wastewater non-infrastructure investment and concrete, respectively). As they do not track emissions across the whole investment programme, their targets are not comparable to Scottish Water's target. Considering these points, we are no longer accounting for this 5% reduction in the Final Determination.

4.6.46 On the final point on investment emissions, we accept that the additional funding could result in a higher level of investment emissions, because we allocated it to additional enhancement expenditure, which we would expect to come with a greater volume of

[193] Scottish Water (2026), 'Business Plan 2027-2033 Data Table Commentaries – Table 1: Performance', 26 February 2026, p.131.

embodied emissions. The Draft Determination set this at £168 million; however, the Final Determination allows £95 million for leakage, sewer flooding and UIDs. As such, we have recalculated the impact of this additional funding on the investment emissions profile.

4.6.47 We do not accept the higher profile for investment emissions set out by Scottish Water in its September update proposal, because it is not explained nor evidenced, and appears to repeat the uplift between final business plan and Draft Determination response profiles. We see no reason why a change to wastewater process emissions reporting should result in an increase to investment emissions. Our decision has an impact on the net-zero emissions measure as noted above.

4.6.48 Considering all of the factors above, WICS' final profile for investment emissions is equivalent to the profile proposed in Scottish Water's Draft Determination response. However, we have reduced the uplift from the final business plan profile in proportion to the reduction in our allowance for additional enhancement, as noted in paragraph 4.6.46 above. This profile is our minimum expected performance. Further to this, we consider that stretch targets of 145,110 tCO2e in 2029-30 and 140,543 tCO2e in 2032-33 would be achievable based on the reduction in emissions proportionate to the reduction in investment between the final business plan and Final Determination.

4.6.49 Our final decision for investment decisions is shown in Table 64.

Table 64: Final Determination – investment emissions

Line ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.39	Investment emissions	105,395	111,140	150,634	149,786	144,760	37.4%	-3.9%

Biodiversity and resource recovery

4.6.50 Our position on biodiversity and resource recovery measures has not changed since the Draft Determination. This is summarised in Table 65.

Table 65: Final Determination – biodiversity and resource recovery

Line ref	Level of Service	2024-25 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.41	Biodiversity (interim measure)			2,250	4,500		
1.42	Biodiversity (final measure)						
1.43	Resource recovery						

4.6.51 Following the consultation responses we received for our draft proposals and our updated assessments in the preceding sub-sections, WICS' final targets for outcome measures relating to carbon emissions, biodiversity and resource recovery are summarised in Table 66.

Table 66: Final Determination (assuming WCB proceeds) – emissions, biodiversity and resource recovery

Line ref	DP ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)	Year 3 2029-30	Year 6 2032-33	% Change 2024-25 to year 6	% Change 2026-27 to year 6
1.34	**1.36**	Net Zero Emissions (tCO2e)[194]	328,259	318,033	515,014	452,718	396,846	22%	-23%
1.35	**1.40**	Operational emissions (water) (tCO2e)	52,390	49,598	37,267	21,760	9,688	-82%	-74%
1.36	**1.41**	Operational emissions (wastewater) (tCO2e)[194]	168,044	157,645	335,821	299,372	268,847	60%	-20%
1.37	**1.39**	Percentage reduction in operational emissions compared to 2006-07 baseline[194]	51.7%	55.1%	45%	53%	59%	13%	31%
1.38	**1.37**	Operational emissions (net emissions) (tCO2e)[194]	222,864	206,893	364,379	302,931	252,085	15%	-31%
1.39	**1.42**	Investment emissions (tCO2e)[194]	105,395	111,140	150,634	149,786	144,760	37%	-4%
1.40	**1.44**	Carbon capture/ sequestration (tCO2e)	-350	-350	-8,708	-18,200	-26,450	7457%	204%
1.41	**1.45**	Biodiversity and Nature Based Solutions (interim measure) (m^2 of land)				2,250	4,500		
1.42	**1.46**	Biodiversity and Nature Based Solutions (final measure)							
1.43	**1.47**	Resource recovery							
1.46	**1.38**	New net operational metric[194]	220,084		411,177	349,489	275,121	25%	-33%
1.47	**1.43**	Capital Measure			83%	67%	51%	-42%	-39%

[194] The profiles for these measures include the effects of West Central Bioresource. If West Central Bioresource does not proceed, WICS expects the resulting change to these measures to be reflected in the relevant delivery plans.

4.7 Asset health

Scottish Water's proposed performance in the business plan

4.7.1 Scottish Water proposed a new metric, the Asset Health Tracker (AHT), based on its Equipment Health Index measure (EHI; developed in 2025).

Table 67: Scottish Water's business plan proposals – asset health

Line ref	Level of Service	2026-27 (SW forecast)	Year 6 2032-33	% Change from forecast year to year 6
1.44	Equipment/asset health index	29.26	29.59	1.1%

4.7.2 The proposed definition for AHT is: the proportion of assets within EHI (Calendar Age) bands EHI1 to EHI4, multiplied by a loading of A:B:C:D across EHI1 to EHI4 respectively for each of four asset categories (Civils, MEICA, infrastructure (Asbestos Cement mains) and Infrastructure non-Asbestos Cement mains) and summed across the four asset categories by the respective percentage of long-term asset repair, refurbishment and replacement expenditure (as for the Long-Term Plan 2025) across the four asset categories where A:B:C:D is 1/3:1/3:1/6:1/6 for each of the four asset categories.[195]

4.7.3 The constituent EHI measure categorises assets into bands EHI1 to EHI4 based on their actual age as a percentage of their expected asset lifetime. There is a fifth band, EHIx, for assets with unknown age; however, these assets are excluded from the AHT.[196]

4.7.4 Scottish Water proposed the Asset Health Tracker score to increase by 1.1% over the 2027-33 regulatory period. The metric was forecast to peak in 2029-30 at 29.81 points, then steadily decline to 29.59 in 2032-33, with a more rapid decline over the next 3 regulatory periods. Scottish Water explained, through the query process, that the maximum possible score is 33.33 (representing a case where all assets are in band EHI1 or EHI2), and the minimum score is 16.67 (representing a case where all assets are in band EHI3 or EHI4). A score above 25 means that more than half of the assets are in bands EHI1 or EHI2.

Our overall assessment in the Draft Determination

4.7.5 WICS did not consider that the Asset Health Tracker, as evidenced in the business plan, provides sufficient and meaningful insight into the health of Scottish Water's asset base or how that is affected by asset maintenance expenditure. However, we recognised that this is a new and immature measure, based on incomplete data, and that it would require significant further development. We welcomed Scottish Water's efforts to include a proposal in its final business plan; however, we did not accept the AHT measure and its

[195] Scottish Water (2026), 'SR27 Final Business Plan: Table 1 – Performance Commentary', 26 February 2026, p.138.
[196] Scottish Water (2026), 'SR27 Final Business Plan: Table 3b – Asset Health Commentary', 26 February 2026, p.5.

forecast as proposed. We will work with Scottish Water to develop a more comprehensive asset health measure over the 2027-33 regulatory period.

4.7.6 WICS considered that the AHT measure does not yet provide adequate coverage of the whole asset base. It covers about 25% of the asset base, based on Modern Equivalent Asset Value (MEAV), across the four asset categories included in AHT.[197, 198] Scottish Water explained through the query process that it has been developing an EHI for its sewers, which cover about 65% of the asset base MEAV.[199] However, due to their very long asset lives, there is little movement in the EHI scores over a 6-year period, as shown in the business plan data table 4, and Scottish Water explained that including them would distort the AHT score. The AHT measure and its forecasts are primarily based on replacement expenditure and actual asset age (or inferred age where data gaps exist). As such, they do not account for assessed asset condition, the direct impact of repair and refurbishment on that condition, or other factors. Scottish Water recognises these limitations, has assigned a low confidence grade of D4[200] to the measure, and explained that it will aim to address these issues in future iterations of the constituent Equipment Health Index.[201]

4.7.7 WICS considered that the AHT measure is not yet well evidenced in terms of its proposed structure. The measure uses a weighting based on asset maintenance expenditure in Scottish Water's Long Term Strategy to combine the constituent scores for Civils, MEICA, Asbestos Cement water infrastructure, and non-Asbestos Cement water infrastructure into a single AHT score. Scottish Water explained this is to reduce any short-term reliance that might be more subject to change and to place greater focus (using expenditure) of the AHT on the categories with greater replacement and movement. Since WICS has not yet been able to review the strategy in sufficient detail, we did not agree with this structural feature of the proposed AHT measure. We were willing to consider having several AHT metrics for each asset category instead. Scottish Water also explained a different weighting could easily be used but it will have different implications for the score. We considered further work is required to explore the potential structure, to identify and document all value judgements, and to better understand how they would influence the metric and consequently behaviour within Scottish Water.

[197] MEAV stands for Modern Equivalent Asset Value. It represents the equivalent replacement cost of the asset and should reflect both the most technically up-to-date new asset and the most technically up-to-date method of constructing that asset.

[198] Calculated based on Scottish Water's final business plan data tables 3a and 3b: MEAV of 'Modelled Assets' as a percentage of total MEAV for the asset base.

[199] Calculated based on Scottish Water's final business plan data tables 3a and 3b: MEAV of wastewater network infinite-life assets as a percentage of total MEAV for the asset base. Excludes sewer pumping mains which are 'Unmodelled Assets'.

[200] This represents the lowest reliability band (D) for data sources and an accuracy band (4) with high uncertainty with a range of +/-25% to +/-10%.

[201] Scottish Water (2026), 'SR27 Business Plan: Technical Appendix 008 – Investment Planning', 26 February 2026, Annex D on p.104.

4.7.8 Based on the available information in the final business plan, WICS cannot determine to what extent the AHT measure is consistent with the proposed expenditure for asset maintenance and to what extent the proposed profile is stretching. Regarding the former, Scottish Water explained that the change in the AHT score if asset maintenance changes would depend on the movement in the asset category and the availability of assets in EHI3&4 to replace them. Therefore, the link between AHT and asset maintenance expenditure is not straightforward to evaluate.

4.7.9 Due to the immaturity of the measure, WICS did not consider it suitable to set a target for AHT as proposed, as it is unclear what incentives this would present for management behaviour within Scottish Water.

4.7.10 Overall, we considered that Scottish Water's proposed AHT measure is not yet mature, sufficiently useful or meaningful in assessing the condition of the asset base and how that is impacted by asset maintenance investment. As such, we have not set a performance profile. We will work with Scottish Water to develop a more comprehensive asset health measure over the 2027-33 regulatory period.

Draft Determination consultation responses and new information

4.7.11 Scottish Water accepted our proposal to continue developing the Asset Health Tracker during the 2027-33 regulatory period, recognising that it was not yet sufficiently mature to provide a meaningful measure of asset condition or the impact of maintenance investment. It committed to moving from 'calendar-age' to 'effective-age' approaches that better reflected asset condition, performance, criticality, environment and operational context, alongside improving the completeness and quality of asset data and expanding the asset coverage of the Equipment Health Index. Scottish Water also noted that no baseline projections would be available at the start of the 2027-33 regulatory period.[202]

4.7.12 Scottish Water also confirmed the list of actions and milestones for improving its asset management plans, which are key components that will form the refreshed Asset Management Transformation Routemap. Scottish Water further confirmed that its delivery plan will outline the results from its wider review to refresh and consolidate all asset management actions.[203]

4.7.13 Consumer Scotland supported our proposal to continue developing and refining the Asset Health Tracker during the 2027-33 regulatory period. It considered that developing a more comprehensive and credible measure would strengthen the evidence base for investment decisions, improve understanding of long-term asset risks and provide greater assurance

[202] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 3 – Outcomes', 1 September 2026, p.44.
[203] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4d – Asset Management Improvement Plans', 1 September 2026.

that funding was being targeted effectively, while establishing a clearer link between investment, asset condition, service resilience and consumer outcomes.[204]

4.7.14 The importance of the improvements proposed by Scottish Water was also reflected in feedback from another respondent, who raised concerns that the Draft Determination's capital maintenance allowance relied too heavily on asset age and volume-based management approaches. The respondent considered these approaches insufficiently risk-based to optimise infrastructure resilience and considered that investment should instead be informed by asset condition, criticality and the consequences of failure. The respondent questioned allowing significant maintenance expenditure while requiring Scottish Water to improve its asset management evidence base during the 2027-33 regulatory period. The respondent therefore called for clearer regulatory consequences if improvement milestones were not met, robust scrutiny of the external assurance underpinning Scottish Water's management approaches, and demonstrable progress towards a more mature, risk-based approach to asset management during the 2027-33 regulatory period.

WICS decision

4.7.15 We welcome Scottish Water's additional information and commitments, which provide greater clarity on how it intends to strengthen its approach to assessing asset health and address a number of the concerns raised by respondents. Our final decision is that the Asset Health Tracker should continue to be developed and refined during the 2027-33 regulatory period, with a focus on improving the underlying asset data and moving towards a more condition- and risk-based assessment of asset health. The Final Determination does not set a performance profile. We expect the measure to become increasingly robust over the period and provide greater insight into the relationship between asset condition, maintenance investment and service outcomes. When the asset health measure becomes suitably robust, Scottish Water should follow the process set out in Chapter 10 for proposing in-period outcomes.

4.7.16 We recognise the points raised by the respondent in paragraph 4.7.14 and consider that Scottish Water needs to make further progress in its understanding of asset condition, criticality, and the consequences of failure. As such, we will review Scottish Water's progress against the milestones set out in its Draft Determination consultation response and consider future steps to ensure it continues to make progress. We will also consider the scope for specific external assurance in this area.

[204] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.25.

4.8 Strategic tracker

Scottish Water's proposed performance in the business plan

4.8.1 Scottish Water's proposed introducing a strategic tracker outcome, as shown in Table 68.

Table 68: Scottish Water's business plan proposals – strategic tracker

Line ref	Level of Service	2026-27 (SW forecast)	Year 6 2032-33
1.49	Strategic Tracker	0.01	22.7

4.8.2 Scottish Water defined the Strategic Tracker as "a summary statistic of the progress of outcomes of the 25 Year Investment Strategy. It uses Table 1 metrics to set movements for sub-outcomes in the 25 Year Investment Strategy, weighted by benefits from the Strategic Cost Benefit Analysis (SCBA), to form a single statistic. Progress for each sub-outcome then involves:

- Some direct equivalent metrics in Table 1 and to sub-outcomes in the 25 Year Investment Strategy;
- Some metrics in Table 1 are being used as proxies for the progress of sub-outcomes in the 25 Year Investment Strategy; and
- Expenditures of some metrics are being used as proxies for the progress of sub-outcomes in the 25 Year Investment Strategy.

4.8.3 Hence, this links Table 1 and the 25 Year Investment Strategy into a single statistic through the societal benefits weights."[205]

Our assessment in the Draft Determination

4.8.4 WICS did not consider that this measure provides sufficient insight into Scottish Water's performance to customers or stakeholders.

4.8.5 WICS decided to exclude the Strategic Tracker in the outcomes for the Draft Determination.

Draft Determination consultation responses and new information

4.8.6 None of the Draft Determination consultation responses proposed including this outcome in the Final Determination.

[205] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 014 – Performance Monitoring', 26 February 2026, p.31.

WICS decision

4.8.7 WICS does not consider that this measure provides sufficient insight into Scottish Water's performance to customers or stakeholders.

4.8.8 WICS has decided to exclude the Strategic Tracker in the Final Determination outcomes.

4.9 Our decision

4.9.1 Based on the cost allowances covered in the following chapters, we expect Scottish Water to achieve the targets across the outcome measures as discussed above and summarised in Table 69.

4.9.2 For the Final Determination, we set targets based on a minimum level of performance on the outcomes for years 3 (2029-30) and 6 (2032-33). Scottish Water has the flexibility to set annual targets for each outcome for the remaining years, subject to alignment with the targets in the Final Determination for years 3 (2029-30) and 6 (2032-33), and alignment with the Ministerial Objectives. The Ministerial Objectives require Scottish Water to maintain or improve service levels in the 2027-33 regulatory period compared to the position at 31 March 2027 and to ensure that improvements are made in the four areas that matter most to customers:

- Drinking water quality;
- Reliability of supply;
- Reduction in leakage; and
- Protection from internal sewer flooding.

4.9.3 We expect Scottish Water to set a credible path to meeting the Final Determination targets in years 3 (2029-30) and 6 (2032-33) and explain it.

4.9.4 These outcomes should be considered a minimum level of performance, with stretch targets for specific outcomes set out above.

Table 69: Final Determination of performance levels

Line ref	DP ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)[206]	Year 1 2027-28	Year 2 2028-29	Year 3 2029-30	Year 4 2030-31	Year 5 2031-32	Year 6 2032-33
1.01	**1.32**	dCEM Developer Customer Experience Measure	82.9	84.7	83.3	83.4	83.6	**83.8**	83.9	84.1	**84.2**
1.02	**1.31**	nhCEM Non Household Customer Experience Measure	89.3	87.8	89.6	89.7	89.8	**89.9**	90.0	90.1	**90.2**
1.03	**1.33**	R-MeX Retailer Experience Measure	9.0	8.6	9.0	9.0	9.0	**9.0**	9.0	9.0	**9.0**
1.04	**1.30**	hCEM Household Customer Experience Measure	87.3	87.5	87.6	87.8	87.9	**88.0**	88.1	88.2	**88.4**
1.05	**1.34**	UKCSI UK customer Satisfaction Index	77.9	76.9	77.9	77.9	77.9	**77.9**	77.9	77.9	**77.9**
1.06	**1.35**	Communities experience measure (Not available)									
1.07	**1.09**	Percentage reduction of three-year average leakage		0.1%	0.9%	1.8%	3.1%	**4.5%**	6.4%	8.6%	**11.3%**
1.08	**1.10**	Leakage reduction in areas with supply-demand balance deficit		0.2%	0.5%	0.9%	2.1%	**4.3%**	6.9%	9.4%	**12.9%**
1.09	**1.11**	Percentage reduction of consumption at non-household premises		-1.7%	3.3%	4.0%	4.9%	**6.7%**	9.1%	12.1%	**14.9%**
1.10	**1.12**	Three-year average per capita consumption (litres/person/day)	179	178	178	177	176	**175**	175	174	**173**
1.11	**1.13**	Number of properties on the low pressure register	22	15	25	20	20	**20**	20	20	**20**
1.12	**1.14**	Unplanned interruptions greater than 6 hours, excluding 3rd party	5,047	5,169	5,500	5,500	5,400	**5,300**	5,200	5,100	**5,000**
1.13	**1.15**	Average minutes lost due to water supply interruptions (over 3 hours)	10.6	9.5	11.6	11.4	11.1	**10.8**	10.5	10.3	**10.0**
1.14	**1.16**	Repeat interruptions to water supply (number of postcodes)	200	221	231	221	221	**221**	217	214	**210**

[206] Forecasts for 2026-27 are based on Scottish Water's Draft Determination consultation response. For operational emissions measures, 2026-27 forecasts are taken from Scottish Water's September update proposal, excluding the estimate for chemicals emissions.

Line ref	DP ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)[206]	Year 1 2027-28	Year 2 2028-29	Year 3 2029-30	Year 4 2030-31	Year 5 2031-32	Year 6 2032-33
1.15	**1.17**	Customers supplied by systems not capable of meeting demand during a worst historic drought	2,690,000	2,790,206	2,805,000	2,830,000	2,852,000	**2,876,000**	2,896,000	2,914,000	**2,564,000**
1.16	**1.18**	Customers supplied by systems not capable of meeting peak demand	484,000	948,585	876,000	883,000	891,000	**913,000**	921,000	926,000	**876,000**
1.17	**1.04**	Taste and odour contacts per 1,000 population	0.50	0.50	0.51	0.50	0.49	**0.48**	0.47	0.47	**0.46**
1.18	**1.05**	Discolouration contacts per 1,000 population	2.11	2.22	2.14	2.09	2.03	**1.97**	1.91	1.86	**1.80**
1.19	**1.06**	Estimated number of lead pipes remaining in public network	47,154	45,696	43,154	40,154	37,154	**34,154**	31,154	28,154	**25,154**
1.20	**1.07**	Indicator of lead in customers supply pipes	97.99%	98.24%	98.01%	98.04%	98.06%	**98.08%**	98.11%	98.13%	**98.15%**
1.21	**1.01**	Total drinking water compliance	99.935%	99.914%	99.920%	99.935%	99.940%	**99.945%**	99.950%	99.955%	**99.960%**
1.22	**1.02**	Drinking water quality risks across all systems above long-term tolerable threshold.				Qualitative assessment from DWQR until measure implemented					
1.23	**1.03**	Number of DWQR declared incidents	34	36	30	30	29	**28**	27	26	**25**
1.24	**1.19**	Number of internal sewer flooding incidents per 10,000 sewer connections	1.05	1.12	1.46	1.33	1.32	**1.31**	1.30	1.28	**1.27**
1.25	**1.20**	Number of properties at risk of internal sewer flooding per 10,000 sewer connections	1.17	1.19	1.29	1.35	1.31	**1.28**	1.24	1.20	**1.17**
1.26	**1.21**	Number of external sewer flooding incidents per 10,000 sewer connections	6.12	5.60	10.06	9.52	9.52	**9.52**	9.52	9.52	**9.52**
1.27	**1.22**	Number of areas at risk of external sewer flooding per 10,000 sewer connections	10.82	11.04	11.29	11.28	11.18	**11.09**	11.00	10.91	**10.83**
1.28	**1.23**	Percentage compliance with SEPA discharge permits	97.2%	95.52%	96.4%	96.4%	96.4%	**96.4%**	96.4%	96.4%	**96.4%**
1.29	**1.24**	Number of serious pollution incidents	5	2	7	5	5	**5**	4	4	**4**

Line ref	DP ref	Level of Service	2024-25 (actual)	2025-26 (actual)	2026-27 (SW forecast)[206]	Year 1 2027-28	Year 2 2028-29	Year 3 2029-30	Year 4 2030-31	Year 5 2031-32	Year 6 2032-33
1.30	**1.25**	The total number of pollution incidents from a sewerage asset affecting the water environment per 10,000km of sewer	34.4	37.1	36.2	34.2	33.7	**33.1**	32.6	32.0	**31.5**
1.31	**1.26**	Percentage unsatisfactory sludge disposal	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	0.0%	0.0%	**0.0%**
1.32	**1.27**	Unsatisfactory intermittent discharges	892	888	854	822	798	**788**	763	729	**686**
N/A	**1.28**	Unsatisfactory intermittent discharges removed				32	56	**66**	91	125	**168**
1.33	**1.29**	River water quality									
1.34	**1.36**	Net Zero Emissions (tCO2e)	328,259	318,033	515,014	504,367	463,812	**452,718**	446,983	407,159	**396,846**
1.35	**1.40**	Operational emissions (water) (tCO2e)	52,390	49,598	37,267	34,335	23,698	**21,760**	20,985	10,774	**9,688**
1.36	**1.41**	Operational emissions (wastewater) (tCO2e)	168,044	157,645	335,821	328,892	303,982	**299,372**	297,236	271,469	**268,847**
1.37	**1.39**	Percentage reduction in operational emissions compared to 2006-07 baseline	51.7%	55.1%	45.3%	46.7%	52.0%	**52.9%**	53.3%	58.6%	**59.2%**
1.38	**1.37**	Operational emissions (net emissions) (tCO2e)	222,864	206,893	364,379	352,696	313,092	**302,931**	298,881	260,736	**252,085**
1.39	**1.42**	Investment emissions (tCO2e)	105,395	111,140	150,634	151,671	150,720	**149,786**	148,101	146,424	**144,760**
1.40	**1.44**	Carbon capture/sequestration (tCO2e)	-350	-350	-8,708	-10,531	-14,587	**-18,200**	-19,339	-21,508	**-26,450**
1.41	**1.45**	Biodiversity and Nature Based Solutions (interim measure) (m^2 of land)			0	750	1,500	**2,250**	3,000	3,750	**4,500**
1.42	**1.46**	Biodiversity and Nature Based Solutions (final measure)									
1.43	**1.47**	Resource recovery									
1.44	**1.48**	Equipment/asset health index									
1.45	**1.08**	Estimated number of lead pipes removed from public network			0	3,000	6,000	**9,000**	12,000	15,000	**18,000**
1.46	**1.38**	New net operational metric	222,864		411,177	408,685	355,137	**349,489**	344,627	296,088	**275,121**
1.47	**1.43**	Capital Measure			83%	80%	73%	**67%**	62%	56%	**51%**

5 Capital investment

5.1 Summary of chapter

5.1.1 This chapter sets out our assessment of Scottish Water's proposed capital investment programme for the 2027-33 regulatory period, including the evidence underpinning the business plan, our review of costs and deliverability, and our Final Determination allowances.

5.1.2 As outlined in section 2.2, in SRC21, we started a multi-period transition to increased levels of asset maintenance investment, while allowing for £300 million of enhancement and growth investment in 2017-18 prices (equivalent to £390 million in 2024-25 prices) to be allocated to projects on an ongoing basis through an investment prioritisation process. This was to enable Scottish Water to make progress towards maintaining service and achieving net zero emissions by 2040, in line with the sector vision, and was a way of ensuring intergenerational equity.

5.1.3 For the 2027-33 regulatory period, Scottish Water developed a long-term strategy setting out how it plans to meet the revised sector vision. The long-term strategy set the strategic context for Scottish Water's business plan for the 2027-33 regulatory period, in which Scottish Water proposed an £8,093 million investment programme (2024-25 prices). The programme spans multiple areas, including water quality, water continuity, the water environment, growth and strategic projects such as West Central Bioresources.

5.1.4 Overall, we allow £7,922 million of capital investment (including additional allocations) to enable Scottish Water to meet the final Ministerial Objectives. This allowance includes an annual productivity challenge increasing from 0.8% at the start of the period to 1% by the end of it.

5.1.5 This investment allowance allows for around double the level of maintenance that would be made available using an econometric approach to set maintenance allowances. Furthermore, the allowed enhancement and growth investment represents a 25% uplift on the long-term average set out in SRC21. This recognises that the industry is making further progress towards improving water quality and the environment over the 2027-33 regulatory period, in line with the Ministerial Objectives.

5.1.6 Our Final Determination balances deliverability with ambition. We have built on our assessment from the Draft Determination by reviewing an internal capacity and supply chain readiness assessment, as well as further assurances from the Scottish Water Board. We are satisfied with Scottish Water's assessment; however, as noted in the readiness assessment, we still consider that some delivery risks remain. As such, we will monitor programme delivery closely throughout the 2027-33 regulatory period.

5.1.7 We consider that our Final Determination achieves an appropriate balance between meeting long-term service and environmental objectives, the impact on charges, and the need to ensure the programme can be delivered efficiently.

5.1.8 This chapter is structured as follows:

- Our approach to investment;
- Scottish Water's proposed investment programme and evidence;
- Our review of the investment programme and common themes;
- Our Draft Determination allowance and consultation responses;
- Adjustments to the specific investment areas;
- West Central Bioresources;
- Asset maintenance investment allowance;
- Enhancement and growth investment allowance;
- Assumptions that apply across the whole programme;
- Additional investment allowances;
- Deliverability; and
- Our decision.

5.2 Our approach to investment

5.2.1 As set out in section 3.2, Scottish Water has translated the Ministerial Objectives into more detailed outcome measures. These detailed outcome measures have also been informed by customer priorities identified through customer research and by improvements needed to comply with drinking water quality and environmental regulations. The detailed outcome measures and the desired performance levels for those measures will impact the investment required over the 2027-33 regulatory period. This section sets out our proposals for investment expenditure to meet the outcomes set out in section 4.9.

5.2.2 Our Final Determination considers investment in three categories:

- Asset maintenance: repairs, refurbishment, and replacement of existing assets to maintain current service levels. Scottish Water refers to maintenance investment as AR3 (asset repair, refurbishment and replacement);
- Growth: increasing water supply and wastewater capacity to support new homes, businesses and population movement; and
- Enhancement: delivering improvements in levels of service, the quality of drinking water, the quality of water returned to rivers and other water courses and resilience. Many of these improvements are driven by requirements set out in legislation; however, there is often a choice about how and when the improvement is made.

5.2.3 Assessing investment based on these categories for our Final Determination helps to provide transparency into the investment customers pay for and the drivers that contribute to bill changes. It ensures that the same categories of costs can be compared over time and across companies, providing valuable insights into the level and reasonableness of costs, the level of future maintenance costs, and supporting efficiency analysis. This ensures customers pay no more than necessary for the vital investment required. Finally, it also enables investment to be monitored during the regulatory period, ensuring that Scottish Water is held to account for delivering the investment customers have paid for.

5.2.4 Our approach to investment for the 2027-33 regulatory period focuses on ensuring that Scottish Water's investment proposals are well-justified, efficient and deliverable. We cover each of these areas in turn below.

Ensuring investment is well justified

Asset maintenance

5.2.5 The Final Determination for SRC21 marked a change in the regulation of asset maintenance compared to previous periods. Overall, the new approach placed greater focus on infrastructure resilience to address the long-term challenges facing the industry.

5.2.6 This change in approach has also been recognised by the Independent Water Commission in its final report on the review of the water sector in England and Wales (also referred to as 'the Cunliffe review', named after the chair of the Commission, Sir Jon Cunliffe).[207] One of the key recommendations in the final report is to establish a forward-looking infrastructure resilience framework and standards at a national level for England and Wales.

5.2.7 We build on our approach in SRC21 by enhancing the focus on evidence, information and assurance. To justify asset maintenance, we required Scottish Water to provide the following:

- Bottom-up evidence for future asset maintenance needs and how they have been costed, including an investment baseline with clear descriptions of expected measurable outcomes across different asset categories, number, overall costs and unit costs of interventions, and how these investments will impact the condition and performance of the asset base;
- A measure (or measures) of asset condition across its asset base, translating as far as possible the impact of maintenance activities on asset condition into tangible consequences that customers will understand, and providing an improvement plan

[207] Independent Water Commission (2025), 'Independent Water Commission: Final Report', 21 July 2025.

to address the data and knowledge gaps in its asset condition reporting and forecasting; and
- A roadmap for improving its knowledge of its asset base and long-term replacement costs.

5.2.8 To justify enhancement and growth investment, we required Scottish Water to provide standard information within investment cases for all projects and aggregated programmes of work which are in development and post-commitment, i.e. Scottish Water's internal Gate 50 onwards, when Scottish Water conducts a strategic options review.[208] The standard information covers aspects such as the need for investment, the range of options considered, cost-benefit analysis, accounting for non-financial costs, evidence that costs are efficient, and others – the full list is available in Appendix 2. We also applied a monetary threshold for how the information is grouped. If a project has total costs above £6 million (not just forecast costs for the 2027-33 period) or is novel or contentious, an individual investment case should be submitted. Projects less than £6 million and not novel or contentious can be grouped into programmes of work, and an investment case is required for each programme.[209]

5.2.9 We also placed additional requirements on two specific categories of projects:

- large projects, defined as projects with a total project value above £100 million; and
- Private Finance Initiative funded projects, recognising that Ministers have requested WICS undertake a full examination of Scottish Water's approach to establishing the options and costs of the 4 PFI contracts maturing in the 2027-33 regulatory period.

5.2.10 For these projects, we required Scottish Water to provide external assurance on the proposed approach and the robustness of the cost estimates.

5.2.11 For projects and programmes of work that involve an element of enhancement and growth which have not reached Gate 50 of Scottish Water's internal development process (those considered 'pre-development'), we required Scottish Water to explain its assumptions for the indicative costings and outputs in the business plan. This allows WICS to test the reasonableness of Scottish Water's assumptions and conduct high-level benchmarking.

[208] In the context of enhancement, we define a programme of works as comprising investment that shares the same characteristics, involves the delivery of the same group of investment outputs, involves repeatable work of similar construction requirements and risk profiles and the location of the investment is unknown. Examples include a programme to remove unsatisfactory intermittent discharges or combined sewer overflows.
[209] WICS (2024), 'Strategic Review of Charges 2027-2033: Final Methodology', 12 December 2024, pp.122-124.

Ensuring investment costs are efficient

5.2.12 We required Scottish Water to develop an efficiency work plan that sets out how it would evidence the efficiency challenge that it has applied to investment costs. The efficiency work plan set out several initiatives, including:

- Using external consultants to benchmark the direct construction costs within Scottish Water's most significant cost models (which account for over 25% of the business plan cost inputs)[210] against equivalent models from UK water and sewerage companies of comparable scale and operating model;
- Benchmarking of Scottish Water's indirect and on-cost levels against those of companies in England and Wales, supported by three external cost consultants; and
- Benchmarking Scottish Water's investment cost forecasts against data from companies in England and Wales using Ofwat's efficiency models for investment.

5.2.13 As set out in section 2.5, we required Scottish Water's Board to provide assurance that the plan represents value for money by providing challenging proposals for operating and capital expenditure efficiency and service performance levels.[211]

5.2.14 Our assessment of efficiency involves reviewing this evidence, while also conducting our own analysis focusing on three main areas:

- WICS review of individual projects and proposed costings;
- External review of projects and programmes; and
- Supplementing benchmarking analysis based on Ofwat's efficiency models for investment with further models.

Ensuring investment is deliverable

5.2.15 We also need to be confident that the programme is deliverable in addition to ensuring that investment is well-justified and efficient. Deliverability is a broad concept that reflects both Scottish Water's internal capacity to appraise, plan, and develop projects effectively and the external supply chain's ability to build them at an efficient cost. If the volume of projects is too large or grows too quickly, Scottish Water may be unable to give each project the level of scrutiny needed to ensure that the chosen solutions represent the best value for money. Equally, if specialist contractors, materials or equipment are in short supply, competition may be reduced, and customers may end up paying more than necessary for essential investment. Ensuring the investment programme is deliverable, therefore, means

[210] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 012 – Efficiency', 26 February 2026, p.13.
[211] WICS (2024), 'Strategic Review of Charges 2027-2033: Final Methodology', 12 December 2024, pp.62-65.

setting it at a level that Scottish Water and the wider supply chain can realistically deliver, which maintains quality, efficiency and value for customers.

5.2.16 In the 2021-27 regulatory period, Scottish Water has already signalled that it is facing increasing delivery pressures, including extended lead times for key materials such as motor control centres, difficulties securing specialist contractors, and constraints on progressing certain programmes of work, such as the removal of unsatisfactory intermittent discharges. Scottish Water has also noted challenges in the labour market, including the loss of engineers and other delivery staff to sectors such as energy, which is undertaking significant investment in renewable energy.

5.2.17 In light of these challenges, as part of the Board assurance statement covered above, we required Scottish Water's Board to provide explicit assurance that its proposed investment programme is deliverable, taking account of internal capability and supply chain constraints. This assurance is a critical safeguard for customers, ensuring that the Board rigorously tests the plan's deliverability before submission. Deliverability is examined in more detail in section 5.12.

5.3 Scottish Water's proposed investment programme and supporting evidence

5.3.1 As set out in section 2.4, Scottish Water's final business plan proposed an investment programme of £8,093 million (all figures are in 2024-25 prices) over the 2027-33 regulatory period, representing a 35% increase in the size of the investment programme Scottish Water expects to deliver over 2021-27. Therefore, Scottish Water is asking customers to fund a materially larger investment programme.

5.3.2 The investment spans 12 areas, each covered in a separate business plan technical appendix, as set out in Table 70.

Table 70: Scottish Water's proposed investment

Area	Investment (2024-25 prices; £m)	Relevant business plan technical appendix
Water quality	1,720	1
Water continuity	1,770	2
Water environment	1,914	3
Managing the quantity of flows	970	4
Enabling growth	551	5
Climate adaptation	13	6
Climate mitigation	59	7
West Central Bioresources	557	10
Customer and communities	21	15
Digital	107	17
Transformation and innovation	31	18
Support services	317	Not Applicable
Real price effects	60	12
Investment total	**8,093**	-

5.3.3 Scottish Water's business plan and Board assurance statement explain that this programme is justified, efficient and deliverable. Scottish Water provided the following evidence base to support this position:

- Project Investment Appraisals (PIAs) for 14 asset maintenance projects and for 47 enhancement and growth projects and project bridging documents;
- 50 Management Approach documents for asset maintenance investment in programmes of work and projects;[212]
- 25 evidence packs for programmes of work and groupings of projects where each project is less than £6 million in total value;
- Separate assurance reports, covering a range of areas including the quality and reliability of submitted data and commentary, the quality of the customer research and how it is reflected in the business plan, and others;
- External consultants benchmarking direct construction costs against equivalent models used by water companies in England and Wales, which suggested Scottish Water's costs were 4.2% lower than the industry average overall;
- External consultants benchmarking Scottish Water's indirect costs, which suggested that Scottish Water's costs in these areas were below the industry average; and

[212] This does not include an additional Management Approach (MA076 - Wastewater Studies), which was shared by Scottish Water through the query process.

- Enhancement cost benchmarking, where Scottish Water concluded that its enhancement cost forecasts are below or in line with the set of modelled benchmarks that Ofwat used for its price review in 2024 (known as PR24).

5.3.4 We have reviewed the investment programme and the supporting evidence in detail. The following sections explain our assessment and final decisions.

5.4 Our review of the investment programme and common themes

5.4.1 We have reviewed the following evidence:[213]

- Investment cases for individual projects and proposed costings with a total value of £1,426 million;
- Reviewing Scottish Water's asset management policies, known as management approaches, which drive the volume of maintenance activities over 2027-33, and provide the unit costs of maintenance activities with a total value of £2,257 million;
- Conducting our own benchmarking of around £1,610 million of investment, building on Ofwat's efficiency models for investment; and
- Commissioning an external review of projects and programmes from the engineering consultants, WSP, who reviewed investment with a total value of £2,905 million.

5.4.2 Appendix 2 provides the details of each of these reviews. Our adjustments based on these reviews are set out in section 5.5.135.6. We consider that some common themes arose from the reviews: the needs case for investment and linkage to outcomes; and cost assumptions and data availability. These are explored in the sub-sections below.

The needs case and linkage to outcomes

5.4.3 There is a consistent finding across the projects and programmes reviewed that the strategic and regulatory need for investment is generally robust and clearly articulated. In most cases, investment drivers are well grounded in statutory obligations, Ministerial Objectives and recognised asset risks.

5.4.4 However, we consider that Scottish Water does not have sufficient evidence of the linkage between the proposed outcomes and the investment required to deliver them, as detailed throughout Chapter 4. While it is important to evidence alignment with statutory or strategic drivers, demonstrating a strong link to the delivery of outcomes is crucial. It would allow Scottish Water to better articulate the benefits customers will receive from the investment and the consequences if Scottish Water does not deliver it. Overall, rather than reducing investment, we have set Scottish Water the challenge of delivering more for the

[213] Note that there is an overlap in investment between these items.

same investment. We consider that this achieves an appropriate balance between price, investment, and service for current and future customers, in line with our statutory duties to protect both. We also consider this in line with the feedback from the confirmation pillar of the customer research (as set out in paragraphs 3.4.18 and 3.4.19).

Cost assumptions and data availability

5.4.5 A common theme is that there are recurring weaknesses in the evidence used to support costs, efficiencies and value for money. Many programmes rely heavily on historical unit rates, modelling assumptions, or high-level allowances, with limited transparency into how these have been derived, challenged, or benchmarked. This is a common theme emerging from our review of investment programmes and the external review of the investment programme from our engineering consultant, WSP.

5.4.6 Scottish Water's external assurance on management approaches, which underpin the investment programmes for asset maintenance, also recognised some of the data limitations.[214] The assurance recognised that Scottish Water has been on a journey of continuous improvement in its management approaches, but also highlighted the data theme that "significant data improvements are required across the board to increase confidence in these management approaches".[215] Furthermore, the assurance highlighted that "there is no overarching methodology developed for these management approaches (version 2). It is essential that the organisation develop a methodology as this will help to set out the process and assumptions so that Management Approach documents can be compared against an expected standard".[216] Scottish Water acknowledges data gaps and has set out a programme to improve data by 2030. This is known as its Routemap to 2030.[217]

5.4.7 In its final business plan, Scottish Water also provided improvement plans with milestones and deliverables covering several areas of asset management, including:[218]

- Updating its management approaches by Quarter 2 2026-27;
- Improving data used in its target asset health measure by Quarter 4 2027-28; and
- Putting in place its target asset health measure by 2028-29.

5.4.8 Our Draft Determination required Scottish Water to consolidate the list of actions from its various asset management improvement plans (including its Routemap to 2030) to allow WICS to monitor progress, as we will need to see these improvements before the Strategic

[214] AtkinsRealis (2025), 'Management approach assurance: assurance report', 16 April 2025.
[215] AtkinsRealis (2025), 'Management approach assurance: assurance report', 16 April 2025, p.4.
[216] AtkinsRealis (2025), 'Management approach assurance: assurance report', 16 April 2025, p.55.
[217] Scottish Water (2020), 'Asset Management Transformation Routemap', July; and AtkinsRealis (2025), 'Management approach assurance', April 2020.
[218] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 008 – Investment Planning – Annex D', 26 February 2026.

Review of Charges 2033 (SRC33). In its response, Scottish Water confirmed that there are no other actions and objectives for wider improvements to add to the list provided in technical appendix 8 of the final business plan. That list contains the key components that will form the refreshed Asset Management Transformation Routemap. Scottish Water further confirmed that its delivery plan will outline the results from its wider review to refresh and consolidate all asset management actions.[219]

5.4.9 In its business plan, Scottish Water did not provide the full outputs related to its investment programme, in line with the WICS methodology requirements. Specifically, Scottish Water did not provide the forecast number of responsive maintenance interventions and inspections. In its response to the Draft Determination, Scottish Water provided the allocations of outputs between reactive maintenance and inspections, and has committed to providing more granular information in its delivery plan ahead of the 2027-33 regulatory period.[220]

5.4.10 We could have further challenged the maintenance investment after taking into account the assurance, our own review of management approaches and the gaps in information on responsive maintenance interventions and inspections. However, we have instead set Scottish Water the challenge to deliver more for the same investment in these cases, as set out above.

5.5 Our Draft Determination allowance and consultation responses

5.5.1 The Draft Determination allowed investment of £7,946 million, including unallocated investment. This section summarises the overarching consultation responses on the scale and approach to capital investment. The sections that follow consider the more detailed responses and new evidence for individual investment areas and explain any resulting changes to our allowance.

5.5.2 Consultation question 3 asked to what extent respondents agree with our proposal for capital investment:

- 14 respondents answered 'agree' or 'strongly agree';
- 14 respondents answered 'neither agree nor disagree';
- 14 respondents answered 'disagree' or 'strongly disagree'; and
- 9 respondents provided no direct answer.

5.5.3 Respondents who answered 'agree' or 'strongly agree' gave several reasons, including:

[219] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4d – Asset Management Improvement Plans', 1 September 2026.
[220] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4c – AR3 Outputs', 1 September 2026.

- 7 respondents recognised the need for investment to provide resilient and reliable water and wastewater infrastructure;
- 2 respondents covered other areas, including demand management, the need for more sustainable blue-green solutions and concern over data centres; and
- 5 respondents provided no further comment.

5.5.4 Several respondents also welcomed WICS review and challenge of the programme and expected continued scrutiny of costs, delivery and benefits delivered.

5.5.5 Respondents who answered 'disagree' or 'strongly disagree' gave several reasons, including:[221]

- 2 respondents considered that WICS had not challenged Scottish Water's proposals enough;
- 2 respondents sought improvements to planning, delivery and funding for new capacity to ensure that there is an adequate water supply for firefighting;
- 2 respondents suggested changes to how investment is funded;
- 2 respondents raised concerns that shareholders would benefit from a larger investment programme;
- 3 respondents raised other points, including concern over how asset maintenance requirements are determined (covered in section 4.7 above), concern over delivery constraints, while another considered that investment should be increased further; and
- 2 respondents provided no further comment.

5.5.6 Respondents who answered 'neither agree nor disagree' raised similar points to those above.

5.5.7 The 9 qualitative responses raised similar points. There was broad recognition of the need for continued long-term investment, including among some respondents who did not support our overall proposal. Views differed on the appropriate scale, pace and prioritisation of investment, how it should be funded, and whether the evidence supporting individual investment needs was sufficiently robust.

5.5.8 Scottish Water accepted some of the cost challenges in the Draft Determination, including proactively reviewing returning PFI maintenance investment. In other areas, Scottish Water reinstated cost estimates included in the final business plan.[222]

[221] The other respondent who disagreed was Scottish Water, which is covered below.
[222] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 2.2.26.

5.5.9 DWQR considered the drivers underpinning the proposed programme to be justified in addressing significant risks to drinking water quality and strengthening resilience.[223]

5.5.10 SEPA welcomed several positive aspects of the Draft Determination, including support for continued investment and improvement. However, there was concern that the proposed level of funding may not reflect the scale of investment required to address these challenges.[224] SEPA supported the principle of 'study first, invest later' but considered that further investment might be required to address needs that emerged from studies during the period.[225] It considered that the 'study first, invest later' approach risks delaying the delivery of statutory objectives.

5.5.11 Consumer Scotland highlighted the importance of considering long-term value and intergenerational fairness, noting the risk that lower-cost interventions or the deferral of investment could transfer costs and unresolved risks to future customers.[226]

5.5.12 Overall, we consider that the consultation responses reinforce the need for a substantial programme of investment, while also demonstrating that support for investment is closely linked to confidence that expenditure is necessary, efficient, deliverable and capable of delivering clear benefits for customers and the environment. The responses also underline the importance of balancing current affordability with long-term resilience and intergenerational fairness, and of retaining sufficient flexibility to respond as evidence and investment needs develop during the period.

5.5.13 The following sections consider each investment area in turn. For each area, we summarise the position set out in the Draft Determination, the consultation responses and any new information provided, before setting out our final decision and any adjustment to the investment allowance.

5.6 Adjustments to the specific investment areas

5.6.1 We provide our adjustments to Scottish Water's proposed investment programme for each investment area. Appendix 2 provides our full assessment.

Water quality and water continuity

Our overall assessment in the Draft Determination

5.6.2 Scottish Water proposed investment of £3,491 million for water quality and continuity as part of its business plan for the 2027-33 regulatory period.

[223] DWQR (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 31 August 2026, p.1.
[224] SEPA (2026), 'SEPA Feedback on WICS Draft Determination of Charges 2027-2033', 31 August 2026, p.2.
[225] SEPA (2026), 'SEPA Feedback on WICS Draft Determination of Charges 2027-2033', 31 August 2026, p.3.
[226] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.27.

5.6.3 We received feedback from DWQR in relation to the water quality investment area.

5.6.4 DWQR explained that it was broadly supportive of the approach taken by Scottish Water and generally agreed with the proposed business plan, which prioritises:

- Compliance with legal duties;
- Resilience of supplies with failsafe arrangements; and
- Acceptability of supplies to consumers.

5.6.5 DWQR explained that the proposed plan goes some way in addressing risk, but risk remains, and focus is required on the operation and maintenance of assets to protect public health.

5.6.6 DWQR set out the main drivers of investment, including:

- Improvements are associated with delivery of a revised disinfection policy, which will require significant improvement over the 2027-33 regulatory period and beyond;
- Inspection and repair of all treated water storage assets, which is the subject of an enforcement notice;[227]
- Maintaining and improving customer acceptability related to discolouration, taste and odour;
- Lead compliance;
- Addressing ageing and deteriorating assets in the face of climate change and more recent regulatory changes;
- Protection of public health in relation to raw water supplies, with concern that recent information shows the number of supplies significantly exceeding the investment plan.

5.6.7 DWQR issued an enforcement notice to develop and implement an action plan related to its risk assessment methodologies and understanding of significant risks, requiring improvements in these areas. In our engagement with DWQR, it reiterated these concerns and highlighted that Scottish Water may need to reprioritise investment during the 2027-33 regulatory period once Scottish Water has a better understanding of the significant risks.

5.6.8 DWQR's feedback evidenced the pressures on Scottish Water to deliver more outputs and outcomes to address challenging statutory requirements and issues, for less money, recognising the affordability challenges it faces. This is why our focus is on encouraging Scottish Water to reinvest and redeploy any efficiencies achieved across its investment programme. Investment may also need to be reprioritised within the water quality

[227] DWQR (2025), 'Water Industry (Scotland) Act 2002 Enforcement Notice Under Section 10 (1)', letter dated 1 December 2025.

programme during the regulatory period, recognising Scottish Water's work to deliver a revised disinfection policy and risk assessment methodologies.

5.6.9 In our Draft Determination, we accepted the full scope of Scottish Water's proposed water quality investment projects and programmes.

5.6.10 We identified two projects where we requested additional assurances over project needs and scope, as follows:

- Carron Valley water treatment works at a cost of £19 million within the 2027-33 regulatory period. The needs case that Scottish Water presented identified the investment need as addressing risks related to halo acetic acids (HAAs). However, the proposed solution appears to address taste and odour at that site. We have discussed this project with DWQR and recognise that taste and odour are a longstanding issue at this site. As such, we have allowed the investment; however, we require Scottish Water to confirm the project needs and whether the solution relates to taste and odour only or to taste and odour and HAAs. If it is only taste and odour, we require confirmation that the proposed £19 million investment is consistent with a low-regrets pathway, should a further solution later be required to address HAAs at that site.
- Glendevon water treatment works at a cost of £54 million, of which £53 million is in the 2027-33 regulatory period. However, Scottish Water has not evidenced that all needs set out in its project investment appraisal will be addressed by the proposed solution. As such, we have concerns that not all benefits will be realised from the £54 million of investment, and that there is potential for cost escalation at this site. We have discussed this project with DWQR, which has recorded water-quality incidents at this site and agrees that investment is needed. As such, we have included the investment; however, we require Scottish Water to confirm the project's needs and that the full scope will be met from the proposed costs.

5.6.11 WICS had concerns that the project outputs are neither well-defined nor tangible for two strategic projects for water quality and water continuity:

- Edinburgh, Lothians, Castle Moffat, Hopes – Resilience and Growth, where the purpose of this project is to address a current and worsening imbalance between available water supply and increasing demand in the Edinburgh and Lothian area. Scottish Water proposes costs of £7 million over the 2027-33 regulatory period.
- Daer water treatment works strategic replacement, where Scottish Water proposes to develop plans to replace the existing 75-year-old treatment works, which serves the south Glasgow and Lanarkshire area, with improved water

treatment technology at a new works. Scottish Water proposes costs of £31 million for detailed design over the 2027-33 regulatory period.

5.6.12 Therefore, we required Scottish Water to confirm what it will deliver in relation to this expenditure over the 2027-33 regulatory period in its response to our Draft Determination.

5.6.13 We identified that the cost proposed of the Daer water treatment works strategic replacement project of £31 million for the initial assessment of options and detailed design is higher than industry norms for detailed design. We would normally expect this to be in the range 4-6% for estimated capital cost, which Scottish Water explains is around £250 million to £300 million. Based on £300 million, we proposed that an allowance of £18 million (6% of £300 million) would be more appropriate for optioneering and detailed design, resulting in a cost challenge of £13 million.

5.6.14 Based on our review of asset maintenance programmes, our benchmarking analysis and the external engineering review by our engineering consultants, we also proposed a cost challenge relating to the following areas:

- Treated water storage, where Scottish Water's unit costs for refurbishment and replacement are relatively high compared to those of companies in England and Wales. This is based on a benchmarking analysis by our engineering consultants, who advised on a possible cost challenge of 12.5% to 25%. We proposed a cost challenge of 10%, which is on the lower end of the proposed range, to mitigate against the risk of under-delivery if the cost challenge is set too high.
- Chlorine contact tanks, where the unit costs for refurbishment and replacement interventions are based on the unit costs for treated water storage, which are typically larger in size than chlorine contact tanks. Our engineering consultants considered that the upper end of unit costs for chlorine contact tanks is in line with industry standards for large, high-volume assets, which would be atypical for Scottish Water. Our engineering consultants advised that a cost challenge of 7% to 10% is applied due to Scottish Water's reliance on a condition-based methodology, the pace of delivery mandated by DWQR regulations, and the aforementioned size assumption in costing. As such, we proposed a 10% cost challenge to this investment area.
- Lead communication pipes replacement, where we proposed a 7% cost challenge, based on the results from our benchmarking of Scottish Water's costs against those of the companies in England and Wales. This also aligned with the results from Scottish Water's benchmarking in the final business plan.
- Leakage management equipment, where Scottish Water's analysis in the relevant management approach (MA073) suggests a £2,200 unit cost for a maintenance intervention; however, the business plan data suggests a unit cost of £4,900 (or

123% higher). We proposed a conservative 10% challenge, recognising that we are setting Scottish Water a more demanding forecast for the leakage outcome measure and that there may be some interaction between the proposed investment and this measure (e.g. the maintenance of pressure-reduction valves).

- Dams and reservoirs, where the £1.1 million unit cost for standard MIOS resolution is high compared to industry standards.[228] This unit cost is based on historical rates for 157 MIOS interventions. We consider that the historical rates of 20 of those interventions should be categorised as what Scottish Water refers to 'big ticket' MIOS as they are over £2 million and average £6.3 million in total costs. Including these 20 interventions in the calculation of the standard MIOS unit rate would overestimate it. Our engineering consultants advised on a cost challenge of between 8% and 12%. Given uncertainties in this area, we proposed a lower 5% cost challenge.
- Water pumping stations, where Scottish Water's analysis in the relevant management approach (MA058) suggested that the highest unit cost maintenance intervention could be £220,000 (for replacing a large pump of £180,000 and adding a 20% uplift for temporary works). However, the average unit cost in the business plan is £300,000 (36% higher than the highest unit cost estimate in MA058), and we would expect the proposed interventions to range in size. As such, we proposed a 10% cost challenge acknowledging that other factors, such as differences in the price base and other activities, could explain some of the difference.

5.6.15 We noted that our engineering consultants also recommended a cost challenge on the programme for maintaining chemical storage and dosing of between 2% and 4%. This is to reflect the potential for efficiencies on the early-stage programme cost estimates from the new enterprise delivery model. We decided not to apply a cost challenge in this area, considering DWQR's priority on disinfection programme (as explained in paragraph 5.6.6). However, we noted that we expect Scottish Water to outperform its final business plan forecasts.

5.6.16 Another area we benchmarked and which has also been reviewed by our engineering consultants is the programme for rolling out smart meters to non-domestic properties. Scottish Water has demonstrated the need for investment; however, its proposed costs are materially higher than those of companies in England and Wales, and it had not provided

[228] Measures in the Interest of Safety (MIOS) are identified through independent engineer inspections as mandated by the Reservoirs (Scotland) Act 2011. Scottish Water distinguishes two types of MIOS interventions: standard and "big ticket", where the former includes "fixing an asset to ensure it can continue to operate and achieve its expected operational asset life" while the latter includes "renovation / overhaul of older or damaged equipment or replacement of parts of the asset to bring the asset back to a workable condition to extend the expected life of the asset". Scottish Water (2025) 'Summary Management Approach: Water Reservoir Safety MA004', 15 April 2025, pp.28-29, submitted with the final business plan on 26 February 2026.

sufficient evidence to explain the material difference. We proposed a 15% cost challenge for this programme, as outlined in the following paragraphs.

5.6.17 Scottish Water proposed in its business plan to spend around £60 million to upgrade 130,000 meters at non-domestic premises with smart ones, and to spend around £7 million to install 4,920 smart meters at first-time registered non-domestic properties during the 2027-33 regulatory period.[229] This resulted in a unit cost for upgrades of £463 per meter and for new installations of £1,358 per meter, or a combined unit cost of £495 per meter (all 2024-25 prices). Scottish Water compared these costs to the median unit costs in England and Wales in Annex B of technical appendix 12 (TA012)[230] where it showed the significant difference to the median unit costs for meter upgrades (£88 per meter in 2022-23 prices, or £95 in 2024-25 prices) and for new meter installs (£414 per meter in 2022-23 prices or £448 in 2024-25 prices) in England and Wales.[231]

5.6.18 Scottish Water provided two main reasons for this significant difference. Firstly, Scottish Water considered that it currently lacks the economies of scale in meter deployment that companies in England and Wales achieve. Secondly, Scottish Water considered that its planned non-household meter upgrades are lower in volume and more geographically dispersed than those of companies in England and Wales. Scottish Water explained that Ofwat's modelling does not sufficiently account for these two factors, which explained the material difference to the benchmark.

5.6.19 Scottish Water provided a more disaggregated breakdown of the associated programme costs by meter size as part of the review undertaken by our engineering consultants. This information showed that 95% of smart meter installations involve small meters, which are more expensive, as are installations for medium-sized meters. These costs included the cost for the physical meter, installation, traffic management, and an uplift for installations in the north and island regions of Scotland. The total programme also included costs for surveys and for the smart metering component (i.e. the smart technology). While our engineering consultant considered that these factors may explain part of the cost difference, they still concluded that a 10%-15% cost challenge would be reasonable, given the significant remaining cost difference.

5.6.20 Our view was that Scottish Water had not sufficiently evidenced its higher costs; as such, we proposed a 15% cost challenge on this programme.

[229] As per final business plan data table 5, lines P-5363112530 and P-887-Planned respectively.
[230] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 012 – Efficiency', 26 February 2026, p.123.
[231] See also Ofwat (2024), 'Water enhancement expenditure model PR24CA32: Metering', republished on 26 February 2025.

5.6.21 Table 71 sets out the Scottish Water final business plan proposal and our proposed Draft Determination allowance of £3,400 million, representing a cost challenge of around £90 million.

Table 71: Business plan investment versus draft allowance for water quality and continuity

Water quality and water continuity	Final business plan investment (2024-25 prices; £m)	Draft Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	2,408	2,343
Enhancement and growth	1,082	1,057
Total	**3,491**	**3,400**

Draft Determination consultation responses and new information

5.6.22 We received specific comments on our proposals for water quality and continuity from Scottish Water, DWQR and other respondents.

5.6.23 Scottish Water provided the additional information on project needs and scope for the two projects we requested in paragraph 5.6.10:

- **Carron Valley WTW**: Scottish Water confirmed that the proposed £19 million investment at Carron Valley WTW is primarily required to address increasing taste and odour risks. It also confirmed that the proposed ozone investment in the 2027-33 regulatory period is expected to increase the removal of organic material, further reducing the risks of disinfection by-products, discolouration and microbiology. No further investment is proposed. As such, it explained that the proposed £19 million investment is consistent with a low-regrets pathway.[232]
- **Glendevon WTW**: Scottish Water confirmed that the proposed £53 million investment in the 2027-33 regulatory period will address the primary risks and needs identified at the site. Since submission of the final business plan, Scottish Water has deferred an additional £3.4 million of investment originally planned for the SRC21 period, which will now be delivered in the 2027-33 regulatory period. Scottish Water explained that further investment will be required to achieve longer-term disinfection by-product minimisation objectives; however, this is not currently necessary and is expected to be considered during the SRC33 period.[233]

[232] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4a – Capital Investment Evidence', 1 September 2026.
[233] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4a – Capital Investment Evidence', 1 September 2026.

5.6.24 Scottish Water provided the additional information on project outputs for the two projects we requested in paragraph 5.6.11:

- **Edinburgh, Lothians, Castle Moffat, Hopes – Resilience and Growth**: Scottish Water confirmed that the proposed investment in the 2027-33 regulatory period will allow it to progress the project appraisal to Stage 3a[234] and develop an interim deployment plan. It also explained that following the submission of the final business plan, funding has been redistributed across six related projects (including this one) intended to address projected supply-demand deficits over the next 25 years arising from climate and demographic change. As a result, the planned investment for this project in the 2027-33 regulatory period has been reduced from £7 million to £5 million, with the reallocated funding used to progress other projects. Across the portfolio, funding will support the further development of project investment appraisals and, in some cases, the commencement of solution delivery.[235]
- **Daer WTW**: Scottish Water provided further detail on the activities to be funded by the proposed £31 million investment in the 2027-33 regulatory period in the final business plan. These activities are intended to identify a preferred solution, fully develop the project investment appraisal to Stage 4 (Gate 90),[236] and prepare the delivery vehicle for construction at the start of the SRC33 period.[237] Scottish Water also considered that the cost challenge WICS applied in the Draft Determination (see paragraph 5.6.13) did not fully reflect the scope of activities covered by the proposed funding. In addition to detailed design, the funding would support wider project development activities, including site investigations, surveys, technical studies, specialist services (such as land acquisition and utility diversions), early contractor involvement, constructability assessments and more. Scottish Water, therefore, considered that benchmarking against industry norms for design costs alone did not provide a like-for-like comparison. To support its position, Scottish Water provided evidence from comparable projects, indicating that development costs through Gate 90 have historically represented around 9-10% of total project costs, compared with the 4-6% range used in the Draft Determination. Recognising

[234] Stage 3a of Scottish Water's Project Investment Appraisal process represents the Outline Investment Appraisal where costs (including carbon), risks, and benefits are considered in detail. The purpose is to identify and recommend the option(s) that best meet the investment Need(s).
[235] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4a – Capital Investment Evidence', 1 September 2026.
[236] Stage 4 of Scottish Water's Project Investment Appraisal process is Project Appraisal for Commitment. Stage 4 refines the preferred intervention option towards final design, including its costs, carbon impacts, benefits and delivery and procurement strategies. It confirms that the option remains the best intervention and a current priority before it progresses to the Committed List.
[237] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4a – Capital Investment Evidence', 1 September 2026.

that the available comparators are limited, given the scale of the Daer WTW project, Scottish Water proposed an allowance equivalent to 8% of the estimated £300 million capital cost. This would result in an allowance of approximately £24 million, compared with the £18 million allowance in the Draft Determination and the £31 million proposed in the final business plan.[238]

5.6.25 Scottish Water also responded to the cost challenges set out in paragraphs 5.6.14 to 5.6.20. Scottish Water's consultation response disagreed with the cost challenges in the following areas:

- maintaining treated water storage;
- maintaining chlorine contact tanks (CCTs);
- replacing lead communication pipes;
- maintaining leakage management equipment;
- maintaining dams and reservoirs; and
- the deployment of smart meters for non-households.

5.6.26 Scottish Water's response commented on the methodology for applying a cost challenge as well. It explained that the Draft Determination derived unit cost challenge efficiencies from comparison to Scottish Water's pre-efficient costing. It then applied these efficiencies to the post-efficient allocations in the final business plan. This meant that efficiency was applied twice for the element of the efficiency challenge that Scottish Water applied to itself in the business plan.

5.6.27 DWQR welcomed our Draft Determination and was broadly supportive of the proposed investment programme, considering the underlying drinking water quality drivers to be justified and the investment necessary to maintain and operate Scotland's drinking water infrastructure effectively, protect public health and support the industry's long-term vision. DWQR nevertheless highlighted the scale of the delivery challenge and that it intends to seek further assurance from Scottish Water that the programme remains deliverable and that operational efficiency challenges do not adversely affect essential activities or asset maintenance.[239]

5.6.28 There were some responses which commented on smart metering. One respondent welcomed our decision to undertake a detailed review of the implications for wholesale charges and retail margins before making funding decisions, noting that the impacts on the non-household market are not yet sufficiently evidenced. They emphasised that this review should be collaborative and consider the full costs and benefits across the market, including retailers' transition costs, impacts on consumption and revenue recovery, customer bills

[238] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4b – Cost Challenge', 1 September 2026.
[239] DWQR (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 31 August 2026, pp.1-2.

and outcomes, and effective competition. One licensed provider also commented that they had taken comfort in the reassurance that a full review to understand the implications of smart metering for wholesale charging arrangements and retail margins should be undertaken before any decisions are made regarding funding.

5.6.29 Scottish Fire and Rescue Service and another respondent welcomed the proposed investment in asset maintenance, renewal, water continuity and resilience, but considered that the Final Determination should explicitly recognise the availability of adequate water for firefighting as a public safety and resilience consideration. SFRS highlighted operational challenges arising from inadequate or ageing infrastructure, insufficient flow and pressure, hydrant condition and coverage, and the cost and delivery of hydrant works, noting that these could require additional operational resources where infrastructure constraints persisted. They called for firefighting requirements and evidence to inform network design and adoption, asset renewal and investment prioritisation, and to be supported by proportionate performance measures, transparent and efficient charging arrangements, effective notification and operational support, and an up-to-date protocol or service-level agreement with Scottish Water.

5.6.30 We also examined information Scottish Water had submitted to us through other regulatory processes in addition to receiving and reviewing consultation responses. This included the Annual Return 2025-26 (AR26) and updated Project Investment Appraisal (PIA) documentation we received after the Draft Determination publication.

5.6.31 We identified 104 large projects within the investment proposals considered for the Draft Determination as part of our review of Scottish Water's proposed capital investment programme. Of these, 83 projects were also included in the Annual Return submission. We compared the information across these sources to identify movements in forecast costs and sought to understand the reasons for those movements, particularly where a project had not reached a further governance stage (investment gate) and therefore a material change in cost would not normally have been expected. This showed a reduction in forecast costs overall, with different categories identified and discussed below:

- There are 5 projects that have passed a subsequent Gate and Scottish Water has supplied an updated PIA (all for water service enhancement projects). The SRC27 forecast costs for these in AR26 are £44 million less than in the final business plan, while the SRC27 forecast costs within the respective PIAs are £31 million less than in the final business plan;
- There are 4 projects where a subsequent Gate has been passed, and no PIA has been submitted for review. The AR26 SRC27 costs of these are £55 million less than the final business plan; and

- There are 74 projects that have a cost change but have not passed a subsequent Gate in the approval process. The AR26 SRC27 costs of these are £75 million less than the final business plan.

5.6.32 Scottish Water provided further explanation of these differences on 25 September 2026. It explained that direct, simple comparisons between AR26 and the final business plan are not straightforward due to differences in their methods of preparation and coverage. Overall, Scottish Water explaione that it did not find any signs of inherent or systemic one-sided over costing of investment in the final business plan.

WICS decision

5.6.33 We are satisfied with Scottish Water's additional assurances and evidence for the following projects:

- For Carron Valley, we consider that the explanation in paragraph 5.6.23 addresses the concerns raised in our Draft Determination. We therefore conclude that the proposed investment is reasonable for the delivery of the planned ozone treatment measures, and we confirm that the funding for this project is allowed in full.
- For Glendevon, Scottish Water's response outlined in paragraph 5.6.23 provides additional assurance regarding the scope and timing of future investment; however, we continue to consider that the proposed costs for this project appear relatively low for the range of improvements proposed (such as ceramic membranes filtration, new clear water tank, provision of Auto Shutdown and Run-to-Waste, and others). Nevertheless, we confirm in the Final Determination that the funding for this project is allowed in full. We will continue to monitor the development of this project closely during the regulatory period through the PIA review process.
- For Edinburgh, Lothians, Castle Moffat, Hopes – Resilience and Growth, WICS has reviewed and further queried Scottish Water's response as set out in paragraph 5.6.24. Having considered the additional information provided, we consider the overall £25 million investment proposed in the 2027-33 regulatory period across the six projects to be reasonable for progressing project development and initiating delivery of measures to address future supply-demand deficits. While some individual project cost estimates may be understated, we are satisfied that the overall funding level is appropriate at this stage. We therefore confirm in the Final Determination that funding for these projects is allowed in full. We will review the project investment appraisals as they mature during the regulatory period and will continue to monitor expenditure and progress through the Annual Return process and other regulatory reporting mechanisms.

- For Daer Water Treatment Works, we consider that Scottish Water's response outlined in paragraph 5.6.24 provides a reasonable basis for revising the funding allowance. Having reviewed the additional evidence, including Scottish Water's historical cost data and a high-level comparison with major water infrastructure schemes in England and Wales, we consider that an allowance equivalent to 8% of total project costs is consistent with the scope of appraisal Scottish Water will develop, and the level of project preparation proposed for the 2027-33 regulatory period. We therefore confirm an allowance of £24 million for the Daer WTW project. This represents a £7 million reduction to the final business plan proposal and a £6 million increase relative to the Draft Determination allowance.

5.6.34 We recognise that in cases where our assessment of costs was based on Scottish Water's pre-efficient costs, there will be a portion of the cost challenge that is applied twice. This portion is the efficiency challenge that Scottish Water applied to itself in excess of the productivity challenge of 0.8% per annum, or 2.8% on average over the 2027-33 regulatory period.[240] In these cases, we remove this portion of the efficiency challenge from our cost challenge, reducing the overall cost challenge in our Final Determination.

5.6.35 We reviewed the additional information and evidence provided by Scottish Water on the areas of cost challenge outlined in paragraph 5.6.25. We asked our engineering consultants to review the additional information and evidence Scottish Water provided for the programme areas they previously examined for the Draft Determination. We provide our assessment for each area in the following paragraphs.

5.6.36 Maintaining treated water storage was a programme area on which Scottish Water commented in its consultation response. Scottish Water explained that it does not consider that the proposed 12.5% to 25% challenge in the Draft Determination is supported by the evidence presented. It explained that the treated water storage unit rates are based on recent Scottish Water delivery data. Scottish Water considers that this provides a robust and representative evidence base for the forecast costs and requested that the £29 million challenge be removed for the Final Determination.[241]

5.6.37 We consider that Scottish Water provided no material change or new evidence. Our engineering consultant's review of Scottish Water's delivered scheme unit rates and comparison with England and Wales continues to indicate that the proposed unit rates are at least 12.5% higher, even allowing for Scotland-specific costs. As the original review was undertaken on the post-efficiency costs supplied by Scottish Water, our engineering

[240] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 012 – Efficiency', 26 February 2026, p.43.
[241] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4b – Cost Challenge', 1 September 2026, pp.50-51.

consultant recommended that a pre-efficiency challenge in the range of 12.5% to 25% remains appropriate.

5.6.38 Based on this review, we confirm a 10% cost challenge on Scottish Water's pre-efficiency investment for treated water storage in the Final Determination. This results in a post-efficiency allowance of £270 million (based on 2.8% average productivity challenge), which is £9.3 million higher than the Draft Determination due to removing the portion of efficiency that Scottish Water applied to itself (see paragraph 5.6.34).

5.6.39 Maintaining chlorine contact tanks (CCTs) was another programme area on which Scottish Water commented in its consultation response. Scottish Water provided additional project-specific costing and tank capacity data, which had been used to derive the unit costs for the programme. It clarified that replacement costs were based on prior CCT replacement projects and that no further interventions are planned for the 2027-33 regulatory period. Furthermore, Scottish Water explained that while CCT refurbishment costs were based on treated water storage data, these costs were constrained by asset capacity to account for the difference in scale between CCTs and treated water storage assets. Scottish Water considered that the proposed 10% challenge in the Draft Determination did not identify or quantify an underlying inefficiency arising from Scottish Water's condition-based methodology, DWQR delivery requirements or revised size-adjusted cost evidence. Scottish Water, therefore, considered that the challenge was not supported by the available evidence and proposed that the full £13 million be reinstated.[242]

5.6.40 We consider that Scottish Water's response addresses our engineering consultant's original concern that the dataset may not have adequately represented the inclusion of larger CCT assets, although scope for further efficiency remains. While our consultant was unable to benchmark CCT costs in detail in its initial review and has not undertaken further benchmarking using the new data, the additional evidence provides greater confidence that larger assets and current market conditions are appropriately reflected in Scottish Water's proposed costs. Our engineering consultant nevertheless maintained the efficiency challenge in its original advice, noting that further efficiency is achievable through procurement and delivery optimisation.

5.6.41 We confirm a 7% cost challenge on Scottish Water's pre-efficiency investment for chlorine contact tanks in the Final Determination. This results in a post-efficiency allowance of £128 million (based on a 2.8% average productivity challenge), which is £7.8 million higher than the Draft Determination due to the removal of the portion of efficiency that Scottish Water applied to itself (see paragraph 5.6.34).

[242] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4b – Cost Challenge', 1 September 2026, pp.54-55.

5.6.42 Replacing lead communication pipes was another programme area on which Scottish Water commented in its consultation response. Scottish Water considered that the £3 million efficiency challenge in the Draft Determination was based on a misleading unit-rate comparison that included non-comparable activities and project-specific costs. It considered that the £1,946 per pipe rate used by WICS was a blended programme rate that included lead sampling and wider lead reduction schemes such as Gorgie and Larchfield, which involve customer-side pipe replacement, customer engagement and enhanced sampling activities. After removing the cost of these schemes, Scottish Water calculated a comparable unit cost of £1,551 per intervention, which is below the industry median benchmark of £1,820 per pipe. It therefore requested the full reinstatement of the £3 million reduction.[243]

5.6.43 Our proposed challenge in the Draft Determination was based on Scottish Water's own analysis, which included these schemes in the comparison of unit costs.[244] Nevertheless, Scottish Water is correct that the benchmark unit costs in England and Wales do not include expenditure on replacing customer-side supply pipes or on other lead-reduction activities, such as property sampling and customer engagement. As such, we accept Scottish Water's updated analysis and do not apply a cost challenge on Scottish Water's investment for replacing lead communication pipes for the Final Determination. This results in a post-efficiency allowance of £35 million (based on a 2.8% average productivity challenge) as per the final business plan, which is £3 million more than the Draft Determination.

5.6.44 Maintaining leakage management equipment was another programme area on which Scottish Water commented in its consultation response. Scottish Water's position was that the £4 million challenge arose from a discrepancy in how intervention volumes were presented and interpreted rather than from any underlying inefficiency in costs. It explained that WICS derived an inflated unit cost by comparing business plan expenditure to an incomplete count of interventions, resulting in an apparent discrepancy between the Management Approach and the business plan unit rates. Scottish Water maintained that the underlying cost is consistent across the management approach and the business plan and is supported by contractor quotations, historical project costs, system data, and external analysis. It also noted that the challenge failed to identify any genuine efficiency gap and could undermine the delivery of leakage-related outcomes that depend on the maintenance activities included within the programme. As a result, Scottish Water sought the full removal of the £4 million challenge.[245]

[243] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4b – Cost Challenge', 1 September 2026, pp.27-30.
[244] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 012 – Efficiency', 26 February 2026, pp.119-120.
[245] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4b – Cost Challenge', 1 September 2026, pp.41-43.

5.6.45 The discrepancy that Scottish Water raised had arisen as a result of Scottish Water not including the full number of maintenance interventions in its business plan data tables, despite this being required in the methodology. However, we accept Scottish Water's explanation and do not apply a cost challenge on Scottish Water's investment for maintaining leakage management equipment in the Final Determination. This results in a post-efficiency allowance of £41 million (based on a 2.8% average productivity challenge) as per the final business plan, which is £4 million higher than the Draft Determination.

5.6.46 Maintaining dams and reservoirs was another programme area on which Scottish Water commented in its consultation response. Scottish Water explained that the challenged £1.1 million average cost per MIOS intervention is based on a robust dataset of 157 genuine SRC21 reservoir safety projects, including spillway upgrades, drawdown improvements, pipework remedials and other statutory safety works. As such, it considered that excluding the 20 higher-value projects, as proposed by WICS, would artificially understate future requirements. Scottish Water maintained that these larger projects are neither abnormal nor discretionary but reflect the inspection-led, statutory nature of reservoir safety investment and remain representative of future needs. It also noted that future costs are inherently driven by asset-specific conditions, regulatory inspection findings and dam safety obligations. Scottish Water considered that the challenge reflected a disagreement over dataset composition rather than demonstrated inefficiency, and therefore requested the full reinstatement of the £14 million cost challenge.[246]

5.6.47 We consider that Scottish Water provided no material change or new evidence. Our concern is not that the historical cost data is unreasonable, but that the methodology used to derive the MIOS unit rates appears to overstate future costs. Scottish Water derived the Standard MIOS unit rate (£1.1 million) from all 157 historical MIOS projects, including several larger, higher-cost interventions that have also been used to justify the separate 'big-ticket' MIOS unit rate (£10 million). As a result, the cost of these larger projects is embedded in the Standard MIOS rate and separately accounted for through the 'big-ticket' MIOS allowance. This, therefore, inflates the Standard MIOS unit cost above a level representative of standard interventions alone. Our engineering consultant considered that the historical data should either be separated into mutually exclusive standard and 'big-ticket' MIOS categories before deriving individual unit rates, or a single unit rate should be applied across all MIOS works. As an illustration, excluding the 20 projects with costs exceeding £2 million reduces the Standard MIOS unit rate from £1.1 million to approximately £383,000, suggesting that the current approach may materially overestimate the forecast MIOS expenditure. As the submitted costs appear to be pre-

[246] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4b – Cost Challenge', 1 September 2026, pp.9-10.

efficiency and Scottish Water provided no material change or new evidence, our engineering consultant recommended an overall 10% challenge on the pre-efficiency value.

5.6.48 Based on this review, we confirm a 5% cost challenge on Scottish Water's pre-efficiency investment for maintaining dams and reservoirs in the Final Determination. This results in a post-efficiency allowance of £272 million (based on 2.8% average productivity challenge), which is £7.9 million higher than the Draft Determination due to the removal of the portion of efficiency that Scottish Water applied to itself (see paragraph 5.6.34).

5.6.49 Maintaining water pumping stations was another programme area on which Scottish Water commented in its consultation response. Scottish Water considered that the £5 million efficiency challenge was based on an inaccurate calculation of an average intervention cost of around £300,000. It explained that this figure was derived by dividing total programme expenditure by 160 interventions, but those 160 units represent replacement activities only and exclude the broader programme of repairs and refurbishments. Scottish Water considered that this was not a like-for-like comparison and therefore overstated the apparent unit cost. Scottish Water noted that replacement activity accounts for only part of the overall expenditure profile and that the challenge identified no actual inefficiency in delivery costs, cost models or investment planning assumptions. Scottish Water, therefore, considered the 10% challenge unsupported by the evidence and requested the full reinstatement of the £5 million reduction.[247]

5.6.50 Furthermore, Scottish Water's response provided substantially revised output information in Annex 4c, including 4,628 inspection, 2,292 repair and refurbishment, and 206 replacement interventions, with the latter exceeding the 160 interventions identified in the business plan.[248]

5.6.51 The discrepancy that Scottish Water raised had arisen as a result of Scottish Water not including the full number of maintenance interventions in its business plan data tables, despite this being required in the methodology. However, we accept Scottish Water's explanation and do not apply a cost challenge on Scottish Water's investment for maintaining water pumping stations in the Final Determination. This results in a post-efficiency allowance of £48 million (based on a 2.8% average productivity challenge) as per the final business plan, which is £5 million more than the Draft Determination.

5.6.52 Rolling out smart meters to non-domestic properties was another area on which Scottish Water commented in its consultation response. Scottish Water's response was that the £9 million efficiency challenge applied by WICS to the smart meter programme is not justified because the comparison with water companies in England and Wales is not like-for-like and

[247] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4b – Cost Challenge', 1 September 2026, pp.35-38.
[248] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4c – AR3 Outputs', 1 September 2026, p.11 for MA058.

does not reflect the nature of Scotland's non-domestic metering rollout. Scottish Water considered that its costs were based on detailed bottom-up estimates and competitively procured market rates for both smart meter assets and installation activities, incorporating surveys, excavation, reinstatement, traffic management, regional uplifts, remote and island delivery costs, and other enabling works required to complete installations. It considered that the benchmark rates used by WICS were largely derived from household metering programmes in denser areas and therefore were not directly comparable. Scottish Water further noted that updated procurement evidence indicated direct delivery costs of approximately £60.6 million, before programme management and supporting costs are included, meaning the challenged allowance of around £51 million falls below the market-tested cost of delivery. As WICS had not identified any specific inefficiency in the programme, procurement approach or cost build-up, Scottish Water considered the 15% challenge unsupported and sought full reinstatement of the £9 million reduction.[249]

5.6.53 We consider that Scottish Water provided no new cost evidence for the roll-out of smart meters or further explanation for the large difference to England and Wales benchmarks, and we maintain our position that a cost challenge is appropriate. In its review of Scottish Water's response, our engineering consultant noted that several items in the cost breakdown Scottish Water had previously provided were based on estimates (such as costs for surveys, traffic management, and medium and large meters) and that these estimates were high. Our engineering consultant recommended a cost challenge of 10%. This is on the lower end of the 10%-15% range proposed for the Draft Determination, recognising the scale of Scottish Water's proposed digital- and data-led programme and the required allowance for the start-up infrastructure, resourcing, training, learning, and data capture needed to realise the expected benefits.

5.6.54 Furthermore, we identified several inconsistencies and unexplained differences across the information provided by Scottish Water, which reduces our confidence in the reliability of the evidence supporting this proposal. These discrepancies relate both to investment values and reported outputs and were not accompanied by a clear explanation or reconciliation. For example, the investment proposed in the business plan (£60 million) differs from that subsequently communicated to our engineering consultant (approximately £70 million), while the reported number of meters to be upgraded varies between the final business plan (130,000) and the data provided to our consultant for benchmarking (over 135,500). While the individual differences may not be material in themselves, the presence of several unexplained inconsistencies makes it more difficult to place confidence in the information provided.

[249] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4b – Cost Challenge', 1 September 2026, pp.20-26.

5.6.55 Based on this review, we confirm a 10% cost challenge on Scottish Water's pre-efficiency investment for rolling out smart meters in the Final Determination. This results in a post-efficiency allowance of £55 million (based on a 2.8% average productivity challenge), which is £3.8 million higher than the Draft Determination due to the removal of the portion of efficiency that Scottish Water applied to itself (see paragraph 5.6.34).

5.6.56 We also reviewed the updated cost estimates observed from Project Investment Appraisals (PIAs) and the Annual Return 2025-26 (AR26) (see paragraph 5.6.31). We originally requested further information in July 2026 on the observed differences between the final business plan and AR26 as part of the query process for AR26. However, Scottish Water did not provide an explanation in its response. We raised this again with Scottish Water in September, following its response to the Draft Determination consultation and Scottish Water provided further information on 25 September.

5.6.57 Scottish Water explained that the AR26 submission represents a snapshot taken from its investment planning system (P3M), where forecasts are less accurate and do not provide a fully assured view of the SRC27 programme. Consequently, the SRC27 forecasts included in AR26 were subject to less scrutiny and assurance than those developed through the business plan process. Scottish Water explained that the final business plan forecasts represent the most robust and assured view of investment requirements and profiling at the point of submission, and identified four key themes to explain the variances observed:

- The Annual Return does not include pre-Gate 30[250] investment for projects (or components of projects) that are included in the final business plan forecast;
- Projects maturing through the governance stages (investment gates) resulting in scope and/or cost estimate changes;
- Use of indexation factors (to get to 2025-26 price base) that use the Annual Return investment forecast profile which is significantly different to the final business plan investment profiling; and
- Annual Return forecasts for the 2027-33 regulatory period have not undergone the same level of validation and assurance as the final business plan forecasts.

5.6.58 There were five projects where there is also a difference between the project value in the PIA and business plan. Scottish Water explained that for 3 of the PIA projects identified (Londornoch WTW, Penwhirn WTW and Glenlatterach WTW), the full final business plan allowance should be retained to ensure delivery of its DWQR commitments. However, the PIAs demonstrate that lower-cost solutions are currently proposed to address the Halo Acetic Acids (HAA) investment needs. While Penwhirn and Glenlatterach may require

[250] Pre-Gate 30 investment refers to the investment required to produce Stage 1 of the Project Investment Appraisal which sets out the Case for Change. Stage 1 establishes the rationale and priority for investment by identifying service risks and opportunities, their root causes, the investment Need(s) to be addressed, and the consequences of postponing action.

future enhancements, the PIA notes that if post-works operational performance demonstrates that additional treatment is necessary, then this investment would inform SRC33 investment requirements.

5.6.59 We considered that there may be merit in applying the cost adjustment to all SRC27 projects that are included in both the business plan and AR26. However, we note that some SRC27 projects may not be included in AR26. If the cost of some of these projects has increased, that may offset the net reduction identified when examining only projects that appear in AR26. As such, we have decided to be conservative in not aligning with AR26 values.

5.6.60 However, we have decided to revise our allowances for the five projects that also have an updated PIA. This is because the detailed engineering review conducted for our Draft Determination was based on prior evidence, including PIAs in some cases, that has since been superseded. It is therefore reasonable to update our assessment for more current evidence from PIAs. This adjustment reduces the allowance included in the final business plan by £31 million, as summarised in Table 72 below.

Table 72: Investment projects with updated reduced allowance

Investment project	Final business plan (2024-25 prices; £m)	Project Investment Appraisal	Change between PIA and final business plan	Final Determination (2024-25 prices; £m)
Penwhirn WTW	25	12	-13	12
Glenlatterach WTW	25	11	-14	11
Torra WTW	6	7	+1	7
Londornoch WTW	47	26	-21	26
Black Esk WTW	23	38	+15	38
Total	**125**	**94**	**-31**	**94**

5.6.61 We welcome the responses received from other organisations on the water quality and continuity investment areas, as summarised in paragraphs 5.6.27 to 5.6.29. In relation to comments on investment in water supply in the context of firefighting, it is Scottish Water's responsibility as the operator to comply with all relevant legislation and engage with relevant stakeholders when developing its investment plans. We will engage with Scottish Water on these matters raised.

5.6.62 Having considered the consultation responses and additional evidence provided, we have updated our assessment of the investment required for water quality and continuity. Our Final Determination allows £3,416 million, compared with Scottish Water's business plan proposal of £3,491 million and our Draft Determination allowance of £3,400 million. The change to our Draft Determination principally reflects additional or updated evidence on specific drinking water quality and continuity requirements, including where we now

consider the evidence supports investment that was not, or was not fully, allowed for in our Draft Determination. We have not made adjustments where the additional evidence did not demonstrate that further expenditure was necessary or that the proposed costs represented value for money.

5.6.63 Table 73 below summarises our reasoning and decision for the projects and programmes examined in the consultation responses.

Table 73: Summary of decisions on allowances in the Final Determination for water quality and water continuity

Investment project or programme	Final business plan (2024-25 prices; £m)	Draft Determination (2024-25 prices; £m)	Consultation / new evidence	Final Determination (2024-25 prices; £m)
Carron Valley WTW	19	19	Further evidence accepted	19
Glendevon WTW	53	53	Further evidence accepted. Concerns remain that cost estimates are low	53
Resilience projects	25	25	Further evidence accepted	25
Daer WTW	31	18	Further evidence accepted	24
Maintaining treated water storage	290	261	Additional cost evidence did not support the adjustment. Accepted and adjusted for feedback on the application of efficiency.	270
Maintaining chlorine contact tanks	134	120	Additional cost evidence supported a small adjustment. Accepted and adjusted for feedback on the application of efficiency.	128
Replacing lead communication pipes	35	32	Further evidence accepted	35
Maintaining leakage management equipment	41	37	Further evidence accepted	41

Investment project or programme	Final business plan (2024-25 prices; £m)	Draft Determination (2024-25 prices; £m)	Consultation / new evidence	Final Determination (2024-25 prices; £m)
Maintaining dams and reservoirs	278	264	Additional cost evidence did not support the adjustment. Accepted and adjusted for feedback on the application of efficiency.	272
Maintaining water pumping stations	48	43	Further evidence accepted	48
Rolling out smart meters	60	51	Additional cost evidence supported small adjustment. Accepted and adjusted for feedback on the application of efficiency.	55
Updated costs for 5 projects	125	125	Adjusted for newly submitted Project Investment Appraisals, which are lower than the final business plan	94

5.6.64 Overall, we consider that the final allowance provides Scottish Water with sufficient funding to deliver the evidenced investment required for water quality and continuity during the 2027-33 regulatory period. It reflects the additional evidence received following our Draft Determination while ensuring that customers fund only expenditure that is sufficiently evidenced and represents value for money.

5.6.65 On a further note regarding smart meters, we explained in the Draft Determination that we consider that deploying smart meters to non-household customers requires careful implementation. For example, the cost of reading smart meters is currently borne by licence providers, but will eventually transfer to Scottish Water, the wholesaler, which will be responsible for owning and reading them. However, there are practical issues, which mean that licensed providers should still recover these costs for a period, including:

- Licensed providers will still have customers on a meter that needs to be read manually, which will gradually reduce over time as Scottish Water installs smart meters; and
- Licensed providers may have contractual arrangements with a meter reader, which may not lapse for a period.

5.6.66 Both issues may affect the unit cost of reading a meter during this transitional period. Overall, respondents supported this approach in the consultation on the Draft Determination (see paragraph 5.6.28).

5.6.67 We will work with Scottish Water to set the terms of the transitional period, including agreeing on and defining the threshold for Scottish Water to achieve critical mass. In the meantime, Scottish Water and individual licensed providers may agree on their own arrangements for Scottish Water to read traditional mechanical meters on their behalf as a transitional measure. If this is the case, Scottish Water will need to ensure that the arrangements are consistent with level-playing-field considerations.

5.6.68 Scottish Water's deployment of smart meters will be a focus of our annual monitoring and reporting. We will also conduct a post-delivery evaluation of the programme to understand whether it has delivered the forecast benefits.

5.6.69 Table 74 sets out the Final Determination allowance and compares it to the proposed Draft Determination allowance.

Table 74: Draft versus final allowance for water quality and continuity

Water quality and water continuity	Draft Determination allowed for investment (2024-25 prices; £m)	Scottish Water Draft Determination response (2024-25 prices; £m)	Final Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	2,343	2,408	2,377
Enhancement and growth	1,057	1,075	1,039
Total	**3,400**	**3,483**	**3,416**

Water environment and quantity of flows

Our overall assessment in the Draft Determination

5.6.70 Scottish Water proposed investment of £2,885 million for water environment and quantity of flows as part of its business plan for the 2027-33 regulatory period (excluding the proposed investment in the West Central Bioresources project of £557 million, which is covered in section 5.7).

5.6.71 We received feedback from SEPA regarding the water quality investment area. SEPA's comments covered the following areas:

- For the Bathing Water Directive, SEPA noted that the business plan proposes a 'study first, invest later' approach. SEPA considered that delaying investment until the 2033-39 regulatory period risks breaching statutory duties and requested

explicit recognition that the identified improvements will be progressed by reprioritising investment in the 2027-33 regulatory period.

- For Shellfish Water Protected Areas, SEPA requested that the plan include an allowance for studies, with the same request that improvements identified are progressed by reprioritising investment in the 2027-33 regulatory period.
- Integrated Urban Wastewater Management Plans should have an allocation for investment, and that blue-green infrastructure should be the preferred and default solution in line with the direction of the recast Urban Wastewater Treatment Directive.
- For the Urban Wastewater Treatment Directive, SEPA expects Scottish Water to remove a further 150 UIDs, excluding those carried forward from the River Basin Management Plan 3 (RBMP3).
- For the Water Environment and Water Services Act 2003, SEPA expects demand reduction, leakage reduction and metering to be considered alongside supply-side solutions to mitigate the risks of breaching environmental protection duties, drought and ecological pressures.

5.6.72 SEPA's feedback highlighted a desire for Scottish Water to deliver more investment to achieve better environmental outcomes. Our Draft Determination recognised that investment within the water environment programme may need to be reprioritised during the regulatory period to address immediate priorities identified through the studies.

5.6.73 Our Draft Determination accepted most of Scottish Water's proposed investment projects and programmes in relation to the water environment programme. From our review of selected projects from the final business plan, we disallowed investment for two projects:

- Allanfearn Sludge Treatment Centre – Replacement of Digester 1 and 2, which has a proposed cost of £19.5 million over the 2027-33 regulatory period. We asked Scottish Water for clarification on the proposed costs for this project. In response, Scottish Water explained that the project would now be closed and incorporated into a wider Allanfearn wastewater treatment works project, which we understand is titled 'Allanfearn WwTW - Treatment and bioresource', that includes digester replacement.[251] We have therefore removed the Allanfearn STC digester replacement project from our investment allowance (associated investment of £19.5 million) to avoid double-counting.
- Pathhead wastewater treatment works at a cost of £8 million, of which over £6 million is in the 2027-33 regulatory period. In this case, Scottish Water had not provided sufficient evidence to support the need for investment, the selection of the proposed investment option, nor the adequacy of the capital cost estimate.

[251] This has the project reference 5363112312 and has a forecast cost of £55 million.

Therefore, WICS considered that the evidential threshold for investment in the Pathhead wastewater treatment works had not been met and, as such, disallowed this investment in our Draft Determination.

5.6.74 We proposed a cost challenge relating to the areas below based on our review of asset maintenance programmes, our benchmarking analysis and the external engineering review by our engineering consultants:

- Secondary treatment processes, where the programme has been costed using Scottish Water's cost models applied to the planned volume of interventions. However, ChandlerKBS' benchmarking analysis, commissioned by Scottish Water, shows material cost variances to the industry median benchmark for two of the associated cost curves (cost variances of over 50%).[252] The programme unit costs are based on 'representative assets', whereas the associated management approach (MA043) lacks detail on variations in asset size, type, service, and actuation, which would affect their unit costs. Thus, we considered that these unit costs may not be representative of Scottish Water's assets covered by this programme. We proposed a 10% cost challenge in this area, which aligned with the advice of our engineering consultants, who reviewed it and suggested that a 7%-10% cost challenge may be appropriate.
- Asset maintenance associated with former PFI assets that return to Scottish Water over the 2027-33 regulatory period. We reviewed these costs and included this maintenance programme in our engineering consultants' review of investment programmes. Scottish Water stated it has limited information on the condition of these assets because it cannot inspect or survey them, as they are currently owned and maintained by the PFI companies. As such, Scottish Water has inevitably had to make high-level assumptions and rely on engineering judgement. We noted that Scottish Water's proposed allowance included a significant risk allowance to reflect the uncertainty in asset condition. Scottish Water provided limited evidence on how these risks are quantified or differentiated from maintenance requirements derived through modelling. As such, we had questions over whether costs are duplicated and proportionate. However, we proposed no further cost challenge to maintenance investment. Instead, we considered that these findings added further support to our proposed cost challenge to the operating expenditure from returning PFI sites, as set out in paragraph 6.8.21.

5.6.75 We noted that our engineering consultants also recommended a cost challenge on the programme for maintaining sewers of between 3% and 5%. This reflected the high number

[252] ChandlerKBS (2025) 'R2309 Cost Model Assurance & Benchmarking', 7 April 2025, submitted with the final business plan on 26 February 2026.

of assumptions used in estimating the costs (which are not clearly defined or sufficiently transparent) and the resulting uncertainties. We proposed not applying a further cost challenge in this area, as we consider it appropriate for Scottish Water to use assumptions when estimating costs where better data is not available.

5.6.76 Following the review of programmes for maintaining inlet works and for pass forward flow (PFF) compliance, we required the following information in Scottish Water's response to our Draft Determination:

- A further detailed explanation for how the unit costs for the maintaining inlet works programme had been derived, including how average asset and equipment costs were calculated, the data sources used, and the key factors influencing these estimates; and
- An update on Scottish Water's engagement with SEPA on whether the proposed solution in the PFF compliance will meet the required need.

5.6.77 We also examined the UID programme, which involves removing 150 UIDs at a proposed cost of £269 million. Scottish Water increased the number of UIDs it proposes to remove from 125 in its draft business plan, in response to SEPA's feedback that it should make more progress in this area, recognising Scottish Water's strategy to remove all UIDs in Scotland by 2051.[253] Scottish Water was able to increase the number of UIDs, while reducing the proposed expenditure in this area by substituting UIDs that are more expensive to remove (e.g. the Water of Leith) for a larger number of those that are less expensive to remove.

5.6.78 There was a difference of view between Scottish Water's business plan and SEPA's proposals. Scottish Water's final business plan included investment to remove 107 UIDs during the 2027-33 regulatory period (as part of RBMP4), in addition to the 43 UIDs it already planned to remove (as part of RBMP3).[254] However, SEPA considered that the 150 UIDs Scottish Water proposed to deliver over the 2027-33 regulatory period should not include the 43 UIDs that Scottish Water has already committed to removing by December 2027 as part of the RBMP3, as reflected in the improving urban waters routemap.

5.6.79 For our Draft Determination, we considered increasing the number, recognising that the 150 UIDs include 43 that Scottish Water committed to removing as part of RBMP3. However, we considered that even the 150 that Scottish Water proposes to deliver over one regulatory period will be challenging for it to achieve. This is over 2.5 times the number of UIDs Scottish Water forecasts for the 2021-27 regulatory period, and Scottish Water has reported supply chain and deliverability challenges in the current regulatory period, which

[253] SEPA (2025), 'Strategic review of charges 2027-33: draft business plan submission', letter to Scottish Water dated 8 September 2025.
[254] The 43 is the difference between the 54 Scottish Water forecasts to deliver by March 2027 and 97 that it forecasts to deliver by December 2027, as set out in the Water Industry Investment Group improving urban waters quarterly update for 2025-26, quarter 3. WIIG (2026), 'WIIG 27-26-03', 11 March 2026.

have delayed delivery.[255] We discuss overall deliverability in section 5.12 and safeguards in Chapter 8.

5.6.80 We requested that SEPA and Scottish Water resolve these differences ahead of the close of the consultation on the Draft Determination on 1 September.

5.6.81 We reviewed Scottish Water's proposed costs for removing the 150 UIDs and asked our engineering consultants to include it in their engineering review. We considered that the average unit costs were comparable to those observed in England and Wales. Our engineering consultants considered a potential 10%-15% cost challenge, as costs are based on assumptions. However, we considered that this was a common theme across the investment programmes, and our general approach was to require Scottish Water to deliver further improvements for the same investment. Furthermore, we considered that there was a risk of cost escalation for the UID programme, given the complexity of some of the required solutions, as we have observed during the 2021-27 regulatory period. As such, we did not propose a specific cost challenge for UIDs in our Draft Determination.

5.6.82 Table 75 sets out the Scottish Water final business plan proposal and our proposed Draft Determination allowance.

Table 75: Business plan investment versus draft allowance for water environment and flows

Water environment and quantity of flows (excluding West Central Bioresources)	Final business plan investment (2024-25 prices; £m)	Draft Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	1,904	1,867
Enhancement and growth	981	981
Total	**2,885**	**2,848**

5.6.83 Table 75 shows our proposed allowance of £2,848 million, representing a cost challenge of £37 million.

Draft Determination consultation responses and new information

5.6.84 We received comments from Scottish Water, the Scottish Environment Protection Agency (SEPA) and Consumer Scotland on our Draft Determination proposals for water environment and quantity of flows.

[255] For example, Scottish Water presented an update to industry stakeholders where it reported '3rd party issues related to land, utility diversions and road closures resulting in programme delays' and 'significant number of projects with high complexity resulting in longer development periods, risking SRC21 delivery'. Scottish Water (2025), 'Improving Urban Waters Routemap: Scottish Government Investment Group', 2 April 2025.

5.6.85 Scottish Water provided further evidence regarding the 2 projects that we disallowed, as set out in paragraph 5.6.73:

- **Allanfearn Sludge Treatment Centre – Replacement of Digester 1 and 2**: Scottish Water confirmed that the allowance for this project should be removed in line with the adjustment in the Draft Determination, as the scope is already incorporated within the wider Allanfearn WWTW Treatment and Bioresources project. [256]
- **Pathhead WWTW**: Scottish Water requested full reinstatement of the costs for Pathhead and supplied additional information to evidence the works required at the site. It explained that the project addressed deterioration of existing secondary treatment assets and that the absence of historic non-compliance did not indicate an absence of investment need, as the intervention was intended to mitigate future service and compliance risks before asset failure occurred.[257] Scottish Water also provided further evidence of its condition assessment, options appraisal, comparison against a Business-as-Usual baseline and whole-life cost assessment, and explained that the relatively mature cost estimate had been market-tested and supported by established project controls.

5.6.86 Scottish Water disagreed with the cost challenge relating to secondary treatment, as set out in paragraphs 5.6.74 to 5.6.75.

5.6.87 SEPA welcomed the continued support for investment and improvement but expressed concern that the proposed funding may be insufficient to deliver statutory environmental outcomes and address existing and future sector challenges, potentially requiring additional funding and/or reprioritisation during the period.[258]

5.6.88 SEPA supported the principle of 'study first, invest later' and noted that it had worked closely with Scottish Water to agree the known investment requirements for bathing waters and shellfish waters, expressing satisfaction that funding for these sites had been allocated within the SRC27 investment programme. However, it expressed concern that the Draft Determination provides limited recognition of the investment likely to arise from ongoing studies, particularly in relation to pass forward flow non-compliance. It suggested that Scottish Water should develop indicative estimates of the proportion of studies likely to result in investment and the associated cost ranges, to reduce the risk of underestimating future requirements and delaying delivery of statutory environmental obligations. SEPA also highlighted potential future investment arising from legislative and policy developments, including polyfluoroalkyl substances (PFAS), microplastics, the recast

[256] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4b – Cost Challenge', 1 September 2026, p.61.
[257] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4b – Cost Challenge', 1 September 2026, pp.62-66.
[258] SEPA (2026), 'SEPA feedback on WICS Draft Determination of charges 2027-2033', 31 August 2026, p.2.

Urban Waste Water Treatment Directive and climate-related measures, and considered that earlier recognition of these uncertain requirements would support effective financial planning and timely compliance.[259]

5.6.89 Furthermore, SEPA also considered that the development of integrated urban wastewater management plans under the recast Urban Wastewater Treatment Directive heading was specified within the Ministerial Objectives. As such, SEPA expected a clearly identified allocation to support delivery within the 2027-33 regulatory period.

5.6.90 In relation to this, Scottish Water explained in its response to the Draft Determination that it considered it was not possible to forecast the scale of this investment with any meaningful level of confidence before the relevant studies are completed. It highlighted significant uncertainty over the scale, complexity and timing of any interventions that may be identified, and therefore over both their cost and what could realistically be developed, commenced or delivered during the 2027-33 regulatory period. For example, Scottish Water estimated that, if 10% of pass forward flow sites required investment, costs could range from £200 million to £1.3 billion. Given the wide range of potential outcomes across individual catchments, Scottish Water considered that estimating expenditure at this stage would be highly speculative and could imply a level of certainty that does not yet exist.[260]

5.6.91 SEPA also noted in its response to the Draft Determination its expectation that at least 25% of the remaining UIDs are resolved during the 2027-33 regulatory period and in each subsequent period to maintain progress towards the goal of removing all UIDs by 2050. SEPA also welcomed the Draft Determination's alignment with its expectation that, during the 2027-33 regulatory period, Scottish Water should resolve the greater of 25% of the remaining Unsatisfactory Intermittent Discharges (UIDs) or 150 UIDs, as part of maintaining progress towards eliminating all UIDs by 2050. SEPA acknowledged that Scottish Water is now committing to resolve 168 UIDs during the 2027-33 regulatory period.[261]

5.6.92 Consumer Scotland noted in its response to the Draft Determination the proposed approach to UIDs for the final business plan where Scottish Water is prioritising the resolution of more medium-priority UIDs versus resolving complex high-priority UIDs. Consumer Scotland expressed concern that the increased use of lower-cost interventions to address could defer rather than fully resolve underlying issues. While recognising the potential short-term affordability benefits, it encouraged WICS to require Scottish Water to provide further evidence to demonstrate that these interventions would deliver equivalent long-term outcomes and reduce future risks. It also highlighted the risk that deferring more substantive investment could increase costs for future consumers and

[259] SEPA (2026), 'SEPA feedback on WICS Draft Determination of charges 2027-2033', 31 August 2026, p.3.
[260] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: Consultation Response', 1 September 2026, paragraph 10.3.3.
[261] SEPA (2026), 'SEPA feedback on WICS Draft Determination of charges 2027-2033', 31 August 2026, pp.5-6.

therefore sought assurance that short-term savings would not come at the expense of long-term value, resilience, environmental outcomes and intergenerational fairness.[262]

WICS decision

5.6.93 We confirm that the Final Determination does not allow funding for Allanfearn; however, we allow the funding for the Pathhead WTW project of £6 million in full in the Final Determination. This is based on our review of the additional information, which we consider addresses our concerns around the investment case.

5.6.94 We reviewed the additional information and evidence provided by Scottish Water on the areas of cost challenge referenced in paragraph 5.6.86. We asked our engineering consultants to review the additional information and evidence Scottish Water provided for the programme areas they previously examined for the Draft Determination. We provide our assessment for each area in the following paragraphs.

5.6.95 Maintaining secondary treatment processes was a programme area on which Scottish Water commented in its consultation response. Scottish Water considered that our concerns related to only a small proportion of the programme and did not demonstrate wider inefficiency. It clarified that the representative assets referred to in the Management Approach had been used for options appraisal, while forecast expenditure was derived from asset-specific modelling across the full asset population. Scottish Water also noted that the cost models identified (which were not consistent with benchmarks) accounted for only around 5% of modelled costs, while other cost models compared more favourably with industry benchmarks. It therefore considered the programme-wide challenge disproportionate to the evidence and requested full reinstatement of the allowance.[263]

5.6.96 Scottish Water provided some further detail challenging the benchmark assumptions for secondary treatment. However, we consider that this detail was insufficient to warrant a revision to our position, as supported by our engineering consultant's assessment. Our consultant recommended a 7% cost challenge on the pre-efficiency costs, which is on the lower end of the 7%-10% range recommended for the Draft Determination.

5.6.97 Based on this review, we confirm a 7% cost challenge on Scottish Water's pre-efficiency investment for maintaining secondary treatment processes in the Final Determination. This results in a post-efficiency allowance of £107 million (based on 2.8% average productivity challenge), which is £6.8 million more than the Draft Determination due to removing the portion of efficiency that Scottish Water applied to itself (see paragraph 5.6.34).

[262] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, pp.9-10.
[263] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4b – Cost Challenge', 1 September 2026, paragraphs 7.2.1 to 7.5.4.

5.6.98 Asset maintenance of returning PFI assets was another programme area on which Scottish Water commented in its consultation response. Scottish Water explained that it reviewed its proposed investment for this programme following our Draft Determination and identified scope to reduce the allowance. An improved understanding of asset condition, operational requirements and the interaction with the West Central Bioresources project led Scottish Water to conclude that the previously included replacement of the wet cake hopper at Daldowie was no longer required during the 2027-33 regulatory period. Scottish Water also identified duplication in the allowance associated with the Ayrshire PFI termination payment. It therefore proposed a combined £22 million reduction to the investment requirement for returning PFI assets.[264]

5.6.99 We accept Scottish Water's proposed reduction and confirm that our Final Determination allows £179 million of funding for this programme.

5.6.100 Scottish Water provided the additional cost information we requested in paragraph 5.6.76 on the programme for pass forward flow (PFF) compliance, including maintenance unit costs and average costs by asset type.[265] We reviewed the proposed intervention numbers and associated costs using the median intervention cost. On this basis, the resulting overall cost appears reasonable, given the programme's maturity at this stage and the detail provided in the Draft Determination response and technical appendix 8 of the final business plan.

5.6.101 Scottish Water provided further information on its engagement with SEPA regarding PFF compliance and the proposed investment approach. Scottish Water explained that SEPA had supported the proposed investment in enhanced PFF monitoring and had agreed that identified PFF non-compliance should initially be treated as a pending unsatisfactory intermittent discharge (UID) while the potential for permit adjustments was assessed, and would become a confirmed UID where investment was required. Scottish Water acknowledged SEPA's concern that the programme did not include a specific allowance for investment to address PFF non-compliance identified during the 2027-33 regulatory period, which could delay improvements until SRC33. It explained that any confirmed PFF-related UIDs would be prioritised alongside other UIDs, and that, if significant additional needs emerged, they could be considered through the investment planning and prioritisation process. Scottish Water also confirmed that a joint SEPA/Scottish Water working group had been established and was expected to support the deployment of PFF monitoring and assessment of performance during the 2027-33 regulatory period.[266]

[264] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4b – Cost Challenge', 1 September 2026, paragraphs 11.1 to 11.4.
[265] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4b – Cost Challenge', 1 September 2026, paragraphs 3.2.1 to 3.5.1.
[266] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4a – Capital Investment Evidence', 1 September 2026, paragraphs 3.2.1 to 3.2.8.

5.6.102 We are satisfied that Scottish Water's response addressed our request and provided sufficient assurance on its ongoing engagement with SEPA and the proposed approach to identifying, assessing and addressing PFF compliance risks during the 2027-33 regulatory period.

5.6.103 Based on this review, we confirm that our Final Determination allows the proposed funding of £65 million for the programme for pass forward flow compliance in full.

5.6.104 Addressing unsatisfactory intermittent discharges (UIDs) was another programme area on which Scottish Water commented in its consultation response. Scottish Water explained that its proposed SRC27 UID programme had been developed to support its long-term ambition to address all UIDs by 2050, based on an initial assumption of delivering around 150 UIDs in each investment period. SEPA had raised concerns about the assumptions underpinning this trajectory and considered the target of 150 to be a minimum, with delivery potentially needing to increase if the ongoing cleansing of the UID register did not reduce the number of identified UIDs or if new UIDs were added, including those arising from PFF investigations. As such, Scottish Water proposed utilising £33 million of the £168 million additional unallocated investment we proposed in the Draft Determination to enable the removal of a further 18 UIDs during the 2027-33 regulatory period, subject to the additional funding being made available.[267] This increases the proposed total number of UIDs to be removed to 168.

5.6.105 SEPA confirmed in its consultation response that it maintains the expectation that at least 25% of the remaining UIDs are resolved during the 2027-33 regulatory period. As explained in paragraphs 4.5.67 and 4.5.68, there is a risk that the proposed number of UIDs removed may be insufficient to meet SEPA's expectation of at least 25% over 2027-33 given the uncertainty about the number of UIDs remaining after Scottish Water's data cleansing exercise.

5.6.106 In light of this, we accept Scottish Water's proposal to remove 168 UIDs. This is more than 2.5 times the number Scottish Water expects to remove over the 2021-27 regulatory period and will be a significant delivery challenge.

5.6.107 We confirm that our Final Determination allows the originally proposed funding of £269 million, as well as the proposed utilisation of £33 million of the additional unallocated funding made available in the Draft Determination. This increases the total investment for UIDs to just over £300 million.

5.6.108 As set out in paragraph 5.6.89, SEPA considered that the development of integrated urban wastewater management plans was required under the Ministerial Objectives. As such,

[267] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4a – Capital Investment Evidence', 1 September 2026, p.14.

SEPA expected a clearly identified allocation to support delivery within the 2027-33 regulatory period. We note that the final Ministerial Objectives do not refer to integrated urban wastewater management plans.[268] However, we asked Scottish Water about its approach to integrated urban catchment management following the responses to the Draft Determination consultation in light of SEPA's feedback. Scottish Water explained that part of its 'Transforming Wastewater Services' journey involves developing, piloting and rolling out our system planning approach to catchment management. This considers all short and long-term investment drivers and identifies where partnership working will deliver the most significant benefits. Scottish Water intends to deploy this approach across our catchments on a prioritised basis, creating system plans. Scottish Water confirmed that it did not believe that specific investment is required to support the change in how we plan our wastewater catchments.

5.6.109 SEPA's consultation response highlighted areas where further investment may be required over the 2027-33 period (see paragraph 5.6.88). Our overall observation is that the Strategic Review of Charges process relies on Scottish Water, informed by engagement with SEPA and other stakeholders, to identify and cost the investment required to meet Ministers' Objectives through its business plan, enabling us to assess the lowest reasonable overall cost to customers.

5.6.110 We do not currently have sufficient information on potential future investment requirements or their costs to make an additional allowance, and any such allowance would also need to take account of what Scottish Water could realistically and efficiently deliver. In the event that such priorities emerge during the regulatory period, we consider that the regulatory change process (previously the investment planning and prioritisation framework) will enable Scottish Water to decide whether to reprioritise the investment programme to accommodate such investment. Where new requirements cannot be accommodated within the programme, Scottish Water also has the option to seek an interim determination of charges, subject to meeting the materiality thresholds.

5.6.111 Having considered the additional evidence provided, we have updated our assessment of the investment required for water environment and quantity of flows. Our Final Determination allows £2,839 million,[269] compared with Scottish Water's business plan proposal of £2,885 million and our Draft Determination allowance of £2,848 million. The change to our Draft Determination principally reflects additional or updated evidence on specific requirements, including where we now consider the evidence supports investment that was not, or was not fully, allowed for in our Draft Determination.

[268] Scottish Government (2026), 'Water Industry: Strategic Review of Charges for regulatory period 2027-33: Ministerial Objectives', 23 October 2026.

[269] This allowance number excludes the additional £33 million we have allowed for addressing additional UIDs as this is covered in section 5.11 further below and so that the comparison to the final business plan and Draft Determination allowances is on a like-for-like basis.

5.6.112 Table 76 summarises our reasoning and decision for the projects and programmes examined in the consultation responses.

Table 76: Summary of decisions on allowances in the Final Determination for water environment and quantity of flows

Investment project or programme	Final business plan (2024-25 prices; £m)	Draft Determination (2024-25 prices; £m)	Consultation / new evidence	Final Determination (2024-25 prices; £m)
Allanfearn STC (Digester replacement)	19.5	0	Scottish Water accepted Draft Determination position	0
Pathhead WWTW	6	0	Further evidence accepted	6
Maintaining secondary treatment processes (excluding Pathhead WWTW)	196	185	Additional cost evidence supported small adjustment. Accepted and adjusted for feedback on the application of efficiency.	192
Asset maintenance of returning PFI assets	201	201	Accepted Scottish Water's proposed reduction	179
Pass forward flow (PFF) compliance	65	65	Further evidence accepted with some remaining reservations	65
Addressing unsatisfactory intermittent discharges[270]	269	269	Further evidence accepted	269

5.6.113 Table 77 sets out the Final Determination allowance and compares it to the proposed Draft Determination allowance.

[270] The Final Determination allowance excludes the additional £33 million we have allowed for addressing additional UIDs as this is covered in section 5.9 further below and so that the comparison to the final business plan and Draft Determination allowances is on a like-for-like basis.

Table 77: Draft versus final allowance for water environment and flows

Water environment and quantity of flows (excluding West Central Bioresources)	Draft Determination allowed for investment (2024-25 prices; £m)	Scottish Water Draft Determination response (2024-25 prices; £m)	Final Determination allowed for investment (2024-25 prices; £m)[271]
Asset replacement, repair and refurbishment (AR3)	1,867	1,863	1,858
Enhancement and growth	981	981	981
Total	**2,848**	**2,843**	**2,839**

Growth

Our overall assessment in the Draft Determination

5.6.114 Scottish Water proposed investment of around £550 million for growth as part of its business plan for the 2027-33 regulatory period.

5.6.115 For our Draft Determination, we reviewed investment projects and programmes in relation to the growth programme. We identified three projects where we have some reservations:

- AVSE – Growth Seafield, which is a major strategic project to invest in Seafield wastewater treatment works (WwTW) to increase treatment capacity to accommodate forecast growth in the Edinburgh catchment area and has a forecast cost of £18 million over the 2027-33 regulatory period; and
- Nigg and Persley growth projects from the Aberdeen strategy, which set out the strategy to address the medium to long-term needs related to asset maintenance issues, together with forecast future growth through increased wastewater treatment capacity in the Aberdeen catchment area and have a forecast cost of £38 million in total over the 2027-33 regulatory period.

5.6.116 We noted that none of these projects has specific deliverables or objectives. As such, we had concerns that the allocated budget would not advance the strategic aims of these projects, and that customers may see only limited benefit from the expenditure. Therefore, we required Scottish Water to confirm what it will deliver in relation to this expenditure over the 2027-33 regulatory period.

5.6.117 Based on our review of other growth investment, we reduced the business plan forecasts in the following areas:

- Part 3 strategic capacity for water and wastewater, where Scottish Water provided revised forecasts for expenditure through our query process, reducing the forecast

[271] The Final Determination allowance excludes the additional £33 million we have allowed for addressing additional UIDs as this is covered in section 5.11 further below and so that the comparison to the final business plan and Draft Determination allowances is on a like-for-like basis.

from the business plan of £123 million to around £96 million over the 2027-33 regulatory period. We therefore adopted Scottish Water's revised forecast.

- Service relocations, where we considered that Scottish Water has not evidenced the step increase in expenditure on service relocations based on actual expenditure between 2021-22 and 2024-25. Scottish Water did not explain whether the step increase is due to additional activities or cost pressures. As such, we considered that there was scope for a 26% cost challenge in this area, bringing Scottish Water's proposed expenditure back into line with actual expenditure over the 2021-27 regulatory period.

5.6.118 Table 78 sets out the Scottish Water final business plan proposal and our proposed Draft Determination allowance of £514 million, representing a cost challenge of £37 million.

Table 78: Business plan investment versus draft allowance for growth

Growth	Final business plan investment (2024-25 prices; £m)	Draft Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	0	0
Enhancement and growth	551	514
Total	**551**	**514**

Draft Determination consultation responses and new information

5.6.119 We received specific comments from Scottish Water and Consumer Scotland on our Draft Determination proposals for growth investment.

5.6.120 Scottish Water provided further evidence regarding the three projects where we expressed reservations regarding the investment as per paragraphs 5.6.115 and 5.6.116:

- AVSE – Seafield Growth: Scottish Water provided further detail on the activities to be funded by the proposed £18 million investment in the final business plan. These activities are intended to identify a preferred solution for delivery in SRC33 and will include outline design, optioneering and delivery strategy development through Project appraisal, taking into consideration asset condition, compliance, odour and climate resilience requirements. This will be underpinned by work on the Edinburgh Growth Strategy.[272]
- Nigg and Persley: Scottish Water has reviewed the scope for the Aberdeen Growth strategy and proposed revised funding of £28 million (from £38 million in the final business plan) for the development and delivery of aspects of the broader strategy.

[272] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4a – Capital Investment Evidence', 1 September 2026, pp.9-10.

It provided a breakdown of the proposed sum outlining activities including system studies and modelling (£2 million), option development to Gate 70 (£15 million) and interim upgrades (£11 million).[273]

5.6.121 Scottish Water confirmed its acceptance of the proposed allowances for investment in Part 3 strategic capacity for water and wastewater.[274] However, it disagreed with the cost challenge relating to service relocations, as set out in paragraph 5.6.117.

5.6.122 In its response, Consumer Scotland called for greater transparency on the funding and prioritisation of growth-related investment, including how costs and benefits are distributed between developers, current customers and future service users. It encouraged WICS to require Scottish Water to provide greater clarity on funding sources, investment prioritisation and the trade-offs between supporting future growth and addressing the needs of existing customers.[275]

5.6.123 Scottish Fire and Rescue Service and another respondent raised concerns about the provision of firefighting capacity when new developments are connected. They suggested that there should be consultation where the design or adoption of infrastructure for new developments could significantly affect firefighting supply. This also relates to the points raised by the same respondents in paragraph 5.6.29.

5.6.124 A further respondent noted that steps in consumption reduction would also reduce future capital investment.

WICS decision

5.6.125 We accept Scottish Water's additional evidence for AVSE, Nigg and Persley.

- For AVSE, we have reviewed the evidence and consider it addresses our concerns around insufficient information and justification. We confirm that the funding for the project is allowed in full in the Final Determination.
- For Nigg and Persley, we welcome the revised cost, which we consider is justified based on the additional information provided. We confirm the Final Determination allows £28 million of funding for these projects.

5.6.126 Regarding service relocations, Scottish Water explained that the investment proposed in the final business plan was based on run rates from previous investment periods, with several reductions already applied. It emphasised that the expenditure is largely outside its

[273] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4a – Capital Investment Evidence', 1 September 2026, pp.10-12.
[274] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4b – Cost Challenge', 1 September 2026, paragraph 17.1.
[275] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, pp.26-27.

direct control because the timing, scale and complexity of relocations were driven by external parties and specific project circumstances, making future requirements difficult to predict accurately. It further detailed why investment in this area was at reduced levels in SRC21 compared to previous periods, including delays due to the Covid pandemic and delays in planning by the road authorities. Scottish Water also listed the projects and costs accounting for the majority of the investment requested in the final business plan. Scottish Water therefore requested full reinstatement of the final business plan proposed allowance.[276]

5.6.127 We are satisfied that Scottish Water's response provides sufficient detail and evidence to address our previous concerns. We confirm that our Final Determination allows the proposed funding of £38 million for service relocations in full.

5.6.128 We acknowledge Consumer Scotland's points and agree that transparency around the funding, prioritisation and implications of growth-related investment will remain important during the 2027-33 regulatory period.

5.6.129 We considered the comments raised in paragraph 5.6.123 in relation to firefighting. It is Scottish Water's responsibility as the operator to comply with all relevant legislation and engage with relevant stakeholders when developing its investment plans. We will engage with Scottish Water on these matters raised.

5.6.130 We recognise that steps in consumption reduction would also reduce future capital investment (see paragraph 5.6.124) in terms of meeting new demand from growth. We have taken this into account in challenging Scottish Water further on leakage reduction and per capita consumption.

5.6.131 Having considered the additional evidence provided, we have updated our assessment of the investment required for growth. Our Final Determination allows £514 million, compared with Scottish Water's business plan proposal of £551 million and our Draft Determination allowance of £514 million.

5.6.132 Table 79 below summarises our reasoning and decision for the projects and programmes examined in the consultation responses.

[276] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4b – Cost Challenge', 1 September 2026, paragraph 18.1 to 18.11.

Table 79: Summary of decisions on allowances in the Final Determination for growth

Investment project or programme	Final business plan (2024-25 prices; £m)	Draft Determination (2024-25 prices; £m)	Consultation / new evidence	Final Determination (2024-25 prices; £m)
AVSE – Seafield Growth	18	18	Further evidence accepted	18
Nigg and Persley	38	38	Accepted Scottish Water's proposed reduction	28
Part 3 strategic capacity for water and wastewater	123	96	Scottish Water accepted Draft Determination position	96
Service relocations	38	28	Further evidence accepted	38

5.6.133 Table 80 sets out the Final Determination allowance and compares it to the proposed Draft Determination allowance.

Table 80: Draft versus final allowance for growth

Growth	Draft Determination allowed for investment (2024-25 prices; £m)	Scottish Water Draft Determination response (2024-25 prices; £m)	Final Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	0	0	0
Enhancement and growth	514	514	514
Total	**514**	**514**	**514**

Climate change adaptation and mitigation

Our overall assessment in the Draft Determination

5.6.134 Scottish Water proposed investment of £73 million for climate change adaptation and mitigation as part of its business plan for the 2027-33 regulatory period. This is specific investment focusing solely on climate change adaptation and mitigation, recognising that Scottish Water's other investments will take into account the impact of a changing climate and improve climate resilience.

5.6.135 For our Draft Determination, we reviewed asset maintenance programmes based on Scottish Water's management approaches, our benchmarking analysis and the external engineering review by our engineering consultants. We considered that there is scope for a cost challenge in the following area:

- Carbon capture investment of £29 million, where we compared Scottish Water's proposed investment on a £ per tonne of CO2 equivalent basis to comparable projects undertaken by Scottish Water in the 2021-27 regulatory period and similar projects completed by the water and sewerage companies in England and Wales. We noted that Scottish Water's costs are higher than both comparators, and consider a 27% cost challenge appropriate.

5.6.136 Table 81 sets out the Scottish Water final business plan proposal and our proposed Draft Determination allowance.

Table 81: Business plan investment versus draft allowance for climate change

Climate change adaptation and mitigation	Final business plan investment (2024-25 prices; £m)	Draft Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	16	16
Enhancement and growth	57	49
Total	**73**	**65**

5.6.137 Table 81 shows our proposed allowance of £65 million, representing a cost challenge of around £8 million.

Draft Determination consultation responses and new information

5.6.138 We received comments from Scottish Water, SEPA and other respondents on our Draft Determination proposals for investment specifically for climate change adaptation and mitigation.

5.6.139 Scottish Water disagreed with the proposed cost challenge for carbon capture.

5.6.140 SEPA considered that the level of investment proposed in this area would not be sufficient to support the pace and scale of emissions reductions required to meet net-zero ambitions.[277] Several other respondents supported investment in climate resilience.

WICS decision

5.6.141 Scottish Water provided further evidence for the investment in carbon capture. It explained that the cost-per-hectare benchmarking against its historic expenditure and comparator projects in England and Wales did not provide a like-for-like basis for assessing efficiency. It explained that its proposed SRC27 programme differed materially in scope and delivery conditions, reflecting Scotland-specific factors including terrain, access, weather, catchment management and drinking water supply constraints, as well as a greater

[277] SEPA (2026), 'SEPA feedback on WICS Draft Determination of charges 2027-2033', 31 August 2026, p.7.

proportion of woodland creation and activities such as surveys and assessments that were not captured by a simple cost-per-hectare comparison. It therefore considered that the challenge had not identified or quantified a specific inefficiency and requested that the £8 million reduction be reinstated in full.[278]

5.6.142 Following our review of Scottish Water's response, we accept Scottish Water's observation on the differences between its carbon capture investment and the specific investment in carbon capture in England and Wales. Based on this review, we confirm that our Final Determination allows the £29 million funding for carbon capture investments in full.

5.6.143 We note SEPA's consideration in paragraph 5.6.140. The level of investment identified specifically in this area is one element of Scottish Water's response to the transition to net zero; however, we expect Scottish Water to consider climate resilience and opportunities to reduce emissions throughout the design, prioritisation, and delivery of its wider investment programme. This means that climate and carbon considerations should not be confined to investment specifically categorised as supporting emissions reductions, but should be embedded in investment decisions across the programme. If additional investment is required to support the pace and scale of emissions reductions needed to meet net-zero ambitions, we would rely on Scottish Water, as the operator, to identify those requirements and reflect them in its business plan. WICS can then assess the associated costs and determine the appropriate allowance, taking account of the Ministerial Objectives and Principles of Charging.

5.6.144 Having considered the additional evidence provided, we have updated our assessment of the investment required for climate change adaptation and mitigation. Our Final Determination allows £73 million, compared with Scottish Water's business plan proposal of £73 million and our Draft Determination allowance of £65 million.

5.6.145 Table 82 below summarises our reasoning and decision for the projects and programmes examined in the consultation responses.

Table 82: Summary of decisions on allowances in the Final Determination for climate change adaptation and mitigation

Investment project or programme	Final business plan (2024-25 prices; £m)	Draft Determination (2024-25 prices; £m)	Consultation / new evidence	Final Determination (2024-25 prices; £m)
Carbon capture	29	21	Further evidence accepted	29

[278] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4b – Cost Challenge', 1 September 2026, paragraphs 10.2.1 to 10.5.1.

5.6.146 Table 83 sets out the Final Determination allowance and compares it to the proposed Draft Determination allowance.

Table 83: Draft versus final allowance for climate change adaptation and mitigation

Climate change adaptation and mitigation	Draft Determination allowed for investment (2024-25 prices; £m)	Scottish Water Draft Determination response (2024-25 prices; £m)	Final Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	16	16	16
Enhancement and growth	49	57	57
Total	**65**	**73**	**73**

Customers and communities

Our overall assessment in the Draft Determination

5.6.147 Scottish Water proposed investment of £21 million for customers and communities as part of its business plan for the 2027-33 regulatory period. This included investment to improve the response to priority service customer groups during an incident, to improve customer access to Scottish Water's assets for leisure purposes, to undertake marketing campaigns and customer research, and other areas. We asked Scottish Water how investment in this area compares with investment for the 2021-27 regulatory period, and it demonstrated that it is broadly in line with past investment. As such, we did not propose a cost challenge in this area for our Draft Determination.

5.6.148 Table 84 sets out the Scottish Water final business plan proposal and our proposed Draft Determination allowance of £21 million.

Table 84: Business plan investment versus draft allowance for customers and communities

Customer and communities	Final business plan investment (2024-25 prices; £m)	Draft Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	0	0
Enhancement and growth	21	21
Total	**21**	**21**

Draft Determination consultation responses and new information

5.6.149 Consumer Scotland requested further information to understand how the £4 million allocated to work associated with the Priority Service Register (PSR) is going to be spent.[279]

[279] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.14.

WICS decision

5.6.150 Scottish Water outlined the broad areas covered by the investment in the PSR. This includes service enhancements, communications, registration channels, measurement capabilities, awareness campaigns and partnership working. However, Scottish Water confirmed that it is still developing the detailed delivery strategy. We therefore request that Scottish Water engage with Consumer Scotland and other representative bodies on its delivery strategy to ensure that the money is targeted towards the highest-priority customer needs and outcomes.

5.6.151 Having considered the consultation responses, we confirm that our final decision is to allow the full investment of £21 million proposed in the final business plan for the customers and communities investment area.

5.6.152 Table 85 sets out the Final Determination allowance and compares it to the proposed Draft Determination allowance.

Table 85: Draft versus final allowance for customers and communities

Customer and communities	Draft Determination allowed for investment (2024-25 prices; £m)	Scottish Water Draft Determination response (2024-25 prices; £m)	Final Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	0	0	0
Enhancement and growth	21	21	21
Total	**21**	**21**	**21**

Digital

Our overall assessment in the Draft Determination

5.6.153 Scottish Water proposed investment of £107 million for digital as part of its business plan for the 2027-33 regulatory period. This included investment to replace or maintain digital assets, such as data centre systems and cloud products and systems, to ensure cyber security and deliver wider benefits. We have reviewed the management approach for this investment area and are satisfied that the cost estimates are reasonable. As such, we did not propose a cost challenge, recognising that this investment will be crucial to enabling Scottish Water to meet the productivity challenge we set in the Draft Determination.

5.6.154 Table 86 sets out the Scottish Water final business plan proposal and our proposed Draft Determination allowance of £107 million.

Table 86: Business plan investment versus draft allowance for digital

Digital	Final business plan investment (2024-25 prices; £m)	Draft Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	107	107
Enhancement and growth	0	0
Total	**107**	**107**

Draft Determination responses and new information

5.6.155 We did not receive consultation responses related to this investment area.

WICS decision

5.6.156 We confirm that our final decision is to allow the full investment of £107 million proposed in the final business plan for the digital investment area.

5.6.157 Table 87 sets out the Final Determination allowance and compares it to the proposed Draft Determination allowance.

Table 87: Draft versus final allowance for digital

Digital	Draft Determination allowed for investment (2024-25 prices; £m)	Scottish Water Draft Determination response (2024-25 prices; £m)	Final Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	107	107	107
Enhancement and growth	0	0	0
Total	**107**	**107**	**107**

Transformation and innovation

Our overall assessment in the Draft Determination

5.6.158 Scottish Water proposed investment of £31 million for transformation and innovation as part of its business plan for the 2027-33 regulatory period. This included investment in transformation initiatives, innovation pilot programmes, and university research. We did not propose a cost challenge in this area, recognising that this investment will be crucial to enabling Scottish Water to meet the productivity challenge we set in the Draft Determination.

5.6.159 Table 88 sets out the Scottish Water final business plan proposal and our proposed Draft Determination allowance.

Table 88: Business plan investment versus draft allowance for transformation and innovation

Transformation and innovation	Final business plan investment (2024-25 prices; £m)	Draft Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	0	0
Enhancement and growth	31	31
Total	**31**	**31**

5.6.160 Table 88 shows our proposed allowance of £31 million.

Draft Determination responses and new information

5.6.161 We did not receive consultation responses related to this investment area.

WICS decision

5.6.162 We confirm that our final decision is to allow the full investment of £31 million proposed in the final business plan for the transformation and innovation investment area.

5.6.163 Table 89 sets out the Final Determination allowance and compares it to the proposed Draft Determination allowance.

Table 89: Draft versus final allowance for transformation and innovation

Transformation and innovation	Draft Determination allowed for investment (2024-25 prices; £m)	Scottish Water Draft Determination response (2024-25 prices; £m)	Final Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	0	0	0
Enhancement and growth	31	31	31
Total	**31**	**31**	**31**

Support services

Our overall assessment in the Draft Determination

5.6.164 Scottish Water proposed investment of £317 million for support services as part of its business plan for the 2027-33 regulatory period.

5.6.165 For our Draft Determination, we reviewed investment projects and programmes in relation to the support services programme. Scottish Water proposed a project to construct a new scientific services laboratory in Edinburgh (Juniper House), with a forecast cost of £110 million over the 2027-33 regulatory period. Our assessment of the project's need and the proposed solution is that both are well-evidenced and appropriate. However, we had some reservations about the cost benchmarking evidence. In general, we considered the

benchmarking report to lack transparency and clarity regarding the logic used to benchmark the modular build proposal for the Juniper House project against both other projects and against traditional construction. We included the investment but required Scottish Water to undertake a more comprehensive benchmarking study, to be submitted to us, once the scope is further developed.

5.6.166 We considered that there is scope for a cost challenge relating to catch-up efficiency in the following area from our review of asset maintenance programmes based on Scottish Water's management approaches, our benchmarking analysis and the external engineering review by our engineering consultant:

- Offices, property and estates investment of £66 million. Given the limited information and cost justification provided by Scottish Water in the relevant management approach (MA029), we considered that Scottish Water's forecast expenditure for office repairs and refurbishments is too high, given the unit costs presented in the management approach. Based on conservative estimates of repair and refurbishment costs, we considered that there is scope for a 20% cost challenge.

5.6.167 Table 90 sets out the Scottish Water final business plan proposal and our proposed Draft Determination allowance of £303 million, representing a cost challenge of around £14 million.

Table 90: Business plan investment versus draft allowance for support services

Support services	Final business plan investment (2024-25 prices; £m)	Draft Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	295	281
Enhancement and growth	22	22
Total	**317**	**303**

Draft Determination responses and new information

5.6.168 We received comments from Scottish Water on our Draft Determination proposals for support services investment, covering the following two areas:

- Juniper House project; and
- Programme for maintaining offices, property and estate.

WICS decision

5.6.169 Scottish Water's response regarding the Juniper House project confirmed that, as the scope and specification are further developed and finalised, the project will be procured through

a formal tendered market process. This competitive procurement approach will provide robust cost benchmarking and help establish the accuracy of the project estimate. In addition, Scottish Water committed to obtaining independent external validation of the selected delivery partner's cost estimate as part of the project review process. These activities are expected to be completed by summer 2027, addressing our requirement for more comprehensive and transparent cost benchmarking evidence as the project progresses.[280] We accept Scottish Water's response and confirm the £110 million funding for the project is allowed in full in the Final Determination.

5.6.170 Scottish Water's response regarding the programme for maintaining offices, property and estates explained that the office and depot repair and refurbishment costs were based on historical project costs, external quotations, consultancy estimates and forecast maintenance requirements. It considered that the Draft Determination analysis had not compared costs and outputs on a like-for-like basis, including by combining repair and refurbishment expenditure while comparing this against refurbishment outputs only, and that the final business plan programme included larger, more complex refurbishment projects that could not appropriately be assessed using simplified average intervention costs. Scottish Water also highlighted that our concerns were specific to offices and depots, which represented only around half of the overall management approach, whereas the 20% challenge had been applied across the full allowance, with no evidence of inefficiency in the remaining investment areas. It therefore considered both the methodology and application of the challenge unsupported and requested full reinstatement of the £13 million reduction.

5.6.171 We disagree with Scottish Water's position on the methodology. For the Draft Determination, we used the repair costs and outputs from the management approach to calculate the repair unit cost, and used the refurbishment cost and outputs to calculate the refurbishment unit costs. However, we accept the challenge should only apply to the portion related to offices and depots. We update this in the Final Determination and have also applied the challenge to the pre-efficiency investment from the final business plan.

5.6.172 Based on this review, we confirm a 20% cost challenge on Scottish Water's pre-efficiency investment for maintaining offices and depots in the Final Determination. This results in a post-efficiency allowance of £61 million (based on 2.8% average productivity challenge) for maintaining all offices and estates, which is £7.5 million more than the Draft Determination.

5.6.173 Having considered the additional evidence provided, we have updated our assessment of the investment required for support services. Our Final Determination allows £311 million,

[280] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 4a – Capital Investment Evidence', 1 September 2026, paragraphs 3.1.1 and 3.1.2.

compared with Scottish Water's business plan proposal of £317 million and our Draft Determination allowance of £303 million.

5.6.174 Table 91 below summarises our reasoning and decision for the projects and programmes examined in the consultation responses.

Table 91: Summary of decisions on allowances in the Final Determination for support services

Investment project or programme	Final business plan (2024-25 prices; £m)	Draft Determination (2024-25 prices; £m)	Consultation / new evidence	Final Determination (2024-25 prices; £m)
Juniper House project	110	110	Further evidence accepted	110
Maintaining offices, property and estates	66	53	Further evidence partially accepted	61

5.6.175 Table 92 sets out the Final Determination allowance and compares it to the proposed Draft Determination allowance.

Table 92: Draft versus final allowance for support services

Support services	Draft Determination allowed for investment (2024-25 prices; £m)	Scottish Water Draft Determination response (2024-25 prices; £m)	Final Determination allowed for investment (2024-25 prices; £m)
Asset replacement, repair and refurbishment (AR3)	281	295	289
Enhancement and growth	22	22	22
Total	**303**	**317**	**311**

5.7 West Central Bioresources

5.7.1 Scottish Water proposes to invest in a new bioresource treatment centre, known as West Central Bioresources (WCB). The centre will replace the previous PFI site, which returned to Scottish Water on 1 April 2026. The centre will also serve as a hub for bioresource treatment, recovery and/or disposal in Scotland, bringing in imports of biosolids (byproducts of wastewater treatment processes that can be used for energy generation and can generate income) from smaller sites. This aligns with Scottish Water's bioresources strategy, developed in 2018.[281] WCB is a separate investment area given its scale and value, representing the largest project for Scottish Water since it was created in 2002.

[281] Scottish Water (2018), 'Scottish Water's Bioresource Strategy', report prepared by M2, June 2018.

Background

5.7.2 When Scottish Water was created in 2002, it inherited 9 legacy PFI contracts. Under these contracts, third parties operate and maintain 21 facilities across Scotland to provide wastewater treatment and the subsequent treatment, recovery and disposal of biosolids (formerly known as sewage sludge or sludge).[282] In exchange for these services, the third parties receive regular payments from Scottish Water. The contracts stipulate how payments are calculated, covering aspects such as the inflation index applied to unit rates and the basis for charging (e.g. based on loads treated).

5.7.3 As of 30 March 2026, 7 of those contracts remained, with 2 contracts expiring during the current regulatory period (comprising 2 facilities) and 4 contracts expiring during the 2027-33 regulatory period (comprising 12 facilities) as outlined in Table 93.

Table 93: PFI sites[283]

Site location	Contract end date	SRC period of end date	Percentage of wastewater in Scotland treated at site	Percentage of sludge in Scotland treated at site
Daldowie	31/03/2026	SRC21	0%	34%
Dalmuir	14/06/2026	SRC21	9%	7%
Blackburn	29/04/2029	SRC27	0%	0%
East Calder	29/04/2029	SRC27	2%	0%
Newbridge	29/04/2029	SRC27	0%	0%
Seafield	29/04/2029	SRC27	13%	19%
Whitburn	29/04/2029	SRC27	0%	0%
Hatton	16/12/2029	SRC27	4%	3%
Banff/Macduff	25/06/2031	SRC27	0%	0%
Buckie	25/06/2031	SRC27	0%	0%
Lossiemouth	25/06/2031	SRC27	1%	2%
Inverclyde	29/09/2032	SRC27	1%	0%
Meadowhead	29/09/2032	SRC27	3%	7%
Stevenston	29/09/2032	SRC27	1%	0%
Levenmouth	30/10/2040	SRC39	3%	2%
Total %			**39%**	**75%**

5.7.4 Once the contracts expire, the facilities will return to Scottish Water's operations.[284] This means that by the end of the 2027-33 regulatory period, 14 sites responsible for treating

[282] Around 40-50% of wastewater is treated by third parties under PFI contracts. 80% of the biosolids that remains from the wastewater treatment process is treated, recovered and/or disposed of by third parties under PFI contracts.
[283] Contract end dates are as per Annual Return 2024-25 Table E3a, line E3a.29. Percentage of wastewater and sludge treated are calculated using site data for population equivalent of total load received (line E3.3) and total treated tons of dry solids (lines E3.33 to E3.40) respectively compared to the totals in table A3, lines A3.23 and A3.26.
[284] Scottish Water has an option to extend the PFI contract covering Meadowhead, Stevenston and Inverclyde (MSI) when it expires in 2032 until 2037. Scottish Water (2026), 'Business plan 2027-2033 Technical Appendices: Water

35% of wastewater in Scotland and treating and disposing of around 70% of sludge in Scotland will have returned to Scottish Water.

5.7.5 The Daldowie bioresource treatment centre returned to Scottish Water on 1 April 2026, following the expiry of the PFI contract. As shown in Table 93, the Daldowie site is Scotland's largest bioresource facility, responsible for the treatment and disposal of around a third of the biosolids in Scotland.

5.7.6 The Daldowie site is served by the Greater Glasgow sludge main, which is a 32 km pipeline that conveys sludge from 5 wastewater treatment works in Glasgow.[285] This main accounts for around 70% of the sludge treated at the site. The remaining material is transported by tanker from other wastewater treatment works in the west of Scotland and central Scotland.

5.7.7 Scottish Water explains that the site's operational resilience has deteriorated over recent years due to outdated technology, which has resulted in decreased output and higher costs. As such, the plant currently processes only half the amount of sludge it is originally designed to treat. The reduced throughput puts more pressure on the bioresource storage tanks which have the capacity to hold 3 days' worth of sludge. Scottish Water explains that it has imposed intake restrictions for 44, 53, 28 and 58 days in 2022, 2023, 2024 and 2025 respectively.[286]

5.7.8 The current site treats the sludge and then dries it using six thermal dryers, fuelled by natural gas, to produce a waste-derived fuel. Scottish Water explains that the site has the highest natural gas consumption across its asset base, resulting in 27,000 tonnes of carbon dioxide equivalent (CO_2e) per annum. Once the sludge is dried, it is disposed of through two main routes:

- Selling the dried biosolid pellets to a cement works under an energy-from-waste agreement, which was signed at the time of the original PFI contract in 2002; and
- Sending the treated biosolids to land restoration, which entails remediating derelict land and former industrial sites.

5.7.9 Scottish Water explained that the contract with the cement works ends with the expiry of the PFI contract in 2026, and the land restoration routes are expected to reach capacity in 2027-28. As such, these two disposal routes, which underpin the thermal drying model, will cease to be available at scale after 2027-28.

Environment', February 2026. Scottish Water (2018), 'Scottish Water's Bioresource Strategy', report prepared by M2, June 2018, p.91.

[285] Scottish Water (2025), 'Stage 3a: outline investment appraisal level 1 – West Central Bioresource', June 2025, p.9.

[286] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 010 – West Central Bioresources', 26 February 2026, p.15.

5.7.10 In the absence of these outlets, application to agricultural land becomes the main outlet in the near term. However, there are challenges associated with applying biosolids to land, including securing the required land bank.

5.7.11 Scottish Water identified three options for the site:

- Investment to replace the dryers;
- Investment to upgrade the facility to enable liming; and
- Investment in a new advanced anaerobic digestion (AAD) facility on the site of the existing Daldowie bioresource facility.

5.7.12 Scottish Water's business plan proposed the third option, which forms part of a wider strategy for bioresources. This strategy is based on consolidating sludge treatment at 2-3 dedicated bioresource facilities in Scotland.[287] The proposal for the third option is based on Scottish Water's assessment of the options in terms of costs, carbon emissions, risks and benefits. This assessment determined that the proposed option for an AAD facility at Daldowie has the lowest Net Present Cost over 60 years (accounting for capital and operational costs as well as expected revenue generated from biogas production), the lowest whole-life carbon over 60 years, the least level of assessed risk, and is one of the options with the highest level of benefits. In contrast, the options with drying and liming would require investment in legacy technology, which is more costly to run, has more emissions, is less future-proof with regards to potential future environmental legislation, would produce higher volumes of treated bioresource and would consequently require more landbank for its disposal at a time when available landbank is reducing according to Scottish Water.

5.7.13 This project, West Central Bioresources, is the largest for Scottish Water since its creation in 2002, with a forecast cost of around £560 million. It involves both a new site and upgrades to other wastewater treatment works to enable the export of sludge to the West Central Bioresources site via tanker, as shown in Table 94.[288]

[287] Scottish Water (2018), 'Scottish Water's Bioresource Strategy', report prepared by M2, June 2018.
[288] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 010 – West Central Bioresources', 26 February 2026, p.76.

Table 94: West Central Bioresources investment

Description	Investment (2024-25 prices; £m)
West Central Bioresources	423.5
Land restoration mitigation - liming sites	5.6
West Central System - Cupar	4.8
West Central System - Dunfermline	4.8
West Central System - Kirkcaldy	4.8
West Central System - St Andrews	4.8
West Central System - Cumnock	14.3
West Central System - Dalderse	9.5
West Central System - Girvan	4.8
West Central System - Kinniel Kerse	9.5
West Central System - Meadowhead	9.5
West Central System - Stirling	4.8
West Central System - Screening	47.5
West Central System - Greater Glasgow Sludge Main	9.5
Total investment	**557.4**

5.7.14 On 7 November 2025, the Cabinet Secretary for Climate Action and Energy set out the Scottish Government's policy position for West Central Bioresource.[289] The letter asks Scottish Water to consider alternative financing options consistent with the requirements for major projects in the Scottish Public Finance Manual, to ensure appraisal is undertaken to HM Treasury Green Book standards, and to explore whether the project's objectives could support a Just Transition at Grangemouth. Scottish Ministers requested assurance from WICS that Scottish Water's options appraisal is consistent with this policy position, and assurance from SEPA that the project will deliver good environmental outcomes.

5.7.15 We provide our assessment of the project in the following section. Our detailed review is set out in Appendix 5.

Our assessment of West Central Bioresources in the Draft Determination

Project need, costs and benefits

5.7.16 Based on our review and the external review from our consultations, WSP, we considered that Scottish Water has evidenced the need for the West Central Bioresources project. Scottish Water demonstrated that the need aligns with the SRC21 and SRC27 Ministerial Objectives for growth, the circular economy, and climate change (particularly the achievement of the net zero target).

[289] Scottish Government (2025), 'Letter from the Cabinet Secretary for climate action and energy', letter dated 7 November 2025.

5.7.17 Scottish Water evidenced that it has considered different options for the provision of bioresources treatment and disposal, following the return of the Daldowie site. This ranged from replacing the thermal dryers at the current site to multiple new centres and centralised bioresource treatment and disposal across different locations (Daldowie, Kinneil Kerse, and Grangemouth).

5.7.18 We further questioned the viability of Grangemouth as a site and highlighted potential benefits from proximity to the wider bioresource supply chain, in particular, the potential to produce sustainable aviation fuel from bioresources. However, we were satisfied with Scottish Water's assessment that these benefits are uncertain because these markets are less mature and could be realised regardless of where the AAD site is constructed, through the transportation of biosolids produced from AAD.[290] Our engineering consultants, WSP, also shared this view.

5.7.19 The forecast cost of the new bioresources treatment centre is £420 million, excluding £140 million in upgrades to other wastewater treatment works to enable the export of biosolids to the new treatment centre. The £420 million cost estimate in the business plan appeared to be in line with available benchmarks; however, the facility's design is still under development, so there is some uncertainty about the final cost estimate before construction commences. We therefore require Scottish Water's cost estimate in the Stage 4 Project Investment Appraisal as set out in section 8.3.

5.7.20 There was also uncertainty over whether Scottish Water would be able to offset some of the costs of WCB. In recent months, Scottish Water has also highlighted the opportunity to apply for funding through the Green Gas Support Scheme (GGSS), which provides financial incentives for new anaerobic digestion plans to inject gas into the UK grid. Such incentives would reduce the costs to customers.

5.7.21 Regarding the consideration of benefits, Scottish Water demonstrated in the Stage 3a PIA that it has considered the whole-life (60-years) carbon values of the 5 main technical solution options for both embodied and operational emissions. Appendix 3 of that document also showed the assessment of the options against various criteria, including benefits such as energy capture and generation, as well as the quantity and quality of bioresource output. However, there were a limited number of other wider and also non-financial economic benefits considered outside of energy capture and generation.

5.7.22 Scottish Water provided evidence that it has considered risk. However, our Draft Determination identified three areas where Scottish Water should provide further evidence:

[290] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 010 – West Central Bioresource', 26 February 2026, p.28.

- The need for more landbank for the disposal of the treated biosolids;
- Whether it has fully considered "headroom above the required capacity" in the project designs, to ensure the asset is future-proofed; and
- The availability of land at the Daldowie site to accommodate potential future expansion of the AAD facility, e.g. if another treatment stream or future bolt-on technologies are required. This is based on the available area shown in the provisional site layout design in Figure 16 of technical appendix 10, and the potential area required by future bolt-on technologies and associated ancillary assets.

Mutual Investment Model (MIM)

5.7.23 The policy position of the Cabinet Secretary for Climate Action and Energy (see paragraph 5.7.14) established how Scottish Water should appraise the options for this project to deliver on the Scottish Government's priorities. These priorities included enabling growth, tackling the climate emergency, and ensuring high-quality, sustainable public wastewater services. Given the capital cost of West Central Bioresources, the Cabinet Secretary requested that the project be considered for the Mutual Investment Model (MIM). The letter required WICS to provide assurance that it meets the requirements of the policy position, including that Scottish Water has considered the project for the MIM.

5.7.24 A MIM spreads the upfront investment cost over the asset's lifetime. It involves contracting with the MIM provider, which is responsible for financing, building and operating the asset in return for an annual service fee. It is similar to a Private Finance Initiative (PFI) contract in that it aims to ensure that the borrowing associated with the infrastructure asset does not count as Government debt – i.e. is 'off balance sheet'. The main difference between a PFI and an MIM is that the latter involves the public body taking a minority stake in the holding company (as a special purpose vehicle) responsible for the investment in the asset. Profit sharing and enhanced governance from the issuer are intended to address some of the criticisms of PFI.

5.7.25 The Office for National Statistics (ONS) applies Eurostat's guidance and criteria to determine whether an asset and its associated financing are classified as private or public. If it is the latter, the financing for the project will be counted as Government debt. As part of the assessment, ONS examines construction, availability and demand risk. For off-balance-sheet classification, the private sector must bear these risks. ONS reviews classification on an ongoing basis, meaning balance sheet classification can change over the lifetime of the MIM.

5.7.26 Given these factors, MIM has been used for projects with the following characteristics:

- Projects that are standardised and non-complex, allowing construction risk to be transferred to the private sector;
- Project outcomes are fixed over the lifetime of the asset; and
- Large projects (>£500 million), to attract international investors and contractors.

5.7.27 Therefore, to be viable, a MIM for WCB would need to meet these criteria in a way that provides high confidence that the ONS would classify the financing as an off-balance-sheet item and that it would remain so over the lifetime of the MIM. If this were not the case, then the MIM would count as Scottish Government debt. In this scenario, it is unclear who would bear the risk of reclassification and the consequences if the borrowing is counted towards Scottish Government debt either at the outset or over the duration of the MIM.

5.7.28 Scottish Water commissioned two consultancy reports as part of the evidence on the suitability of the MIM model for WCB.

- EY Parthenon report providing an initial assessment against the potential classification for a MIM;[291] and
- EY Parthenon market engagement, testing market appetite for a MIM.[292]

5.7.29 The first report found that a MIM can be structured so as not to trigger the automatic on-balance-sheet provisions in Eurostat guidance.[293] However, this was an initial view that identified the need for further work to develop the project scope and risk allocation. The second report documented interviews with project sponsors, senior finance providers, and contractors to test market appetite for an MIM for an AAD facility. There was an appetite; however, an unwillingness to accept full fixed-price construction risk.[294] EY Parthenon concluded that a form of shared-risk procurement could be challenging to accommodate within the requirements for an off-balance-sheet classification.[295]

5.7.30 Scottish Water also compared the cost of WCB delivered through a MIM with the cost of Scottish Water self-funded delivery over 60 years on a net present cost basis. Scottish Water's analysis shows that self-funded delivery costs £1,097 million in 2024-25 prices, compared to £1,580 million under a MIM.[296] This suggests that a MIM would have a premium of around £480 million or 40%.

5.7.31 The Scottish Government examined the use of a MIM for the dualling of the A9; however, it was recently discounted, recognising that the cost of a MIM is around 28% higher than

[291] EY Parthenon (2025), 'Project Farm 2', 26 August 2025.
[292] EY Parthenon (2026), 'Scottish Water Mutual Investment Model', 30 January 2026.
[293] EY Parthenon (2025), 'Project Farm 2', 26 August 2025, p.7.
[294] EY Parthenon (2026), 'Scottish Water Mutual Investment Model', 30 January 2026, p.10.
[295] EY Parthenon (2026), 'Scottish Water Mutual Investment Model', 30 January 2026, p.12.
[296] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 010 – West Central Bioresource', 26 February 2026, p.45.

the alternative Scottish Government capital-funded project. As such, it was concluded that MIM contracts for the A9 dualling programme would deliver poorer value for money than capital-funded projects.[297]

5.7.32 Scottish Water's assessment of the additional cost of an MIM for WCB also exceeds the 28% additional cost identified in relation to the A9, where the Scottish Government concluded that MIM contracts would deliver poorer value for money than capital-funded projects. While the A9 is not directly comparable to WCB, it provides a relevant caution when considering whether the additional cost of a MIM is justified.

5.7.33 Our engagement with the Scottish Futures Trust reinforced the importance of the classification risk. In particular, it highlighted uncertainty about whether the project could achieve off-balance-sheet classification at the outset and maintain it throughout the asset's lifetime. Without sufficient confidence in classification and risk allocation, a MIM may not achieve its intended purpose.

5.7.34 Overall, our Draft Determination explained that we were satisfied that Scottish Water has considered a MIM as part of the project appraisal for WCB. Scottish Water had provided evidence on cost, market appetite, risk allocation and classification risk, and its Board has approved the proposal not to deliver WCB through a MIM. On the evidence currently available, we considered Scottish Water's conclusion that self-funded delivery is the preferable option for customers to be reasonable.

5.7.35 On this basis, we made a conditional allowance for self-funded delivery of WCB within the investment programme, subject to the cost challenges outlined above and in the following section on operating expenditure. WICS remains open to considering alternative funding and delivery models at a strategic level in future SRCs; however, we did not consider the evidence to support further development of a MIM for WCB.

Assurance against the requirements of the Scottish Ministers' policy position

5.7.36 As explained above, WICS is required to provide assurance against the requirements of the policy position on West Central Bioresources.

5.7.37 As part of our Draft Determination, we provided our assessment and draft assurance against each of the requirements from Scottish Government's policy position detailed in paragraph 5.7.23 above. This is set out in Table 95.

5.7.38 The assessment is colour-coded as follows.

- Green: requirement met;

[297] Scottish Parliament (2026), 'Official Report: Meeting of the Parliament Wednesday 14 January 2026', 14 January 2026.

- Amber: requirement partially met or in progress; and
- Red: requirement not sufficiently met.

5.7.39 Overall, WICS considered that Scottish Water had met the majority of requirements. However, we identified areas requiring further evidence from Scottish Water to ensure we could provide our final assurance statement as part of the Final Determination.

Table 95: WICS draft assurance against Scottish Government's requirements

Requirement from policy statement	WICS assurance	Assurance commentary
Consider how options can support the Just Transition (Grangemouth)	Requirement met	We consider that Scottish Water has sufficiently demonstrated it has appropriately considered Grangemouth (or Kinneil Kerse in immediate proximity) as a site for the AAD facility to support the Scottish Government's Just Transition plan for that industrial cluster. The proposed solution can also produce precursors for Sustainable Aviation Fuel (SAF) for onward transport to Grangemouth for upgrading or refining.
Align with HM Treasury's Green Book	Requirement met	While the appraisal is not presented as a traditional Green Book investment case, all relevant Green Book information requirements are met.
Align with Infrastructure Investment Plan and draft Bioenergy Policy Statement	Requirement met	We consider the proposed solution to be aligned with the relevant IIP strategic themes and largely aligned with the IIP investment hierarchy. We also gain assurance from our engineering consultant's review that the proposed WCB solution appropriately aligns with the Scottish Government's draft Bioenergy Policy Statement and draft Infrastructure Strategy (2027-2037)
Support the circular economy strategy and achieving the 2045 net zero target	Requirement met	The primary investment need to be addressed by the WCB project is to maximise the value from bioresource, which is a core principle of a circular economy and will support Scottish Water in achieving its net zero target through energy generation and lowering carbon emissions.
Align with SPFM section 'Funding and procuring' for major investment projects	Requirement partially met	We consider this is largely met, subject to Scottish Water confirming that the project roles, responsibilities, and delegated authorities are clearly identified, agreed, and documented, with roles set out in the investment case. On this basis, we consider this element partially met at this stage. The WCB appraisal has considered a MIM as a type of public-private partnership, and Scottish Water has received expert advice on the suitability of a MIM for WCB. Scottish Water has also documented and evidenced the reasons why it is not proposing to deliver WCB through a MIM, and this proposal has been approved by its Board as part of the business plan submission.
Consider delivery through a MIM	Requirement met	As above. WICS is assured that Scottish Water has undertaken appropriate detailed analysis of the costs and risks associated with a MIM delivery option, based on which it concludes self-

Requirement from policy statement	WICS assurance	Assurance commentary
		delivery is the preferable option. Overall, we consider that Scottish Water's assessment that self-funded delivery is in customers' best interests is reasonable.
Represent Value for Money	Requirement partially met	The cost estimate in the business plan appears to be in line with available benchmarks; however, the facility's design is still under development, so there is some uncertainty over the final scope and project costs. This is one of the reasons for adopting a conditional charge cap for this project.
Consider economic impact (whole-life costs and how capital costs can be shared between current and future customers)	Requirement met	Scottish Water's analysis includes estimates of capital and operating costs over 60 years in a whole-life cost calculation for both self-funded delivery and MIM delivery, as options for sharing capital costs between current and future customers.
Consider qualitative or quantitative wider economic benefits	Requirement partially met	Scottish Water has demonstrated that it has considered the whole-life (60-year) carbon values of the 5 main technical solution options, including embodied and operational emissions. However, there seems to be a limited number of other, broader, non-financial economic benefits considered beyond energy capture and generation.
Assess integration with existing policies and plans at the national, regional and local level (e.g. National Planning Framework 4)	Requirement not sufficiently met	Overall, Scottish Water's coverage is high-level and limited. We require Scottish Water to explain how it has met this requirement of the Ministerial policy position in response to our Draft Determination.
Environmental Impact Assessment	In progress	Scottish Water is currently developing the required EIA and expects to complete it in the second half of 2026. We plan to make the completion of all necessary impact assessments and receipt of necessary consents and approvals a condition of the conditional charge cap.
Align with SPFM section 'Governance' for major investment projects	Requirement partially met	We consider that this is largely met, subject to confirming that the project roles, responsibilities, and delegated authorities are clearly identified, agreed, and documented, with roles set out in the investment case. On this basis, we consider this element partially met at this stage. However, we require Scottish Water to set this out in the final investment case[298] and in response to our Draft Determination.

[298] We consider this to be the Stage 4 Project Investment Appraisal.

Our assessment in the Draft Determination

5.7.40 Our Draft Determination allowed for the full proposed cost for West Central Bioresources and the satellite sites of £560 million (based on Scottish Water's proposed level of efficiency). However, due to the uncertainties of this project, we proposed that this is subject to conditions. We explained that the following elements require more certainty before Scottish Water commits to delivering the project:

- An up-to-date benchmarking assessment of the capital costs based on the cost estimates in the Stage 4 Project Investment Appraisal;
- The need for more landbank for the disposal of the treated biosolids;
- Whether it has fully considered "headroom above the required capacity" in the project designs, to ensure the asset is future-proofed;
- The availability of land at the Daldowie site to accommodate potential future expansion of the AAD facility, e.g. if another treatment stream or future bolt-on technologies are required;
- Scottish Water confirming that the project roles, responsibilities, and delegated authorities are clearly identified, agreed, and documented, with roles set out in the investment case;
- Providing a more in-depth assessment of how the project will integrate with existing policies and plans at the national, regional and local level; and
- Complete all required impact assessment and obtain all necessary permits and consents, including those required from SEPA.

Draft Determination consultation responses and new information

5.7.41 Scottish Water responded to the governance and policy integration aspects of our Draft Determination requirements.[299] It provided clear mapping between Scottish Water's internal governance framework for the project and the three to four key roles required by the SPFM, confirming that the Investment Decision Maker role is undertaken by the Scottish Water Board. It confirmed stakeholders will be updated through the Water Industry Investment Group, with a standing West Central Bioresources agenda item to report progress as the programme moves towards Gate 80/90. Scottish Water also demonstrated a strengthening of the assurance arrangements by confirming the establishment of an informal Board sub-committee and an independent 'Red Team' comprising external experts who will scrutinise the Gate 80/90 plan before Board approval.

5.7.42 It also submitted a detailed assessment of how the project aligns with national, regional and local policies and planning frameworks. In relation to environmental approvals,

[299] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 6 – West Central Bioresource', 1 September 2026.

Scottish Water demonstrated that the necessary assessment and consenting processes are underway, although these have not yet been completed.

5.7.43 In addition to the areas covered by Ministers' request for assurance, we separately identified information requirements and set conditions that Scottish Water must satisfy before accessing funding through the conditional charge cap (paragraph 5.7.40). Scottish Water has not yet provided all of the evidence required to satisfy these separate conditions, including confirmation of future biosolids landbank requirements, an assessment of capacity headroom within the design, and evidence regarding the availability of land at Daldowie for future expansion. These matters, therefore, remain outstanding, and further information will be required before we can consider our conditions to have been fully satisfied.

5.7.44 Having considered Scottish Water's response, we remain of the view that a conditional charge cap is an appropriate and proportionate mechanism for this project. While Scottish Water has provided additional information on governance arrangements, assurance processes and policy alignment, we consider that material uncertainties remain. These uncertainties relate to project costs, deliverability, future capacity requirements, land availability, and the completion of the necessary planning and environmental consent processes. The conditional charge cap therefore continues to provide an important safeguard for customers, ensuring that funding remains contingent on satisfactory resolution of these matters before significant commitments are made.

5.7.45 We also note that support for implementing the conditional charge cap was evident in consultation responses from stakeholders and customers, who recognised the scale, complexity and uncertainty associated with the West Central Bioresources project and considered additional scrutiny and assurance to be appropriate. In light of this feedback, and given the project's strategic importance and scale of investment, we confirm the application of the conditional charge cap in our Final Determination.

Our assessment of West Central Bioresources in the Final Determination

5.7.46 We are satisfied that Scottish Water's response to the Draft Determination regarding the Scottish Government requirement for the West Central Bioresources appraisal to align with SPFM's sections on 'Funding and procuring' and 'Governance' for major investment projects sufficiently demonstrates such alignment with SPFM. The roles of Senior Responsible Officer, Project Sponsor, and Project Manager have yet to be formally established and appointed via formal letters; however, we consider that Scottish Water's proposed structure and commitment to appointments are reasonable measures at this stage of the project's development. We expect these to be confirmed in the final project investment appraisal. We also agree with Scottish Water's interpretation of the Investment Decision Maker role.

5.7.47 We consider the additional detailed evidence Scottish Water provided in its response regarding the Scottish Government requirement for the West Central Bioresources appraisal to demonstrate alignment with policies at the national, regional and local level sufficiently demonstrates that this requirement has been met.

5.7.48 The full allowance is included in our Final Determination for modelling and calculating the conditional charge cap, but access to the customer-funded portion of the project will depend on Scottish Water meeting the conditions set out in Chapter 8, Table 144. Further guidance on the process for applying for the funding is given in paragraphs 8.3.32 to 8.3.34.

5.7.49 Table 96 provides our assessment and final assurance against each of the requirements from Scottish Government's policy position detailed in paragraph 5.7.23 above. The changes in assurance since the Draft Determination are to confirm the following requirements have been met:

- alignment with SPFM section 'Funding and procuring',
- alignment with SPFM section 'Governance';
- alignment with existing policies and plans;
- representing value for money*; and
- considering wider economic benefits*.

5.7.50 We have marked the requirements relating to value for money and wider economic benefits as met with asterisks, indicating that we consider Scottish Water's assessment of these areas appropriate based on the current project investment appraisal and stage of project development. However, we expect Scottish Water to develop these assessments further as part of the final investment appraisal for the West Central Bioresources project. We will review the final investment appraisal and confirm our assessment of value for money and wider economic benefits when considering whether the conditions for accessing funding under the conditional charge cap have been met.

Table 96: WICS final assurance against Scottish Government's requirements

Requirement from policy statement	WICS assurance	Assurance commentary
Consider how options can support the Just Transition (Grangemouth)	Requirement met	We consider that Scottish Water has sufficiently demonstrated it has appropriately considered Grangemouth (or Kinneil Kerse in immediate proximity) as a site for the AAD facility to support the Scottish Government's Just Transition plan for that industrial cluster. The proposed solution can also produce precursors for Sustainable Aviation Fuel (SAF) for onward transport to Grangemouth for upgrading or refining.
Align with HM Treasury's Green Book	Requirement met	While the appraisal is not presented as a traditional Green Book investment case, all relevant Green Book information requirements are met.
Align with Infrastructure Investment Plan and draft Bioenergy Policy Statement	Requirement met	We consider the proposed solution to be aligned with the relevant IIP strategic themes and largely aligned with the IIP investment hierarchy. We also gain assurance from our engineering consultant's review that the proposed WCB solution appropriately aligns with the Scottish Government's draft Bioenergy Policy Statement and draft Infrastructure Strategy (2027-2037)
Support the circular economy strategy and achieving the 2045 net zero target	Requirement met	The primary investment need to be addressed by the WCB project is to maximise the value of bioresources, which is a core principle of a circular economy and will support Scottish Water in achieving its net zero target through energy generation and reduced carbon emissions.
Align with SPFM section 'Funding and procuring' for major investment projects	Requirement met	We are satisfied that Scottish Water's response to the Draft Determination sufficiently demonstrates alignment with SPFM. The WCB appraisal has considered a MIM as a type of public-private partnership, and Scottish Water has received expert advice on its suitability for WCB. Scottish Water has also documented and evidenced the reasons why it is not proposing to deliver WCB through a MIM, and this proposal has been approved by its Board as part of the business plan submission. We consider that Scottish Water's proposed project governance structure and commitment to appointing roles are reasonable measures for this stage of the project's development.
Consider delivery through a MIM	Requirement met	As above. WICS is assured that Scottish Water has undertaken a detailed analysis of the costs and risks associated with a MIM delivery option, on the basis of which it concludes that self-delivery is the preferred option. Overall, we consider Scottish Water's assessment that self-funded delivery is in customers' best interests to be reasonable.

Requirement from policy statement	WICS assurance	Assurance commentary
Represent Value for Money	Requirement met (based on the current stage of project development)*	The cost estimate in the business plan appears to be in line with available benchmarks; however, the facility's design is still under development, so there is some uncertainty over the final scope and project costs. This is one of the reasons for adopting a conditional charge cap for this project. We will confirm our view upon review of the final investment case (the Stage 4 Project Investment Appraisal).
Consider economic impact (whole-life costs and how capital costs can be shared between current and future customers)	Requirement met	Scottish Water's analysis includes estimates of capital and operating costs over 60 years in a whole-life cost calculation for both self-funded delivery and MIM delivery, as options for sharing capital costs between current and future customers.
Consider qualitative or quantitative wider economic benefits	Requirement met (based on the current stage of project development)*	Scottish Water has demonstrated that it has considered the whole-life (60-year) carbon values of the 5 main technical solution options, including embodied and operational emissions. However, there seem to be few other, broader, non-financial economic benefits beyond energy capture and generation. We expect Scottish Water to further develop this assessment in the final investment case (the Stage 4 Project Investment Appraisal). We will confirm our view upon review of the final investment case.
Assess integration with existing policies and plans at the national, regional and local level (e.g. National Planning Framework 4)	Requirement met	We consider the additional detailed evidence Scottish Water provided in its response to the Draft Determination to be sufficient to demonstrate that the project is well aligned with existing policies and plans at the national, regional and local levels.
Environmental Impact Assessment	In progress	Scottish Water is currently developing the required EIA and expects to complete it in the second half of 2026. We will make the completion of all necessary impact assessments and receipt of necessary consents and approvals a condition of the conditional charge cap.
Align with SPFM section 'Governance' for major investment projects	Requirement met	We are satisfied that Scottish Water's response to the Draft Determination sufficiently demonstrates alignment with SPFM. We consider that Scottish Water's proposed project governance structure and commitment to appointing roles are reasonable measures for this stage of the project development. We require Scottish Water to set this out in the final investment case (the Stage 4 Project Investment Appraisal).

* Refer to paragraph 5.7.50.

5.8 Asset maintenance investment allowance

5.8.1 In this section, we compare the asset maintenance allowance resulting from our review in the previous two sections with a top-down allowance derived using econometric models.

5.8.2 Table 97 shows our overall asset maintenance investment allowance from sections 5.6 and 5.7. To ensure a like-for-like comparison with the econometric approach, we present the allowance in this section before applying efficiency and exclude Scottish Water's proposed £60 million in Real Price Effects.

Table 97: Asset maintenance investment allowance before frontier-shift efficiency

	Total over SRC27 (£m; 2024-25 prices)
Scottish Water final business plan	5,220
WICS asset maintenance allowance	5,135
Difference	*-85*

5.8.3 We have used Ofwat's base expenditure econometric models[300] to understand what would be a top-down allowance based on an econometric approach. Ofwat's base expenditure models include both operating expenditure and asset maintenance. To determine an asset maintenance allowance on a top-down basis, we have subtracted the allowance associated with operating expenditure from the base allowance for expenditure. A full explanation of these models is provided in Chapter 6. Table 98 shows the difference between our overall allowance for asset maintenance and the top-down allowance for asset maintenance.

Table 98: WICS maintenance allowance versus top-down maintenance allowance

	Total over SRC27 (£m; 2024-25 prices)
Scottish Water final business plan	5,220
WICS asset maintenance allowance	5,135
Top-down asset maintenance allowance	2,620
Difference between the WICS and the top-down allowance	*2,514*

5.8.4 We have discounted a top-down econometric allowance for maintenance on the basis that this would increase the level of risk current customers would bear and the costs borne by future customers. We consider that the WICS asset maintenance allowance continues the approach established in SRC21 and provides Scottish Water with sufficient funding to manage its asset base effectively.

5.8.5 However, as set out in section 5.4, we require Scottish Water to continue to improve the evidence on asset condition, asset risk, replacement need and the consequences of deferring investment.

[300] Using actual data up to 2024-25.

5.9 Enhancement and growth investment allowance

5.9.1 In this section, we compare the enhancement and growth investment allowance resulting from our review in sections 5.6 and 5.7 with the level of enhancement and growth we assumed in the SRC21 review.

5.9.2 Our SRC21 Final Determination assessed the required average annual level of enhancement and growth investment in the long term and estimated this to be around £390 million (2024-25 prices; or £300 million in 2017-18 prices). As such, we allowed for this level of investment for the SRC21 period.[301, 302] This assessment was based on past levels of enhancement and growth investment and reflected the higher investment required to adapt to and mitigate against climate change.[303] We considered that this investment would be prioritised on an ongoing basis based on emerging investment needs.

5.9.3 However, for SRC27, our Final Determination allowance for enhancement and growth is above that long-term average, with an allowance of £2,876 million for the full regulatory period, which is around £480 million per year. We allow a further £95 million of enhancement investment in section 5.11 below, which brings the total allowed enhancement and growth investment to around £495 million per year.[304] The allowance for SRC27 is around 25% higher than the long-term average identified in SRC21, as set out in Table 99. This recognises that the industry is making further progress towards improving water quality and the environment over the 2027-33 regulatory period, in line with the Ministerial Objectives.

Table 99: SRC21 versus SRC27 allowance for enhancement and growth investment[305]

Description	Allowance (£m; 2024-25 prices)
Long term average enhancement and growth investment identified in SRC21	390
SRC27 allowance per year (including additional allowance)	495
Percentage difference between SRC27 and SRC21 allowances	*25%*

5.10 Assumptions that apply across the whole programme

5.10.1 This section examines the evidence and assumptions that apply across the whole programme covering:

[301] WICS (2020), 'Strategic Review of Charges 2021-27: Draft Determination', 8 October 2020, p. 63 and p.70.
[302] This is indexed to 2024-25 prices using CPI inflation only for simplicity, rather than using RPI inflation for 2017-18 to 2020-21 when WICS started using CPI. This has a negligible impact on the comparison in this section.
[303] WICS (2019), 'Strategic Review of Charges 2021-2027: 2019 Decision Paper Asset replacement', 1 July 2019, p.15.
[304] The annualised investment allowance is rounded and is minimally impacted by the additional efficiency we apply in section 5.10.
[305] Numbers in the table are rounded to the nearest 5.

- Real price Effects (RPEs);
- Labour costs – contributions for National Insurance;
- Productivity improvements; and
- Indirect costs.

Real price effects (RPEs)

5.10.2 The funding WICS allows Scottish Water to recover through the Strategic Review of Charges is set relative to general economy-wide inflation, as measured by the Consumer Price Index (CPI). This means that Scottish Water's allowance for capital investment will rise in line with CPI throughout the period. However, Scottish Water's cost mix differs from that of an average consumer, and as such it may experience price fluctuations that differ from CPI. Such differences between input prices and CPI are known as real price effects (RPEs).

5.10.3 In its business plan, Scottish Water had proposed an additional allowance for capital expenditure labour costs on the basis that it expects them to increase at a faster rate than CPI. This proposed RPE adjustment amounted to an additional £60 million of capital expenditure over the 2027-33 regulatory period,[306] as shown in Table 70.

5.10.4 The appropriate treatment of RPEs depends on the overall approach used to assess and set expenditure allowances. RPE adjustments are typically applied when regulators establish sector-wide expenditure allowances, often using econometric or benchmarking models, and then roll those allowances forward to reflect expected movements in uncertain input costs relative to CPI. For example, Ofwat's price control for 2025-30 was based on using econometric models to set efficient expenditure allowances for each company, and then included adjustments for RPEs to base labour and energy costs.[307]

5.10.5 However, WICS does not set expenditure allowances using econometric models in this way. Instead, WICS has undertaken a detailed assessment of Scottish Water's proposed capital and operating expenditure, reviewing individual cost categories, investment requirements and supporting evidence. This approach allows us to consider specific cost drivers directly within our expenditure assessment and inherently captures elements that might otherwise be addressed through a separate RPE adjustment, such as energy and chemical costs.

5.10.6 As such, we need to be careful that an explicit adjustment for RPEs does not double-count cost pressures that we have already considered in our detailed assessment of expenditure. We also consider that RPEs need to be taken 'in-the-round' with overall allowances for operating and capital maintenance expenditure.

[306] Scottish Water (2026), 'SR27 Final Business Plan: Table 5 & 7', 26 February 2026.
[307] Ofwat (2024), 'PR24 Final Determinations – Expenditure allowances', 20 December 2024, p.54, 55, 273.

Our assessment in the Draft Determination

5.10.7 Scottish Water's proposed adjustment in the business plan was based on Scottish Water's forecast difference between CPI and capital expenditure labour costs, taking account of:

- The CPI forecast from the Bank of England's (BoE's) May 2025 Monetary Policy Report until 2027, followed by the long-term inflation target of 2% until 2033; and
- The Office for Budget Responsibility's (OBR's) March 2025 earnings forecast until 2029, followed by the sum of the BoE's CPI forecast and the 2015-24 average difference between CPI and public sector wages.

5.10.8 In our Draft Determination, WICS recognised that the use of forecasts was encouraged in First Economics' March 2025 feedback to Scottish Water's RPE proposal. However, we considered that the forecasts used are likely to overestimate the size of the labour real price effect over the 2027-33 regulatory period for two main reasons:

- The OBR's earnings forecast is economy-wide, while UK public sector wages have grown more slowly than whole-economy wages historically, as shown in Figure 20 and Figure 21; and
- The average difference between CPI and public sector wage growth was greater from 2015-24 than it was from 2009-25[308] and from 2021-25 (during SRC21) – in fact, CPI has outpaced public sector wage growth over both of these periods, as shown in Figure 39 and Figure 40 in the section on operating expenditure RPEs (paragraph 6.7.62).

[308] The period 2009-2025 covers the period post the global financial crisis.

Figure 20: UK whole economy and public sector wage growth[309]

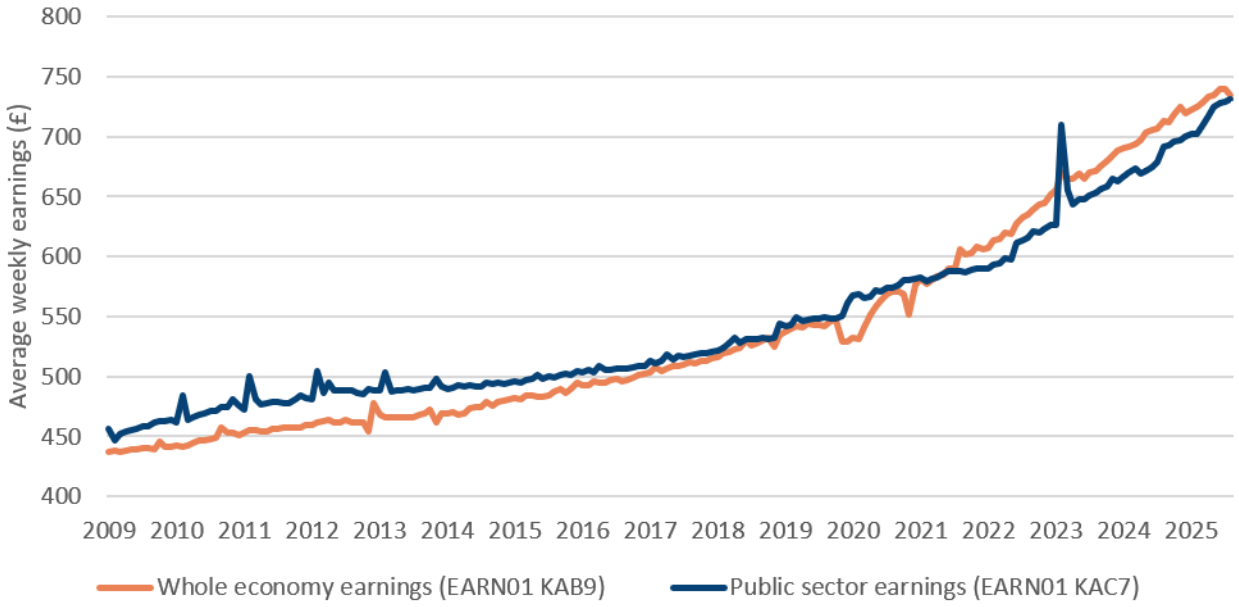


Figure 21: Total percentage historical change in weekly earnings



5.10.9 Our Draft Determination noted that Scottish Water's choice of index for capital expenditure labour costs (construction wages as measured by the EARN01 K5CD index)[310] has risen broadly in line with CPI over both 2021-25 (during SRC21) and 2009-25, as shown in figures Figure 22 and Figure 23. As such, WICS considered that historical evidence did not support an RPE adjustment to capital expenditure.

[309] Figure shows timeseries between May 2009 and December 2025. Office for National Statistics (2026), 'EARN01: Average weekly earnings', 17 February 2026.
[310] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 012 – Efficiency', 26 February 2026, p.51.

Figure 22: Change in CPI and average construction wages[311]

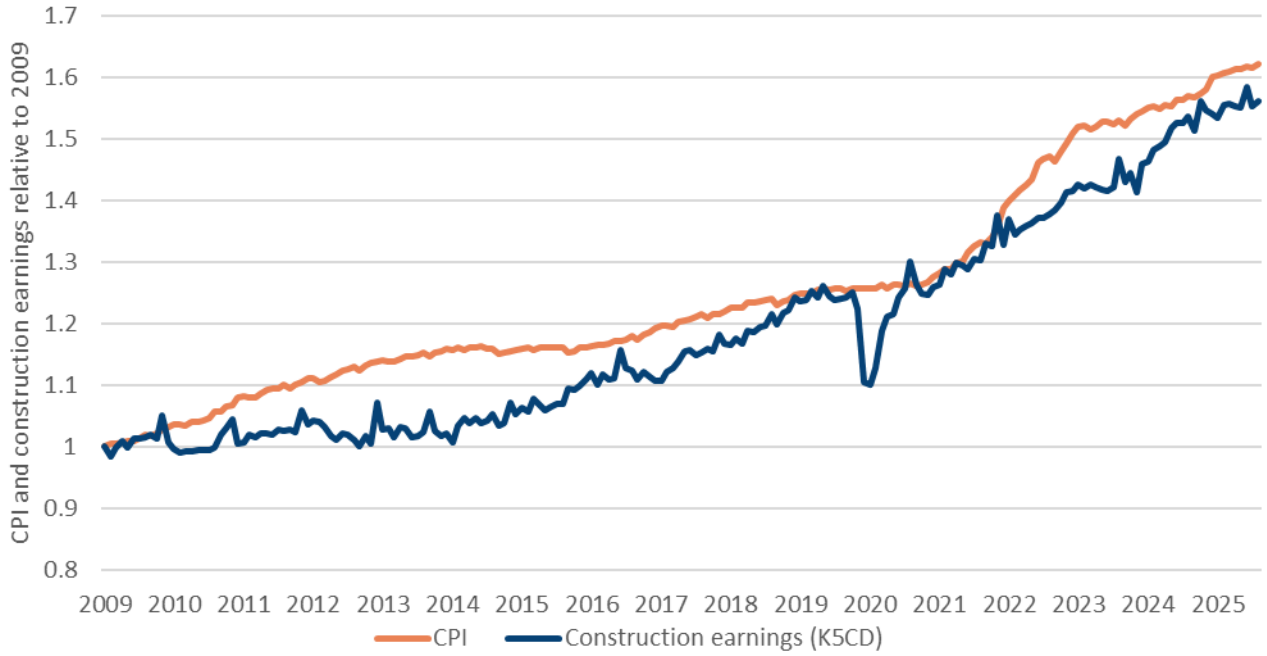
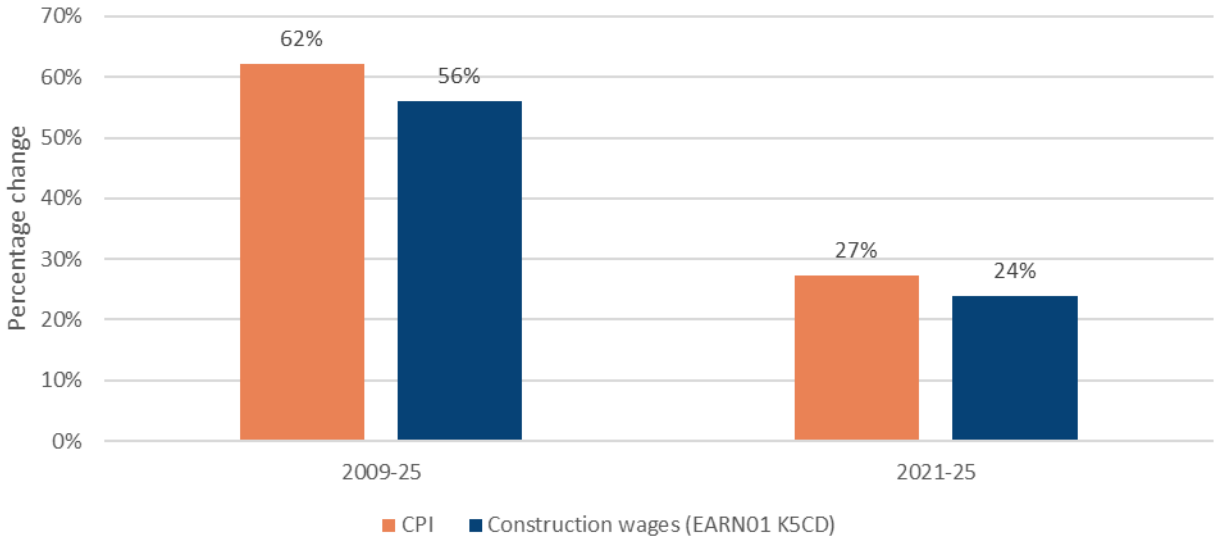


Figure 23: Total historical growth in CPI and construction wages



5.10.10 As we explained in our Draft Determination, we had not seen robust evidence that there has been a material difference between capital expenditure labour costs and CPI historically, or that such a difference is likely to emerge during the 2027-33 regulatory period. WICS does not consider there to be a robust case for including a labour RPE

[311] Figure shows change from May 2009 to December 2025 (May 2009 = 1). Office for National Statistics (2026), 'CPI INDEX 00: ALL ITEMS 2015=100', 18 February 2026; Office for National Statistics (2026), 'EARN01: Average weekly earnings', 17 February 2026.

adjustment for capital expenditure in the 2027-33 regulatory period. As such, we proposed to disallow the associated £60 million in the Draft Determination.

Draft Determination consultation responses and new information

5.10.11 Scottish Water considered that the Draft Determination's treatment of RPEs differed materially from the approaches adopted by other UK economic regulators. Scottish Water also noted that other regulators such as Ofwat and Ofgem index to CPIH, which is expected to exceed CPI by around 0.4% on average, before then adding a further RPE allowance. Scottish Water, therefore, considered that the Draft Determination provided insufficient recognition of future cost pressures that are largely outside management control.[312]

5.10.12 Scottish Water also expressed concerns regarding WICS' proposed treatment of future RPE pressures through the investment planning and prioritisation framework (now the regulatory change process). Scottish Water considered that, if such costs were not recognised within the price control framework, the impact would ultimately need to be absorbed through reductions in investment and customer outcomes.[313]

5.10.13 Scottish Water proposed broadening the conditional charge cap for uncertain cost items to provide protection for the full range of potential RPE impacts across both operating and capital expenditure to address its concerns. Scottish Water also proposed including changes in household growth and cash collection rates within the scope of the conditional charge cap.[314]

Our assessment in the Final Determination

5.10.14 We consider allowances for RPEs to be a regulatory policy choice. While noting that some regulators adjust for RPEs in our methodology, our methodology did not confirm that WICS would adjust for them.

5.10.15 Furthermore, we consider the wider regulatory framework and how WICS sets expenditure allowances to be important. In contrast to the econometric approaches followed by regulators that allow RPEs, WICS has undertaken a detailed assessment of Scottish Water's proposed capital and operating expenditure, reviewing individual cost categories, investment requirements and supporting evidence. This approach allows us to consider specific cost drivers directly within our expenditure assessment and inherently captures

[312] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 2.2.14 and 2.2.18.
[313] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 2.2.19 and 2.2.20.
[314] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 3.3.1.

elements that might otherwise be addressed through a separate RPE adjustment, such as energy and chemical costs.

5.10.16 The Final Determination does not allow the £60 million of RPEs Scottish Water had proposed in its final business plan investment programme. However, we consider Scottish Water's proposed uncertainty mechanism further in Chapter 8 in relation to safeguards, risk and uncertainty.

Labour costs – contributions for National Insurance

Our assessment in the Draft Determination

5.10.17 In our Draft Determination, we noted that Scottish Water had included around £2.5 million a year in the capital investment programme (or £15 million over the 2027-33 regulatory period) for an increase in employer National Insurance contributions as decided in the UK Government Autumn budget 2024.[315, 316] WICS considered that these costs will impact all employers in the economy and will either be passed on to consumers through higher prices in the general economy, and therefore be reflected in inflation, or result in lower wage growth going forward.[317] If these costs are passed on to consumers through higher prices and reflected in inflation, then Scottish Water should be insulated from these additional costs, given that its revenue is linked to the consumer price index measure of inflation. Ofgem reached a similar view in its Final Determinations for electricity transmission, gas distribution, and gas transmission.[318]

5.10.18 As such, WICS did not consider it appropriate to include this £15 million expenditure over the 2027-33 regulatory period and disallowed it in the Draft Determination. Table 100 sets out the Scottish Water final business plan proposal and our proposed Draft Determination allowance for real price effects and labour costs.

Table 100: Business plan proposal versus draft allowance for real price effects

	Business plan investment (2024-25 prices; £m)	Draft Determination allowed for investment (2024-25 prices; £m)
Real Price Effects	60	-15

[315] Scottish Water explains that the increase in 2025-26 was £5.4 million, with £2.9 million relating to operating expenditure. As such, £2.5 million per annum will be included in capital investment. See Scottish Water (2026), 'Business Plan 2027-2033 data table commentaries – table 7: other costs and assumptions', February 2026, p.5.
[316] UK Government (2024), 'Autumn Budget 2024', October 2024.
[317] House of Lords Economic Affairs Committee (2024), 'Corrected oral evidence: Economic inactivity: welfare and long-term sickness', 26 November 2024.
[318] Ofgem (2025), 'RIIO-3 Final Determinations Overview Document', 4 December 2025, p.97.

Draft Determination consultation responses and new information

5.10.19 Scottish Water did not agree with the removal of national insurance costs, along with the approach to RPEs, as it considered that it effectively increased its efficiency challenge, despite Scottish Water demonstrating that it is broadly efficient.[319] Scottish Water cited OBR commentary suggesting that 20% of the increase in national insurance would be reflected in CPI inflation. Scottish Water also noted that there remains a cost to Scottish Water in respect of the proportion of national insurance costs that pass through into lower real wages.[320]

Our assessment in the Final Determination

5.10.20 We do not consider that Scottish Water has provided sufficient evidence to justify its additional expenditure for National Insurance contributions. The OBR considered that 20% of the effects of the increase in National Insurance contributions will be passed on to customers. However, other financial institutions, such as the Bank of England, assessed the impact of the increase in National Insurance on CPI, implying that a greater proportion of the uplift will be reflected in CPI.[321] As such, we consider that Scottish Water has some protection against the cost increases associated with the increase in National Insurance, as its revenues are linked to CPI inflation. We do not consider allowance for additional National Insurance contributions to be justified.

5.10.21 The Final Determination does not allow for the £15 million of National Insurance cost adjustments Scottish Water had included in its final business plan proposals across its full investment programme. Table 101 sets out the Final Determination allowance, which is equal to the proposed Draft Determination allowance.

Table 101: Draft versus final allowance for real price effects and labour costs

	Draft Determination allowed for investment (2024-25 prices; £m)	Scottish Water Draft Determination response (2024-25 prices; £m)	Final Determination allowed for investment (2024-25 prices; £m)
Real Price Effects	-15	0	-15

5.10.22 Table 102 summarises our allowed for investment based on the discussed adjustments in this chapter so far, before we apply a further efficiency challenge as described in the following sub-section on productivity improvements.

[319] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 5.2.8.
[320] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 1 – Frontier Shift and RPEs', 1 September 2026, paragraphs 2.4.1 to 2.4.4.
[321] UK Parliament (2025), 'Correspondence from Andrew Bailey, regarding National Insurance Contributions', 27 February 2025.

Table 102: Allowed for investment before WICS efficiency challenge

Investment area	Final Determination allowed for investment before WICS efficiency challenge (2024-25 prices; £m)		
	Asset maintenance	Enhancement and growth	Total
Water quality and water continuity	2,377	1,039	3,416
Water environment and quantity of flows (excluding West Central Bioresources)	1,858	981	2,839
West Central Bioresources	346	212	557
Growth	0	514	514
Climate change adaptation and mitigation	16	57	73
Customer and communities	0	21	21
Digital	107	0	107
Transformation and innovation	0	31	31
Support services	289	22	311
Real Price Effects			-15
Total	**4,993**	**2,876**	**7,854**

Productivity improvements

Background

5.10.23 Even leading companies should improve their efficiency over time, as they adopt the latest technology and roll out innovation. We call these efficiency improvements productivity improvements, or 'frontier shift'. Scottish Water's business plan proposed an assumption of 0.8% annual productivity improvement, based on several sources of information.[322] This compared to the 1% per annum efficiency challenge that Scottish Water accepted for the 2021-27 regulatory period.

5.10.24 For the 2021-27 regulatory period, Scottish Water accepted the challenge to reduce its expenditure by 1% per annum to reflect the scope for productivity improvements.[323] This assumption was based on the most comprehensive study ever undertaken of productivity improvements in the water industry, which examined water company performance from 1994 to 2017.[324]

5.10.25 Scottish Water's final business plan explained that it has risen to this challenge and is broadly on track to deliver the 1% per annum efficiency challenge that was set by WICS.[325] Scottish Water explained that it expects its recurring costs (known as Tier 1 in SRC21) to be

[322] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 012 – Efficiency', 26 February 2026, p.43.
[323] WICS (2020), '2021-27 Final Determination', 10 December 2020, p.9.
[324] Saal and Frontier Economics (2017), 'Productivity improvement in the water and sewerage industry in England since privatisation', September 2017.
[325] Scottish Water (2026), 'Final Business Plan 2027-2033: investing in Scotland's future', 26 February 2026, p.136.

5.5% lower in 2027 than at the start of the 2021-27 period. Elsewhere in the business plan, Scottish Water explained that it will achieve its efficiency challenge of 1% per annum for recurring costs and had implemented a 1% per annum efficiency challenge for capital expenditure.[326]

5.10.26 Scottish Water's final business plan proposed a frontier efficiency challenge of 0.8% per annum, applied to both capital and operating expenditure. Scottish Water proposed this efficiency challenge on the following basis:

- It exceeds the Office for National Statistics (ONS) UK productivity data trends over 2010-2024;
- It positions Scottish Water's challenge level above the 0.7% per annum adopted in the Competition and Market Authority's (CMA's) provisional findings for referrals of the Ofwat Final Determinations for 2025-30 by four water and sewerage companies and one water-only company;[327]
- It sits at the top of a plausible range identified by an economics consultancy that completed work for the water companies in England and Wales; and
- It aligns with international data on productivity improvements in comparator sectors.

5.10.27 Scottish Water explained that it considered updating this 0.8% per annum efficiency challenge in response to stakeholder feedback on its draft business plan from June 2025. However, taking account of the CMA's provisional determinations and more recent macro-economic forecasts for productivity, it decided that maintaining the challenge of 0.8% per annum would be appropriate in the final business plan.

5.10.28 In our feedback on the draft business plan, we explained that our starting point is that the 1% per annum productivity efficiency challenge should continue to apply unless Scottish Water provides compelling evidence to justify a lower figure.

5.10.29 As Scottish Water proposed applying the efficiency challenge to both capital and operating expenditure, the assessment also applies to the productivity improvement assumed for operating expenditure.

Our assessment in the Draft Determination

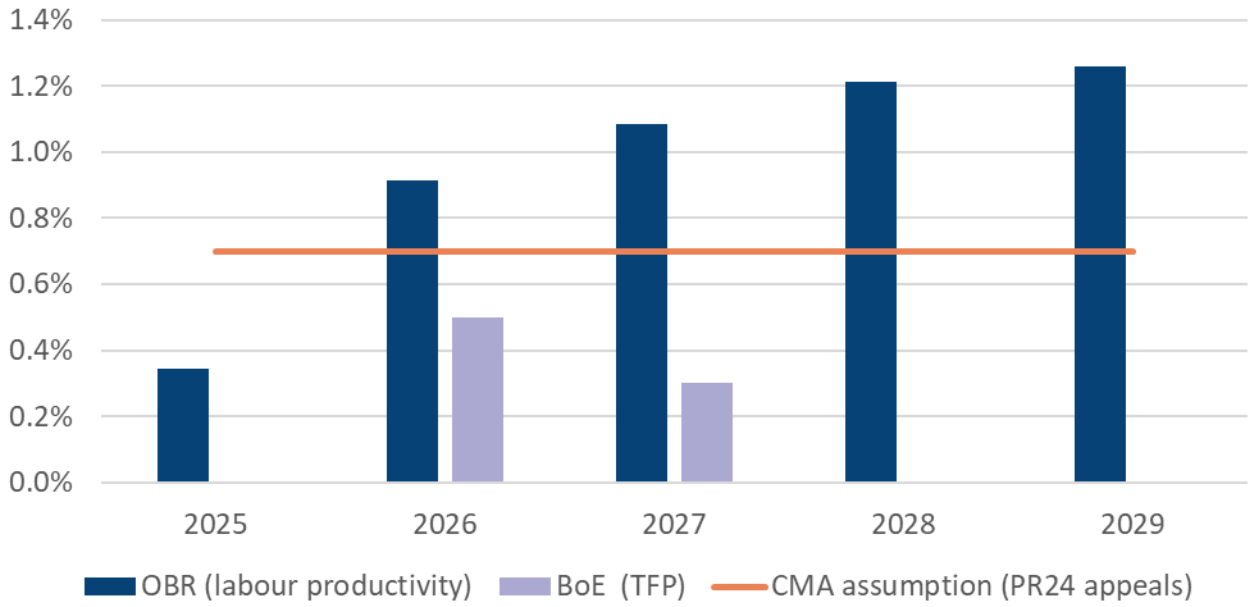
5.10.30 Our Draft Determination assumption for productivity improvements was based on several considerations. Firstly, we considered Total Factor Productivity (TFP) which represents the productivity that an average firm in the UK has achieved in the economy. We considered

[326] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 012 – Efficiency', 26 February 2026, p.4.
[327] Competition and Markets Authority (2025), 'Water PR24 References Provisional Determinations Volume 1: Introduction, Background, Approach and prioritisation, Base costs – Chapters 1-4', October 2025.

that Scottish Water should be able to outperform the average firm in the economy, recognising that it benefits from a stable and predictable regulated revenue stream and from delivering a large investment programme, including significant investment in digital technologies such as artificial intelligence.

5.10.31 Secondly, we noted that while the OBR reduced its forecasts for productivity growth, it still expects labour productivity, which the CMA used to inform its assumed frontier-shift efficiency, to reach 1% by 2030. Furthermore, the OBR forecasts only covered the first half of the 2027-33 regulatory period.[328] Figure 24 shows these third-party forecasts and the CMA's decision.

Figure 24: Annual productivity forecasts and CMA decision[329]



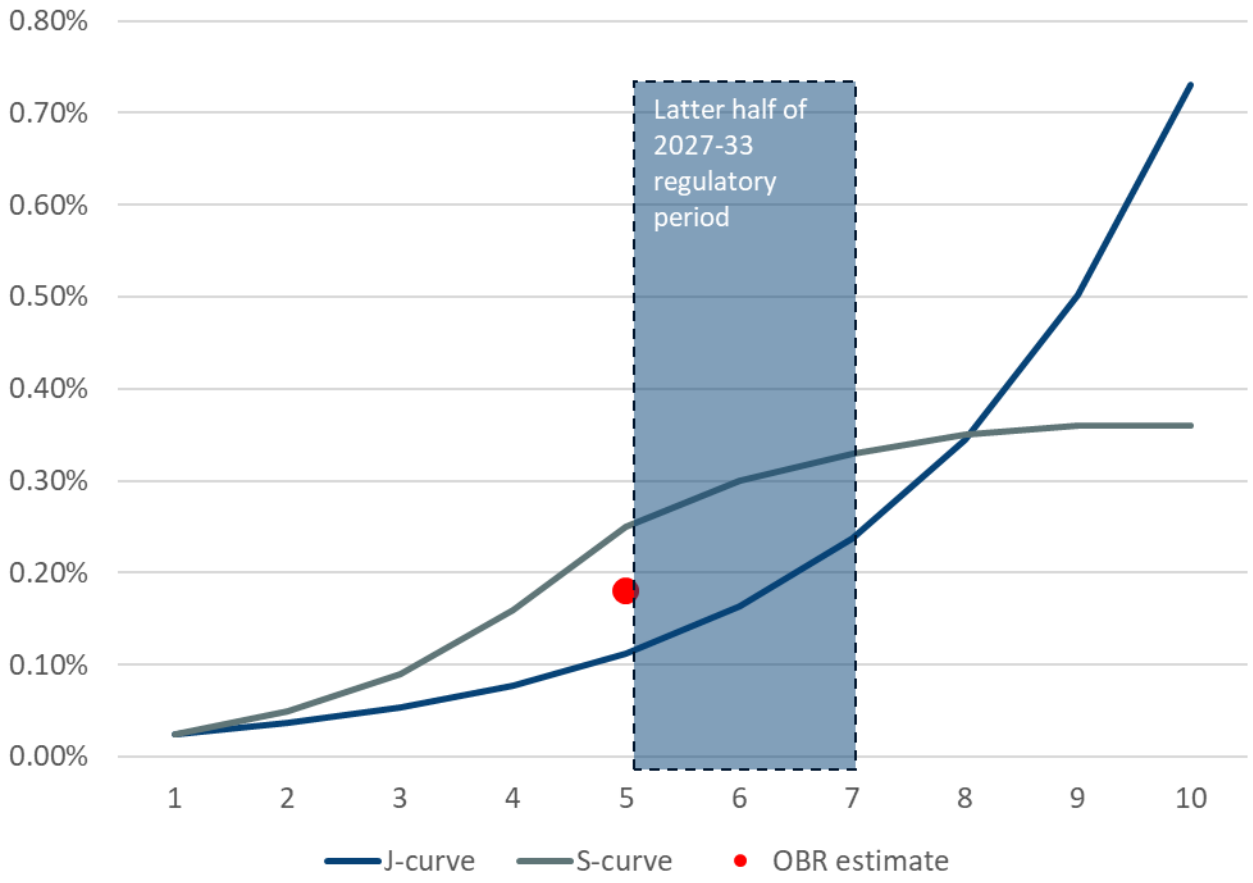
5.10.32 The OBR expects growth in total factor productivity over the period to 2030 driven by two factors:

- recovery from previous economic shocks; and
- wider deployment and use of artificial intelligence (AI), which makes up 0.2% of the 0.8% forecast growth in total factor productivity by 2030.[330]

[328] Competition and Markets Authority (2025), 'Water PR24 References Provisional Determinations Volume 1: Introduction, Background, Approach and prioritisation, Base costs – Chapters 1-4', October 2025, p.85.
[329] Bank of England is abbreviated to BoE in the figure. The Bank of England only provided forecasts to 2027 in its February 2025 Monetary Policy Report.
[330] Office for Budget Responsibility (2025), 'Briefing paper No. 9 forecasting productivity', 26 November 2025, p.38.

5.10.33 On this latter point, the OBR's analysis indicates that it expects AI to boost productivity growth beyond 2030.[331] Based on the data produced by the OBR, it has the potential to add around 0.3% to growth in total factor productivity by the end of the regulatory period (year 7 in Figure 25).

Figure 25: Estimated impact of AI on UK productivity



5.10.34 Thirdly, we noted that regulatory precedent points to productivity growth assumptions of around 1% (Table 103). However, we placed less weight on consultant reports and regulatory precedent than on the two points above, recognising that reliance on regulatory precedent can be circular.

[331] Figure replicated based on data published by the OBR. Office for Budget Responsibility (2025), 'Briefing paper No. 9 forecasting productivity', 26 November 2025, p.51.

Table 103: Regulatory precedent for productivity challenge in UK utilities

Recent UK price controls	Sector	Regulatory period	Productivity challenge
Ofwat PR19	England and Wales water	2020-2025	1.1%[332]
CMA PR19	England and Wales water	2020-2025	1.0%[333]
Ofgem RIIO-GD2	GB energy	2021-2026	1.2%[334]
Ofgem RIIO-T2	GB energy	2021-2026	1.2%[335]
CMA RIIO-2	GB energy	2021-2026	1.0%[336]
UR PC21	Northern Ireland water	2021-2027	0.7%[337]
UR GT22	Northern Ireland energy	2022-2027	0.8%[338]
Ofgem RIIO-ED2	GB energy	2023-2028	1.0%[339]
Commission for Regulation of Utilities – draft	Ireland water	2025-2029	1.0%[340]
Ofwat PR24	England and Wales water	2025-2030	1.0%[341]
CMA PR24	England and Wales water	2025-2030	0.7%[342]
UR RP7	Northern Ireland energy	2025-2031	1.0%[343]
Ofgem RIIO-3	GB energy	2026-2031	1.0%[344]

5.10.35 Finally, we noted that Scottish Water proposes investment in transformation initiatives aimed at improving productivity, which are expected to deliver net benefits of £292 million.[345] Scottish Water explained that it accounts for these benefits in its proposed productivity improvement of 0.8%. However, we noted that the forecast benefits are higher than those Scottish Water expects over the 2021-27 regulatory period (net benefits

[332] Ofwat (2020), 'PR19 Final Determinations – Securing cost efficiency technical appendix', 30 April 2020, p.121.
[333] Competition and Markets Authority (2021), 'Anglian Water Services Limited, Bristol Water plc, Northumbrian Water Limited and Yorkshire Water Services Limited price determinations – Final report', 17 March 2021, p.263.
[334] Ofgem (2020), 'RIIO-2 Final Determinations – Core Document', 8 December 2020, p.12.
[335] Ofgem (2020), 'RIIO-2 Final Determinations – Core Document', 8 December 2020, p.48.
[336] Competition and Markets Authority (2021), 'RIIO-2 Energy Licence Modification Appeals – Summary of Final Determination', 28 October 2021, p.8.
[337] Utility Regulator (2021), 'Water and Sewerage Services Price Control 2021-27 – PC21 Final Determination – Main Report', May 2021, p.86.
[338] Utility Regulator (2022), 'Price Control for Northern Ireland's Gas Transmission Networks – GT22 – Final Determination', 20 May 2022, p.59.
[339] Ofgem (2022), 'RIIO-ED2 Final Determinations Overview document', 30 November 2022, p.28.
[340] Commission for Regulation of Utilities (2025), 'Draft determination: revenue control 4', 25 November 2025, p.123
[341] Ofwat (2024), 'PR24 Final Determinations: Expenditure allowances', 20 December 2024, p.268.
[342] Competition and Markets Authority (2025), 'Water PR24 References – Provisional Determinations Volume 1: Introduction, Background, Approach and prioritisation, Base costs – Chapters 1-4', 9 October 2025, p.79.
[343] Utility Regulator (2024), 'Northern Ireland Electricity Networks Ltd – Transmission and Distribution 7th Price Control (RP7)', 30 October 2024, p.50.
[344] Ofgem (2025), 'RIIO-3 Final Determinations Overview Document', 4 December 2025, p.97.
[345] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 018 – Transformation and Innovation', 26 February 2026, p.2.

of £174 million),[346] which Scottish Water explained has contributed to it achieving productivity improvements of 1% in this period. Therefore, we considered that it is reasonable to assume that Scottish Water should be able to achieve at least similar levels of productivity improvement to those it has claimed for the 2021-27 regulatory period.

5.10.36 Furthermore, as discussed in paragraph 4.2.6, we noted that Scottish Water is in the process of implementing a new operating model, which will create separate directorates for water and wastewater to ensure teams are accountable for the entire end-to-end process. We explained that Scottish Water expects this to accelerate programme delivery and to lower costs. We therefore expect this new operating model to enable Scottish Water to deliver further efficiencies.

5.10.37 In conclusion, we considered that setting an assumption for productivity improvements is an exercise of regulatory judgement that involves taking into account several factors and considering the relevance of different sources of evidence. Our Draft Determination proposed a 1% per annum productivity improvement, reflecting an in-the-round assessment of the opportunities Scottish Water has to drive productivity improvements going forward.

5.10.38 We applied this assumption to capital investment, resulting in an additional efficiency challenge of £55 million as shown in Table 104 below.

Table 104: WICS additional efficiency challenge

	Draft Determination allowed for investment (2024-25 prices; £m)
WICS draft decision based on the Scottish Water efficiency challenge	7,833
SW proposed average efficiency challenge based on 0.8% per year	2.8%
WICS draft decision pre-efficiency	8,055
WICS proposed efficiency challenge based on 1.0% per year	3.4%
WICS draft decision based on WICS efficiency challenge[347]	7,778
WICS additional efficiency challenge	-55

5.10.39 Scottish Water proposed applying a total expenditure efficiency challenge to both operating and capital expenditure.[348] We considered Scottish Water's proposal in our Draft Determination; however, we identified two concerns:

[346] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 018 – Transformation and Innovation', 26 February 2026, p.7.
[347] Note that this draft decision undergoes further adjustments later in this chapter.
[348] Scottish Water (2026), 'Business plan 2027-2033 technical appendices – efficiency', February 2026, pp.44-47.

- It may enable Scottish Water to move expenditure from areas of the capital investment programme with no tangible outputs (e.g. allocations or studies) to operating expenditure, reducing the incentives for efficiency; and
- We are still unclear how it could be implemented practically.

5.10.40 As such, we did not propose adopting Scottish Water's proposal.

Draft Determination consultation responses and new information

5.10.41 Scottish Water considered that its final business plan already incorporated a demanding ongoing efficiency challenge of 0.8% per annum, which it noted was above the 0.7% frontier shift assumption adopted by the Competition and Markets Authority (CMA) in its recent PR24 redeterminations. Scottish Water considered that this represented a stretching but achievable efficiency commitment for an organisation it considered broadly efficient.[349]

5.10.42 Scottish Water disagreed with the Draft Determination's increase in the frontier efficiency challenge from 0.8% to 1.0%.[350] Scottish Water considered that the productivity benchmark used by WICS was not appropriate for this purpose and that the resulting challenge was inconsistent with the most recent and relevant precedent established by the CMA's PR24 redeterminations. Scottish Water highlighted the CMA's conclusion that the economic evidence supported a 0.7% frontier-shift challenge for water companies and considered that this finding should be given significant weight in the Scottish context.[351]

5.10.43 Scottish Water also considered that efficiency should be assessed on a total expenditure basis rather than through separate operating and capital expenditure challenges, which it considered to be more consistent with regulatory best practice.[352]

5.10.44 Consumer Scotland welcomed the 1% efficiency challenge. It supported WICS' focus on ensuring the opportunities to improve efficiency are fully explored before additional costs are passed to customers through higher charges.[353] Consumer Scotland also considers that consumer behaviour change should form a core part of Scottish Water's efficiency strategy.[354]

[349] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 2.2.11 and 2.3.2.
[350] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 5.2.8 and 5.3.4
[351] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 2.2.16 and 6.2.2.
[352] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 2.3.2.
[353] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.7.
[354] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.28.

5.10.45 In the other consultation responses, efficiency and its relationship to charges and affordability were common themes. For example, regarding capital and operating expenditure, there was support for applying further cost and efficiency measures. However, there was also some recognition of the need to ensure that these efficiency challenges do not come at the expense of legislative improvements, existing commitments or service deterioration.

Our assessment in the Final Determination

5.10.46 Our starting position is that the assumption for productivity improvements should not be considered in isolation. The overall level of challenge in the Final Determination depends on the interaction between the frontier efficiency assumption and the allowances for operating expenditure, capital maintenance expenditure, and capital enhancement expenditure. These elements form part of a single regulatory package and should be considered together. For example, we consider that our approach to setting the allowance for capital maintenance expenditure, based on individual asset classes and the number of interventions in each asset class, places Scottish Water in a favourable position to realise efficiencies. In particular, it enables Scottish Water to manage and maintain its asset base more proactively, reducing the frequency of unforeseen incidents, such as bursts, and therefore the associated reactive costs. We consider this a material point in examining the scope for productivity improvements.

5.10.47 Our Draft Determination considered the CMA's PR24 decision in detail, taking account of other factors such as the 2027-33 regulatory period extending beyond the timeframe examined by the CMA. We also note that the CMA's decision to adopt a frontier shift challenge of 0.7% per annum formed part of a broader package of regulatory decisions. In particular, the CMA adopted different statistical cost models (derived from a statistical technique known as 'LASSO'), resulting in higher catch-up efficiency for companies in England and Wales. Scottish Water has not proposed adopting the CMA's broader modelling framework based on these models; therefore, it is not necessarily appropriate to consider the frontier shift assumption in isolation from the wider regulatory package in which it was applied.

5.10.48 We also do not consider that the CMA's PR24 redeterminations establish a binding precedent for the frontier efficiency challenge to be adopted in the 2027-33 regulatory period. Neither WICS nor future CMA panels are bound by the conclusions reached in those determinations, and there can be no certainty that future regulatory or appeal decisions would arrive at the same estimate of frontier shift.

5.10.49 However, we recognise that there have been downgrades to near-term forecasts of productivity in the UK. Despite this, longer-term productivity is still expected to increase

after 2030 as the productivity benefits of AI take place. In addition, we would expect the benefits of Scottish Water's transformation programme to materialise.

5.10.50 Our decision is to phase the assumption for productivity improvements starting at 0.8% in 2027-28 and increasing to 1.0% by 2032-33. This recognises the recent reduction in forecasts for economy-wide productivity in the period to 2030. However, we still consider that the 1% assumption is appropriate for the end of the 2027-33 regulatory period, recognising longer-term productivity forecasts, Scottish Water's continued significant investment in transformation, and its new operating and capital delivery models, which should increase efficiency.

5.10.51 We apply this assumption to capital investment, resulting in an additional efficiency challenge of £27 million as shown in Table 105.

Table 105: WICS Final Determination efficiency challenge

	Final Determination allowed for investment (2024-25 prices; £m)
WICS allowance after specific cost challenges, based on the Scottish Water efficiency challenge	7,854
SW proposed average efficiency challenge over 2027-33 based on 0.8% per year	2.8%
WICS allowance pre-efficiency	8,077
WICS final average efficiency challenge over 2027-33 based on phased efficiency	3.1%
WICS allowance based on WICS efficiency challenge[355]	7,827
WICS additional efficiency challenge	-27

5.10.52 We discuss how we apply the forecast for productivity improvements to operating expenditure in Chapter 6.

Indirect costs

Our assessment in the Draft Determination

5.10.53 Indirect investment costs are expenditure not related to construction labour, plant, or materials, all of which are direct costs. Indirect costs include activities such as design, project and programme management, construction management, site preliminary costs and management fees. Scottish Water explained in its business plan that its indirect investment costs account for approximately 40% of its investment plan for the 2027-33 regulatory period.[356]

[355] Note that this allowance undergoes further adjustments later in this chapter.
[356] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 012 – Efficiency', 26 February 2026, p.28.

5.10.54 Scottish Water proposed that no catch-up efficiency challenge is applied to its indirect costs in SRC27. This is based on analyses in three consultant reports provided in the business plan submission, which benchmark Scottish Water's indirect costs against those of companies in England and Wales. The results are summarised in the business plan technical appendix 12.

5.10.55 One of the metrics Scottish Water used to benchmark its indirect and on-cost levels[357] against those of comparator companies relates to 'pound in the ground' analysis, which measures indirect costs as a proportion of total direct construction costs. In addition to our own review, we asked our engineering consultant to provide an external view on whether Scottish Water's benchmarking approach is robust and in line with the data and evidence available to them.

5.10.56 In our Draft Determination, we noted that, in aggregate, Scottish Water's indirect costs are broadly comparable with industry overall. However, our engineering consultant found variances between Scottish Water's costs and the average industry costs for several constituent categories, leading it to identify a potential cost challenge of £8 million to £26 million.[358]

5.10.57 Considering the evidence in the round for our Draft Determination, we considered that Scottish Water's indirect costs are broadly in line with comparators from England and Wales. We considered applying a cost challenge at the lower end of the identified range. This would aim to strike a balance between the view that Scottish Water's indirect costs are at a similar level to those of industry comparators and the recognition that the 'pound in the ground' analysis could be further improved, given the areas highlighted by our engineering consultant. However, our draft decision was not to set such a challenge given our demanding 1% frontier-shift efficiency challenge on capital expenditure.

Draft Determination consultation responses and new information

5.10.58 We did not receive consultation responses related to this investment area.

[357] On-costs are interchangeably used with indirect costs to refer to the indirect costs associated with delivering a capital project, typically split into two categories:
- Client On-Costs: Costs incurred by the client organisation (in this case, Scottish Water), such as project management, design, governance, stakeholder engagement, and internal overheads.
- Contractor On-Costs: Costs incurred by the contractor that are not part of direct construction, including site preliminaries, supervision, and contractor-side project management.

[358] WSP (2025), 'Water Industry Commission Scotland: Engineering Review of Scottish Water's SRC27 Draft Business Plan', September 2025. Executive summary available at: https://wics.scot/publications/price-setting/strategic-review-charges-2027-33/consultant-reports/engineering-review-scottish-waters-draft-business

Our assessment in the Final Determination

5.10.59 Our assessment in the Final Determination is that Scottish Water's indirect costs are broadly in line with comparators from England and Wales. We confirm we are not applying a further cost challenge.

5.11 Additional investment allowances

Our assessment in the Draft Determination

5.11.1 The Draft Determination included additional allowances based on the feedback from the customer research, DWQR and SEPA. The additional investment covered the following areas:

- Sewer flooding, following the customer feedback on internal sewer flooding being under-represented in the business plan (paragraphs 4.5.8 and 4.5.10); and
- The water quality, water continuity and water environment programmes (£118 million).

5.11.2 We expected Scottish Water to allocate the £118 million in consultation with its regulators and that it must reflect the investment to be delivered from these allocations in its first delivery plan for 2027-33.

5.11.3 Table 106 provides our Draft Determination allowance, including the additional allowances.

Table 106: Draft Determination allowed for investment

	Draft Determination allowed for investment (2024-25 price; £m)
Draft Determination allowed for investment	7,778
Additional allocation to reduce the risk of sewer flooding	50
Additional allocation for water quality, water continuity and environmental investment	118
Draft Determination allowed for investment, including allocations	**7,946**

Draft Determination consultation responses and new information

5.11.4 We received comments and new information from Scottish Water, Consumer Scotland and the Independent Customer Group (ICG) on our Draft Determination proposals for additional unallocated allowance for investment. The paragraphs below summarise each response in turn.

5.11.5 Scottish Water proposed how to utilise the additional allowance to improve outcomes in several areas:[359]

- £50 million to improve internal and external sewer flooding register positions;
- £12 million to reduce leakage to its sustainable economic level in SRC27;
- £20 million to reduce both Discolouration and Taste Odour contacts by 2032-33;
- £32 million to become 99.96% compliant with drinking water quality standards by the end of the 2027-33 regulatory period;
- £33 million to increase the UID removals to 168 by 2032-33;
- £10 million to reduce environmental pollution incidents in its wastewater system during the 2027-33 regulatory period;
- £11 million to improve wastewater treatment works permit compliance by the end of the 2027-33 regulatory period.

5.11.6 Consumer Scotland welcomed the additional £50 million proposed in the Draft Determination for sewer flooding, noting that this reflected a priority consistently identified through its deliberative consumer research. It considered the additional funding a positive example of consumer priorities informing regulatory decisions and expected it to provide greater assurance that sewer flooding risks and impacts would be addressed, while emphasising the importance of measuring and communicating the resulting benefits to consumers.[360]

5.11.7 Consumer Scotland sought greater clarity on whether the additional £118 million investment allowance could be used to address emerging regulatory priorities during the 2027-33 regulatory period. While it welcomed the flexibility provided by the allowance, it emphasised that its use should be subject to clear governance, transparency and accountability, with reporting demonstrating how funding decisions delivered value for money and tangible benefits for customers and communities.[361]

5.11.8 The ICG considered that the Draft Determination represented an attractive package for customers, combining a lower charging profile with £168 million of additional investment in service areas important to customers, improved outcomes in priority areas and safeguards for uncertain costs. However, it emphasised that, alongside value for money, customers expected Scottish Water to maintain high-quality water and wastewater services and did not want service standards to decline.[362]

[359] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, p.28, Table 4.
[360] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.18.
[361] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.33.
[362] ICG (2026) 'Water Industry Commission's Draft Determination for SRC27: ICG response', 1 September 2026, p.3.

Our assessment in the Final Determination

5.11.9 We reviewed Scottish Water's proposed allocation of the additional investment and we confirm that the Final Determination allows the following additional investment:

- £50 million for sewer flooding to enable Scottish Water to achieve the final SRC27 outcome position;
- £12 million for leakage to support Scottish Water in achieving more stretching targets (see paragraph 4.4.29); and
- £33 million to address an additional 18 UIDs (conditional on efficient spend on the additional 18 UID removals) as it will be necessary to achieve SEPA's expectation of at least 25% of all UIDs to be addressed in SRC27 (see paragraph 4.5.67).

5.11.10 We do not consider that Scottish Water provided sufficient evidence to justify the additional investment for water quality outcomes (see paragraphs 4.4.141, 4.4.145 and 4.4.177), and environmental outcomes (see paragraphs 4.5.30 and 4.5.46). As such, we are not allowing for the remaining £73 million additional allowance from the Draft Determination.

5.11.11 Table 107 provides our Final Determination allowance, including the additional allowances

Table 107: Final Determination allowed for investment

	Final Determination allowed for investment (2024-25 price; £m)
Final Determination allowed for investment	7,827
Additional allocation to reduce the risk of sewer flooding	50
Additional allocation for leakage	12
Additional allocation for leakage and environmental investment (UIDs)	33
Final Determination allowed for investment, including allocations	**7,922**

5.11.12 The additional allowances will be subject to the conditions and safeguard requirements explained in Chapter 8.

5.12 Deliverability

Background

5.12.1 Our Final Methodology explained that there are internal and external factors which impact the level of investment that Scottish Water could deliver efficiently over the 2027-33

regulatory period.[363] 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.

5.12.2 On deliverability, Scottish Water provided its own analysis and assessment of supply chain capacity over the 2027-33 regulatory period. Based on this analysis, the Scottish Water Board has assured that it is comfortable that the business plan is deliverable on the basis of projected capacity of the supply chain in Scotland.

5.12.3 WICS commissioned external consultants Turner & Townsend to undertake an analysis to understand a top-down view of the size of the investment programme that Scottish Water could deliver efficiently in the 2027-33 period, recognising the capacity of the supply chain and Scottish Water's own capacity to deliver the investment programme.[364]

5.12.4 Based on an in-the-round assessment using a mix of objective, subjective and anecdotal evidence, Turner & Townsend made the following overall conclusions outlined in Table 108.

Table 108: Estimated range of investment Scottish Water can deliver efficiently in 2027-33

Range and confidence (2024-25 prices)	Reasoning
£6.1 billion investment programme (£6 billion in 2023-24 prices) **Higher level of confidence that Scottish Water can deliver efficiently**	• Similar in size to the SRC21 programme • Scottish Water's updated delivery model should mitigate the recurrence of the SRC21 under-delivery risks • Maintaining this size will enable Scottish Water to focus on embedding its new delivery model and more effectively mitigating the associated risks • Evidence from England & Wales suggests even limited increases can create challenges
£7.2 billion investment programme (£7 billion in 2023-24 prices) **Medium level of confidence that Scottish Water can deliver efficiently**	• 15% uplift on the SRC21 programme • Delivering this uplift in parallel with implementing and maturing a new delivery model adds more complexity, time and risk to delivery from a cost, schedule and quality perspective • Delivering this uplift relies on some assumptions for Scottish Water's new delivery model and its capacity to grow to hold true

[363] WICS (2024), 'Strategic Review of Charges 2027-2033: Final Methodology', 12 December 2024, p.125.
[364] The executive summary of the final report is available on our website at Efficient size of Scottish Water's SRC27 investment programme | WICS.

£8.2 billion investment programme (£8 billion in 2023-24 prices) **Lower level of confidence that Scottish Water can deliver efficiently**	• 30% uplift on the SRC21 programme • In addition to the points for the medium level of confidence, despite Scottish Water's early engagement on its new delivery model and its mitigations, analysis based on the supply chain's own capacity estimates suggest a potential shortfall towards the end of the period even with several stretching assumptions all holding true

5.12.5 The following paragraphs provide a high-level summary of Turner & Townsend's analysis (which supports the overall conclusions and the confidence levels) and Scottish Water's feedback to the report submitted with the final business plan. Further details are provided in Appendix 1, section 1.8 of our Draft Determination.

5.12.6 Turner & Townsend consider that Scottish Water's SRC21 delivery performance shows mixed results: while it has generally delivered well once projects are fully developed and handed to the supply chain – sometimes even exceeding planned outputs – there are concerns about delays in high-risk, high-value outputs and outstanding work carried over from SRC15, partly due to Covid-19. Key stakeholders, such as the quality regulators, have raised concerns about delays in some areas and rising costs. Although the supply chain has expanded, the lack of a clear baseline makes it difficult to judge efficiency. Looking ahead to the much larger proposed SRC27 programme, Turner & Townsend identified that Scottish Water's new delivery model (the Enterprise Model or Delivery Vehicle 4 (DV4)) introduces transition-related risks and relies on several assumptions – such as no double-counting of supply-chain capacity, realistic bidder capacity estimates, successful extension of existing vehicles, flexible capacity in the delivery vehicle for major projects (DV3) and internal teams, and the ability to substitute work between delivery vehicles. Confidence in several of these assumptions is only medium or limited.

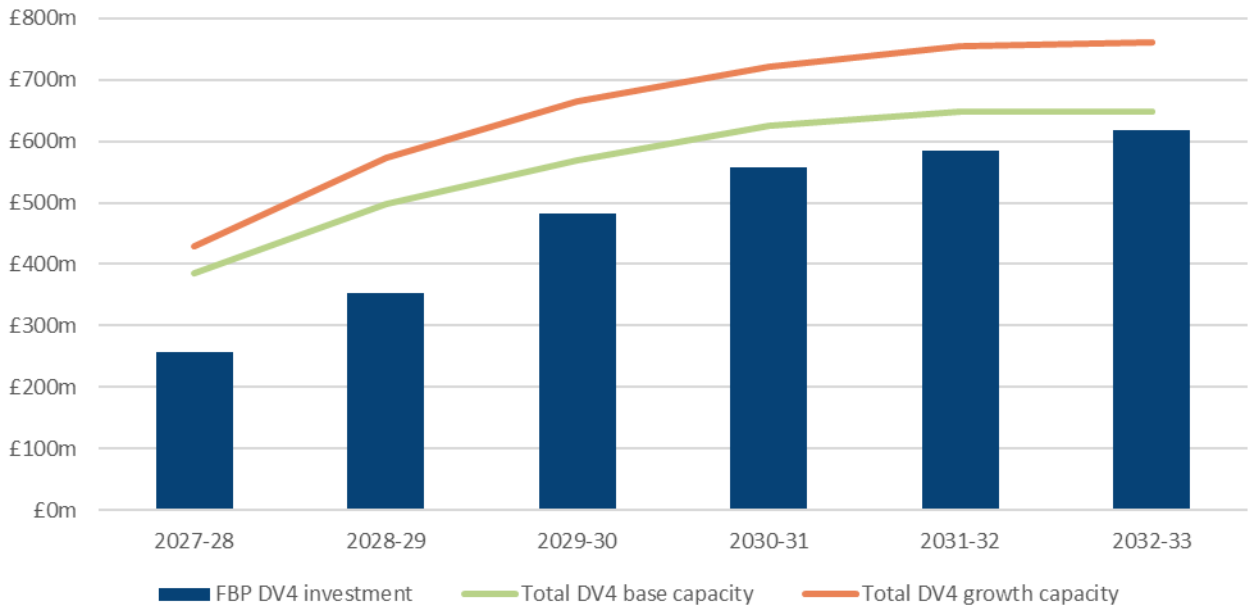
5.12.7 Turner & Townsend's testing of these assumptions suggests only limited confidence in the round that Scottish Water will have the capacity to deliver the proposed SRC27 programme (this was in relation to the draft business plan investment of £8,305 million in 2023-24 prices). Wider industry pressures intensify this risk: water companies in England and Wales have previously overspent and underdelivered, and while most companies express confidence in meeting new regulatory expectations, suppliers are far less certain. At the macroeconomic level, construction sector capacity across the UK and Scotland is expected to stabilise rather than grow, leaving limited spare capacity and potentially higher costs if Scottish Water's demand exceeds what the market can supply.

5.12.8 Overall, Scottish Water noted in its feedback that the findings must be treated with caution to ensure that uncertainties are fully recognised and that fair and balanced inferences are drawn.

5.12.9 Scottish Water's feedback to the draft report and its final business plan submission provided some updated evidence on the DV4 procurement processes and the actions and risk mitigation measures Scottish Water is taking. For example, in December 2025, Scottish Water confirmed the 7 preferred bidders for the DV4 procurement process.[365] While this process had not fully concluded and confirmed the successful bidders when the final business plan was submitted, Scottish Water did provide an updated view of the forecast capacity of and forecast investment allocated to each Delivery Vehicle, where the DV4 base and growth capacity is based on the information shared by the 7 preferred bidders.[366]

5.12.10 Figure 26 compares the DV4 base and growth capacity of the 7 preferred bidders (using data provided by Scottish Water during the query process) with the DV4 investment profile from the final business plan. It appears that the 7 preferred bidders for DV4 are expected to provide sufficient base capacity to deliver the final business plan investment in each year.

Figure 26: DV4 (and adjusted Scottish Water) capacity versus business plan DV4 investment[367]



5.12.11 Figure 27 below shows how the total capacity across all vehicles compares with the final business plan investment profile (assuming capacity for the 7 preferred bidders for DV4).

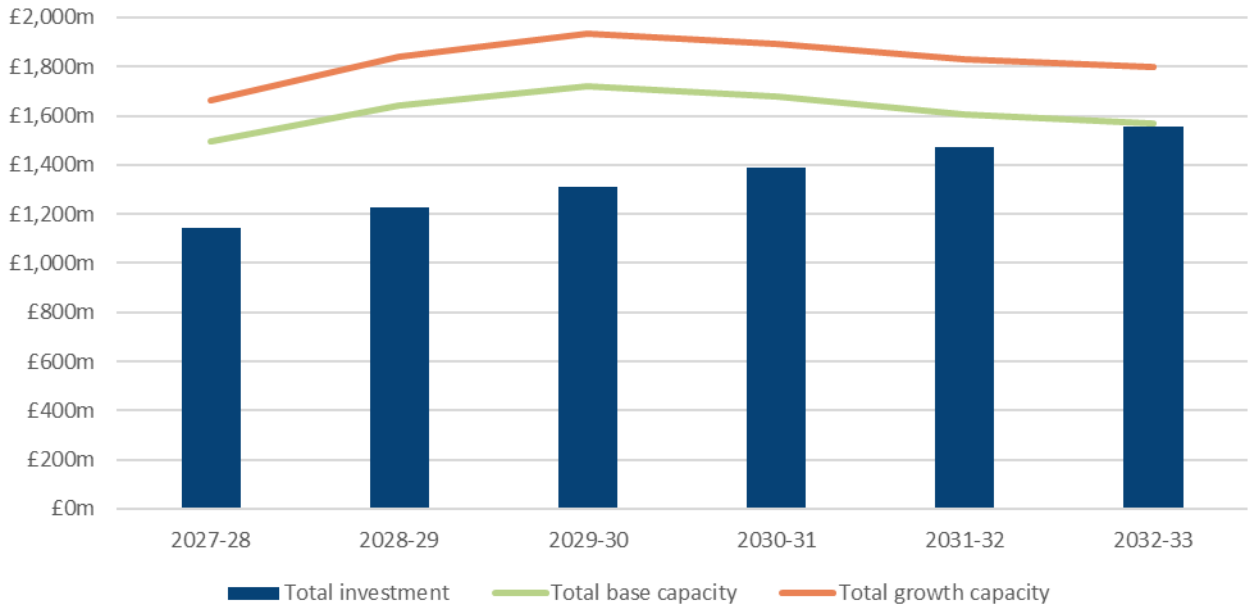
[365] WaterBriefing (2025), 'Scottish Water confirms 7 preferred bidders to deliver multi-billion pound transformation of water and waste water infrastructure', 19 December 2025.

[366] Scottish Water defines "base capacity" as "a sustainable capacity position each bidder is willing to commit to". "Growth capacity" is defined as "a capacity position that can be reached but may have associated constraints or challenges". The definitions are sourced from materials Scottish Water submitted to WICS and Turner & Townsend in August 2025.

[367] The DV4 total capacity data shared by Scottish Water during the query process consisted of the bidders' self delivery capacity and subcontracted capacity as well as Scottish Water's own capacity which was calculated as 15% of the November 2025 DV4 investment profile. Figure 26 uses the bidders' capacity data as well as a calculation of Scottish Water's capacity as 15% of the final business plan DV4 investment profile as per detailed data in Table X.

At the end of the period, the forecast base capacity is only about £13 million above the forecast investment (1% of total base capacity). Scottish Water explains that if a forecast capacity shortage is realised, it would work with its supply chain to ensure sufficient growth capacity is in place to meet expected demand.[368]

Figure 27: Total delivery vehicle capacity versus total investment



5.12.12 The analysis in this section so far demonstrates that there is a wide range of factors to consider when assessing the size of the investment programme as a whole, and that a multitude of risks, with varying levels of risk, are associated with different sizes and delivery approaches.

Our assessment in the Draft Determination

5.12.13 We recognised that Scottish Water had engaged with its supply chain at an early stage and had sought to establish its delivery partners in place for its investment programme for the 2027-33 regulatory period before the period began. Furthermore, we noted that the rolling investment programme maintains continuity, resulting in a pipeline of projects ready to commence construction. The reduction in investment funding during the 2021-27 period, due to Scottish Water's decision to rephase charges in response to the cost-of-living challenges, also contributes to this pipeline of projects ready to commence construction.

5.12.14 However, we considered that some deliverability risks remain due to the assumptions of Scottish Water's analysis outlined in paragraph 5.12.6. These risks included:

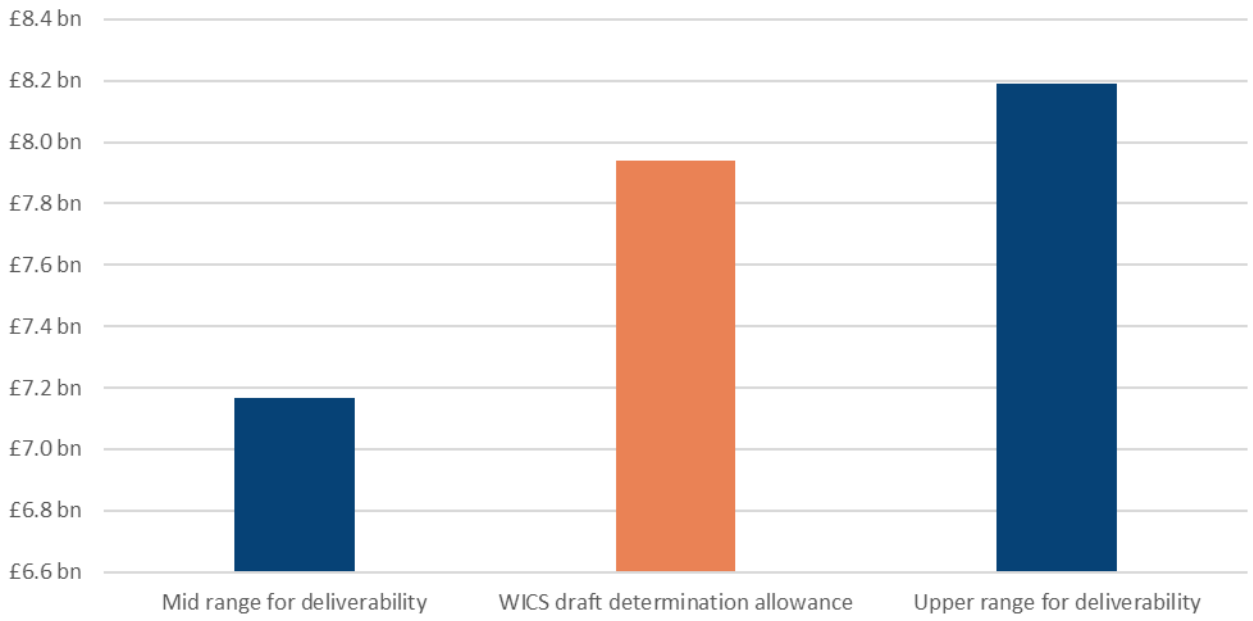
[368] Scottish Water (2026) 'SR27 Supply Chain Capacity (November 2025)', 26 February 2026, p.10.

- The potential for double-counting of forecast capacity of suppliers, which could be on the same delivery vehicle – 3 out of the 7 supply chain partners part of Delivery Vehicle 2 are expected to also join DV4;
- The feasibility of cross-substituting investment work between different vehicles – the final business plan and the data we received from the query process tell us that there is some forecast shortfall in some years of the period for some delivery vehicles. Figure 27 shows no capacity shortfall, which implies there is some cross-substitution of work between delivery vehicles;
- The potential for optimism bias in capacity forecasts; and
- The risk of a shortfall in base capacity for the overall investment programme in the last year of the period, considering the forecast capacity headroom is only £13 million or 1%, as illustrated in Figure 27 above.

5.12.15 Furthermore, we explained that we expected the complexity of the investment programme to continue to increase in each period. This was due to a mix of factors such as introducing new innovative solutions, maturing the investment planning approach in terms of developing catchment management and upstream solutions (e.g. adopting more blue-green infrastructure solutions), improving the knowledge of the asset base and the interactions and dependencies between assets, accounting for the increasing impacts of climate change, and others. However, we expected the increased complexity to pose further risks to the management and delivery of the investment programme.

5.12.16 Our Draft Determination allowance aimed to achieve an appropriate balance between maintaining the long-term approach, protecting future customers, and ensuring deliverability over the 2027-33 regulatory period. Figure 28 compares our Draft Determination allowance to the deliverability range based on our analysis.

Figure 28: Comparison against deliverability range[369]



5.12.17 Our Draft Determination recognised the risks highlighted in paragraph 5.12.14 and noted that Scottish Water informed us it was undertaking further work on internal capacity and supply chain readiness. It had proactively engaged with us on the scope for one such project, which is with another team within Turner & Townsend. The consultants had been asked to conduct an evidence-based review of Scottish Water's recent progress in portfolio deliverability and management and in procuring its SRC27 supply chain and securing capacity; to identify gaps and required mitigations to ensure efficient and reliable delivery through internal stakeholder engagement; and to deliver clear recommendations with a prioritised 6-12-24 month improvement roadmap aligned to governance and delivery models. We understand the work would provide an analysis of how to address some of the risks identified in paragraph 5.12.14. Scottish Water explained that this analysis would be completed prior to the close of the consultation on the Draft Determination on 1 September 2026.

5.12.18 Therefore, our Draft Determination required Scottish Water to share the internal capacity and supply chain readiness assessment with us on 1 September 2026, so we could take it into account in our Final Determination. We also required a further assurance statement from Scottish Water's Board that it has both the internal capacity and supply chain capacity to deliver the level of investment proposed in the Draft Determination as part of its response to the Draft Determination consultation on 1 September 2026.

[369] Figure in 2024-25 prices.

Draft Determination consultation responses and new information

5.12.19 Scottish Water provided the requested independent delivery capacity assessment undertaken by Turner & Townsend, alongside an internal capacity review and a board assurance statement. Together, these documents provide a significantly enhanced evidence base regarding both organisational readiness and supply chain capacity for SRC27. The independent review concluded that Scottish Water is well positioned to deliver the proposed capital programme with no fundamental organisational, governance, commercial or supply chain barriers preventing successful delivery.[370]

5.12.20 The evidence provided demonstrates that Scottish Water has undertaken substantial preparatory work since submission of the final business plan. This includes the implementation of the revised operating model, the mobilisation of the Enterprise delivery approach, the strengthening of governance and assurance arrangements, engagement with suppliers, and planning for system developments to support programme management, forecasting, and performance monitoring. The T&T assessment concluded that internal capability and supply chain readiness compare favourably against the proposed scale of investment proposed for SRC27.

5.12.21 The assessment acknowledges that risks remain relating to Enterprise maturity, governance throughput, specialist resource availability, programme phasing, data availability and future growth-capacity assumptions to support a non-linear investment profile. These findings reinforce the importance of maintaining a balanced and deliverable investment programme over the 2027-33 regulatory period.

5.12.22 Scottish Water provided further evidence on its internal capacity and organisational readiness to deliver the SRC27 investment programme. It highlighted that current investment delivery was broadly comparable with the annual investment expected in SRC27, supported by 1,040 FTE across its principal investment functions, established governance and delivery arrangements, its new operating model and Enterprise delivery approach. It also outlined ongoing workforce and skills planning and measures to manage capacity risks, while noting that further assessment of capacity for portfolio and programme management and regulatory reporting remained underway.[371]

5.12.23 Both assessments informed Scottish Water's updated Board assurance statement.[372] The statement explained that the Board considered the key delivery risks to be understood and that reasonable mitigations were in place, while recognising that some risks remained

[370] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination response – Annex 7 – SR27 Readiness Report', 1 September 2026. Report prepared by Turner & Townsend for Scottish Water on 30 July 2026.
[371] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination response – Annex 7 – View on Scottish Water Internal Capacity', 1 September 2026.
[372] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination response – Annex 7 – Additional Board Assurance Statement', 1 September 2026.

outside Scottish Water's control. This provided the Scottish Water Board with confidence that the organisation was well positioned to secure sufficient internal and supply-chain capacity to deliver SRC27.

Our assessment in the Final Determination

5.12.24 While the evidence provides increased assurance that Scottish Water has the capability to deliver the level of investment included within our Draft Determination, it also highlights that delivery capacity is not unconstrained and that successful delivery will depend on continued focus on programme optimisation, resource management and governance. We therefore consider that the assessment supports our view that there is limited scope to increase investment materially beyond the levels proposed in the Draft Determination without increasing delivery risk.

5.12.25 Deliverability is one of the factors we considered in deciding not to provide additional allowances for further investment requirements identified by SEPA, including those needs that may emerge from wastewater studies (paragraphs 5.6.108and 5.6.110). Any additional investment needs that emerge during the period should be considered through the regulatory change process (previously the investment planning and prioritisation framework), with careful reprioritisation of the programme to ensure that resources remain focused on the highest-priority outcomes for customers and the environment.

5.12.26 We will monitor delivery closely in the 2027-33 regulatory period as part of our monitoring safeguards set out in Chapter 10.

5.13 Our decision

5.13.1 Table 109 summarises our final decision for the allowed investment. It also includes a comparison to both the Draft Determination and Scottish Water's business plan proposals.

Table 109: Final Determination investment allowance

Investment (2024-25 prices; £m)	Final business plan[373]	Draft Determination allowed for investment[374]	Scottish Water Draft Determination response[375]	Final Determination allowed for investment[376]	Difference between Draft and Final Determination
Asset maintenance	5,076	4,926	5,034	4,975	50
Enhancement and Growth	2,957	2,867	2,913	2,866	-1
Real price effects	60	-15	0	-15	0
Additional allowance for enhancement	0	168	168	95	-73
Total	**8,093**	**7,946**	**8,115**	**7,922**	**-24**

5.13.2 We have allowed for £4,975 million for asset maintenance investment and £2,866 million for enhancement and growth investment. We also made two further adjustments. Firstly, reversing the inclusion of the recent increase in national insurance in investment costs, which reduces investment by £15 million, and making additional allowances of £95 million, results in total investment of £7,922 million. This assumes a phased efficiency assumption of 0.8% per annum in 2027-28, increasing to 1% per annum in 2032-33. The total investment falls within the mid- to upper-range for investment that can be delivered efficiently, recognising that some delivery risk remains.

5.13.3 Table 110 below shows how our final allowance is split between the investment areas corresponding to each technical appendix from the final business plan.

[373] Based on an efficiency assumption of 0.8% per annum.
[374] Based on an efficiency assumption of 1.0% per annum.
[375] Based on an efficiency assumption of 0.8% per annum.
[376] Based on a phased efficiency assumption of 0.8% per annum in 2027-28, increasing to 1% per annum in 2032-33.

Table 110: Final Determination investment allowance by area

Technical Appendix	Investment area (£m; 2024-25 prices)	Asset maintenance	Enhancement and growth	Total investment
TA001	Water quality	836	814	**1,650**
TA002	Water continuity	1,532	233	**1,765**
TA003	Water environment	1,251	644	**1,895**
TA004	Managing quantity of flows	601	416	**1,017**
TA005	Enabling growth	0	512	**512**
TA006	Climate change adaptation	0	13	**13**
TA007	Climate change mitigation	16	43	**59**
TA010	West Central Bioresources	344	211	**555**
TA015	Customer and communities	0	21	**21**
TA017	Digital	107	0	**107**
TA018	Transformation and innovation	0	31	**31**
	Support services	288	22	**310**
	Sub-total investment	**4,975**	**2,961**	**7,937**
	Real price effects			**-15**
	Total investment			**7,922**

6 Operating costs allowances

6.1 Summary of chapter

6.1.1 This chapter sets out our assessment of Scottish Water's proposed operating and Private Finance Initiative (PFI) expenditure for the 2027-33 regulatory period, including efficiency, cost drivers, and our Final Determination allowances.

6.1.2 Operating expenditure covers the day-to-day costs of providing water and wastewater services, including staff, energy, chemicals and customer service costs. PFI expenditure relates to contractual payments to third-party providers, which will reduce as assets return to Scottish Water over the period.

6.1.3 Scottish Water proposed increasing operating expenditure over the period, driven in part by the return of PFI assets and additional cost pressures such as energy and chemicals.

6.1.4 For our Final Determination, we allow operating expenditure of £3,505 million, and PFI contract fees of £421 million. Overall, our Final Determination provides an operating expenditure allowance that is lower than Scottish Water's proposal, reflecting cost challenges, while ensuring sufficient funding to maintain service levels.

6.1.5 This chapter is structured as follows:

- Background;
- Operating expenditure performance in SRC21;
- Scottish Water's final business plan proposals for 2027-33;
- Our Draft Determination allowance, overall consultation responses and new information;
- Operating expenditure efficiency;
- Assessing Scottish Water's proposals for additions to operating expenditure;
- Additional operating expenditure from returning PFI assets;
- Cost inflation;
- PFI contract expenditure; and
- Our decision.

6.2 Background

What is operating expenditure?

6.2.1 Operating expenditure relates to what Scottish Water spends on an ongoing, day-to-day basis to run its business and provide water and wastewater services. It represents around a quarter of its annual expenditure. Operating expenditure includes, but is not limited to:

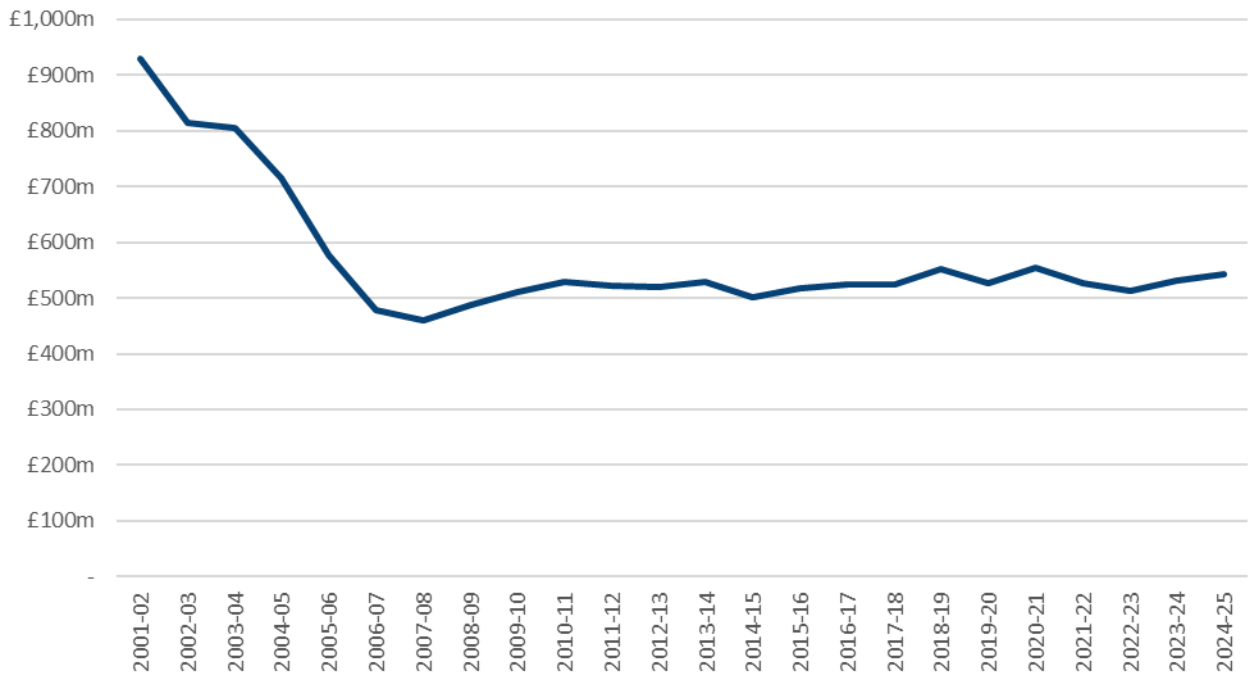
- Employment costs;
- Electricity and other utility costs;
- Local authority rates and taxes;[377]
- Vehicle running costs;
- The costs of billing and serving customers (including bad debt); and
- The cost of buying materials such as chemicals for water treatment.

6.2.2 PFI expenditure relates to regular payments that Scottish Water is contractually obliged to pay to third-party organisations providing wastewater assets and services on behalf of Scottish Water under legacy contracts. PFI expenditure represents over 10% of Scottish Water's annual expenditure.

6.2.3 The overall governance of the water industry in Scotland, our efficiency challenges and Scottish Water rising to the challenges have led to around a 40% reduction in operating expenditure from the levels in 2001-02, as shown in Figure 29. This reduction was largely achieved between 2001-02 and 2007-08, with Scottish Water broadly maintaining performance at this level from 2007-08 onwards.

[377] This covers non-domestic (or business) rates which are a tax on non-domestic properties to help pay for local authority services such as education, social care, waste management etc.

Figure 29: Scottish Water operating expenditure from 2001-02 to 2024-25[378]



What is operating efficiency?

6.2.4 We examine operating expenditure together with levels of service when considering efficiency. Economic regulators consider efficiency in terms of inputs and outputs:

- Inputs relate to the resources used in a company's production process, which in this case is the supply of water and removal of wastewater and surface water. It can be measured in terms of materials (e.g. chemicals), labour (e.g. staff costs) and capital, or levels of expenditure; and
- Outputs relate to the final goods and services from the production process, which in this case is the quantity and quality of water delivered, the volume of wastewater treated, and the quality of treated wastewater discharged into the natural environment. Outputs also cover other aspects of service levels, such as the company's responsiveness to customer contacts.

6.2.5 Efficiency can be considered as one of or a combination of two things:

- Minimising input to achieve a certain level of output; or
- Maximising output given a certain level of mix of inputs.

6.2.6 Economic regulators in the water industry (e.g. WICS in Scotland, Ofwat in England and Wales and the Utility Regulator in Northern Ireland) have estimated operating efficiency by

[378] Figure in 2024-25 prices.

benchmarking levels of expenditure and service performance across companies.[379] Therefore, the efficiency challenge would be two-fold:

- Reducing operating expenditure to a level that matches that of the best performing companies (once adjusting for differences in operating characteristics); and
- Improving levels of service to match the best-performing companies.

6.2.7 During the regulatory period, the company would then have the incentive to beat the economic regulator's efficiency challenge, recognising that they could earn reputational (e.g. being top of a league table) and financial rewards (e.g. keeping the outperformance for a defined period) from outperformance. This regulatory approach has led to Scottish Water reducing its operating expenditure and improving service levels over the past two decades.

6.2.8 Before discussing the approach to efficiency for SRC27, we consider factors that can impact operating expenditures during the regulatory period as further background.

Factors that impact operating expenditure during the regulatory period

6.2.9 Operating expenditure can change year-to-year due to factors such as changes to staff or electricity costs. There may also be additions or reductions to the starting level of operating expenditure (known as the baseline, which for the 2027-33 period is the financial year 2024-25), such as new regulatory standards that increase treatment costs or efficiency savings that reduce operating expenditure.

6.2.10 Regulators consider the scope for efficiency, covering:

- **Catch-up efficiency:** the reduction in expenditure to catch up with the leading performing company (i.e. the 'frontier') on operating expenditure performance after adjusting for differences in operating characteristics across companies. The scope for catch-up efficiency is measured as a snapshot based on past/current expenditure across companies.
- **Frontier-shift:** the achievable reduction in operating expenditure by the leading performing company (i.e. the 'frontier') to continue its operating efficiency as a result of technological improvements, better management and operating processes.
- **Special factors:** the statistical models used to assess the scope for catch-up efficiency cannot account for all of a company's operating characteristics. As such, the catch-up challenge can be adjusted, or an additional allowance provided, if the

[379] With levels of service covering areas such as water quality and reliability (e.g. interruptions and water pressure), environmental performance (e.g. pollution incidents and non-compliant discharges), sewer flooding and customer service (e.g. customer satisfaction) and contact (e.g. time taken to respond to complaints).

company has a unique operating characteristic not sufficiently accounted for by the models that may adversely affect operating costs. Special factors must meet certain criteria (e.g. materiality, management's mitigation of the impact, the need for the adjustment).[380] These are now known as cost adjustment claims in the water sector in England and Wales.[381]

- **Scope adjustments:** the opposite of special factors. These recognise that some of a company's activities may result in lower costs. An example for Scottish Water is household metering. As Scottish Water has a much lower rate of metered households (<0.01%) compared to companies in England and Wales, it does not incur the operating expenditure associated with meter reading, meter maintenance, and billing based on meter readings. Scope adjustments would offset a special factor adjustment.
- **Real price effects:** while not necessarily part of the efficiency challenge, some economic regulators recognise that the company may face input price pressures over and above that reflected in general economy-wide inflation (as measured by the consumer price index (CPI) measure of inflation). We consider that allowing for real price effects is a regulatory policy choice and is closely related to the regulator's approach to cost assessment, with RPEs often used to roll forward allowances derived from econometric approaches to setting cost allowances.

6.2.11 In the Final Methodology, we set out that we would review Scottish Water's assessment of its efficiency position obtained from applying econometric models and then conduct a disaggregated assessment of movements in its cost base.[382] We consider that using benchmarking in this manner, rather than in a mechanistic way, is consistent with best practice.[383] This contrasts with the approach taken by other regulators. For example, in PR24 Ofwat used the results from econometric models, alongside RPEs to capture movements in the cost base, to make allowances.

6.3 Operating expenditure performance in SRC21

6.3.1 Our performance report for 2024-25 provides our assessment of performance in the first four years of the regulatory period 2021-27. That assessment shows that Scottish Water's operating and PFI expenditure were broadly in line with the allowances set out in the Final Determination for SRC21, consistent with an efficiency challenge of 1% per annum (see also Figure 30 below).[384]

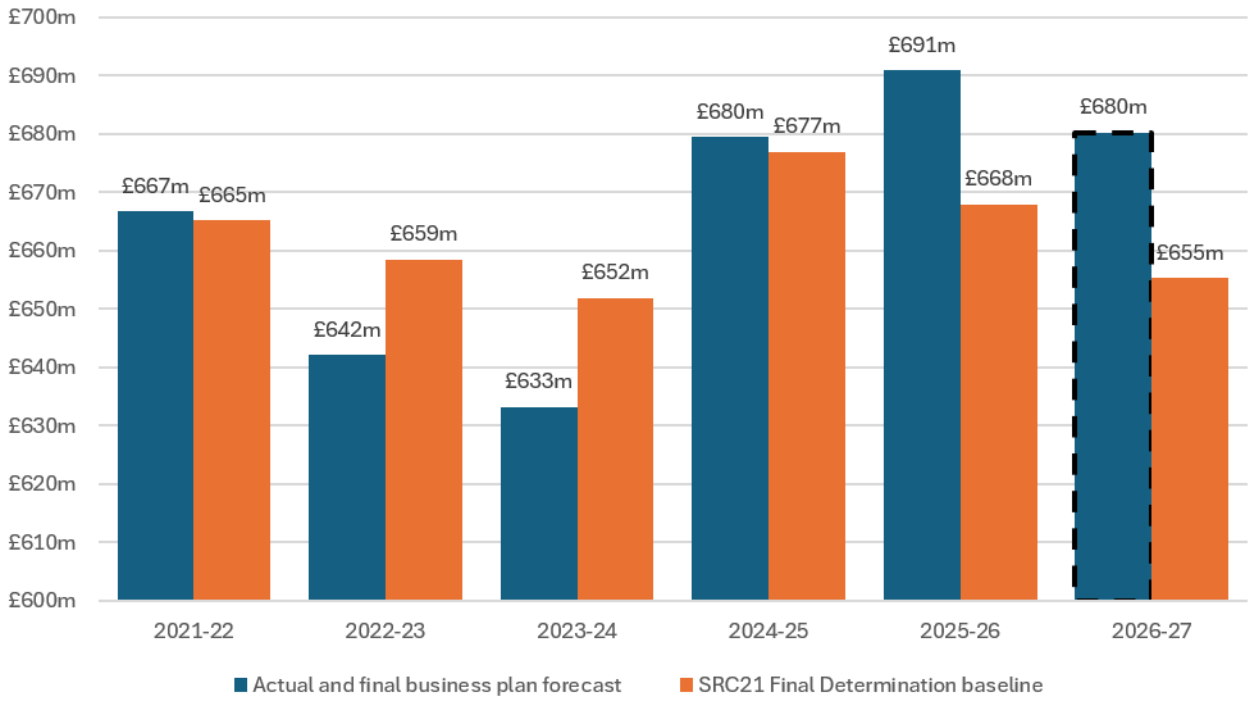
[380] WICS (2009), 'Staff Paper 6', June 2009, p.11.
[381] Ofwat (2023), 'Cost adjustment claims', June 2023.
[382] WICS (2024), 'Strategic Review of Charges 2027-33: Final Methodology', 12 December 2024, p.104.
[383] Independent Water Commission (2025), 'Final Report', 21 July 2025, p.193.
[384] WICS (2025), 'Scottish Water's performance 2024-25', November 2025, p.13.

6.3.2 Since publishing our Draft Determination, Scottish Water has published its operating expenditure in 2025-26 and has provided an updated forecast for 2026-27.

6.3.3 In SRC21, we set expenditure allowances for operating expenditure, PFI expenditure, asset repairs and refurbishments, interest and taxation in aggregate (known as 'Tier 1' expenditure). This approach included an implicit allowance for the individual categories within Tier 1 expenditure.

6.3.4 Nevertheless, we made forecasts for operating and PFI expenditure in the financial model for the Final Determination for SRC21. As shown in Figure 30, Scottish Water's operating expenditure and PFI fees exceeded the forecast from the SRC21 Final Determination by £23 million in 2025-26 and is expected to exceed this forecast in the Final Determination by £25 million in 2026-27, as shown in the bar with the black dashed border. As such, we note that the proposed additions result in Scottish Water now forecasting higher expenditure (at £3,993 million over SRC21) than the original forecasts for operating and PFI expenditure forecasts from the WICS Final Determination for SRC21 (at £3,976 million). We are not clear on the drivers of this increase.

Figure 30: SRC21 Final Determination allowances versus actual and forecast expenditure (operating plus PFI expenditure)[385]



6.3.5 We will comment on actual performance against the forecasts from the SRC21 Final Determination in the performance report for 2026-27.

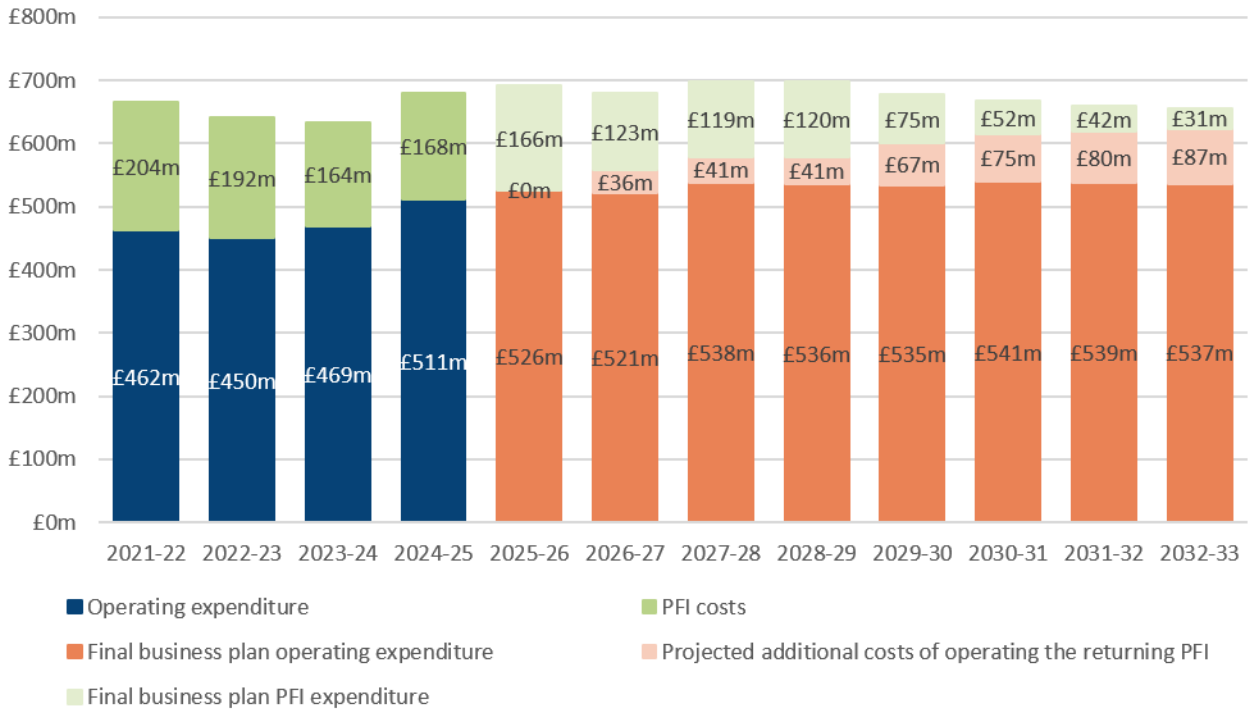
[385] Figure in 2024-25 prices.

6.4 Scottish Water's final business plan proposals for 2027-33

6.4.1 Scottish Water's final business plan proposed that the underlying operating expenditure would increase from £511 million in 2024-25 to £537 million, as shown in Figure 31. An additional £87 million will be added to operating expenditure relating to the expenditure arising from the return of PFI assets upon expiry of the PFI contracts.[386] This gives a total operating expenditure of £624 million by 2032-33.

6.4.2 Figure 31 also shows that expenditure on fees to PFI operators will decrease from £168 million in 2024-25 to £31 million by 2032-33, as a result of these sites transferring to Scottish Water upon contract expiry.

Figure 31: Scottish Water's operating and PFI expenditure proposal for SRC27[387]



6.4.3 Table 111 below provides the breakdown of Scottish Water's operating expenditure into the individual components, starting from the £511 million of operating expenditure in the base year 2024-25.

[386] Scottish Water (2026), 'SR27 Final Business Plan: Table 7 – Other Costs and Assumptions', 26 February 2026.
[387] Figure in 2024-25 prices.

Table 111: Scottish Water's proposals for additions to base operating expenditure[388]

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total over SRC27
Operating expenditure 2024-25	£511m	£511m	£511m	£511m	£511m	£511m	
Additional costs arising in 2025-26 and 2026-27	£2m	£2m	£2m	£2m	£2m	£2m	**£14m**
Energy costs	£18m	£18m	£18m	£18m	£18m	£18m	**£108m**
RBMP3 chemical costs	£8m	£8m	£8m	£8m	£8m	£8m	**£46m**
Labour real price effects	£1m	£2m	£3m	£5m	£6m	£7m	**£25m**
Increase in pension contributions	£0m	£0m	£0m	£7m	£7m	£7m	**£22m**
Bad debt	£1m	£2m	£3m	£4m	£5m	£6m	**£21m**
New operating expenditure from enhancement	£1m	£2m	£2m	£3m	£4m	£5m	**£16m**
Leakage and non-household smart metering impact on operating costs	£0m	-£1m	-£1m	-£2m	-£3m	-£3m	**-£11m**
Productivity improvements efficiency	-£4m	-£8m	-£11m	-£15m	-£20m	-£24m	**-£82m**
Returning PFI	£41m	£41m	£67m	£75m	£80m	£87m	**£391m**
Forecast operating expenditure, including PFI return	**£579m**	**£578m**	**£602m**	**£615m**	**£618m**	**£624m**	**£3,617m**
Forecast operating expenditure, excluding PFI return	**£538m**	**£536m**	**£535m**	**£541m**	**£539m**	**£537m**	**£3,226m**

6.4.4 As shown in Table 111, Scottish Water forecasts its operating expenditure to increase from £511 million in 2024-25, to £624 million in 2032-33. However, this increase is partly due to the return of former PFI sites, for which Scottish Water will incur operating expenditure for the first time in the 2027-33 regulatory period. Excluding former PFI sites, Scottish Water's underlying like-for-like operating expenditure increases from £511 million in 2024-25 to £538 million in 2027-28, with operating expenditure remaining around this level over the 2027-33 regulatory period.

6.5 Our Draft Determination allowance, overall consultation responses and new information

6.5.1 The Draft Determination allowed for £3,401 million of operating expenditure and £435 million of PFI contract expenditure. This section summarises the overarching consultation responses on the scale and approach to operating expenditure. The sections that follow

[388] Table in 2024-25 prices.

consider the more detailed responses and new evidence relating to individual operating expenditure items, and explain any resulting changes to our allowance.

6.5.2 Consultation question 5 asked to what extent respondents agreed with our proposal for operating expenditure.

- 15 respondents answered 'agree' or 'strongly agree';
- 18 respondents answered 'neither agree nor disagree';
- 8 respondents answered 'disagree' or 'strongly disagree'; and
- 9 respondents provided no direct answer.

6.5.3 Respondents who answered 'agree' or 'strongly agree' gave several reasons, including:

- 5 respondents welcomed the scrutiny of operating expenditure in ensuring value-for-money, with 2 of these respondents requesting close monitoring during the period to ensure that these efficiencies do not come at the expense of service delivery;
- 1 respondent called for incentives alongside smart meter roll-out for operational demand and reduced expenditure; and
- 9 provided no further comment.

6.5.4 Respondents who answered 'disagree' or 'strongly disagree' gave several reasons, including:

- 4 respondents considered that the efficiency challenge should be greater;
- 2 respondents raised concerns regarding traffic management costs in connection to hydrant works that have increased 300% in a year and the lack of transparency of those costs;
- 1 respondent considered the efficiency challenge too high and that this could create delivery risks; and
- 2 provided no further comment.

6.5.5 Respondents who answered 'neither agree nor disagree' raised similar points to those above. One respondent also noted that the treatment of returning PFI sites merits further scrutiny, recognising the inherent uncertainty in their operating costs. The respondent requested more explicit mechanism for reviewing returning PFI costs.

6.5.6 Scottish Water considered that the Draft Determination does not provide sufficient funding for operating expenditure. It considered that the combined impact of the proposed

efficiency assumptions and cost adjustments would reduce the funding available for investment and consequently the outcomes delivered to customers.[389]

6.5.7 In terms of qualitative responses, Consumer Scotland highlighted that Scottish Water should consider prevention and behaviour change alongside traditional operational efficiencies. By helping customers reduce their consumption, Scottish Water can reduce avoidable expenditure as well as protect both infrastructure and the environment.[390]

6.5.8 DWQR sought assurances that the agreed programme remains deliverable within the regulatory period and that any operational efficiency challenges do not adversely impact essential activity or the maintenance of assets.[391]

6.5.9 The Scottish Government finalised its Ministerial Objectives and Principles of Charging. The final Ministerial Objectives cover requirements for investment planning, which includes Scottish Water demonstrating how investment planning has considered opportunities for coordinated, system-wide and place-based approaches, where such approaches could deliver improved outcomes, resilience or long-term value.[392] In practical terms, we understand that this captures Scottish Water's support for the Scottish Government's system-based policy work.

6.5.10 Scottish Water has also reported its actual operating and PFI expenditure for 2025-26. As such, we take this new information into account in our Final Determination.

6.5.11 Overall, we consider that the consultation responses reinforce the need for Scottish Water to have sufficient funds to provide a reliable water service while also ensuring that Scottish Water's operating expenditure is efficient and any increases are well evidenced.

6.5.12 The following sections consider each operating expenditure area in turn. For each area, we summarise the position set out in the Draft Determination, the more specific consultation responses in each area and any new information provided. We then set out our final decision and any adjustment to the operating expenditure allowance.

6.6 Operating expenditure efficiency

6.6.1 As set out in the section 6.2, there are several factors that impact operating expenditure efficiency during the regulatory period. This section examines the scope for catch-up efficiency and Scottish Water's special factors claims. The additional operating expenditure associated with operating the returning PFI sites has been excluded to ensure expenditure

[389] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 6.2.1.
[390] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.28.
[391] DWQR (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 31 August 2026, p.2.
[392] Scottish Government (2026), 'Water Industry: Strategic Review of Charges for regulatory period 2027-33: Ministerial Objectives', 23 October 2026.

is comparable over time. The expenditure associated with PFI sites is covered separately in section 6.8.

Catch-up efficiency

Background

6.6.2 The Final Methodology set out that for catch-up efficiency, the starting point was for Scottish Water to apply statistical models that seek to compare or benchmark the levels of operating expenditure across companies in Great Britain, to identify an efficient level of expenditure. This benchmarking provides an overall assessment, enabling WICS to form a view of relative efficiency levels.

6.6.3 As set out in paragraphs 5.10.4 and 5.10.5, WICS does not use econometric models mechanistically to set expenditure allowances. Instead, WICS has undertaken a detailed assessment of Scottish Water's proposed additions to operating expenditure, evaluating their merits by reviewing cost categories and supporting evidence. This approach allows us to consider specific cost drivers directly within our expenditure assessment and inherently captures elements that might otherwise be addressed through a separate RPE adjustment, such as energy and chemical costs.

6.6.4 WICS and Scottish Water engaged in developing a shared understanding of the data set and methodological adjustments required to run the econometric models.

6.6.5 In technical appendix 12 (TA012), Scottish Water explained how it has used the base expenditure models created by Ofwat for the price review in 2024 (PR24) to assess its efficiency on operating expenditure.[393] The base cost models excluded expenditure outside management control, such as local authority rates and service charges (e.g. abstraction licences paid to SEPA). In line with this, PFI fees have been excluded to examine the underlying operating expenditure over which Scottish Water has control. This leaves items that water companies control, such as staff costs, energy, and materials.

6.6.6 For its business plan, Scottish Water adjusted the water operating expenditure only models to account for Scottish Water's specific circumstances and to improve the statistical significance of the models. Specifically, Scottish Water used a different density variable in the water distribution models, [394] arguing that this better captures its operating circumstances and improves the model's significance.

6.6.7 Scottish Water also included a post-modelling adjustment to capture the effects of geographical dispersion on water treatment costs.[395] Scottish Water did so because it had

[393] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 012 – Efficiency', 26 February 2026, p.10.
[394] Scottish Water has used weighted average density weighted by area as opposed to the weighted average density weighted by population as used in the water resources and treatment and wholesale models.
[395] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 012 – Efficiency', 26 February 2026, p.82.

not found an explanatory variable that accurately captures the cost associated with the number of small water treatment works in the models. Scottish Water explained that the number of small treatment works is a factor outside its control, as it is a consequence of its operational area, and that it differs significantly from the water companies in England and Wales against which it is being benchmarked. Scottish Water presented evidence of this adjustment as a special factor adjustment.

6.6.8 Based on this analysis, Scottish Water considered itself among the leading water and wastewater companies in Great Britain in terms of operating expenditure efficiency, once it accounted for its higher levels of spending on asset maintenance and the relative rurality of its operating area.[396] Table 112 shows the results from Scottish Water's analysis of applying Ofwat's base cost models on an operating expenditure only basis. In the table, a score above 1 indicates the company is inefficient relative to the benchmark; a score of 1 indicates the company is in line with the benchmark; and a score below 1 indicates the company is more efficient than the benchmark.

Table 112: Scottish Water base cost models re-run as operating expenditure only relative to benchmark

Models re-run using operating expenditure only	Excluding special factor	Including special factor
Scottish Water water efficiency score relative to median[397]	0.93	0.89
Scottish Water water efficiency score relative to upper-quartile	1.00	0.96
Scottish Water wastewater efficiency score relative to median[398]	0.88	0.88
Scottish Water wastewater efficiency score relative to upper-quartile	0.99	0.99

6.6.9 Scottish Water's analysis suggested that its operating expenditure efficiency is broadly in line with the leading companies (based on the upper quartile) for the water and wastewater services, excluding PFI assets and expenditure.[399]

Our assessment in the Draft Determination

6.6.10 WICS Draft Determination built upon the water models in two ways.

6.6.11 Firstly, by adopting consistent measures of density across the different models to ensure density is captured consistently at a company level. We noted that Scottish Water has included weighted average density, weighted by area, in its water distribution models. While the inclusion increases the statistical significance of the treated water distribution

[396] Scottish Water (2026), 'Final Business Plan 2027-2033: investing in Scotland's future', 26 February 2026, p.137.
[397] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 012 – Efficiency', 26 February 2026, p.85.
[398] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 012 – Efficiency', 26 February 2026, p.106.
[399] The median is the middle ranking company when companies are arranged from most to least efficient. The upper quartile is the top-performing 25% of companies.

models, conceptually, it was unclear why different density measures would be required across value chain activities. We also considered that using consistent density measures across the models would improve their reliability.

6.6.12 Secondly, ensuring that the models include statistically significant explanatory variables, as well as economic and engineering justification. We noted that in the models, the variable average pumping head was not statistically significant in the treated water distribution models with p-values ranging from 70% to 99%. As such, we considered that other variables may be more accurate drivers of costs than the average pumping head is in operating expenditure-only models.

6.6.13 WICS conducted its own benchmarking of Scottish Water's operating expenditure compared to the expenditure of the other water and wastewater companies in Great Britain. As outlined in 6.6.4, WICS and Scottish Water engaged to develop a shared dataset to run the econometric models. Following this engagement, Ofwat published 2024-25 data for its base models.[400] We incorporated the 2024-25 data for both the England and Wales companies and Scottish Water into our modelling.

6.6.14 We adjusted the models to take account of Scottish Water's specific circumstances and to improve their statistical significance on an operating expenditure-only basis. The following paragraphs provide an overview of the changes to each model for our Draft Determination.

6.6.15 In the water models, we made two adjustments. The first was to exclude models that contain one of the weighted-average density variables.[401] In its final business plan, Scottish Water explained that this variable does not accurately reflect the density of its operational area and therefore did not reflect its higher costs of serving a more sparsely populated area compared to companies in England and Wales. Our analysis excluded models that use this particular measure of density to better reflect Scottish Water's circumstances, thereby improving the statistical significance of the models.

6.6.16 The second was to use booster pumping capacity per length of mains, in place of the average pumping head variable. Both variables reflect the geography and topography of a company's operating area: a larger, more dispersed area would require more pumping to transport water and is expected to result in higher operating expenditure. We made this change, recognising that the average pumping head variable loses significance in operating-expenditure-only models, and that the models' significance improves when using booster capacity per unit length of mains instead.

[400] Ofwat (2025), 'Competition and Markets Authority references', 2 October 2025.

[401] The variable is 'lnWAD_MSOA_population', which is the weighted average density based on the geographical area measurement Middle layer Super Output Areas (MSOA). A weighted average density measure based on local authority area remains in WICS' modelling. Appendix 3 provides details on the explanatory variables used in the efficiency modelling.

6.6.17 In the wastewater models, we mirrored Scottish Water's 'bottom-up' approach, using sewage collection and treatment models.[402] We also did not use the bioresources models for historical expenditure, recognising that over the historical modelling period, most of Scottish Water's biosolids are treated, recovered or disposed of through PFI contracts. However, we used these models to forecast an efficient level of operating expenditure for the PFI assets that return to Scottish Water.

6.6.18 Table 113 shows the results of WICS' modelling compared to Scottish Water's analysis before any special factor adjustment. The adjustments take further account of Scottish Water's specific circumstances, such as population density, and improve the statistical significance of the models. A combined efficiency score comparing Scottish Water relative to the Water and Sewerage Companies (WaSCs) in England and Wales has also been provided.

Table 113: Scottish Water and WICS operating expenditure only models relative to benchmark

Models re-run using operating expenditure only	Scottish Water's results	WICS results
Scottish Water water efficiency score relative to median	0.93	0.95
Scottish Water water efficiency score relative to upper-quartile	1.00	1.02
Scottish Water wastewater efficiency score relative to median	0.88	0.85
Scottish Water wastewater efficiency score relative to upper-quartile	0.99	0.90
Scottish Water combined efficiency score relative to the upper-quartile of the England and Wales WaSCs	Not undertaken	0.97

6.6.19 We considered that the improvement in efficiency scores in the wastewater models is a result of the additional year of data, which reflected an overall increase in water company costs in England and Wales, including higher electricity costs associated with the modelling period changing from 2019-20 to 2023-24, then to 2020-21 to 2024-25.[403] Scottish Water had not experienced the same impact from higher electricity costs as companies in England and Wales, due to its pre-purchasing of energy in 2021.

Draft Determination consultation responses and new information

6.6.20 Scottish Water welcomed the inclusion of 2024-25 data, and the use of relevant, up-to-date information where available, in the operating expenditure efficiency modelling.[404]

[402] 'Bottom up' refers to the language used by Ofwat and Scottish Water in reference to the approach in the efficiency modelling. In this context it means the sum of the parts of the value chain, as opposed to on a wholesale basis. WICS considers this assessment as being a 'top down' view of efficiency.
[403] Ofwat (2024), 'PR24 Draft Determinations Expenditure allowances – Base cost modelling decision appendix', July 2024, p.27.
[404] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 5a – Opex Benchmarking', 1 September 2026, p.5.

6.6.21 Scottish Water welcomed our exclusion of one of the density variables used in Ofwat's models. However, Scottish Water did not consider the remaining two density measures to accurately capture the efficient costs for Scottish Water's water distribution network. Scottish Water considered that a density measure weighted by area should be included within the suite of water distribution models to better capture Scottish Water's circumstances.[405]

Our assessment in the Final Determination

6.6.22 We have updated the operating expenditure efficiency modelling with 2025-26 data sourced from the preliminary submission of Scottish Water's 2025-26 Annual Return and the Annual Performance Reports for 2025-26 published by the companies in England and Wales. The results of this analysis are shown in Figure 34.

6.6.23 We note Scottish Water's comments on the inclusion of a density measure weighted by area. We conclude that an area-weighted density measure is not required in water distribution models. We consider that such a measure may not fully reflect the costs of operating Scottish Water's water distribution network, given the large areas in Scotland that are uninhabited compared with England and Wales. We also have lower confidence in the area-weighted density measure, as it is not statistically significant for water resources and treatment. This contrasts with our chosen density measures, which are broadly significant in both water resources and treatment and water distribution models.

6.6.24 Additionally, we note that the density measures used in the modelling are an average density for companies' operating areas. We recognise that Scottish Water has large areas with low density. However, it also has areas of higher density compared to some other companies. For example, none of the water companies with lower values in the density measures include a city with a population of either Edinburgh or Glasgow.

6.6.25 Finally, we also consider that adjusting the models to use area-based density or allowing for a special factor adjustment has no material impact on the allowances in the Final Determination. As such, we make no further adjustment to the econometric models for density.

[405] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 5a – Opex Benchmarking', 1 September 2026, pp.6-10.

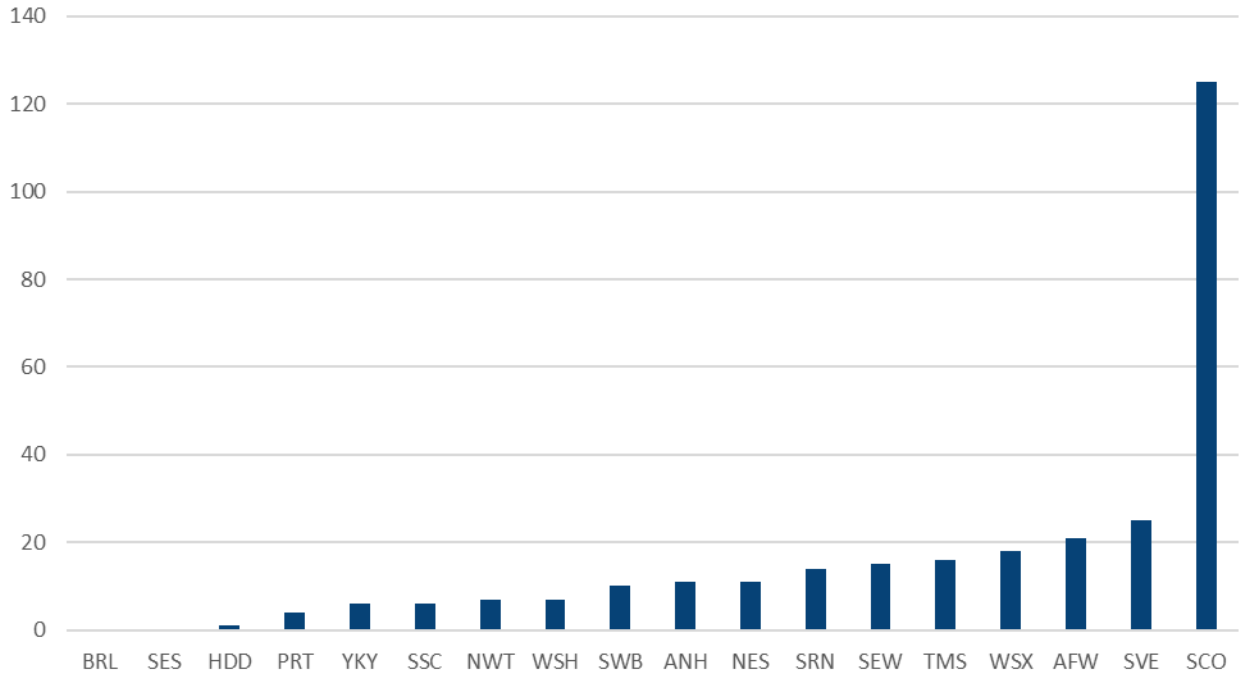
Special factors

Background

6.6.26 As mentioned in 6.6.7, Scottish Water proposed a post-modelling adjustment for the number of small water treatment works that it operates compared to the companies in England and Wales.

6.6.27 Figure 32 shows that Scottish Water is a statistical outlier in the number of water treatment works it operates in the smallest size band compared to the companies in England and Wales.[406] Scottish Water claimed that this is not adequately captured in the models, as the issue is not the distribution input of small water treatment works, but the unit cost of small treatment works. Scottish Water accounted for this by following the approach used in the wastewater models, where septic tanks are excluded, and by excluding the small water treatment works above the median level in England and Wales, along with the corresponding distribution input from those works. Scottish Water calculated the cost of this to be £7.1 million per year.

Figure 32: Number of water treatment works in the smallest size band



Our assessment in the Draft Determination

6.6.28 WICS assessed Scottish Water's special factor claim using the following criteria:

[406] Scotland and England use different size bands for water treatment works. The smallest size band in Scotland is <= 1 Ml/d and in England and Wales it is <=2 Ml/d. On a like-for-like basis, Scottish Water would likely operate more water treatment works than Figure 32 shows.

- Does the claim relate to unique circumstances compared to the companies in England and Wales;
- Is the claim under management control; and
- Is the claim material.

6.6.29 Based on these criteria, WICS considered that Scottish Water had provided sufficient evidence to justify a special factor adjustment for the number of small treatment works.

6.6.30 However, WICS' water resources and treatment models are better suited to Scottish Water's circumstances than the models Scottish Water has used. WICS' models provided an additional £1.7 million in water resources and treatment compared to Scottish Water's. As such, we will adjust Scottish Water's modelled expenditure by £5.4 million.

Draft Determination consultation responses and new information

6.6.31 Scottish Water considered that if the density weighted by area measure was not included within the water distribution models, then an additional special factor adjustment should be applied to reflect the impact of geographic dispersion on Treated Water Distribution costs. Scottish Water estimated the scale of this to be £4 million per year on the basis of the effect of including a density weighted by area measure would have on the modelled allowance.[407]

Our assessment in the Final Determination

6.6.32 The points in paragraphs 6.6.23 to 6.6.25 also apply here. As such, we make no further adjustment to the econometric models for density.

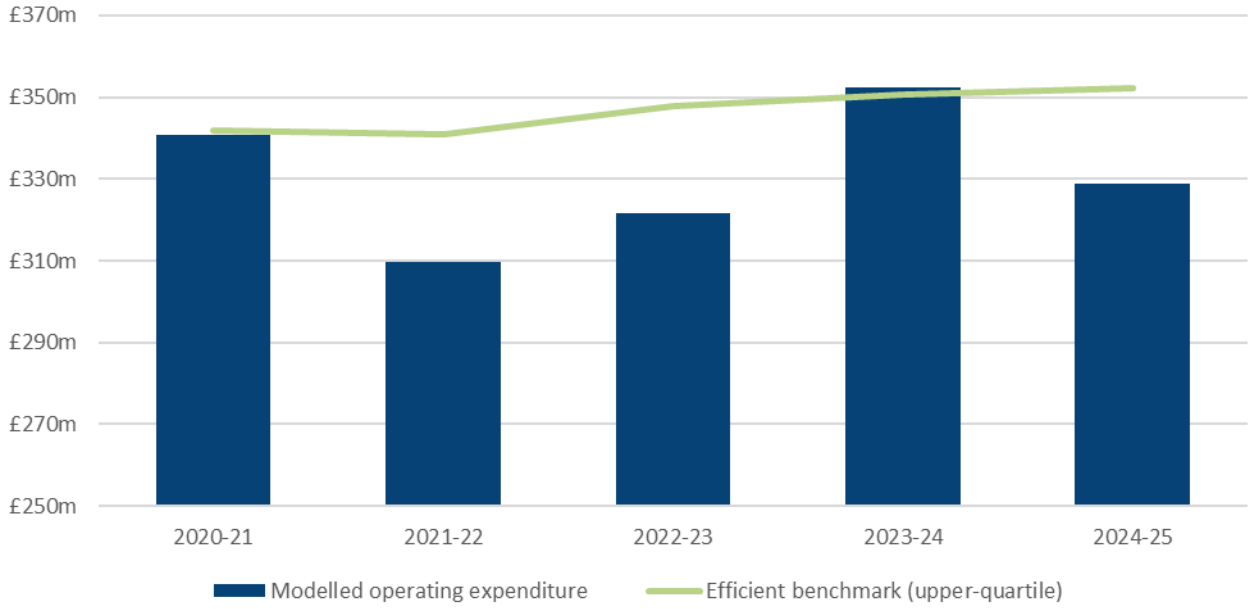
Scottish Water's efficiency position

Our assessment in the Draft Determination

6.6.33 Figure 33 compares Scottish Water's actual operating expenditure used for benchmarking purposes post special factor adjustment (as shown by the blue bars) to an efficient benchmark based on an upper quartile level of efficiency (as shown by the green line) from 2020-21 to 2024-25 based on the analysis from the Draft Determination.[408] This figure shows that Scottish Water's operating expenditure efficiency was generally lower than the efficiency benchmark over this period, consistent with Scottish Water's findings. Scottish Water's operating expenditure for the modelling was £331 million (2024-25 prices) on average over the 2020-21 to 2024-25 period, with the efficient benchmark at £347 million (2024-25 prices) over the same period.

[407] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 5a – Opex Benchmarking', 1 September 2026, p.10.
[408] The expenditure used for benchmarking excludes costs outside of management control such as local authority rates.

Figure 33: Modelled operating expenditure versus efficient benchmark post special factor adjustment[409]



6.6.34 As explained in our Draft Determination, we considered that this position reflects Scottish Water's contract to pre-purchase around 50% of the electricity that it consumes.[410] As a result, Scottish Water has significantly lower electricity costs than the companies in England and Wales over the modelling period.

Draft Determination consultation responses and new information

6.6.35 Scottish Water disagreed with WICS' modelling of operating expenditure without power costs, with Scottish Water considering that the results of analysis of a subset of operating expenditure will reflect factors other than efficiency. Scottish Water noted that removing energy costs from the benchmarking analysis results in Scottish Water moving from 2nd place to 4th place in the ranking of companies on efficiency. Scottish Water considered that running the models excluding energy costs did not provide a reliable basis for reaching this view on efficiency.[411]

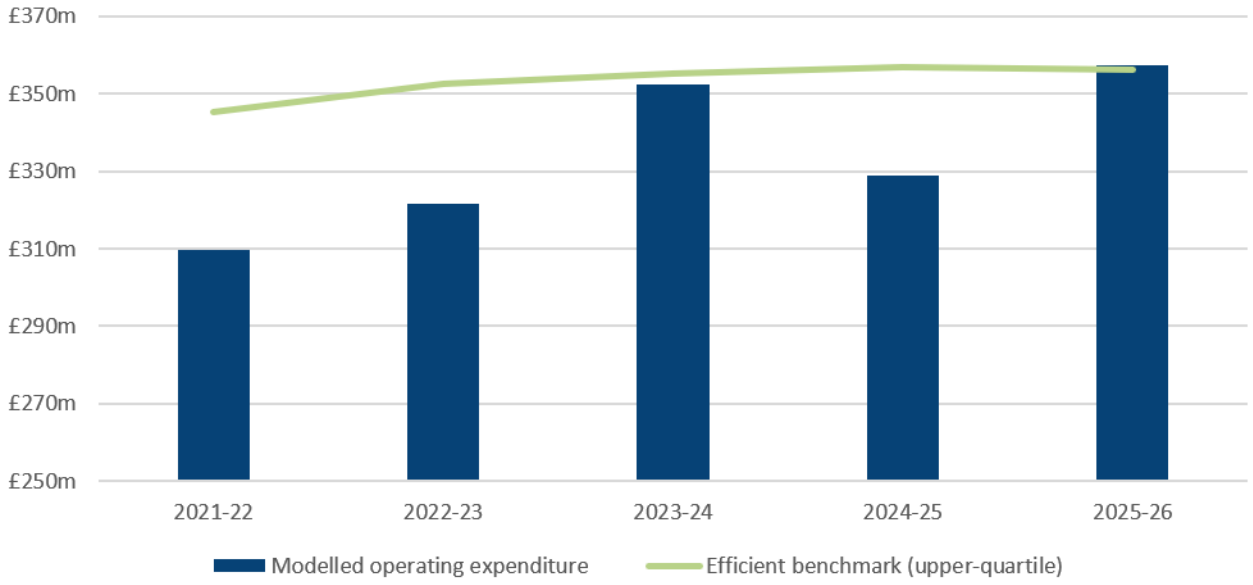
Our assessment in the Final Determination

6.6.36 As explained in 6.6.23paragraph 6.6.22, we have updated the models to include 2025-26 data. The results are shown in Figure 34. Scottish Water's operating expenditure efficiency maintains its position as generally lower than the efficiency benchmark over this period.

[409] Figure in 2024-25 prices.
[410] Scottish Water (2026), 'SR27 Final Business Plan: Table 7 – Other Costs and Assumptions Commentary', 26 February 2026, p.6.
[411] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 5a – Opex Benchmarking', 1 September 2026, pp.11-13.

Scottish Water's operating expenditure used for the modelling was £334 million (2024-25 prices) on average over the 2021-22 to 2025-26 period, with the efficient benchmark at £353 million (2024-25 prices) on average over the same period.

Figure 34: Modelled operating expenditure versus efficient benchmark post special factor adjustment including 2025-26 data[412]



6.6.37 We also note that expenditure in England and Wales increased at a faster rate than Scottish Water's expenditure between 2024-25 and 2025-26.[413] This also improves Scottish Water's relative efficiency position over the period. We will examine this further during the 2027-33 regulatory period, including whether Scottish Water's relative efficiency position partly reflects differences in how Scottish Water and the companies in England and Wales expense or capitalise certain costs.

6.6.38 Overall, Scottish Water maintains a position broadly in line with the upper-quartile benchmark regardless of whether energy costs are included or excluded. Based on this analysis we confirm that we do not apply catch-up efficiency for Scottish Water's operating expenditure in the Final Determination.

6.7 Assessing Scottish Water's proposals for additions to operating expenditure

6.7.1 As explained in 6.2.11, our approach in SRC27 is to review Scottish Water's assessment of its efficiency position obtained from applying econometric models and then conduct a disaggregated assessment of movements in its cost base. This contrasts with the approach

[412] Figure in 2024-25 prices.
[413] Scottish Water's average operating expenditure increased by £3m in real terms but the upper-quartile benchmark increased by £6m.

taken by other regulators. For example, in PR24, Ofwat used the results from econometric models, alongside RPEs, to capture movements in the cost base, to make allowances. The following section contains the disaggregated assessment of movements in Scottish Water's cost base.

6.7.2 Scottish Water proposed several adjustments to its operating expenditure forecasts in the 2027-33 regulatory period. These cover:

- Additional costs arising in 2025-26 and 2026-27;
- Electricity;
- Chemical costs related to achieving River Basin Management Plan 3 (RBMP3) requirements;
- Pension contributions;
- Bad debt;
- Additional operating expenditure arising from investment;
- Real price effects; and
- Productivity improvements.

6.7.3 We cover each item in turn.

Additional costs arising in 2025-26 and 2026-27

6.7.4 Scottish Water's business plan proposed additional costs in 2025-26 and 2026-27 covering several areas, including higher employment costs, higher National Insurance contributions, and higher electricity costs. These increases were offset by lower cloud computing arrangement costs, lower property costs, and improved efficiencies in business planning processes. The net effect over the 2027-33 regulatory period was an increase of £2.4 million per year, or £14 million in total.

6.7.5 Scottish Water also proposed a £2.9 million annual increase (£5.4 million before capitalisation) for an increase in employer National Insurance contributions as decided in the UK Government Autumn budget 2024.[414]

Our assessment in the Draft Determination

6.7.6 We considered that these costs will impact all employers in the economy and will either be passed on to consumers through higher prices in the general economy, and therefore be reflected in inflation,[415] or result in lower wage growth going forward. If these costs are passed on to consumers through higher prices and reflected in inflation, then Scottish Water should be insulated from these additional costs, given that its revenue is linked to

[414] UK Government (2024), 'Autumn Budget 2024', October 2024.
[415] House of Lords Economic Affairs Committee (2024), 'Corrected oral evidence: Economic inactivity: welfare and long-term sickness', 26 November 2024.

the consumer price index measure of inflation. Ofgem reached a similar view in its Final Determinations for electricity transmission, gas distribution, and gas transmission.[416]

6.7.7 These increases are in 2025-26 and 2026-27; however, we did not consider it appropriate to include this expenditure over the 2027-33 regulatory period. Furthermore, our Draft Determination removed the element of the increase in national insurance contributions in employment costs that Scottish Water has included in the capital investment programme (around £2.5 million a year, or £15 million over the 2027-33 regulatory period), as set out in paragraph 5.10.18.

Draft Determination consultation responses and new information

6.7.8 As discussed in 5.10.19, Scottish Water did not agree with the removal of national insurance costs as it considered that it effectively increased its efficiency challenge, despite Scottish Water considering that it had demonstrated that it is broadly efficient.[417] Scottish Water cited OBR commentary suggesting that 20% of the increase in national insurance would be reflected in CPI inflation. Scottish Water also notes that there remains a cost to Scottish Water in respect of the proportion of national insurance costs that pass through into lower real wages.[418]

Our assessment in the Final Determination

6.7.9 We cover national insurance contributions in paragraph 5.10.20 and do not allow this expenditure over the 2027-33 regulatory period. Table 114 shows WICS' Final Determination allowance for additional costs arising in 2025-26 and 2026-27.

Table 114: WICS decision on additional costs arising in 2025-26 and 2026-27[419]

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	SRC27 total
Scottish Water's final business plan	£2.4m	£2.4m	£2.4m	£2.4m	£2.4m	£2.4m	£14m
WICS Draft Determination	-£0.5m	-£0.5m	-£0.5m	-£0.5m	-£0.5m	-£0.5m	-£3.3m
Scottish Water's Draft Determination response	£2.4m	£2.4m	£2.4m	£2.4m	£2.4m	£2.4m	£14m
WICS Final Determination	**-£0.5m**	**-£0.5m**	**-£0.5m**	**-£0.5m**	**-£0.5m**	**-£0.5m**	**-£3.3m**

[416] Ofgem (2025), 'RIIO-3 Final Determinations Overview Document', 4 December 2025, p.97.
[417] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 5.2.8.
[418] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 1 – Frontier Shift and RPEs', 1 September 2026, pp.12-13.
[419] Table in 2024-25 prices.

Energy

6.7.10 Energy costs are an item that other economic regulators treat as a real price effect; however, we examine them on a disaggregated basis. Scottish Water's business plan proposed an increase in operating expenditure of £7.9 million in 2025-26 and an additional £10 million in 2027-28 relating to electricity costs. Scottish Water explains that the £7.9 million increase in 2026-27 is due to an increase in non-commodity electricity costs as a result of Ofgem's draft transmission, capacity mechanism and nuclear charges. The £10 million increase in 2027-28 was due to the expiry of a long-term power purchase agreement under which Scottish Water fixed the price of around half of its electricity requirements. Taken together, Scottish Water forecast that it would require a further £18 million per year in operating expenditure, equivalent to £108 million over the 2027-33 regulatory period.

Our assessment in the Draft Determination

6.7.11 For the increase in non-commodity electricity costs, we requested additional information for this evidence, but Scottish Water did not provide it. While there may be legitimate reasons for this increase, we did not consider it well-justified. However, we considered that Scottish Water is likely to be able to evidence it in response to our Draft Determination. As such, we made a provision for it, which we would either confirm or remove in our Final Determination.

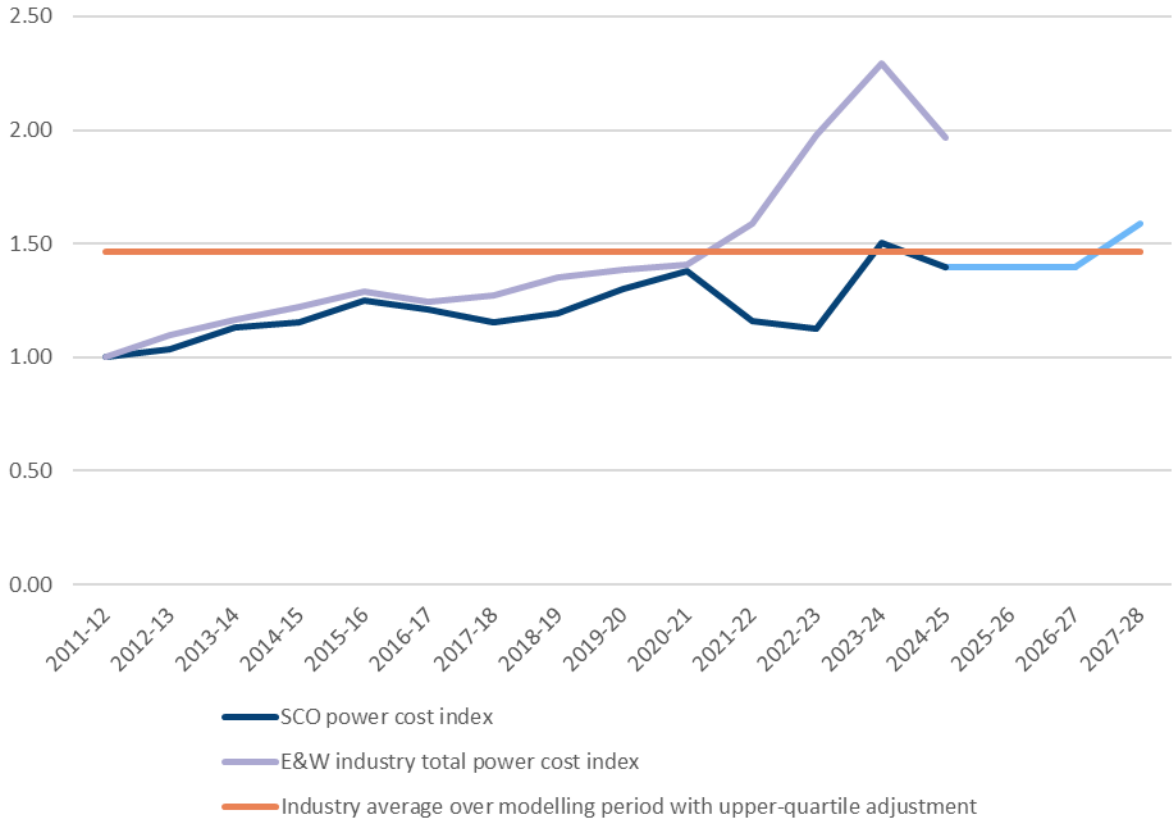
6.7.12 For the increase of £10 million in 2027-28 relating to electricity costs, this is due to the ending of pre-purchasing agreements, which fixed around half of its grid electricity requirements over the 2021-27 regulatory period.[420]

6.7.13 WICS analysis showed that Scottish Water's electricity costs per GWh had increased 50% between 2021-22 and 2024-25, while the electricity industrial consumer index in Great Britain has increased 75% over the same period.[421] As such, Scottish Water's electricity costs have increased at a lower rate than equivalent industrial users over the same period.

6.7.14 We considered that the benchmarking undertaken by WICS would reflect the higher energy costs in England and Wales.[422] For a claim to be justified, the increase would need to exceed the average level of expenditure included in the modelling. Figure 35 shows the average power costs across the water industry in Great Britain against Scottish Water's proposals for additional electricity costs based on the analysis from the Draft Determination.

[420] Scottish Water (2026), 'SR27 Final Business Plan: Table 7 – Other Costs and Assumptions Commentary', 26 February 2026, p.6.
[421] Department for Energy Security and Net Zero (2026), 'Industrial energy price indices', 7 April 2026.
[422] An implicit allowance is an element, in cash terms, of the operating expenditure benchmark which can be considered available for funding certain elements of operating expenditure. In this circumstance, it is the element of the efficient benchmark which is available for funding power costs.

Figure 35: Scottish Water's additional electricity proposal against the industry average



6.7.15 The orange line in Figure 35 represents the average level of expenditure in the models. We would consider only an increase above this level justified, as any increase up to the orange line should be reflected in our assessment of operating expenditure efficiency. Scottish Water was £3.5 million below the orange line, and the proposed £10 million increase in 2027-28 would take it to £6.5 million above it. As such, WICS considered that a £6.5 million increase, or £39 million over the 2027-33 regulatory period, was justified.

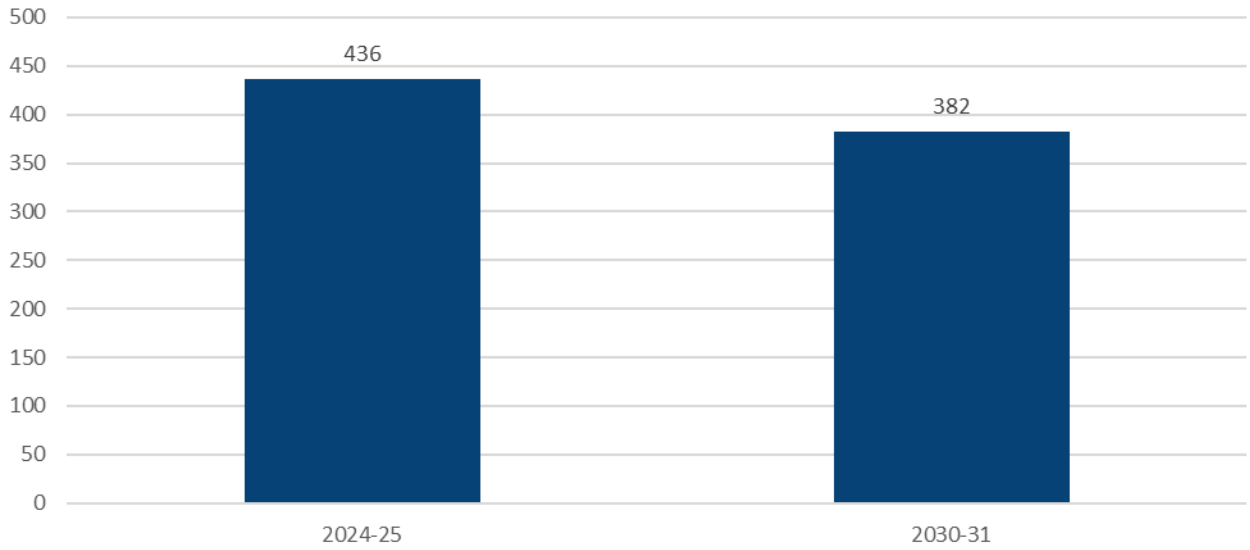
6.7.16 Our Draft Determination considered whether there were any offsetting factors. In SRC21, Scottish Water has invested significantly in schemes to reduce the electricity it draws from the grid. This includes investments to modernise pumping stations and increase their renewable energy output. We noted that these investments should result in a noticeable decrease in energy consumption and costs and should futureproof Scottish Water to future energy price shocks.

6.7.17 In addition to its investments in SRC21, Scottish Water's business plan proposed further investment in renewable energy generation in the 2027-33 regulatory period, increasing annual generation by 77 GWh in 2030-31.[423] This increase in renewable energy generation should result in a corresponding decrease in the cost of purchasing grid electricity, either

[423] Scottish Water (2026), 'SR27 Final Business Plan: Table 2 – Enhancement and Growth Outputs and Investments', 26 February 2026.

by Scottish Water using the renewable energy itself or by funding it with revenue generated from exporting the renewable energy. 23 GWh per year of this increase will offset all grid electricity from the West Central Bioresources facility, where the renewable energy assets will be situated, leaving a reduction in grid electricity consumption of 54 GWh per year. Figure 36 shows the decrease in grid electricity consumption that should occur when the renewable energy becomes available.

Figure 36: Scottish Water's grid electricity consumption (GWh)



6.7.18 Our Draft Determination noted that this reduction in grid electricity consumption would result in an £11 million annual reduction in electricity costs for Scottish Water from 2030-31. However, this reduction is contingent on the West Central Bioresources project. As such, we proposed that this reduction could offset the conditional charge cap for West Central Bioresources. This is explained further in Chapter 8 and Chapter 9.

6.7.19 Table 115 shows the change in energy costs over the regulatory period from 2024-25. The additional energy costs to be evidenced are presented in square brackets, as we made a provision for them, which we would either confirm or remove in our Final Determination, subject to Scottish Water providing further evidence.

Table 115: Change in Scottish Water's energy costs from 2024-25[424]

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	SRC27 total
Change in Scottish Water's energy costs from 2024-25	£6.5m	£6.5m	£6.5m	£6.5m	£6.5m	£6.5m	£38.9m
[Additional energy costs to be evidenced]	*[£7.9m]*	*[£7.9m]*	*[£7.9m]*	*[£7.9m]*	*[£7.9m]*	*[£7.9m]*	*[£47.5m]*

Draft Determination consultation responses and new information

6.7.20 Scottish Water provided additional evidence of the increase in non-commodity electricity costs that we considered was not evidenced in the Draft Determination. Scottish Water has estimated its increase in non-commodity energy costs by averaging low, mid, and high forecasts from two external advisors, resulting in an energy non-commodity forecast unit rate of £152/MWh. It then applies this unit rate to the expected 2026-27 energy consumption of 434,608 MWh. This gives a total non-commodity expenditure of £65.9 million in 2026-27 which is an £8.3 million difference from 2025-26. This equates to a £7.9 million increase after converting the difference to the business plan's 2024-25 price base.[425]

6.7.21 Scottish Water does not agree that the approach WICS adopted in the Draft Determination, which included a cost challenge on the expenditure associated with the ending of the power purchase agreements. Scottish Water considered that it effectively imposed a catch-up efficiency challenge when Scottish Water had an upper-quartile level of efficiency.[426]

6.7.22 Scottish Water considers that the reasoning underpinning the £3.5 million annual energy cost challenge in the Draft Determination is not appropriate. Scottish Water considered that it is not reasonable to isolate a single cost in the benchmarking and make specific adjustments for that cost without taking into account the overall view of efficiency, and proposed an alternative approach.[427]

6.7.23 Consumer Scotland requested greater clarity on the duration of the power purchase agreements and the extent to which future cost forecasts assume continued protection from energy price volatility. Consumer Scotland noted that as the contracts unwind,

[424] Table in 2024-25 prices.
[425] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 5d – Operating cost adjustments', 1 September 2026, pp.14-16.
[426] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 6.2.9.
[427] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 5d – Operating cost adjustments', 1 September 2026, pp.4-8.

Scottish Water may face increased exposure to higher energy costs, which may impact customers through lower investment or increasing customer charges.[428]

Our assessment in the Final Determination

6.7.24 WICS considers that Scottish Water's additional evidence on the increase in non-commodity electricity costs is justified. However, we are applying a small adjustment to Scottish Water's methodology. We note that Scottish Water's unit rate is derived by averaging the low, mid, and high estimates. We consider it more prudent to use the average of the two mid estimates. This provides a unit rate of 149 £/MWh, which we note is equal to the current estimate from Scottish Water's provider. Applying this change to Scottish Water's expected energy consumption and adjusting for inflation gives an increase of £6.8 million for non-commodity costs.

6.7.25 We note Scottish Water's comments on the approach taken to the cost challenge on the expenditure associated with the ending of the power purchase agreements in the Draft Determination. We accept Scottish Water's comments in this area. Furthermore, we accept that disallowing costs in this way was indirectly applying a catch-up challenge on Scottish Water's operating expenditure. As such, we accept Scottish Water's proposed increases to expenditure for the end of the power purchase agreements.

6.7.26 We note Consumer Scotland's comments on the unwinding of the power purchase agreements. Scottish Water's current power purchase agreements expire on 31 March 2027.

6.7.27 Table 116 shows our decision on the change in energy costs over the regulatory period from 2024-25 as allowed in our Final Determination.

Table 116: WICS decision on energy costs[429]

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	SRC27 total
Scottish Water's final business plan	£17.9m	£17.9m	£17.9m	£17.9m	£17.9m	£17.9m	£107.6m
WICS Draft Determination	£12.0m	£12.0m	£12.0m	£12.0m	£12.0m	£12.0m	£72.3m
Scottish Water's Draft Determination response	£17.9m	£17.9m	£17.9m	£17.9m	£17.9m	£17.9m	£107.6m
WICS Final Determination	**£16.9m**	**£16.9m**	**£16.9m**	**£16.9m**	**£16.9m**	**£16.9m**	**£101.1m**

[428] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.28.
[429] Table in 2024-25 prices.

Chemical costs related to achieving the River Basin Management Plan 3 (RBMP3) requirements

6.7.28 Chemical costs are an item that some other economic regulators treat as a real price effect; however, we examine them on a disaggregated basis.

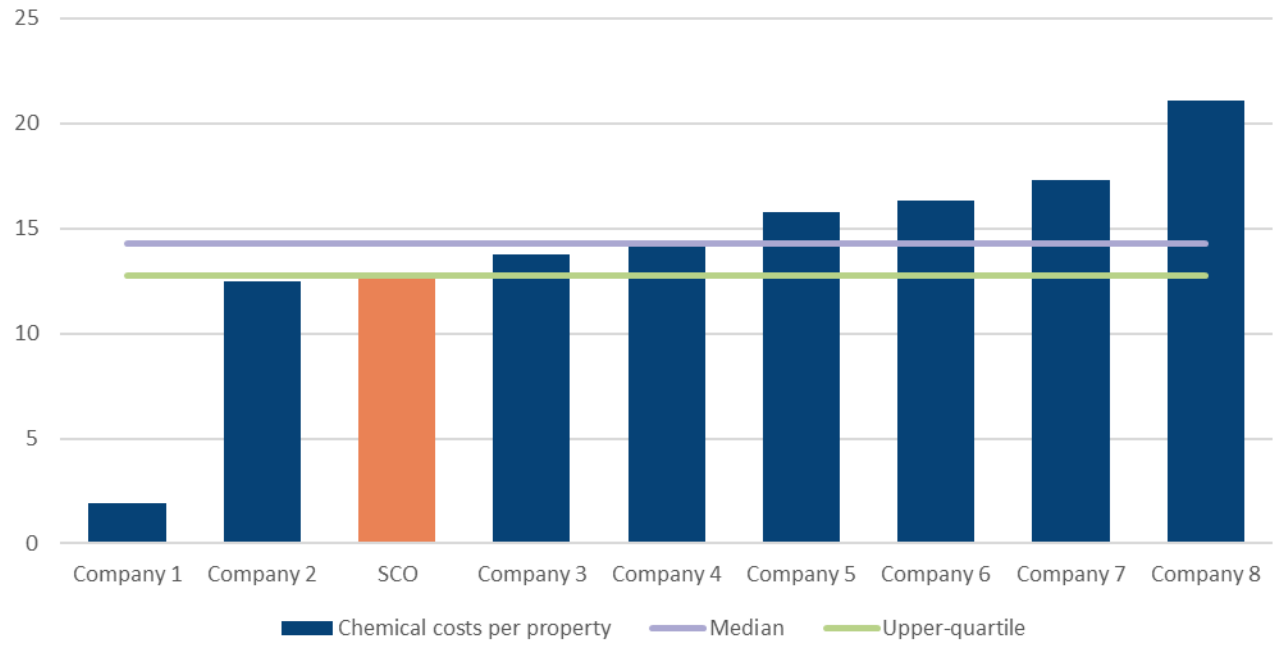
6.7.29 Scottish Water's business plan proposed an increase of £7.7 million from 2027-28 to meet new phosphorus standards starting in December 2027. This equalled £46 million over SRC27. As the increase is due to new phosphorus standards, it is outside Scottish Water's control.

Our assessment in the Draft Determination

6.7.30 We requested additional information justifying the proposed increase in chemical costs. Scottish Water submitted a scheme-by-scheme breakdown of the required chemicals and their associated costs. WICS considered this a sufficient justification for most costs; however, £0.72 million (2024-25 prices) in sludge costs is not explained.[430] As such, we considered that £7.0 million of Scottish Water's proposal is justified.

6.7.31 Our Draft Determination considered whether there were any offsetting factors. Our analysis indicated that Scottish Water is in line with the top-performing WaSCs in Great Britain on chemical costs per property. Figure 37 shows the results from this analysis.

Figure 37: WaSCs chemical costs per property



[430] The item named "Sludge per tonne Need to convert to M3 for tankering to STC's and add additional treatment (Costs from Waste Services)" is hard coded in Scottish Water's spreadsheet and no calculations for the value are provided.

6.7.32 Additional chemical costs would push Scottish Water above the upper quartile for chemical costs per property; however, WICS noted that Ofwat allowed for additional costs in PR24 for phosphorus removal.[431] When this additional cost adjustment is included alongside an increase in Scottish Water's chemical costs, Scottish Water maintained its position at the upper-quartile level. As such, WICS considered that there are no offsetting factors and allowed a £7.0 million increase in chemical costs.

Draft Determination consultation responses and new information

6.7.33 Scottish Water provided additional evidence for the sludge treatment costs that we considered were not evidenced in the Draft Determination.

6.7.34 Scottish Water's updated costs in its Draft Determination response are higher than the proposed increase in chemical costs in its business plan; however, Scottish Water maintain the request for the proposed increase in its business plan. In addition, it has adjusted the proposed increase to reflect actual inflation rather than the forecast inflation, reducing the request by £33,000 per annum.

Our assessment in the Final Determination

6.7.35 With the additional evidence, WICS considers that the full proposal of £7.7 million per annum in Scottish Water's Draft Determination response is justified. This increase over the Draft Determination allowance would not change Scottish Water's position at the upper-quartile level when the additional costs in PR24 for phosphorus removal are included in the comparison. As such, WICS considers that there are no offsetting factors and allows an annual £7.7 million increase in chemical costs.

6.7.36 Table 117 shows WICS' Final Determination allowance for chemical costs.

Table 117: WICS decision on chemical costs[432]

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	SRC27 total
Scottish Water's final business plan	£7.7m	£7.7m	£7.7m	£7.7m	£7.7m	£7.7m	£46.5m
WICS Draft Determination	£7.0m	£7.0m	£7.0m	£7.0m	£7.0m	£7.0m	£41.9m
Scottish Water's Draft Determination response	£7.7m	£7.7m	£7.7m	£7.7m	£7.7m	£7.7m	£46.3m
WICS Final Determination	**£7.7m**	**£7.7m**	**£7.7m**	**£7.7m**	**£7.7m**	**£7.7m**	**£46.3m**

[431] Ofwat (2024), 'PR24 Phosphorus removal cost adjustment', December 2024.
[432] Table in 2024-25 prices.

Increase in pension contributions

6.7.37 Scottish Water's business plan proposed an increase of £7.2 million from 2030-31 due to a "more likely than not" increase in pension contributions.[433] Scottish Water's business plan forecast a pension funding deficit from 2030-31, following a long period of surplus. The surplus has allowed Scottish Water to lower contribution rates. If there is a deficit at the time of the triennial valuation of the financial position of the pensions schemes that Scottish Water employees are members of, then Scottish Water may need to increase pension contributions. Scottish Water's proposal equalled £22 million over the 2027-33 regulatory period.

Our assessment in the Draft Determination

6.7.38 We did not consider any potential increase to be justified in its entirety, given the uncertainty around the timing and scale of any increase; however, as these factors are outside Scottish Water's control, we recognised that this could present an issue for Scottish Water.

6.7.39 As such, our Draft Determination proposed linking this additional expenditure to a conditional charge cap as an uncertainty mechanism. If pension contributions need to increase, Scottish Water would be able to recover them through customer charges. However, if the cost does not materialise, customers would be protected.

Draft Determination consultation responses and new information

6.7.40 Scottish Water proposed an alternative uncertainty mechanism that did not include an allowance for increased pension contributions. We did not receive any other consultation responses or additional information on the increase in pension contributions.

Our assessment in the Final Determination

6.7.41 Our Final Determination does not include an upfront allowance for increased pension contributions. Given Scottish Water's proposed uncertainty mechanism, we have updated our approach to the conditional charge cap for uncertain costs. This is covered in Chapter 8 and Chapter 9.

Bad debt

6.7.42 Bad debt is a revenue provision for amounts Scottish Water will not collect due to customers' non-payment of water and/or wastewater charges. Scottish Water explains that it has limited control over payment collection and bad debt as local authorities collect

[433] Scottish Water (2026), 'SR27 Final Business Plan: Table 7 – Other Costs and Assumptions Commentary', 26 February 2026, p.8.

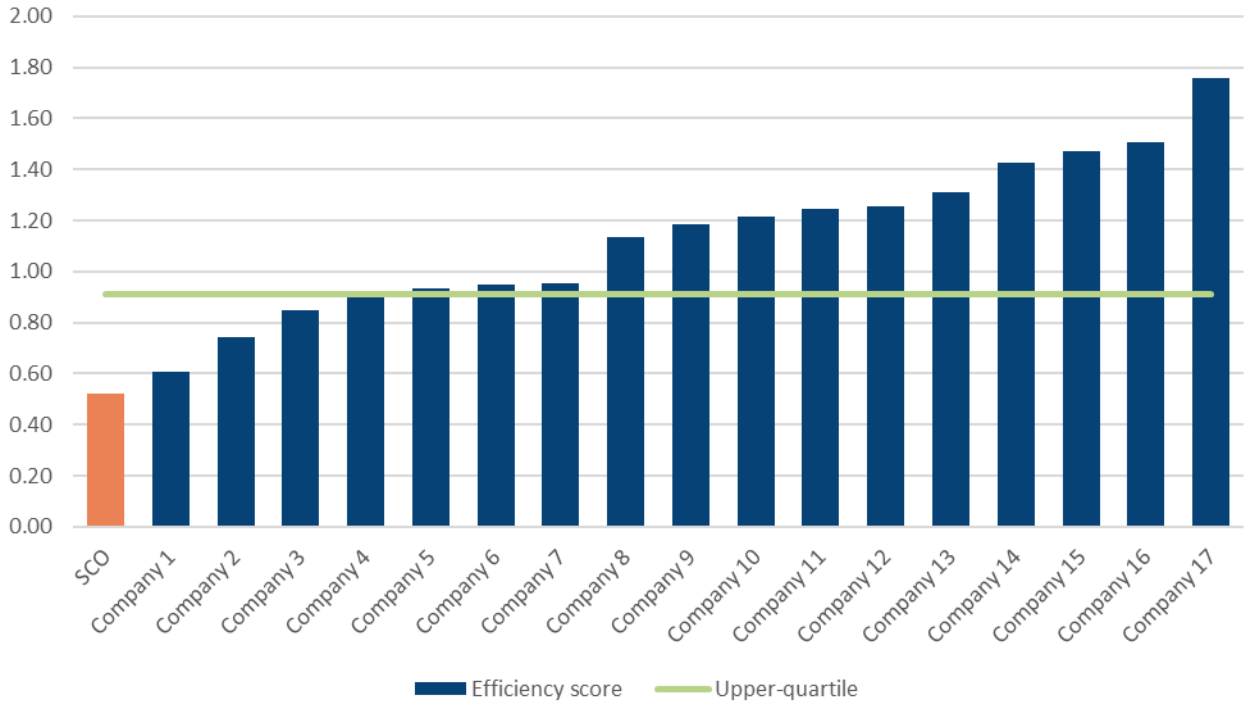
water charges on its behalf. In the water industry, bad debt is treated as an operating expense, spreading the cost of non-payment across all customers.

6.7.43 Scottish Water's business plan proposed that bad debt would increase by roughly £1 million per year, equating to £21 million over the 2027-33 regulatory period. This is based on increasing its current level of bad debt by the proposed charge cap of 3.3% per year, recognising that it will not collect revenue each year and that the bad debt charge will therefore increase in line with the proposed charge cap.

Our assessment in the Draft Determination

6.7.44 We conducted a benchmarking analysis to compare Scottish Water's level of bad debt with that of companies in England and Wales. Figure 38 shows Scottish Water's efficiency relative to companies in England and Wales, with Scottish Water the most efficient in Great Britain.

Figure 38: Bad debt benchmarking analysis



6.7.45 Figure 38 shows that Scottish Water has lower bad debt costs than other companies, which could also indicate that it has limited ability to work with local authorities to further improve their collection rates.

6.7.46 Our Draft Determination adjusted for an increase in bad debt, recognising Scottish Water's relatively low bad debt costs relative to other companies and that Scottish Water is not in direct control of revenue collection. We therefore updated the forecast level of bad debt

to reflect the annual charge cap of 2% in our Draft Determination, using Scottish Water's methodology. Table 118 shows WICS' draft decision on bad debt.

Table 118: WICS draft decision on bad debt

	Bad debt allowance in SRC27 (2024-25 prices)
Scottish Water's final business plan	£20.6m
WICS Draft Determination	£8.1m
Difference	*-£12.6m*

Draft Determination consultation responses and new information

6.7.47 Scottish Water provided an updated forecast for bad debt in the financial model that Scottish Water provided alongside its Draft Determination response.

6.7.48 However, Scottish Water provided material new information that the bad debt charge set out in the final business plan and Draft Determination may not adequately capture revenue collection rates and bad debt in the 2027-33 regulatory period. This is based on recent reductions in revenue collection rates for Scottish Water's charges.

6.7.49 Scottish Water notes the uncertainty of the cash shortfall in its modelling and proposes that it should be covered through an uncertainty mechanism. As such, we cover this in more detail in Chapter 8 in relation to safeguards, risk and uncertainty.

Our assessment in the Final Determination

6.7.50 We did not receive any consultation responses on updating the bad debt charge with the price profile in the Draft Determination.

6.7.51 We have accepted Scottish Water's revised bad debt charge in its financial model, provided along with its consultation response, based on evidence of recent declining revenue collection rates and bad debt. We also consider Scottish Water's proposed uncertainty mechanism further in Chapter 8 in relation to safeguards, risk and uncertainty.

6.7.52 Table 119 shows WICS' Final Determination allowance for bad debt.

Table 119: WICS decision on bad debt[434]

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	SRC27 total
Scottish Water's final business plan	£1.0m	£2.0m	£3.0m	£3.9m	£4.9m	£5.8m	£20.6m

[434] Table in 2024-25 prices.

WICS Draft Determination	£0.4m	£0.7m	£1.1m	£1.5m	£1.9m	£2.3m	£8.1m
Scottish Water's Draft Determination response	£0.6m	£1.2m	£1.9m	£2.6m	£3.2m	£4.0m	£13.5m
WICS Final Determination	**£0.6m**	**£1.2m**	**£1.9m**	**£2.6m**	**£3.2m**	**£4.0m**	**£13.5m**

Additional operating expenditure arising from investment

6.7.53 Scottish Water's business plan proposed that operating expenditure will increase by £16 million over the 2027-33 regulatory period, or an average of £2.6 million per year, due to investment.[435] This is from serving additional properties and operating an enhanced asset base (e.g. upgrades to water treatment works could result in more complex treatment processes, increasing operating expenditure). Scottish Water's forecast was based on the historical average increase in operating expenditure resulting from its investment programme.

Our assessment in the Draft Determination

6.7.54 In SRC21, we required Scottish Water to absorb the additional operating expenditure as an efficiency challenge; however, in the round, we decided to make a separate allowance, recognising that we increased the efficiency challenge from 0.8% to 1%. We explained that we would consider this further for the Final Determination.

6.7.55 We used the econometric models described above to forecast the change in operating expenditure from new properties, new mains and increases in the other explanatory variables. This is based on forecasts of property growth from Scottish Water's business plan, alongside regressions to predict future growth.[436] Based on our analysis, we considered the proposed additional operating expenditure arising from investment to be reasonable.

6.7.56 Scottish Water also proposed savings in operating expenditure resulting from the investment programme. These covered reduced costs in water treatment and distribution due to lower demand resulting from reduced leakage, as well as reduced consumption from smart metering at non-household supply points. Scottish Water forecast these reductions as £11 million over the 2027-33 regulatory period or an average of £1.8 million per year. Our Draft Determination included these forecast reductions.

[435] We note that the Table 7 commentary explains that the additional operating expenditure arising from investment is £4.5m over SRC27. We consider this is an error. £4.5m is the sum of the annual increases, and does not account for the cumulative nature of the increases.
[436] Scottish Water (2026), 'SR27 Final Business plan: Table 7 – Other Costs and Assumptions', 26 February 2026.

Draft Determination consultation responses and new information

6.7.57 We did not receive any consultation responses or additional information on operating expenditure arising from investment.

Our assessment in the Final Determination

6.7.58 Our Final Determination aligns with the Draft Determination and Scottish Water's business plan. Table 120 shows WICS' Final Determination allowance for operating expenditure arising from investment.

Table 120: WICS decision on operating expenditure arising from investment[437]

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	SRC27 total
Scottish Water's final business plan	£0.5m	£0.6m	£0.8m	£1.0m	£1.1m	£1.3m	£5.3m
WICS Draft Determination	£0.5m	£0.6m	£0.8m	£1.0m	£1.1m	£1.3m	£5.3m
Scottish Water's Draft Determination response	£0.5m	£0.6m	£0.8m	£1.0m	£1.1m	£1.3m	£5.3m
WICS Final Determination	**£0.5m**	**£0.6m**	**£0.8m**	**£1.0m**	**£1.1m**	**£1.3m**	**£5.3m**

Real price effects

6.7.59 The operating cost allowances for Scottish Water are set relative to inflation, as measured by the Consumer Price Index (CPI). PFI costs are set relative to the Retail Prices Index (RPI). However, Scottish Water may experience cost pressures that differ from those considered in the calculation of CPI, and as a result, some of its costs may rise above the CPI inflation rate. These differences between input costs and the general inflation index are referred to as Real Price Effects (RPEs).

6.7.60 In its business plan, Scottish Water has put forward a case for WICS to include an RPE adjustment in its SRC27 determination. The proposal is an additional allowance for labour costs, which constitute a material proportion of Scottish Water's operating expenditure (44% according to the final business plan). Scottish Water expected its labour costs to increase by 0.5% above annual CPI inflation, resulting in an overall increase in operating expenditure of 0.2% per annum. The proposed adjustment would allow around an additional £25 million of operating expenditure over the 2027-33 period.[438]

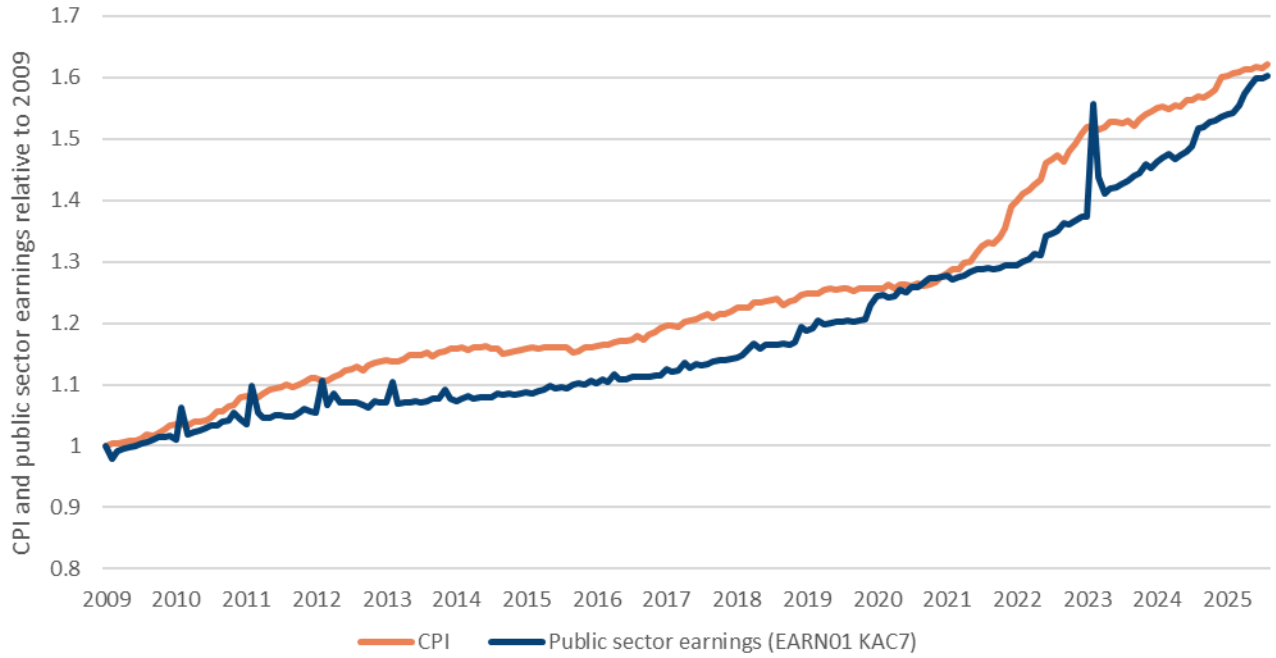
[437] Table in 2024-25 prices.
[438] Scottish Water (2026), 'SR27 Final Business Plan: Table 7 – Other Costs and Assumptions', 26 February 2026.

Our assessment in the Draft Determination

6.7.61 Scottish Water's proposed RPE adjustments for operating and capital expenditure are both underpinned by the same labour cost forecast. As set out in paragraphs 5.10.7 and 5.10.8 on the capital investment RPE proposal, WICS considered that this forecast is likely to overestimate the size of the labour RPE in SRC27.

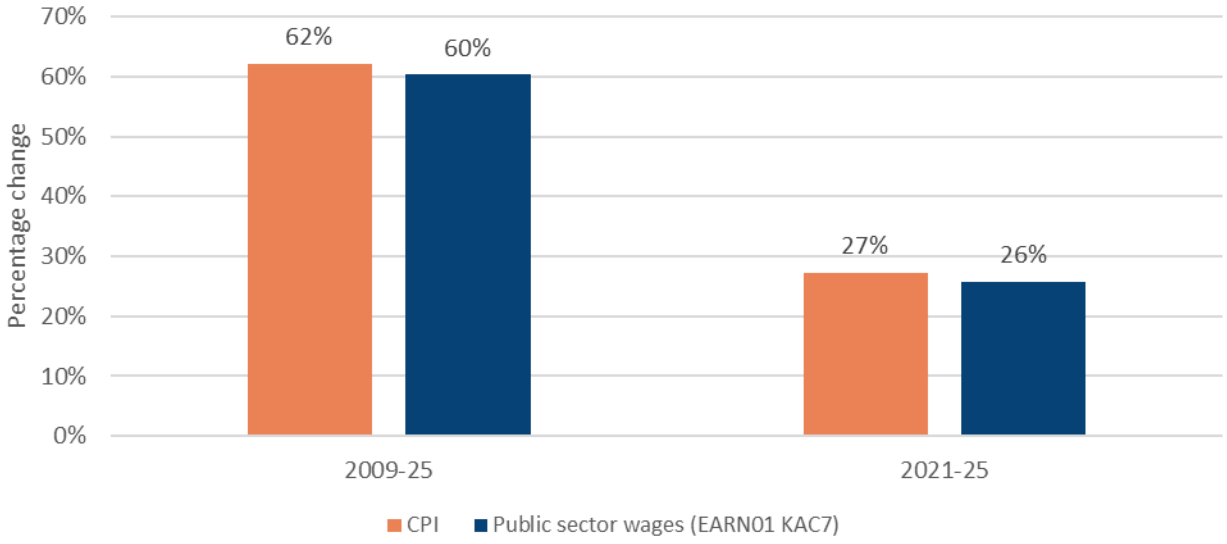
6.7.62 Public sector earnings have not risen faster than inflation. As shown in Figure 39 and Figure 40, public sector earnings, as measured by the ONS EARN01 KAC7 index, have generally risen in line with or even below CPI during 2021 to 2025 (the SRC21 period), as well as from 2009 to 2025.

Figure 39: Change in CPI and UK public sector earnings from May 2009 to December 2025 (May 2009 = 1)[439, 440]



[439] Office for National Statistics (2026), 'CPI INDEX 00: ALL ITEMS 215=100', 18 February 2026.
[440] Office for National Statistics (2026), 'EARN01: Average weekly earnings', 17 February 2026.

Figure 40: Total historical growth in CPI and public sector wages



6.7.63 Given that, on average, public sector labour costs have grown broadly in line with CPI through 2021-2025 as well as over 2009-2025, our Draft Determination did not consider there to be a robust case for the inclusion of an RPE adjustment for labour costs in SRC27. As set out above, although labour costs represent a material proportion of Scottish Water's operating expenditure, WICS has not seen evidence that labour cost inflation has been materially different from CPI inflation historically. As such, we proposed to disallow the associated £25 million in the Draft Determination.

Draft Determination consultation responses and new information

6.7.64 The Draft Determination consultation responses and new information on real price effects are provided in paragraphs 5.10.11 to 5.10.13.

Our assessment in the Final Determination

6.7.65 As explained in paragraph 5.10.16, we consider Scottish Water's proposed uncertainty mechanism further in Chapter 8 in relation to safeguards, risk and uncertainty.

6.7.66 Table 121 shows WICS' Final Determination allowance for operating expenditure labour real price effects.

Table 121: WICS decision on operating expenditure labour real price effects[441]

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	SRC27 total
Scottish Water's final business plan	£1.2m	£2.3m	£3.5m	£4.7m	£5.9m	£7.2m	£25m
WICS Draft Determination	£0m	£0m	£0m	£0m	£0m	£0m	£0m
Scottish Water's Draft Determination response	£0m	£0m	£0m	£0m	£0m	£0m	£0m
WICS Final Determination	**£0m**	**£0m**	**£0m**	**£0m**	**£0m**	**£0m**	**£0m**

Productivity improvements

Our assessment in the Draft Determination

6.7.67 Our Draft Determination assumed a 1% per annum productivity improvement. In relation to operating expenditure, we considered that our decision not to apply a catch-up efficiency challenge, despite the scope for further efficiency based on Scottish Water's efficiency position excluding energy costs, supported our Draft Determination assumption of productivity improvements of 1% per annum.

6.7.68 Table 122 shows the resulting operating expenditure productivity improvements alongside the difference to Scottish Water's proposal.

Table 122: Draft Determination operating expenditure productivity improvements[442]

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	SRC27 total
Scottish Water proposed operating expenditure productivity improvements	-£4m	-£8m	-£11m	-£15m	-£20m	-£24m	-£82m
WICS proposed operating expenditure productivity improvements	-£4m	-£9m	-£14m	-£18m	-£23m	-£27m	-£95m
Difference	*-£1m*	*-£1m*	*-£2m*	*-£3m*	*-£3m*	*-£4m*	*-£14m*

Draft Determination consultation responses and new information

6.7.69 The Draft Determination consultation responses and new information on productivity improvements are provided in paragraphs 5.10.41 to 5.10.45.

[441] Table in 2024-25 prices.
[442] Table in 2024-25 prices.

Our assessment in the Final Determination

6.7.70 As explained in paragraph 5.10.50, our Final Determination decision is to phase the efficiency challenge from 0.8% in 2027-28, increasing to 1.0% by 2032-33. We apply this assumption to operating expenditure, resulting in an efficiency challenge of £87 million over the 2027-33 regulatory period, as shown in Table 123.

Table 123: WICS decision on operating expenditure productivity improvements[443]

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	SRC27 total
Scottish Water's final business plan	-£3.8m	-£7.7m	-£11.5m	-£15.5m	-£19.6m	-£23.7m	-£81.7m
WICS Draft Determination	-£4.5m	-£8.9m	-£13.5m	-£18.2m	-£22.8m	-£27.4m	-£95.3m
Scottish Water's Draft Determination response	-£3.8m	-£7.6m	-£11.4m	-£15.4m	-£19.3m	-£23.2m	-£80.7m
WICS Final Determination	**-£3.8m**	**-£7.8m**	**-£12.0m**	**-£16.5m**	**-£21.1m**	**-£25.8m**	**-£87.0m**

6.8 Additional operating expenditure from returning PFI assets

6.8.1 When Scottish Water was created in 2002, it inherited 9 legacy PFI contracts. Under these contracts, third parties operate and maintain 21 facilities across Scotland to provide wastewater treatment and the subsequent treatment, recovery, and/or disposal of biosolids (a valuable resource previously known as sludge) that remain from the wastewater treatment process.[444] In exchange for these services, the third parties receive regular payments from Scottish Water. The contracts stipulate how payments are calculated, covering aspects such as the inflation index applied to unit rates and the basis for charging (e.g. based on loads treated).

6.8.2 As of 1 April 2024, 7 of those contracts remain, with 2 contracts expiring during the current regulatory period (comprising 2 facilities) and 4 contracts expiring during the SRC27 period (comprising 12 facilities), as outlined in Table 124 below. When the contracts expire, the facilities may return to Scottish Water's operations.

[443] Table in 2024-25 prices.

[444] Around 40-50% of wastewater is treated by third parties under PFI contracts. 80% of the sludge that remains from the wastewater treatment process is treated, recovered and/or disposed of by third parties under PFI contracts.

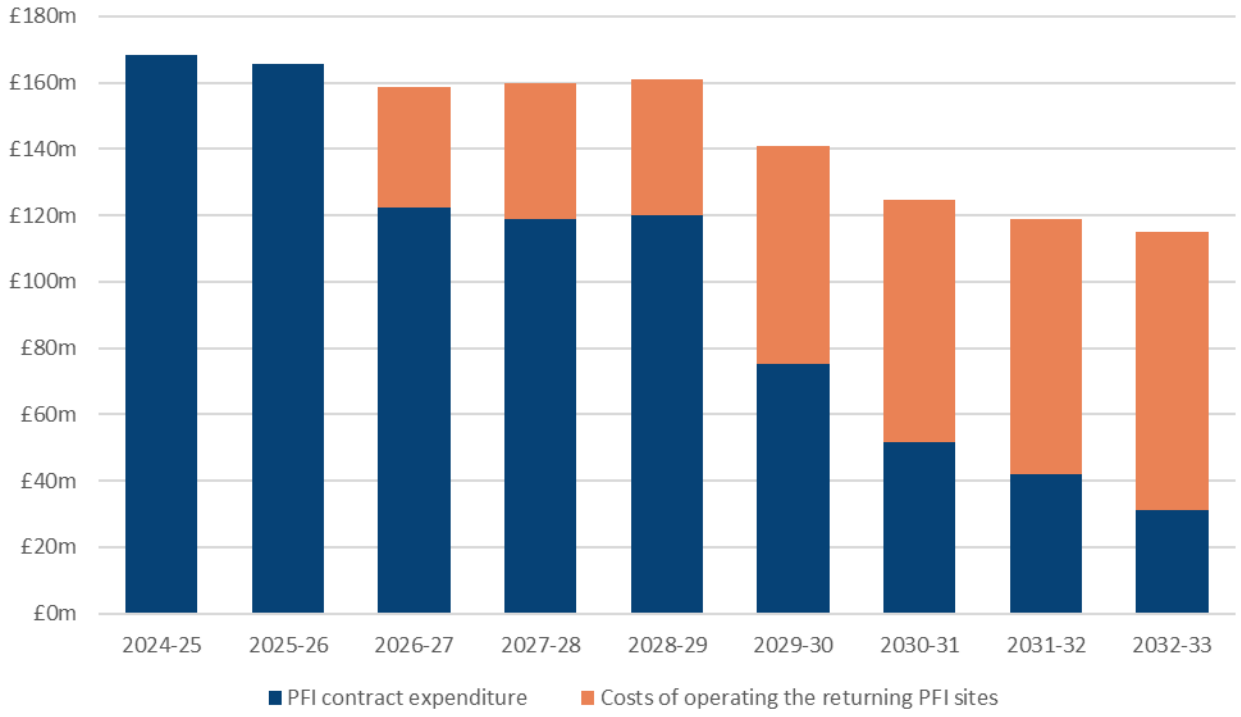
Table 124: Public Finance Initiative expiration dates

Site location	Contract end date	SRC period of the end date
Daldowie	31/03/2026	SRC21
Dalmuir	14/06/2026	SRC21
Blackburn	29/04/2029	SRC27
East Calder	29/04/2029	SRC27
Newbridge	29/04/2029	SRC27
Seafield	29/04/2029	SRC27
Whitburn	29/04/2029	SRC27
Hatton	16/12/2029	SRC27
Banff/Macduff	25/06/2031	SRC27
Buckie	25/06/2031	SRC27
Lossiemouth	25/06/2031	SRC27
Inverclyde	29/09/2032	SRC27
Meadowhead	29/09/2032	SRC27
Stevenson	29/09/2032	SRC27
Levenmouth	30/10/2040	SRC39

6.8.3 Scottish Water's business plan sets out the proportion of the annual service fee it expects to incur to operate each of the PFI sites after their return.[445] Figure 41 below shows Scottish Water's proposals for expenditure on the PFI contracts and the projected additional costs of operating the returning PFI.

[445] Scottish Water (2026), 'SR27 Final Business Plan: Table 7 – Other Costs and Assumptions', 26 February 2026.

Figure 41: Scottish Water proposal for operating expenditure for the PFI sites in SRC27[446]



6.8.4 Scottish Water acknowledged that there was uncertainty around the forecast operating expenditure from the returning PFI sites. For example, Scottish Water explained that:

- "To estimate the cost of operating the returning PFI sites we have undertaken a detailed analysis of each site based on available information and at cost category level (e.g. employment costs, chemicals, power etc). Where no information is available, we have used analysis based on experience and knowledge to estimate due to the variability of process and operation at each PFI site"[447]
- "Subject to uncertainty of the asset condition on return, once all four [PFIs] have returned to Scottish Water, operating costs are expected to increase by £56 million (which is more than offset by the decrease in PFI fees…)."[448]

Our assessment in the Draft Determination

6.8.5 We assessed the reasonableness of Scottish Water's proposals using several methods, including:

[446] Figure in 2024-25 prices.
[447] Scottish Water (2026), 'SR27 Final Business Plan: Table 7 – Other Costs and Assumptions Commentary', 26 February 2026, p.9.
[448] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 013 – Financial Strength', 26 February 2026, p.9.

- Benchmarking against the costs of the water and sewerage companies (WaSCs) in England and Wales;
- High-level comparison against existing PFI fees; and
- Review of Scottish Waters detailed operating expenditure forecasts.

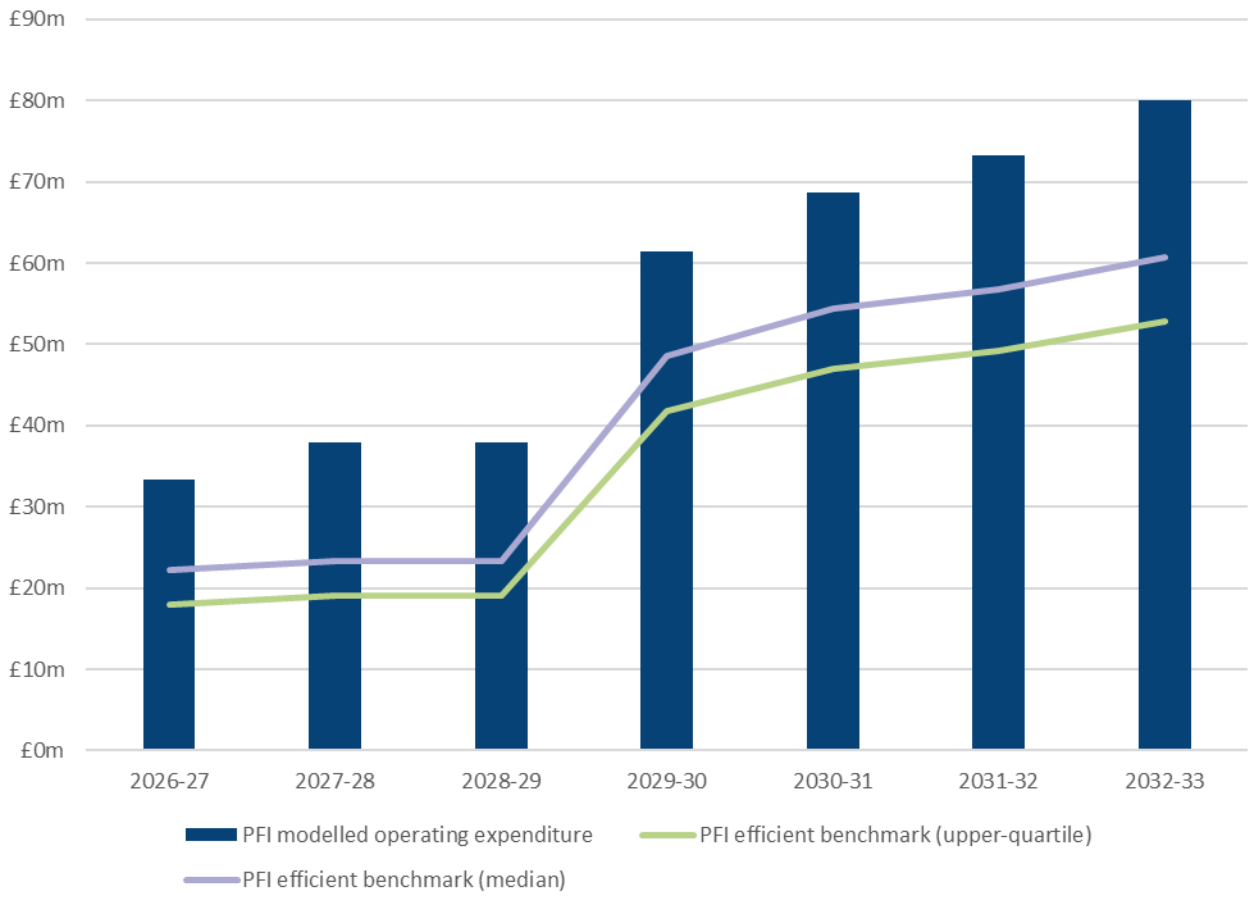
Benchmarking against the costs of the water and sewerage companies (WaSCs) in England and Wales

6.8.6 WICS used the wastewater model from our efficiency benchmarking and Ofwat's bioresources model on an operating expenditure only basis to estimate the predicted operating expenditure from returning PFI assets.

6.8.7 We noted Scottish Water's comments on the bioresources models[449] and, as noted in 6.6.17, we have not used the bioresources model on a historical basis to assess efficiency. However, at the end of the 2027-33 regulatory period, only one site will remain under a PFI contract. WICS used both the wastewater 'network plus' models and the bioresources models on an operating expenditure-only basis to generate an efficient benchmark for the operating costs of the returning PFI sites. The efficient benchmark was calculated to allow for step increases when PFI sites return to Scottish Water to operate. Figure 42 shows the proposed costs in the business plan against the efficient benchmark of the company's average level in Great Britain.

[449] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 012 – Efficiency', 26 February 2026, p.99.

Figure 42: Operating expenditure associated with returning PFI assets versus benchmark[450]



6.8.8 WICS considered that a median benchmark is the appropriate standard for the operating expenditure associated with the returning PFI assets. We proposed a less challenging benchmark compared to base operating expenditure to account for lower confidence in the data inputs and that some of the returning PFI assets will utilise outdated technology, such as sludge driers, compared to more up-to-date assets and technologies, such as advanced anaerobic digestion (AAD) facilities, included in the benchmark. However, we view a median benchmark as being the minimum achievable considering that around half of the expenditure from the PFI assets is in wastewater collection and treatment, which Scottish Water has demonstrated itself to be among the leading companies in Great Britain in terms of operating efficiency, and that the companies in England and Wales will use a range of technologies in their bioresources sites which will be comparable to Scottish Water's assets. Additionally, Scottish Water would have the opportunity to rationalise existing bioresources sites and find efficiencies in existing bioresources expenditure as the PFI sites return to Scottish Water's operations, providing economies of scale.

[450] Figure in 2024-25 prices.

6.8.9 Our Draft Determination explained that the difference between Scottish Water's proposed costs and the median benchmark is £100 million over the 2027-33 regulatory period, or an average of £17 million per year.

High level comparison against existing PFI fees

6.8.10 Our Draft Determination noted that Scottish Water would observe a reduction in total expenditure associated with returning PFI sites, given that the PFI fees Scottish Water pays to the PFI company will need to recover the following elements:

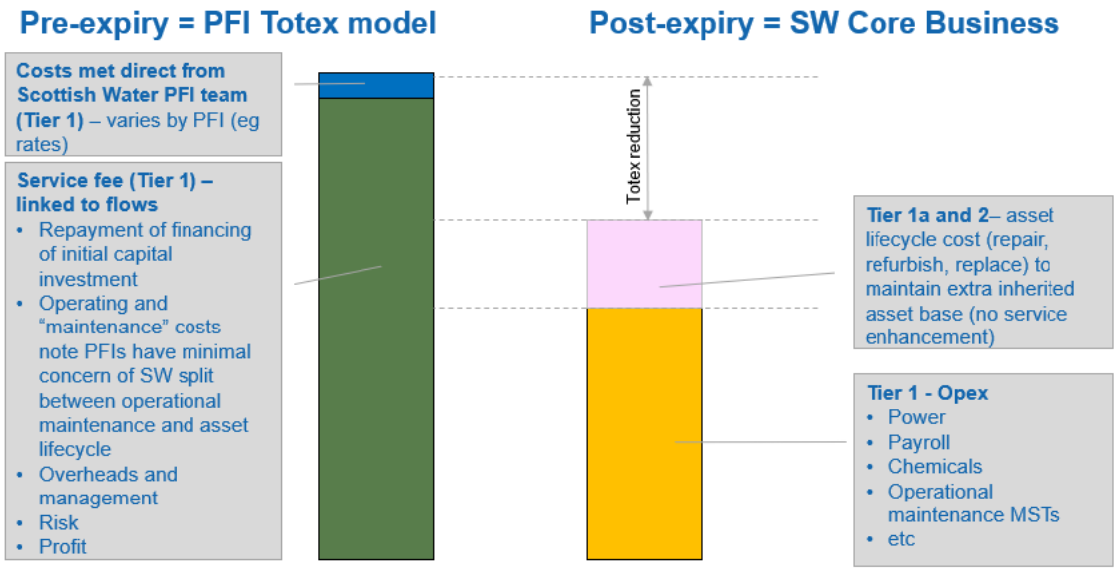
- Operating expenditure;
- Capital maintenance expenditure;
- Overheads and management;
- Risk;
- Repayment of the financing of initial capital investment; and
- Interest and profit.

6.8.11 When the sites return to Scottish Water, it will incur operating and capital maintenance expenditure. Furthermore, it will be able to absorb most of the overhead, management and risk-related costs within its overall corporate costs in these areas. Furthermore, Scottish Water will not incur repayment of the financing for the initial capital investment associated with the asset, or interest and profit. Scottish Water should therefore observe significant savings when comparing the previous PFI fees to the operating and capital maintenance expenditure associated with the returning PFI sites.

6.8.12 Scottish Water illustrated that it should secure savings compared with PFI fees in technical appendix 3 of the business plan submission, which discussed its approach to returning PFI sites. Figure 43 shows the figure produced by Scottish Water in technical appendix 3 of the business plan.[451]

[451] Scottish Water (2026), 'SR27 Final Business Plan: Technical Appendix 003 – Water Environment', February 2026, Figure 28, p.32, 26.

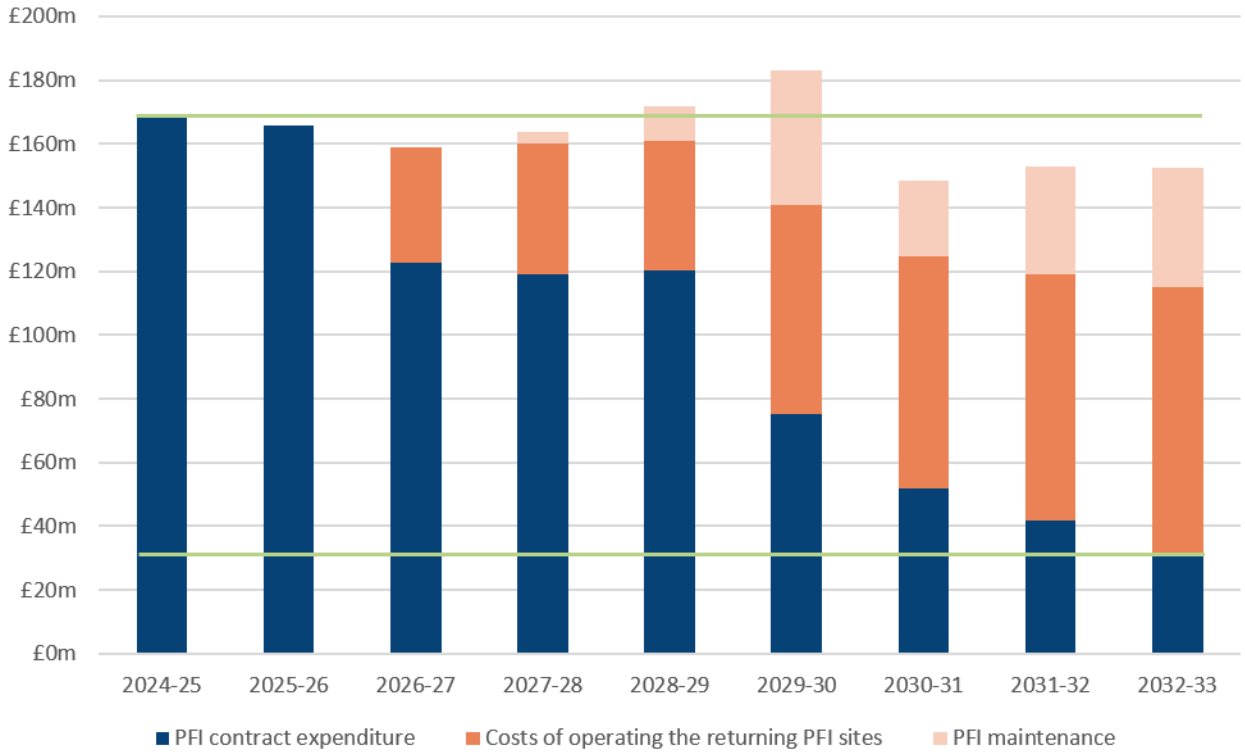
Figure 43: Illustrative savings in PFI fees



6.8.13 Indeed, the cost savings of Scottish Water's delivery and operation compared with outsourcing, such as PFI or the Mutual Investment Model, are one of the factors behind Scottish Water's proposal to deliver the West Central Bioresources project on a self-funded basis.

6.8.14 Figure 41 shows the impact of returning PFI on Scottish Water's operating expenditure. As discussed in paragraph 6.8.11, the comparison is not on a like-for-like basis as the PFI contract expenditure will include maintenance, overheads and profit for the third parties. Figure 44 includes the maintenance expenditure that Scottish Water proposes in the business plan, giving the total expenditure over the 2027-33 regulatory period. This is a like-for-like comparison.

Figure 44: Scottish Water proposal for total expenditure for the PFI sites in SRC27[452]

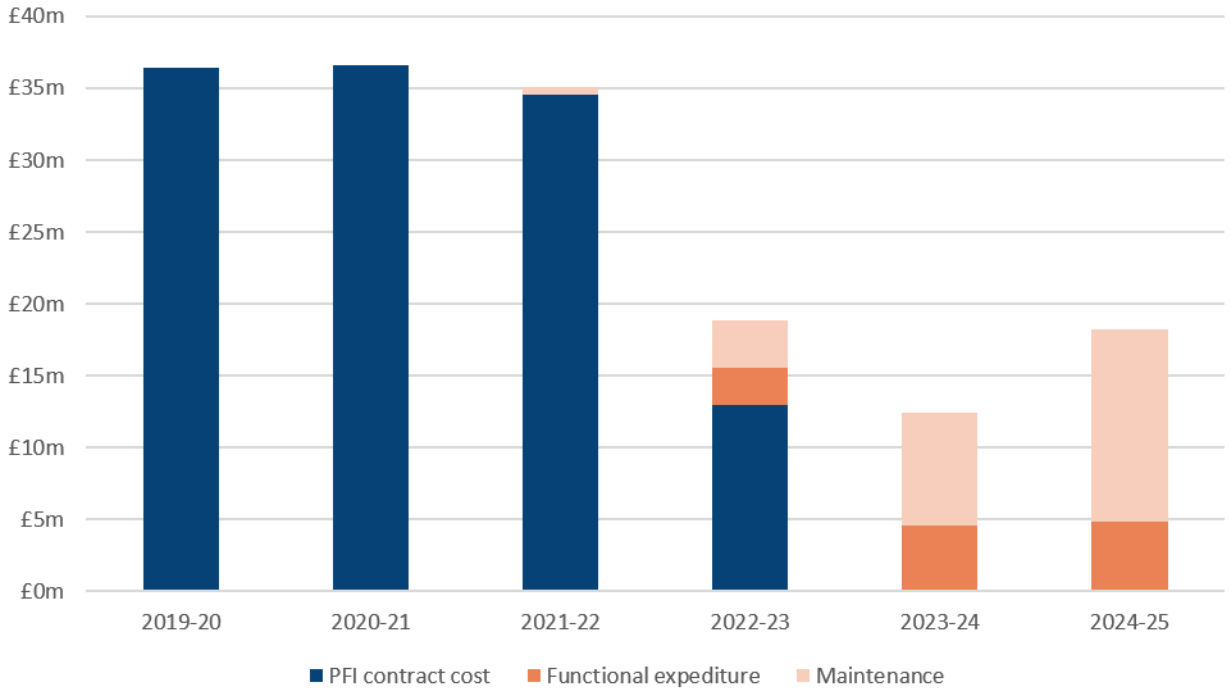


6.8.15 When excluding the remaining PFI contract expenditure in 2032-33 (the blue section in Figure 44), we estimated that Scottish Water proposed a 12% reduction in PFI expenditure from the PFI sites returning to Scottish Water's operations.

6.8.16 We also examined evidence from the Highland and Aberdeen PFI contracts that ended in 2022. Scottish Water appears to have achieved significant cost savings on the associated works. Figure 45 shows the total expenditure for the Allanfearn, Nigg, Persley, and Peterhead works, indicating that Scottish Water achieved a 50% cost reduction when the first two PFI contracts ended.[453] As such, WICS considered that Scottish Water's prediction of a 12% reduction for the other PFI contracts is not consistent with recent experience from returning PFI sites.

[452] Figure in 2024-25 prices.
[453] Fort William and Fraserburgh have not been included as there is not consistent data for the comparison in the Annual Return table E9.

Figure 45: Allanfearn, Nigg, Persley and Peterhead PFI works total expenditure[454, 455]



6.8.17 Additionally, WICS examined the statutory accounts of the operating companies of the PFI works to understand how much of the current cost base relates to surplus (revenue less cost of sales and administrative expenses). Table 125 shows the revenue, costs and surplus from the statutory accounts of the operating company that operated Daldowie.

Table 125: Information from the statutory accounts of the company that operates Daldowie[456]

	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	21.0	22.3	20.9	21.7	21.6	23.1	25.3	27.5
Cost of sales and Administrative expenses	13.8	14.5	14.7	14.7	15.2	18.4	23.1	22.4
Revenue less Cost of sales and Administrative expenses ('surplus')	7.2	7.8	6.2	7.0	6.4	4.7	2.2	5.1
'Surplus' as a percentage of revenue	34%	35%	30%	32%	30%	20%	9%	19%

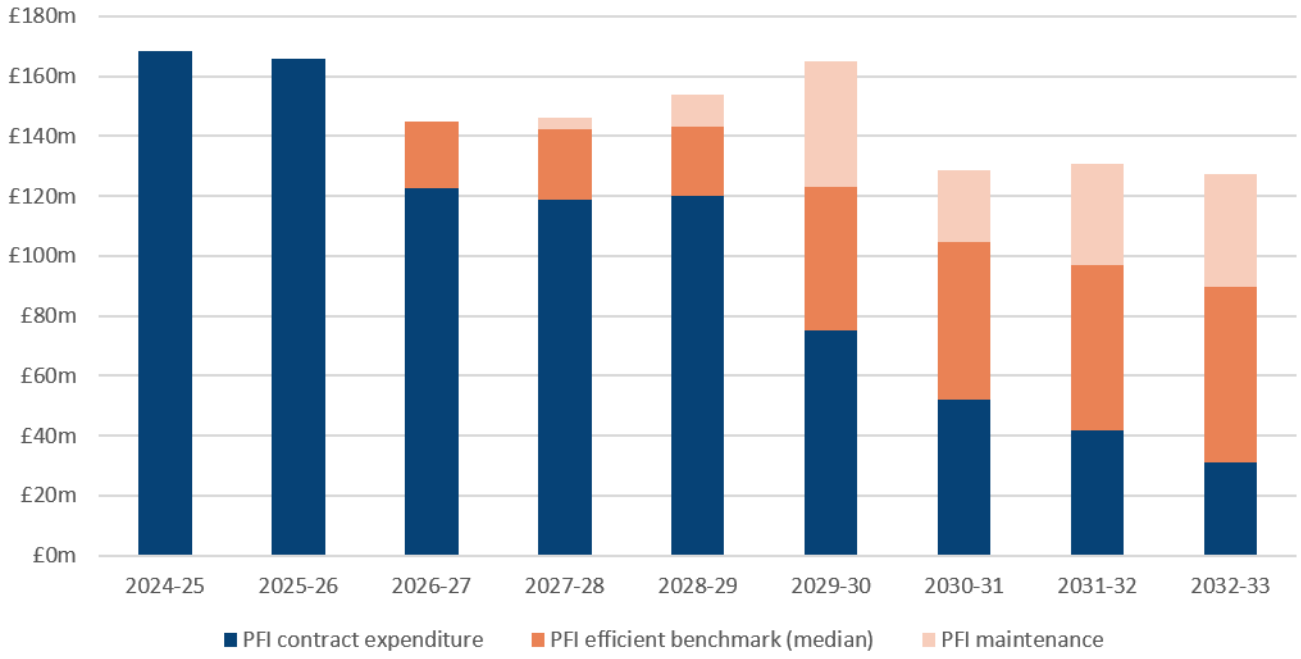
6.8.18 Table 125 shows that the percentage of the contract cost that Scottish Water pays that is surplus is 19% in the most recent year, or 26% on average. This should represent the reduction in expenditure that Scottish Water observes when the PFI contract expires, and it takes over the operation of that site. However, Scottish Water proposed a 13% reduction

[454] 2022-23 may double-count expenditure as this was the transfer year for the return of the PFI and the effects were not captured consistently between Annual Return tables.
[455] Figure in 2024-25 prices.
[456] Figure in outturn prices.

between its previous PFI fees and its forecast operating expenditure for the returning Daldowie PFI site.[457]

6.8.19 Figure 46 shows the total expenditure on PFI sites over SRC27 when a median efficiency challenge is applied to the operating expenditure of the returning PFI sites, overlaying Scottish Water's forecast capital maintenance expenditure.

Figure 46: Expenditure of PFI sites with a median efficiency challenge on operating expenditure[458]



6.8.20 Based on this assessment, the forecast reduction in expenditure when the PFI site returns to Scottish Water would be 30%, compared to our estimated 12% proposed by Scottish Water. We considered this a more reasonable estimate of the reduction expected.

6.8.21 Furthermore, we considered that Scottish Water's maintenance expenditure is not well evidenced and may not be proportionate, as set out in paragraph 5.6.74. However, our Draft Determination used this evidence to further support our cost challenge to operating expenditure from the return of PFI sites, rather than also reducing maintenance expenditure. This approach recognised that there is some uncertainty regarding the expenditure associated with returning PFI sites and reduces the risk of imposing an overly challenging challenge on Scottish Water. We explained that we would revisit this for the Final Determination.

[457] 'Surplus' here refers to the PFI operator's Revenue less Cost of sales and Administrative expenses.
[458] Figure in 2024-25 prices.

Our draft decision

6.8.22 WICS applied a cost challenge to Scottish Water's estimates based on:

- Benchmarking analysis against comparator companies in England and Wales;
- Comparing Scottish Water's previous PFI fees associated with the sites to Scottish Water's forecast operating and maintenance expenditure associated with the sites, recognising that Scottish Water should realise significant savings compared with PFI fees;
- The evidence of the reduction in expenditure that Scottish Water made on the ending of PFI contracts in 2022;
- Comparing Scottish Water's proposed costs to the costs currently spent by the operating company responsible for the PFI site; and
- A review of Scottish Water's disaggregated forecasts.

6.8.23 This cost challenge was based on the costs predicted by the benchmarking analysis, with a median benchmark, and the observed service charges for large works. Table 126 shows this allowance alongside Scottish Water's business plan proposal for the cost of operating the returning PFI works.

Table 126: WICS draft decision on the cost of operating the returning PFI works[459]

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	SRC27 total
Scottish Water proposed cost of operating the returning PFI works	£41.3m	£41.3m	£66.9m	£74.8m	£79.7m	£87.2m	£391.2m
WICS cost of operating the returning PFI works	£25.5m	£25.4m	£52.9m	£59.2m	£61.8m	£66.2m	£291.0m
Difference	*-£15.8m*	*-£15.9m*	*-£14.0m*	*-£15.7m*	*-£17.9m*	*-£21.0m*	*-£100.2m*

Draft Determination consultation responses and new information

6.8.24 Scottish Water considers that the Draft Determination's £100 million challenge to the cost of operating the returning PFI assets is not realistic. Scottish Water explains that the companies operating the PFI works have chosen operating models based on operating-based rather than capital solutions, which Scottish Water cannot change immediately upon the return of the works. Scottish Water proposed a transition period to allow for the investment required at these sites to reconfigure the assets for future efficiencies.[460]

[459] Table in 2024-25 prices.
[460] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 2.2.24.

6.8.25 Scottish Water agreed with WICS' approach to benchmarking the costs of the returning PFI sites, and it recognised that the forecast level of operating costs at these sites is higher than the long-term efficient level. However, Scottish Water cautioned about the use of econometric benchmarking models on a site-by-site basis.[461]

6.8.26 Scottish Water presented new information on the potential operating expenditure savings arising from the West Central Bioresources project. Scottish Water has identified savings of £27.1 million in operating expenditure, arising from lower staff and energy costs, among other items, as well as benefits at Dalmuir and Meadowhead from reduced sludge treatment costs. Scottish Water has also identified revenue that will be generated from the sale of gas and ammonia from the site.[462] As such, Scottish Water has requested the reinstatement of £71.7 million to allow for a transition to the lower expected level of expenditure.[463]

6.8.27 Scottish Water agreed with the Draft Determination's approach to benchmarking current operating costs of the assets while operated by the PFI operators. However, Scottish Water considers that the Draft Determination did not account for certain operating costs at the sites, particularly of costs borne by Scottish Water that are not on the PFI operator's statutory accounts and costs associated with new legislative requirements. Furthermore, by examining average profit over a period, Scottish Water considers that the Draft Determination does not sufficiently account for the higher energy costs that have arisen in recent years.[464] Scottish Water considers that when these factors are taken into account, its forecast operating expenditure is comparable to that incurred by the PFI operators.[465]

6.8.28 Scottish Water provided comments on the efficiencies realised by the Highlands and Aberdeen PFI sites that returned in SRC21. It considered that the Draft Determination did not take into account the asset repair, refurbishment and replacement undertaken at these sites. Secondly, Scottish Water noted that the operating expenditure at the former Aberdeen and Highland PFI assets includes an offset related to energy generation. Scottish Water considers that the estimated savings of 50% of total expenditure is not a reliable

[461] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 5c – Assessment of PFI cost adjustment', 1 September 2026, pp.6-8.
[462] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 5c – Assessment of PFI cost adjustment', 1 September 2026, pp.9-11.
[463] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 2.3.2.
[464] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 5c – Assessment of PFI cost adjustment', 1 September 2026, pp.12-15.
[465] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 6.2.6.

basis for determining the operating expenditure of Scottish Water's returning PFI sites in the 2027-33 regulatory period.[466]

6.8.29 One further respondent commented on the expenditure from returning PFI sites as set out in paragraph 6.5.5.

Our assessment in the Final Determination

6.8.30 We note Scottish Water's agreement on the Draft Determination's approach of using econometric models to benchmark the returning PFI sites and on benchmarking Scottish Water's forecast operating costs of the PFI sites to the costs of the current PFI operators. We also welcome the information Scottish Water has provided on both the expected savings from the WCB project and the costs it currently incurs on the PFI sites.

6.8.31 We note that Scottish Water's updated forecasts for the cost of operating the PFI sites are generally lower than the cost of sales and admin costs of the PFI operators when the other costs are included (see paragraph 6.8.27). We consider that it is reasonable that Scottish Water cannot achieve the cost savings identified in the Draft Determination as soon as the PFI sites return to Scottish Water.[467]

6.8.32 We note Scottish Water's comments on the efficiencies realised by the Highlands and Aberdeen PFI sites (see paragraph 6.8.28). However, the analysis in the Draft Determination included expenditure on asset repair, refurbishment, and replacement. However, we acknowledge that there will be unique circumstances at each PFI site that will affect the efficiencies that can be realised, such as the offsetting of energy costs by energy generation at Highlands and Aberdeen PFI sites.

6.8.33 The Draft Determination did not assume efficiency savings of 50% of total expenditure to determine the operating costs of Scottish Water's returning PFI sites in the 2027-33 regulatory period. The Draft Determination used the efficiencies achieved on PFI contracts that ended in SRC21 as evidence that significant efficiency savings are possible on the return PFI sites to Scottish Water's control.[468]

6.8.34 We note Scottish Water's proposed savings to operating expenditure resulting from the West Central Bioresources project. As Scottish Water agreed with our approach of using econometric models to benchmark the returning PFI sites, we consider it appropriate to evaluate the proposed savings using the operating expenditure-only bioresources models, using Scottish Water's current bioresources and Daldowie. In the Annual Return, Scottish

[466] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 5c – Assessment of PFI cost adjustment', 1 September 2026, pp.15-16.
[467] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 2.2.25.
[468] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 2.2.25.

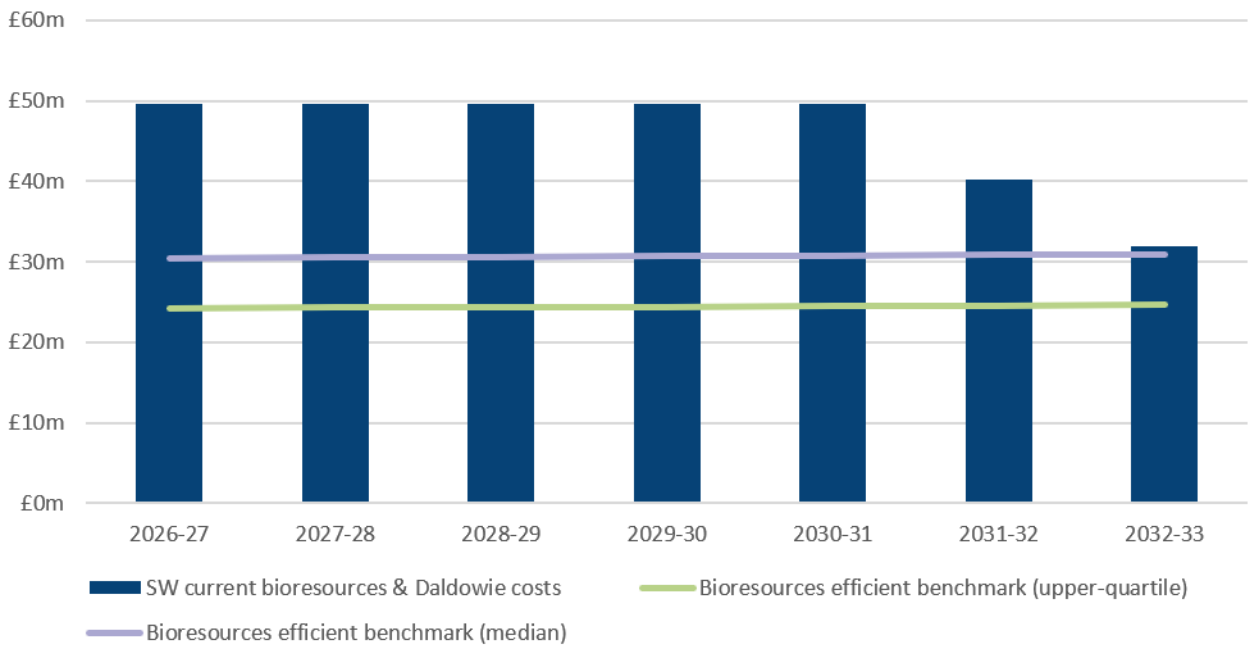
Water estimate that 96% of Daldowie's costs are bioresources so we consider that the use of the bioresources models are sufficient in evaluating Scottish Water's proposed savings. Additionally, we have maintained the adjustment for the income treated as negative expenditure for Scottish Water's current bioresources expenditure.

6.8.35 We consider that there may be reasons for setting the benchmark at an upper-quartile rather than a median level. This is based on Scottish Water's strategy to consolidate bioresource treatment, recovery, and disposal at larger sites, which should generate savings across all bioresource activities. Benchmarking to the upper quartile level is also consistent with our chosen benchmark in the modelling of water and wastewater operating expenditure efficiency (see section 6.6). However, we have not made this adjustment as the Final Determination provides an in-the-round assessment of Scottish Water's efficiency.

6.8.36 Figure 47 shows that with Scottish Water's proposed savings from the West Central Bioresources project, Scottish Water's bioresources expenditure is broadly equal to the median benchmark set in the Draft Determination in 2032-33. As such, we consider that Scottish Water's proposals in its Draft Determination response are justified. This implies that the £100 million of savings from the Draft Determination would be realised by 2037-38.

6.8.37 Given the transition approach, we do not consider that a separate mechanism covering uncertain future costs at these sites is necessary (see paragraph 6.5.5).

Figure 47: Scottish Water total bioresources expenditure (including Daldowie, excluding other PFI) versus efficient benchmark



6.8.38 If West Central Bioresources does not proceed as planned and Scottish Water does not access the conditional charge cap, we recognise that Scottish Water may need to revise its operating expenditure forecasts in its delivery plan. The additional operating expenditure could be funded by Scottish Water using the borrowing provisionally allocated to West Central Bioresources for other projects, thereby freeing up revenue to cover this operating expenditure.

6.8.39 Table 127 shows the Final Determination allowance for the cost of operating the returning PFI works.

Table 127: WICS decision on the cost of operating the returning PFI works[469]

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	SRC27 total
Scottish Water's final business plan	£41.3m	£41.3m	£66.9m	£74.8m	£79.7m	£87.2m	£391.2m
WICS Draft Determination	£25.5m	£25.4m	£52.9m	£59.2m	£61.8m	£66.2m	£291.0m
Scottish Water's Draft Determination response	£41.2m	£41.2m	£66.6m	£74.5m	£69.8m	£68.9m	£362.1m
WICS Final Determination	**£41.2m**	**£41.2m**	**£66.6m**	**£74.5m**	**£69.8m**	**£68.9m**	**£362.1m**

6.9 Cost inflation

Our assessment in the Draft Determination

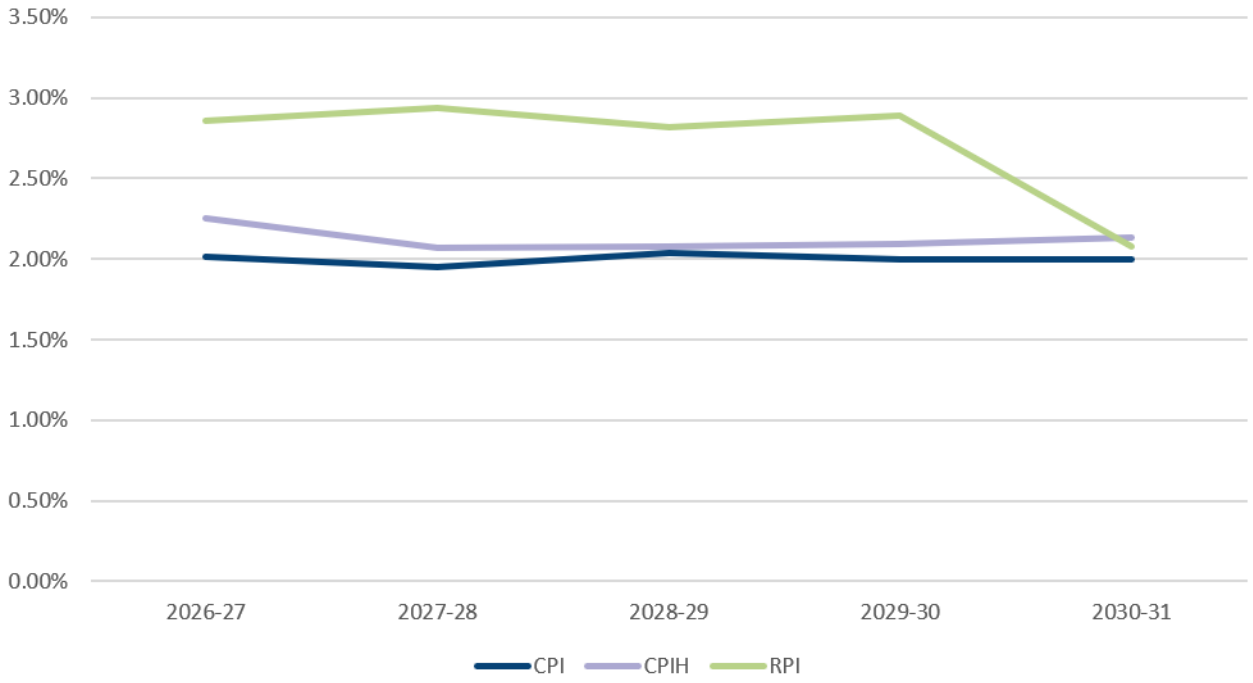
6.9.1 The expenditure allowances set out in the Final Determination are provided in 2024-25 prices. However, we model expenditure in projected outturn prices to calculate the required change in customer charges over the regulatory period. This means forecasting cost inflation over the period. Generally, cost allowances are assumed to increase in line with the Consumer Prices Index (CPI) measure of inflation. The exception to this is PFI contract expenditure, which is assumed to increase in line with the Retail Prices Index (RPI) measure of inflation. Any differences between these inflation metrics and Scottish Water's inflation are described as real price effects and are covered in sections 5.10 and 6.7.

6.9.2 Our Draft Determination assumptions for inflation were based on the March 2026 Economic and Fiscal Outlook report from the Office for Budget Responsibility (OBR).[470] We considered OBR forecasts for CPI, RPI and CPIH. This is because the RPI measure of inflation

[469] Table in 2024-25 prices.
[470] Office for Budget Responsibility (2026), 'Economic and fiscal outlook – March 2026', 3 March 2026.

is set to be aligned with CPIH from 2030.[471] The OBR forecasts from March 2026 are shown in Figure 48 below.

Figure 48: OBR inflation assumptions used in the Draft Determination (financial year average)



6.9.3 For the later years of the 2027-33 regulatory period, OBR forecasts were not available. We therefore assumed that CPI would revert to the Bank of England inflation target of 2.0%. CPIH is typically around 1.0% below the RPI measure and broadly similar to CPI. As such, we assumed that RPI/CPIH would align with the Bank of England's forecast of 2.0% for 2031-32 and 2032-33, as detailed forecasts from the Office for Budget Responsibility were not available. This approach resulted in the inflation forecasts set out in the table below.

Table 128: WICS Draft Determination inflation assumptions (financial year average)

	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Cost inflation (CPI)	2.00%	1.90%	2.00%	2.00%	2.00%	2.00%	2.00%
PFI inflation (RPI/CPIH)	2.90%	2.90%	2.80%	2.90%	2.10%	2.00%	2.00%

Draft Determination consultation responses and new information

6.9.4 Following the publication of the Draft Determination, we continued to review forecasts for inflation using similar sources to those considered in the Draft Determination. The primary source for inflation forecasts considered for this Final Determination is the Bank of

[471] Office for Budget Responsibility (2024), 'Economic and fiscal outlook – October 2024', 30 October 2024, p.38.

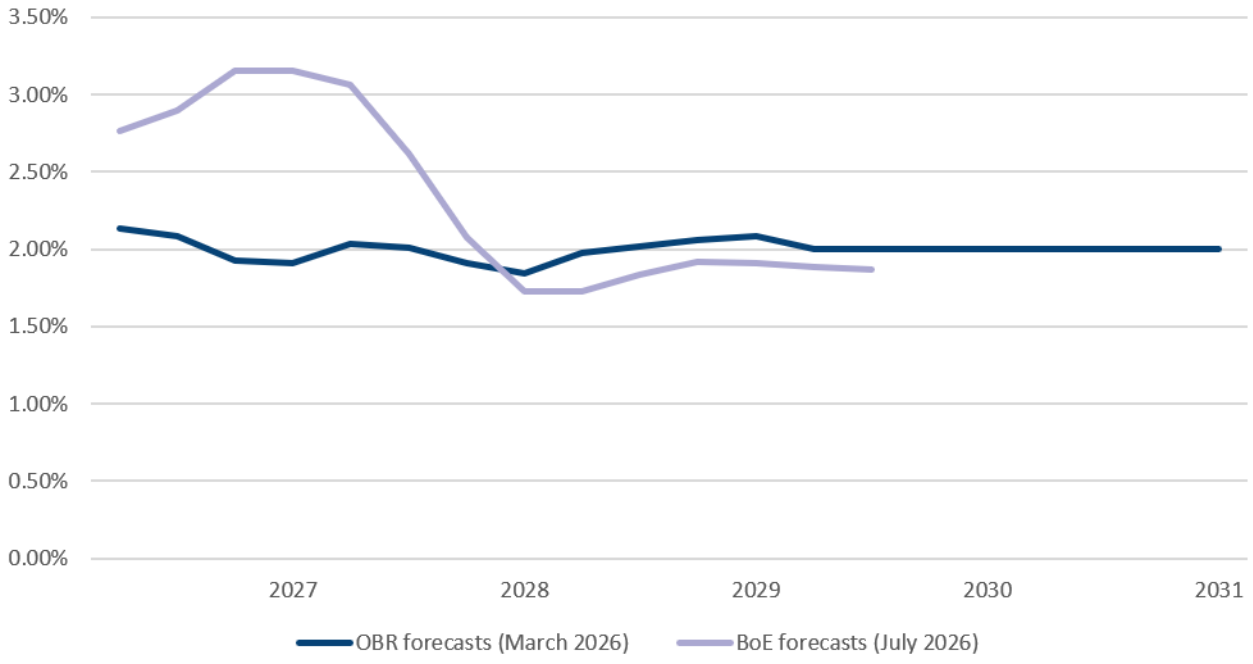
England's Monetary Policy Report published in July 2026.[472] Our analysis of these forecasts is explained below.

6.9.5 Scottish Water did not provide a detailed comment on the Draft Determination's approach to assessing assumptions for CPI or RPI, but it disagreed with the assumption for CPIH. Scottish Water agreed with the principle of reducing the inflation assumption after 2030 to reflect the alignment of RPI to CPIH. However, Scottish Water proposed that WICS should apply a higher long-term forecast for the CPIH measure of inflation. Scottish Water highlighted that the Office for Budget Responsibility's forecast for the long-term difference between CPI and CPIH is 0.4%, resulting in a CPIH forecast of 2.4% from 2030 onward.[473]

Our assessment in the Final Determination

6.9.6 Since the Draft Determination, ongoing geopolitical instability has, in part, led to higher inflation forecasts. This is evident in the Bank of England's July CPI forecasts, which are around 1% higher in the short term than the OBR forecasts applied in the Draft Determination. This is shown in Figure 49.[474]

Figure 49: Comparison of CPI forecasts before and after the Draft Determination

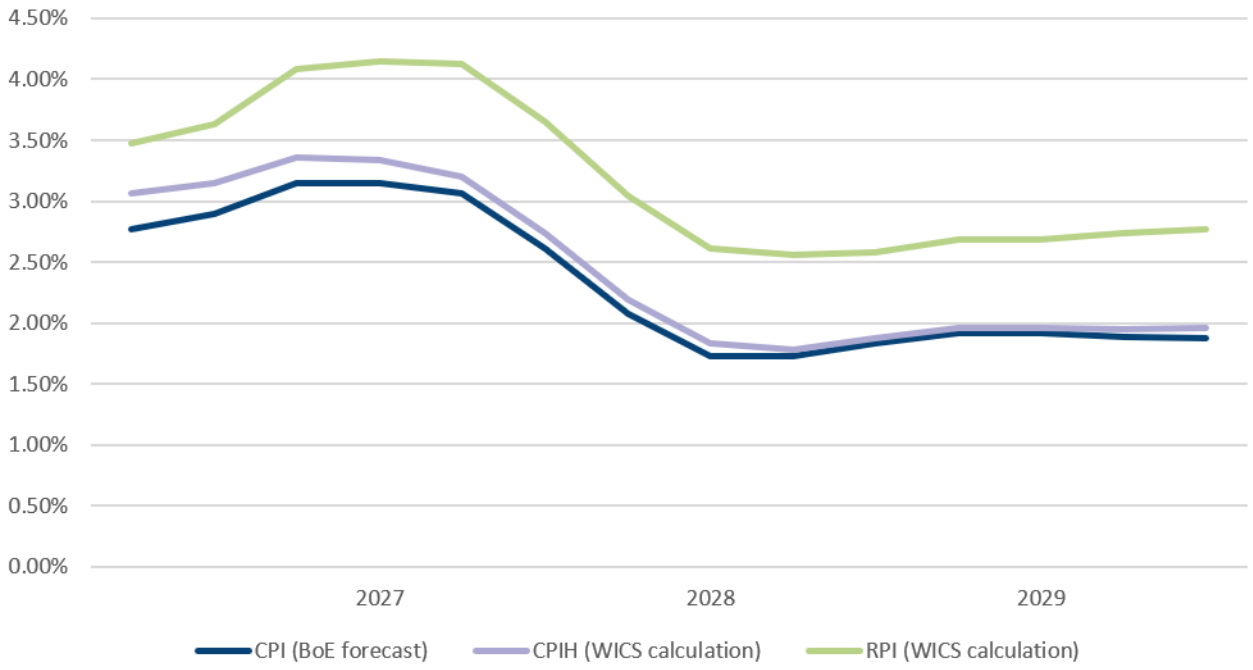


6.9.7 We apply the Bank of England forecast for CPI in the Final Determination.

[472] Bank of England (2026), 'Monetary Policy Report – July 2026', 30 July 2026.
[473] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 5d – Operating cost adjustments', 1 September 2026, paragraphs 4.1 to 4.5.
[474] Bank of England (2026), 'Monetary Policy Report – July 2026', 30 July 2026.

6.9.8 As explained above, Scottish Water's PFI contract expenditure is assumed to increase in line with RPI each year rather than CPI. However, the Bank of England forecasts only the CPI measure of inflation in its Monetary Policy Reports. Therefore, additional assumptions must be made to evaluate a forecast for PFI contract expenditure. To do this, we have considered the difference between CPI, RPI and CPIH forecasts in the Office for Budget Responsibility forecasts used for the Draft Determination. We apply these differences to the more recent Bank of England forecast for CPI to evaluate an assumption for RPI and CPIH. Figure 50 shows this analysis.

Figure 50: Bank of England CPI forecast and WICS' calculated CPIH and RPI assumptions



6.9.9 Where a short-term inflation forecast is not available, we have assumed that the CPI measure for inflation will return to the Bank of England's long-term target of 2%. We consider this a reasonable assumption because the short-term forecast is broadly in line with the long-term target by the end of the period covered by the Monetary Policy Report.

6.9.10 We recognise that the long-term expectations for CPIH highlighted by Scottish Water in its response to the Draft Determination indicate that CPIH will be 2.4% in the longer term.[475] However, the OBR's more recent forecasts for CPI and CPIH indicate that the two measures will be very similar over the short term.[476] We therefore do not consider it likely that the CPIH inflation measure will rise to 2.4% during the 2027-33 regulatory period. We therefore assume that CPIH will align to CPI at 2.0% where short-term forecasts are not available.

[475] Office for Budget Responsibility (2024), 'Economic and fiscal outlook – October 2024', 30 October 2024, p.39.
[476] Office for Budget Responsibility (2026), 'Economic and fiscal outlook – March 2026', 3 March 2026.

6.9.11 These updates result in the inflation forecasts shown in Table 129.

Table 129: WICS Final Determination inflation assumptions (financial year average)

	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Cost inflation (CPI)	3.00%	2.40%	1.80%	2.00%	2.00%	2.00%	2.00%
PFI inflation (RPI/CPIH)	3.80%	3.40%	2.60%	2.80%	2.00%	2.00%	2.00%

6.10 PFI contract expenditure

Our assessment in the Draft Determination

6.10.1 We considered Scottish Water's proposals for expenditure related to PFI contracts prior to expiry and broadly agreed with the approach and forecast. However, our Draft Determination applied updated inflation assumptions based on the OBR forecasts from March 2026 as set out in section 6.9.

6.10.2 Our Draft Determination modelled the impact of two PFI contracts expiring in 2026 (Daldowie and Dalmuir), and a further four PFI contracts expiring during the 2027-33 regulatory period. This results in an increase in operating expenditure, but a decrease in PFI contract expenditure. At the end of the 2027-33 regulatory period, just one PFI contract will remain, reducing the Draft Determination allowance for PFI contract expenditure in SRC27 from £118.6 million in 2027-28 to £30.0 million in 2032-33 (at 2024-25 prices). This resulted in a total allowance of £434.9 million over the period, about £4 million less than the amount proposed by Scottish Water in its final business plan.

Table 130: Draft Determination PFI contract expenditure allowance in SRC27

	PFI contract expenditure allowance in SRC27 (2024-25 prices)
Scottish Water's final business plan	£439.1m
WICS Draft Determination	£434.9m
Difference	*-£4.2m*

Draft Determination consultation responses and new information

6.10.3 In addition to the updated inflation assumptions WICS has applied in the Final Determination (taking into account Scottish Water's proposed update to the long-term CPIH assumption), WICS has also considered Scottish Water's actual PFI fees in 2025-26 reported in its Regulatory Accounts submission for the financial year 2025-26.

6.10.4 There were no further material comments on the approach to assessing PFI contract expenditure put forward in the Draft Determination.

Our assessment in the Final Determination

6.10.5 The Final Determination applies the same methodology to assess PFI contract expenditure as the Draft Determination. Forecast assumptions remain broadly the same, with the exception of inflation (see section 6.9).

6.10.6 As noted above, we have also considered Scottish Water's actual PFI contract expenditure for 2025-26. This information was not available to us at the time of the Draft Determination. Actual PFI contract expenditure in 2025-26 was £167.4 million (in outturn prices), around £3.6 million lower than we assumed in the Draft Determination. However, following engagement with Scottish Water, we understand that actual PFI contract expenditure was £2.9 million lower than it would otherwise have been due to one-off cost impacts. Based on this new information, our Final Determination rebases the forecast PFI contract expenditure to £170.3 million, net of a one-off cost impact of £2.9 million in 2025-26. Updating PFI expenditure for 2025-26 reported actuals is consistent with Scottish Water's approach of updating revenues based on its actual reported revenues in 2025-26.

6.10.7 A summary of the difference between the Draft Determination assumptions and actual expenditure in 2025-26 is shown in the table below.

Table 131: Draft and Final Determination PFI contract expenditure assumptions for 2025-26

	Draft Determination assumption (outturn prices)	Actual expenditure (outturn prices)
PFI contract expenditure (before adjustments for one-off costs)	£175.5m	£170.3m
Adjustment for one-off costs	-£4.4m	-£2.9m
PFI contract expenditure in 2025-26	£171.0m	£167.4m

6.10.8 Applying the updated inflation assumptions and rebasing expenditure to 2025-26 actual expenditure results in a Final Determination allowance for PFI contract expenditure allowance as set out in Table 132.

Table 132: Final Determination PFI contract expenditure allowance in SRC27

	PFI contract expenditure allowance in SRC27 (2024-25 prices)
Scottish Water's final business plan	£439.1m
WICS Draft Determination	£434.9m
Scottish Water Draft Determination response	£435.7m
WICS Final Determination	**£421.0m**

6.11 Our decision

6.11.1 Table 133 shows the underlying operating expenditure before the return of the PFI sites and adjustments for RPEs and frontier shift in WICS' Final Determination, and the difference from Scottish Water's final business plan.

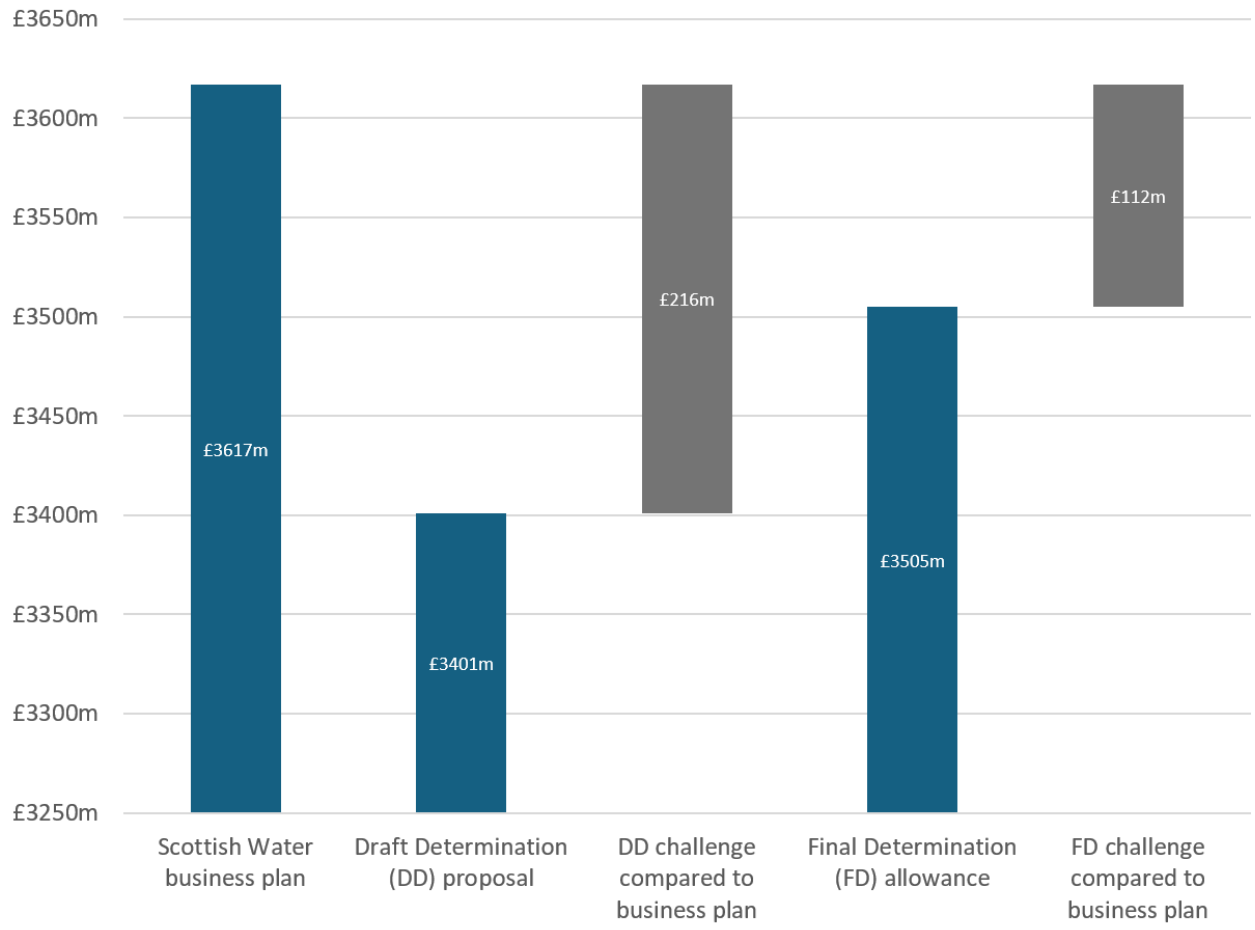
Table 133: WICS Final Determination operating expenditure allowance[477]

	Final Determination							Final business plan	Difference to business plan
	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total over SRC27		
Operating expenditure 2024-25	£511.1m	£511.1m	£511.1m	£511.1m	£511.1m	£511.1m	-	-	-
Additional costs arising in 2025-26 and 2026-27	-£0.5m	-£0.5m	-£0.5m	-£0.5m	-£0.5m	-£0.5m	**-£3.3m**	£14.1m	-£17.4m
Energy costs	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	**£60.1m**	£60.1m	£0.0m
Non-commodity energy costs	£6.8m	£6.8m	£6.8m	£6.8m	£6.8m	£6.8m	**£41.0m**	£47.5m	-£6.4m
RBMP3 chemical costs	£7.7m	£7.7m	£7.7m	£7.7m	£7.7m	£7.7m	**£46.3m**	£46.5m	-£0.2m
Labour real price effects	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m	**£0.0m**	£24.8m	-£24.8m
Increase in pension contributions	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m	**£0.0m**	£21.7m	-£21.7m
Bad debt	£0.6m	£1.2m	£1.9m	£2.6m	£3.2m	£4.0m	**£13.5m**	£20.6m	-£7.2m
New operating expenditure from enhancement	£0.8m	£1.5m	£2.3m	£3.0m	£3.8m	£4.5m	**£15.9m**	£15.9m	£0.0m
Leakage and non-household smart metering impact on operating costs	-£0.3m	-£0.9m	-£1.5m	-£2.1m	-£2.7m	-£3.3m	**-£10.6m**	-£10.6m	£0.0m
Returning PFI	£41.2m	£41.2m	£66.6m	£74.5m	£69.8m	£68.9m	**£362.1m**	£391.2m	-£29.0m
Productivity improvements efficiency	-£3.8m	-£7.8m	-£12.0m	-£16.5m	-£21.1m	-£25.8m	**-£87.0m**	-£81.7m	-£5.3m
Forecast operating expenditure, including PFI return	**£573.6m**	**£570.4m**	**£592.4m**	**£596.6m**	**£588.3m**	**£583.4m**	**£3,504.8m**	£3,616.8m	-£112.0m
Forecast operating expenditure, excluding PFI return	**£532.4m**	**£529.3m**	**£525.8m**	**£522.2m**	**£518.4m**	**£514.6m**	**£3,142.7m**	£3,225.6m	-£83.0m

[477] Table in 2024-25 prices.

6.11.2 Figure 51 shows our final decision for the allowed for operating expenditure.

Figure 51: Allowed for operating expenditure[478]



6.11.3 We consider that these allowances are sufficient to meet the expectations of DWQR in paragraph 6.5.8 and the requirements of the Scottish Government in paragraph 6.5.9.

6.11.4 The Final Determination allowance for PFI fees is £421 million for the 2027-33 regulatory period, as set out in Table 132.

6.11.5 Chapter 10 explains how we will monitor Scottish Water's performance against these allowances during the 2027-33 regulatory period.

[478] Figure in 2024-25 prices.

7 Allowances for other income and expenditure

7.1 Summary of chapter

7.1.1 Other financial assumptions impact the revenue that Scottish Water requires over the regulatory period, including:

- Other sources of cash that Scottish Water receives over a regulatory period, including borrowing and other sources of income; and
- Other types of expenditure that we expect Scottish Water to incur, in addition to the capital expenditure set out in Chapter 5 and operating expenditure set out in Chapter 5.13.2.

7.1.2 The other sources of cash include assumptions for new borrowing, infrastructure charges income, disposal proceeds, and grants and contributions. We must understand the magnitude of these receipts to ensure that Scottish Water is appropriately funded whilst ensuring that customers pay no more than is necessary.

7.1.3 The expenditure covers areas such as allowances for interest, taxation and reasonable cost contributions for the 2027-33 regulatory period. These expenditure areas are important inputs into the overall revenue requirement and, therefore, into the charges customers will pay.

7.1.4 Unlike operating expenditure and investment, these costs are influenced to a significant extent by external factors, prevailing interest rates, UK tax rules and developer activity. Our approach is therefore to model these allowances transparently, using the best available evidence, and to keep material changes under review during the regulatory period.

7.1.5 For SRC27, we have adopted a more detailed approach than in SRC21. In particular, we have modelled Scottish Water's existing loans individually, reflected the expected refinancing of maturing debt, and modelled tax using capital allowance pools.

7.1.6 This chapter is structured as follows:

- Borrowing and other income (infrastructure charges, disposal proceeds, grants and contributions); and
- Other expenditure (interest, taxation, reasonable cost contributions).

7.2 Borrowing and other income

Allowed for borrowing

7.2.1 Scottish Water borrows from the Scottish Government to support the investment programme and spreads these costs between current and future customers. At the end of the 2024-25 financial year, Scottish Water held debt of £4,874 million.[479]

7.2.2 Borrowing plays a critical role in spreading the cost of long-lived infrastructure fairly between current and future customers who benefit from those assets. It is therefore a central lever in balancing intergenerational equity and affordability.

7.2.3 The maximum amount of borrowing available to Scottish Water in each regulatory period is set by Scottish Ministers in their Principles of Charging for the industry. To pay for investment, Scottish Water is free to borrow within the public sector allowance that has been granted in the Scottish Government's Budget. Each year, Scottish Water pays interest on this borrowing, and at maturity it repays the principal, currently through refinancing the debt. As such, Scottish Water effectively rolls over maturing debt at prevailing interest rates, and we refer to the new borrowing in the year, less the borrowing repaid in the year, as net new borrowing.

Our assessment in the Draft Determination

7.2.4 The draft Principles of Charging for the 2027-33 regulatory period explained that the Scottish Government will continue to make borrowing available to Scottish Water, and the Government wishes to ensure that this lending is at the lowest practicable level, consistent with the principle of stable charges.[480]

7.2.5 During 2021-27, the Scottish Government has made £1,030 million of net new borrowing available to Scottish Water, representing around 18% of its forecast £5.8 billion investment programme. If borrowing were maintained at similar cash levels, the proportion of the investment programme financed through borrowing would fall to around 11% in real terms.

7.2.6 Therefore, WICS considered that the borrowing levels available in the current regulatory period represent the lowest practicable level of borrowing over 2027-33, recognising that:

- The scale of proposed investment over the 2027-33 regulatory period is significantly higher;
- Scottish Water's net new borrowing as a percentage of investment is lower than that of other prudently financed utility companies; and

[479] Table M5, line M5.24 from WICS (2025), 'AR25 Regulatory Accounts – M tables 2024-25', November 2025.
[480] Scottish Government (2026), 'Water Services: investing in and paying from 2027', 6 January 2026.

- Scottish Water maintains financial strength that is stronger than that of other prudently financed utility companies.

7.2.7 We therefore assumed that the maximum amount of net new borrowing available for the 2027-33 regulatory period is £1,030 million (in nominal terms). This is also in line with the level of borrowing for planning purposes highlighted in the Commissioning letter for SRC27.[481] Our assumption was that this net new borrowing is evenly phased over the regulatory period.

7.2.8 Our Draft Determination explained that Scottish Water should use borrowing to finance long-lived, high-value investments that deliver benefits across both current and future customers. As such, we considered that there should be a hierarchy for the types of projects that have borrowing attached to them:

1. Investments in increasing capacity at water resources, water treatment works and wastewater treatment works (known as Part 4 assets);
2. High-value one-off investments, such as investment at former PFI sites that have recently returned to Scottish Water and require significant investment (e.g. West Central Bioresources); and
3. Enhancement and resilience investment that delivers benefits across current and future customers (e.g. investment in water treatment works to meet higher standards of treatment, or investment in blue-green infrastructure to improve resilience to the changing climate).

7.2.9 Table 134 provides a summary of the projects to which we are attaching the borrowing based on the assumption that around 60% of these projects and programmes are financed through debt of £1,030 million in outturn prices (£912 million in 2024-25 prices).

Table 134: Assumed use of borrowing

Projects	Characteristic	Borrowing (2024-25 prices)
Part 4 growth investment	Growth	£232m
West Central Bioresources	High-value, one-offs	£332m
Water quality enforcements and sites with Letters of Commitment	Enhancement	£345m
Total		**£909m**

7.2.10 We explained that this left around £3 million of borrowing in 2024-25 prices, which Scottish Water should allocate to a project in line with the hierarchy. We also explained that with the exception of West Central Bioresources, which is subject to a conditional charge cap,

[481] WICS (2024), '2027-33 Commissioning letter', 12 June 2024.

Scottish Water could utilise the available borrowing for other projects provided it sets this out in its delivery plans and its reporting to WICS.

Draft Determination consultation responses and new information

7.2.11 Following engagement with the Scottish Government, and following the finalisation of the Principles of Charging, Scottish Water's allowed for borrowing for SRC27 has been confirmed at £1,020 million in outturn prices.[482]

7.2.12 In its response, Scottish Water disagreed with our proposal for it to identify projects in the capital investment programme that should be financed by borrowing in the 2027-33 regulatory period. Scottish Water explained that it does not borrow to pay for specific projects but instead uses borrowing to manage its cash balances.[483]

Our assessment in the Final Determination

7.2.13 In line with the finalised Principles of Charging for the 2027-33 regulatory period, we have updated our borrowing assumption to £1,020 million in outturn prices. The updated borrowing allowance represents a £10 million reduction relative to the assumption in our Draft Determination in outturn prices. The Final Determination maintains the assumption that new borrowing will be evenly phased over the regulatory period. This means a borrowing allowance of £170 million per year in outturn prices.

7.2.14 WICS accepts that the precise timing of the drawdown of debt within each year may be impacted by Scottish Water's short-term cash flow considerations. However, our Final Determination requires that Scottish Water assigns its borrowing to specific investments for indicative purposes. This recognises that the timing for when Scottish Water borrows in the year is a matter for Scottish Water and Scottish Government to decide and that we do not want this requirement to act as a constraint on how Scottish Water manages its cash flows. We expect Scottish Water to assign borrowing to investments in line with the hierarchy set out below:

1. Investments in increasing capacity at water resources, water treatment works and wastewater treatment works (known as Part 4 assets);
2. High-value one-off investments, such as investment at former PFI sites that have recently returned to Scottish Water and require significant investment (e.g. West Central Bioresources); and
3. Enhancement and resilience investment that delivers benefits across current and future customers (e.g. investment in water treatment works to meet higher

[482] Scottish Government (2026), 'Principles of Charging for regulatory period 2027-33', 23 October 2026.
[483] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 2 – Specific Modelling and Funding Adjustments', 1 September 2026, paragraphs 8.1 to 8.8.

standards of treatment, or investment in blue-green infrastructure to improve resilience to the changing climate).

7.2.15 Scottish Water should set out the allocation of borrowing to investment projects in its delivery plan during the 2027-33 regulatory period.

Infrastructure charges income

7.2.16 Development, in the form of household, business, or industrial growth, places demands on Scottish Water's assets and resources. The infrastructure charge is the income Scottish Water recovers from developers to cover the costs of growth-related upgrades to its network (known as Part 3 growth) that cannot be attributed to any single developer. Part 3 assets include trunk mains, service reservoirs, trunk sewers and pumping stations.

7.2.17 The infrastructure charge is payable to Scottish Water for each supply point or household that has not previously been connected to Scottish Water's network.

Our assessment in the Draft Determination

7.2.18 In our Draft Determination, we allowed for Part 3 growth investment of £96 million in 2024-25 prices. This was based on an updated forecast from Scottish Water, sent to us after the final business plan. This expenditure is funded by infrastructure charges.

7.2.19 Using Scottish Water's assumptions for the number of new connections to the network, WICS estimated that an infrastructure charge that increases in line with inflation would be sufficient to fund Part 3 growth investment. WICS modelled income aligned with fully cost-reflective infrastructure charges over the regulatory period, resulting in a total income of £96 million in 2024-25 prices. This was assumed to be evenly phased across the six years of the period.

Draft Determination consultation responses and new information

7.2.20 Scottish Water confirmed in its response that the 2027-33 Part 3 growth investment to be funded by infrastructure charges remains £96 million in 2024-25 prices, or £16 million per year. Scottish Water also agreed that such investments should not be funded by primary charges. However, Scottish Water explains that a 10% real-terms increase would be required to fund the forecast expenditure. It explains that this is due to uncertainty around the volume of infrastructure charges receipts and the level of household growth.[484]

[484] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 2 – Specific Modelling and Funding Adjustments', 1 September 2026, paragraphs 3.1.1 to 3.2.4.

Our assessment in the Final Determination

7.2.21 WICS considers that Scottish Water has not adequately evidenced the proposed above inflation increase to the infrastructure charge in SRC27. This means our Final Determination decision is to assume that income from infrastructure charges and Part 3 growth investment to be funded by infrastructure charges of £96 million in 2024-25 prices over the 2027-33 regulatory period.

7.2.22 As infrastructure charges are secondary charges, the Final Determination does not set a cap on the charge. WICS will therefore review Scottish Water's proposals for the infrastructure charge on an annual basis as part of the review of the Scheme of Charges to ensure that the infrastructure charge remains cost reflective. Scottish Water should not interpret assumptions for the purpose of the financial modelling for SRC27 as endorsement of a particular position on infrastructure charge income.

Disposal proceeds

7.2.23 Each year, Scottish Water disposes of a small number of assets. Income can vary from year to year. Over the first four years of the 2021-27 regulatory period, disposal proceeds have ranged from £0.7 million to £3.8 million in outturn prices.

Our assessment in the Draft Determination

7.2.24 Scottish Water's business plan explained that more marketable assets have been disposed of in SRC21 than are expected in SRC27. As such, we aligned our forecast to Scottish Water's assumption for the 2027-33 regulatory period. This meant we assumed £1 million to £2 million of disposal proceeds per year in 2024-25 prices over the 2027-33 regulatory period.

7.2.25 We accepted Scottish Water's forecast reduction in income from asset disposals for the 2027-33 regulatory period. However, we still consider that Scottish Water should continue to review its asset portfolio to mitigate the proposed increases in customer charges.

Draft Determination consultation responses and new information

7.2.26 There were no material comments relating to the Draft Determination's proposed forecast for the income received from the disposal of assets.

Our assessment in the Final Determination

7.2.27 Our Final Determination decision is to assume that income from the disposal of assets of £7.8 million in 2024-25 prices over the 2027-33 regulatory period.

Grants and contributions

Our assessment in the Draft Determination

7.2.28 In the first four years of the 2021-27 regulatory period, Scottish Water received grants and contributions of between £3 million and £10 million each year in outturn prices. For the 2027-33 regulatory period, we aligned our forecast of the income Scottish Water receives from grants and contributions with that set out in Scottish Water's business plan. This resulted in a forecast of between £4 million and £5 million in 2024-25 prices, which was broadly in line with the value of grants and contributions received in recent years.

Draft Determination consultation responses and new information

7.2.29 In addition to the points covered in 5.6.123, Scottish Fire and Rescue Service (SFRS) explained that the charging arrangements, which include income for grants and contributions, should clearly distinguish between specified hydrant costs for which SFRS is responsible and the costs of rectifying inadequate network design or infrastructure. Furthermore, the National Fire Chiefs Council (NFCC) sought transparent, itemised and demonstrably efficient charging for hydrant works, including sub-contractor and traffic management costs.

Our assessment in the Final Determination

7.2.30 In relation to the matters raised by SFRS and NFCC, it is Scottish Water's responsibility, as the operator, to comply with all relevant legislation. We will engage further with Scottish Water on these matters.

7.2.31 Our Final Determination decision is to assume grants and contributions of £26.4 million over the 2027-33 regulatory period.

7.3 Other expenditure

Interest

7.3.1 As explained above, Scottish Water borrows from the Scottish Government to contribute towards the cost of delivering the investment programme. Scottish Water pays interest on its debt, though this is slightly offset by the interest it receives on cash balances. Scottish Water also pays interest to licensed providers on balances held from the prepayment of wholesale charges. The sum of interest paid on debt and interest received on cash balances, less interest paid on wholesale prepayments, is collectively referred to as the net interest charge and was £142.3 million in 2024-25.[485]

[485] Table M4, line M4.10 from WICS (2025), 'AR25 Regulatory Accounts – M tables 2024-25', 27 November 2025.

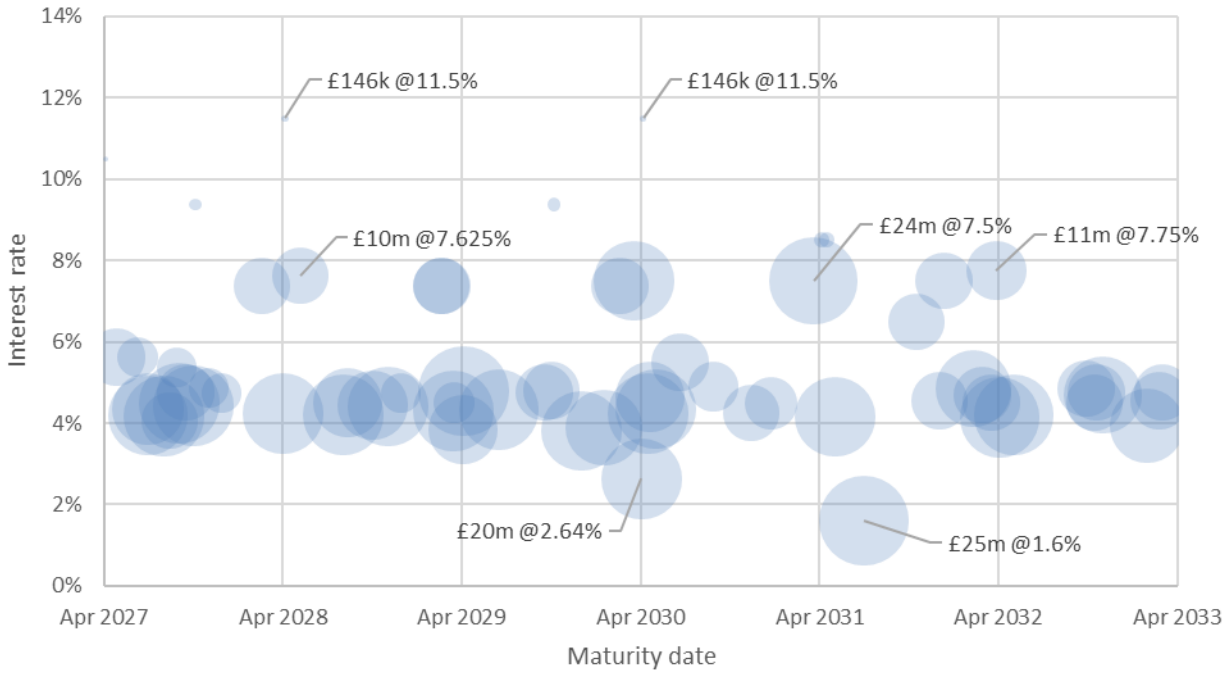
7.3.2 In forecasting interest expenditure, the key assumption we must make is the interest rate that will apply to new borrowing and the refinancing of maturing debt. Our approach to this assessment is explained below.

Our assessment in the Draft Determination

7.3.3 We have adopted a detailed assessment of Scottish Water's expenditure for SRC27 compared to the approach in SRC21. As a result, we modelled each of Scottish Water's existing loans individually, recognising that when these loans mature, Scottish Water will reborrow the principal at the prevailing interest rate.

7.3.4 Information on all existing debt held by Scottish Water is provided to us in Table M30 of the Regulatory Accounts each year.[486] We used this data to model each of the 67 loans (with total principal of c.£840 million) currently expected to mature between 2027-28 and 2032-33. The interest rate, principal and maturity date of these loans are shown in Figure 52.

Figure 52: Interest rate and principal of loans maturing during the 2027-33 regulatory period[487]



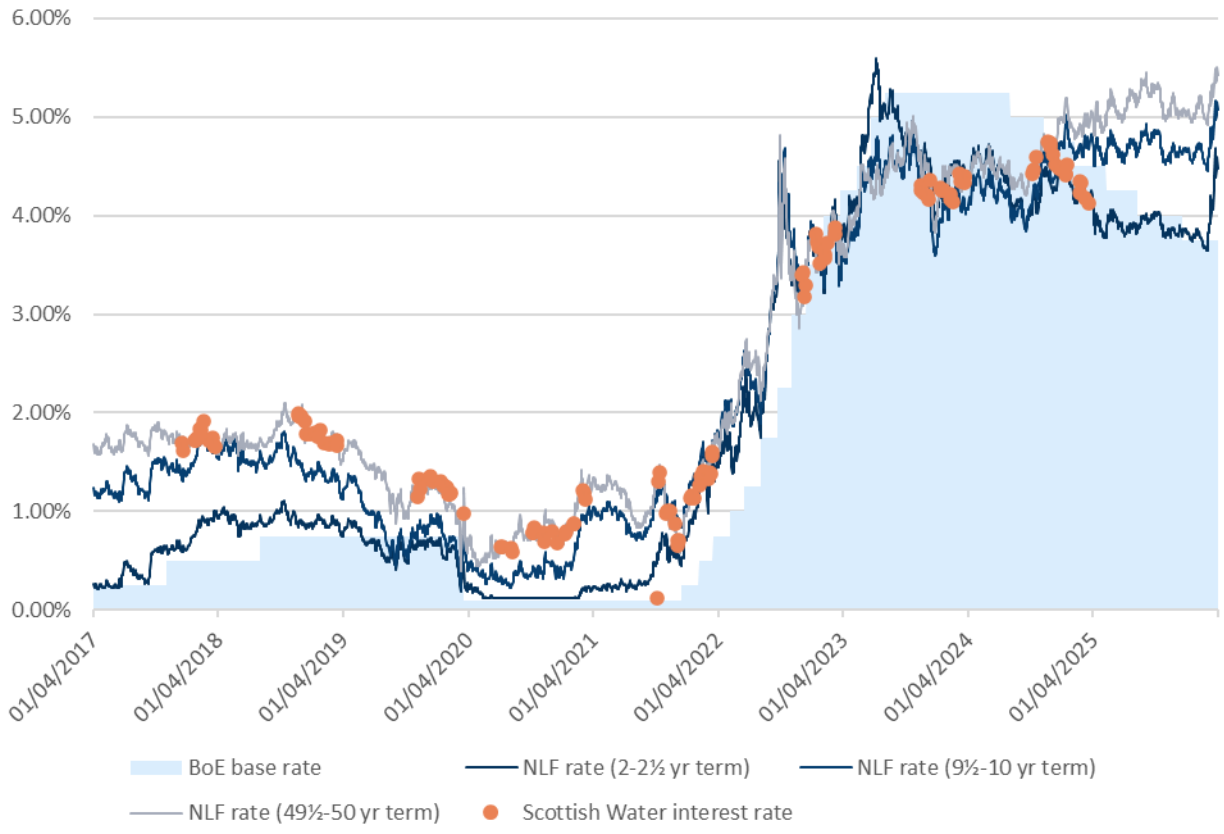
7.3.5 Figure 52 shows that several high-value, high-interest-rate loans will mature during the 2027-33 regulatory period. Scottish Water will benefit from this, as it will be able to re-borrow the maturing debt at a lower prevailing interest rate.

[486] WICS (2025), 'AR25 Regulatory Accounts – M tables 2024-25', 27 November 2025.
[487] The area of each circle represents the principal of the maturing loan.

7.3.6 To forecast the interest rate at which Scottish Water will borrow, we reviewed in detail Scottish Water's existing debt.

7.3.7 Figure 53 shows the interest rate at which Scottish Water has borrowed, along with the Bank of England base rate and various National Loans Fund (NLF) rates. It is these NLF rates that Scottish Water's interest rates are set.

Figure 53: Interest rates between 2017 to 2026[488]



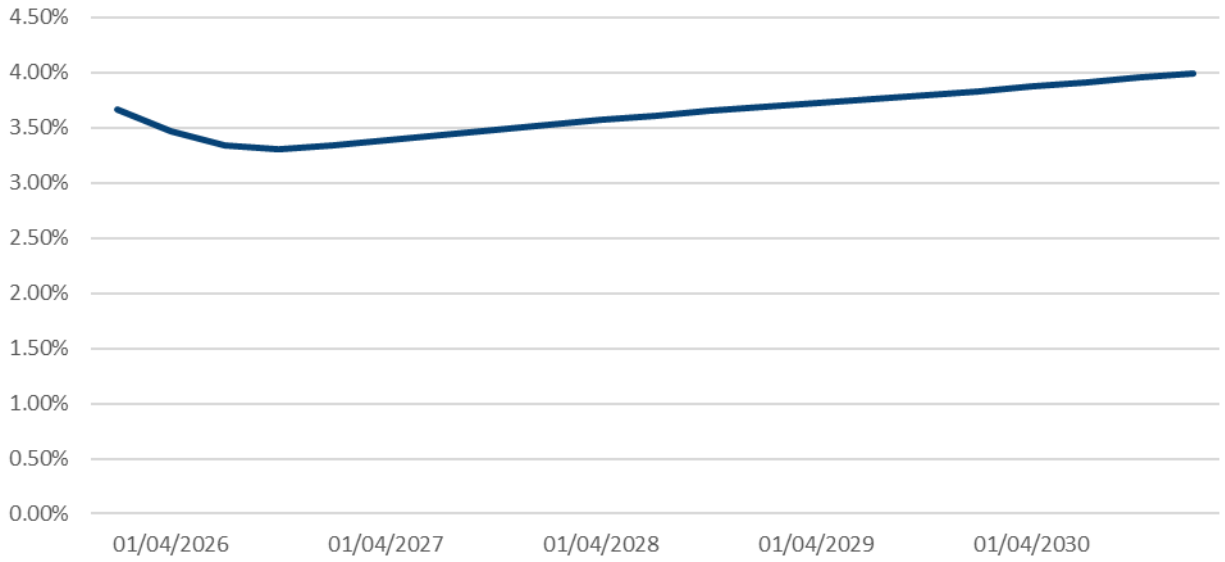
7.3.8 Our Draft Determination explained that typically, Scottish Water has borrowed from the Scottish Government with loans on a long-term basis (c.50 years). However, in recent years, we have observed that Scottish Water has borrowed a significant proportion of its new debt with maturities of less than 5 years. As shown in Figure 53, loans with a shorter maturity typically have a lower interest rate than those with longer terms.

7.3.9 We considered forecasts for the Bank of England base rate, recognising that forecasts for the NLF interest rates are not available. We used the most recent forecast from the Office for Budget Responsibility (OBR), published in March 2026, to inform our assumption. The

[488] Note that, at the time of the Draft Determination, WICS did not yet have data from Scottish Water for the 2025-26 financial year.

OBR forecasts that interest rates will continue to fall in 2026 before gradually increasing between 2027 and 2031. This forecast is shown in Figure 54.[489]

Figure 54: OBR forecast for base rate



7.3.10 However, we explained that more recent market expectations indicate that interest rates will remain near the current level for the remainder of 2026. Based on this, we modelled interest rates broadly in line with the NLF rates observed in the 2025-26 financial year. As such, for each year in the 2027-33 regulatory period and the final two years of the 2021-27 regulatory period, we assumed an average interest rate of 4.50% on new debt. This was slightly below Scottish Water's assumption for 2025-26 (4.90%), and slightly higher than Scottish Water's assumption for each year thereafter (4.35%-4.45%). We explained that we would continue to review this assumption ahead of our Final Determination.

7.3.11 Figure 53 also shows that Scottish Water typically borrows towards the end of each financial year. Between 2016 and 2025, we observed that the average drawdown date for new debt is at the beginning of January. We assumed that this trend would continue through SRC27.

7.3.12 Scottish Water also receives interest on cash balances it holds. Between 2017-18 and 2024-25, we observed that the interest rate Scottish Water receives on cash balances was, on average, 0.95% below the rate at which it has borrowed from the Scottish Government. We have also observed that, between 2022-23 and 2024-25, the interest rate that Scottish Water has paid on wholesale prepayment from licensed providers has been around 0.55% above the rate at which it has borrowed from the Scottish Government. We assumed that these trends would continue throughout the 2027-33 regulatory period.

[489] Office for Budget Responsibility (2026), 'Economic and fiscal outlook – March 2026', 3 March 2026.

7.3.13 Using the approach and assumptions described above, we modelled Scottish Water's interest expenditure over the 2027-33 regulatory period. This allowance represented a small reduction compared to Scottish Water's proposal.

Table 135: Net interest allowance for SRC27

	Net interest allowance for SRC27 (2024-25 prices)
Scottish Water's final business plan	£1,016.6m
WICS Draft Determination	£1,003.1m
Difference	*-£13.5m*

Draft Determination consultation responses and new information

7.3.14 Respondents to the consultation did not propose changes to the 4.5% interest rate WICS assumed in the Draft Determination. However, WICS explained in the Draft Determination that due to uncertainty around interest rates we would review our interest rate assumptions in the period between the Draft and Final Determinations. This review is covered in detail below.

7.3.15 In its response, Scottish Water proposed a change to the assumed drawdown date for new borrowing. Scottish Water acknowledges that between 2016 to 2025 it has typically borrowed around January each year; however, it suggests that this trend will not continue through the 2027-33 regulatory period. Scottish Water explains that, due to its liquidity risk appetite, its cash balance has reduced over recent years and there will therefore be a requirement to borrow earlier each year than it has historically in order to manage its cash flows effectively. Scottish Water therefore proposed that the Final Determination should assume that Scottish Water will borrow in the middle of each financial year rather than in January each year.[490]

7.3.16 Consumer Scotland explained in its response to the Draft Determination that it would welcome greater transparency regarding the treatment of wholesale prepayments and associated interest payments.[491] Our Final Determination provides additional context to improve understanding of arrangements.

Our assessment in the Final Determination

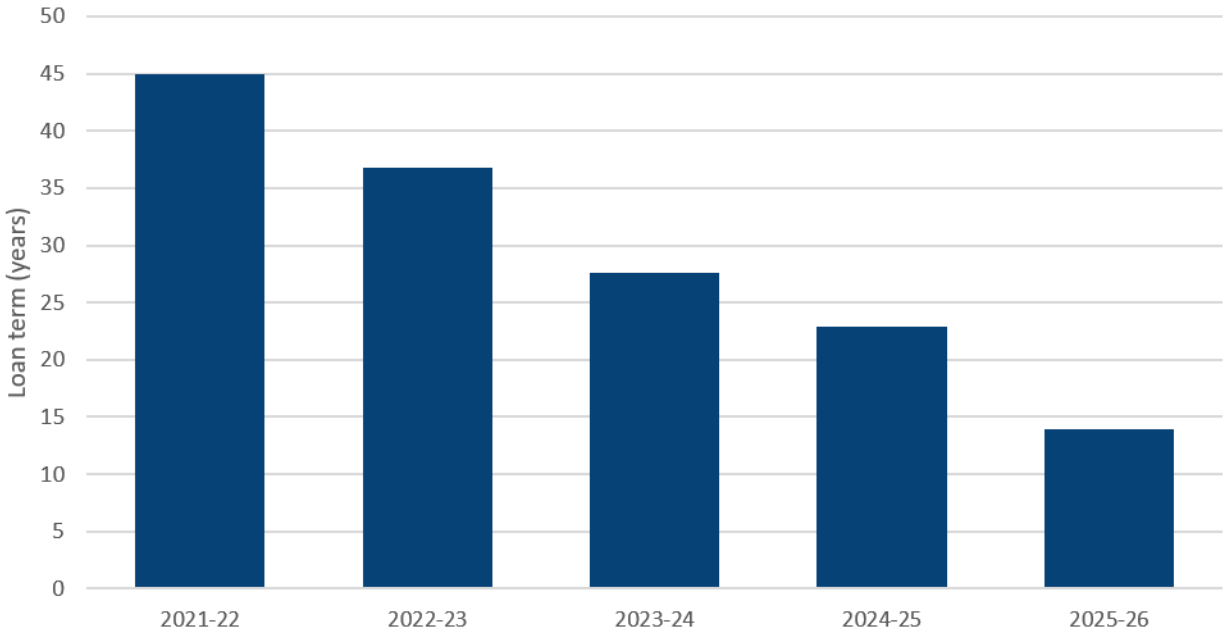
7.3.17 As explained above, due to ongoing uncertainties, WICS has continued to review its assumption for interest rates over the 2027-33 regulatory period in advance of the Final Determination. Our updated assessment of interest rates applies the same methodology

[490] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 2 – Specific Modelling and Funding Adjustments', 1 September 2026, paragraphs 4.1 to 4.7.
[491] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.37.

as the Draft Determination, but applies any new information available to us. This analysis shows us that, since around the beginning of the 2026-27 financial year, NLF interest rates have increased (see Figure 56).

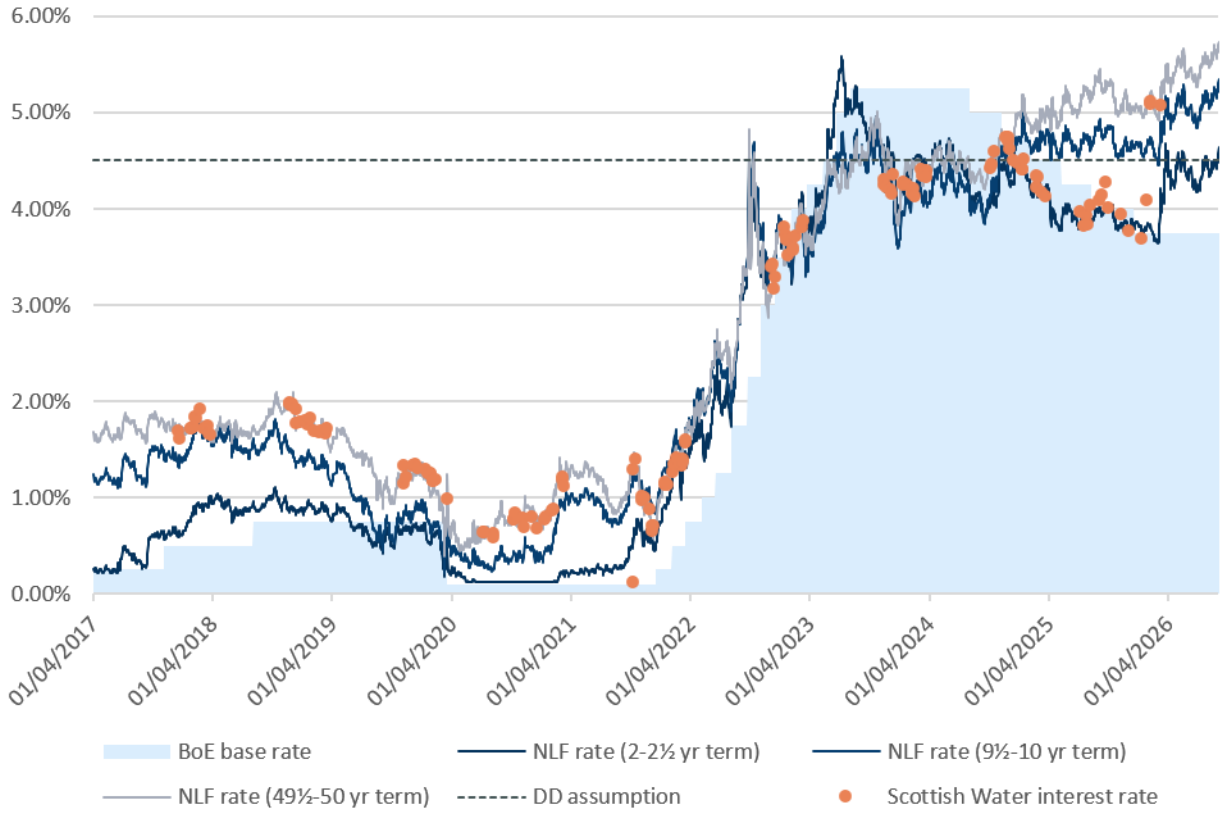
7.3.18 Since the Draft Determination was published, we have also reviewed Scottish Water's annual return submission for the 2025-26 financial year. 2025-26 data show that Scottish Water has continued to reduce the average term of new loans to manage the impact of rising interest rates. New debt in 2025-26 had the lowest average term we have observed in the 2021-27 regulatory period to date, and it was borrowed with an average interest rate of 4.24%. Our analysis of the average term of new loans in the 2021-27 regulatory period is shown in Figure 55.

Figure 55: Weighted average loan term in the 2021-27 regulatory period to date



7.3.19 A summary of our updated analysis of both NLF interest rates and Scottish Water's actual interest rates since the Draft Determination is shown in the Figure 56.

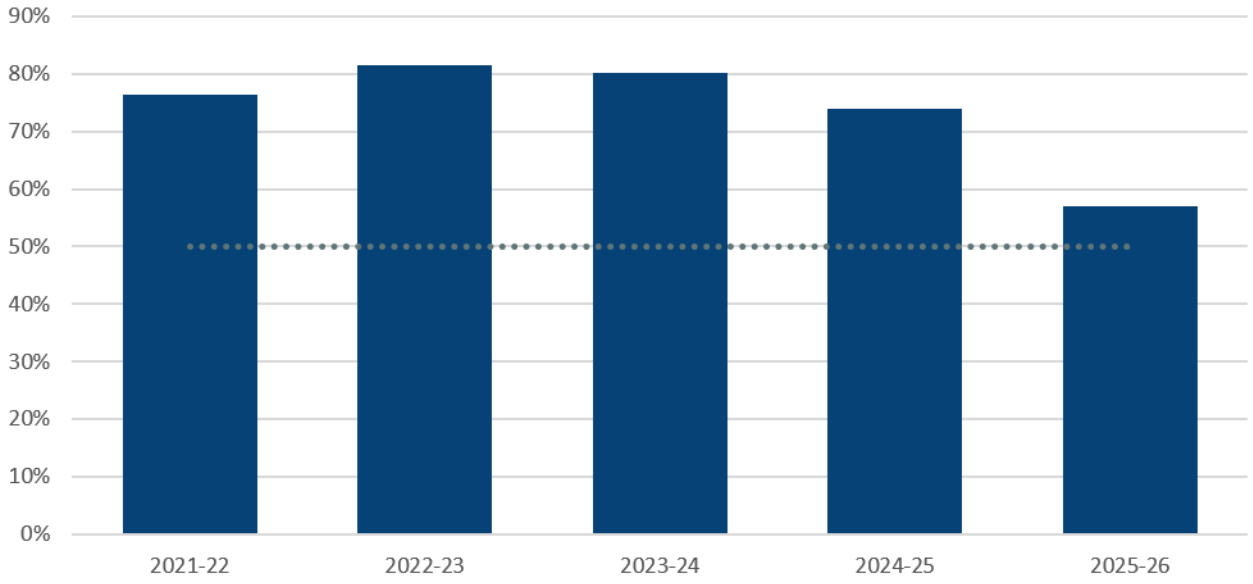
Figure 56: Interest rates between 2017 to 2026 (updated)



7.3.20 Figure 56 shows that recent NLF interest rates have increased relative to the level observed prior to the Draft Determination; however, we consider that an assumed interest rate of 4.5% remains reasonable. This is because our analysis of new loans taken out in 2025-26 shows that Scottish Water continues to borrow with short maturities to mitigate the impact of rising interest rates. Viewing this analysis in the round, we have maintained the Draft Determination interest rate assumption for the SRC27 Final Determination. This means our Final Determination decision is to assume an interest rate of 4.5% in 2026-27 and in each year of the 2027-33 regulatory period. We note that Scottish Water did not propose any changes to the interest rate assumptions in its response to the Draft Determination.

7.3.21 As noted above, Scottish Water disagreed with WICS Draft Determination assumption that Scottish Water would borrow in January of each year. Since the publication of the Draft Determination, Scottish Water has submitted its annual return covering the 2025-26 financial year to WICS. Our analysis of this data confirms that, in 2025-26 the average date that Scottish Water borrowed in the year was in October. Our analysis of the drawdown date of new borrowing in the 2021-27 regulatory period is shown in Figure 57.

Figure 57: Weighted average percentage of the way through the year that debt was drawn down



7.3.22 Recognising that we expect Scottish Water's cash balance to continue to remain lower than historical levels, our Final Determination decision is that it is reasonable to align with Scottish Water's proposed assumption. This updated assumption increases the allowed interest expenditure over the 2027-33 regulatory period by around £19 million in the Final Determination.

7.3.23 As noted above, licensed providers prepay their wholesale charges to Scottish Water. The level of wholesale prepayment varies between licensed providers but is between 1.5 and 3 months of their wholesale charge, based on Scottish Water's financial resilience assessment.[492] Scottish Water pays interest to licensed providers on balances held on prepaid wholesale charges. Interest rates are based on NLF rates. These arrangements are set out in section 8.8.3 of the Wholesale Services Agreement.[493] WICS has begun a review of wholesale prepayment arrangements, and throughout this review, we will ensure that arrangements remain transparent and in the interests of customers.

7.3.24 Our Final Determination decision is to assume that the interest rate Scottish Water pays to licensed providers will be 0.55% higher than the rate at which Scottish Water will borrow from the Scottish Government.

7.3.25 In line with Scottish Water's business plan and its risk appetite, our Draft Determination assumed that Scottish Water holds a cash balance of £50 million in each year of the 2027-33 regulatory period, plus an additional balance to reflect the remaining completion investment carried over into the period.

[492] Scottish Water (2023), 'Financial Resilience: Assessment Framework Summary', 14 March 2023.
[493] WICS (2023), 'Wholesale Services Agreement', March 2023.

7.3.26 Our financial modelling approach for the Final Determination involved setting a level of charges (to the nearest 0.1%) that provides a cash balance of at least £50 million in each year (plus an additional balance for remaining completion investment), given the other assumptions for income and expenditure. Based on this approach, our Final Determination results in a cash balance of around £70 million in the final year. We consider that the additional £20 million in cash over the 2027-33 regulatory period provides Scottish Water with further protection against uncertain costs and other risks compared with both Scottish Water's business plan and our Draft Determination.

7.3.27 Table 136 shows the Final Determination decision on the forecast cash balance. Further information about income and expenditure cash flows and their impact on the closing cash balance can be found in section 9.7.

Table 136: Final Determination closing cash balance profile[494]

	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Closing cash balance	£69.8m	£95.9m	£113.2m	£113.4m	£109.5m	£96.0m	£70.7m
Closing cash balance less remaining completion investment	£50.0m	£93.0m	£112.6m	£113.2m	£109.4m	£96.0m	£70.7m

7.3.28 Our Final Determination decision for assumed net interest is set out in Table 137. The updated interest assumptions explained in paragraphs 7.3.17 to 7.3.27 result in a lower net interest allowance compared to the Draft Determination.

Table 137: Final Determination net interest allowance for SRC27

	Net interest allowance for SRC27 (2024-25 prices)
Scottish Water final business plan	£1,016.6m
WICS Draft Determination	£1,003.1m
Scottish Water Draft Determination response	£1,021.0m
WICS Final Determination	**£998.3m**

7.3.29 We have accepted Scottish Water's proposed assumptions for the date that it will borrow each year and our interest rate assumptions are aligned. Our Final Determination allowance represents a £23 million reduction (in 2024-25 prices) relative to Scottish Water's proposals put forward in its response to the Draft Determination. Around £13 million of this difference results from our updated inflation assumptions, which reduce real-terms expenditure because interest costs are modelled at outturn prices. Most of the

[494] Table in projected outturn prices.

remaining difference relates to WICS updated assumptions for the cash balance profile over the 2027-33 regulatory period.

Taxation

7.3.30 In the immediate years following the formation of Scottish Water in 2002, it paid only very limited corporation tax payments. From 2017-18 to 2021-22, tax payable broadly increased each year, with payments equalling £41 million over these five years.

7.3.31 Scottish Water previously held a significant balance of brought-forward losses that could be used to write off profits in later years. From around 2015-16, Scottish Water began drawing down on these losses to reduce tax payable. Prior to 2017-18, companies could write off 100% of in-year profits against brought-forward losses. However, in 2017, rules on the utilisation of brought-forward losses changed, and instead of being able to write down 100% of in-year profits, companies were only allowed to write down up to £5 million plus 50% of remaining profits. This remains the case today.

7.3.32 In the last three financial years (2022-23 to 2024-25), Scottish Water had not paid any corporation tax. This is, in part, due to changes to the capital allowance pools and depreciation rates, which now allow full expensing of certain capital investments in the year they are incurred.

7.3.33 We have modelled tax payments at a detailed level based on forecast profits/losses in the period, brought-forward losses, and capital allowances. Our input assumptions for this calculation are covered below.

7.3.34 Many inputs to the calculation of taxation are set by the United Kingdom Government. As such, WICS is not required to evaluate them, and they are not discussed in detail in this chapter. We instead focus on the allocation of capital investment to tax depreciation pools.

Our assessment in the Draft Determination

7.3.35 To forecast the value of additions to each capital allowance pool, we considered additions as a proportion of total investment between 2019-20 and 2024-25, as set out in Table 138.

Table 138: Draft Determination allocation of investment to tax depreciation pools

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	WICS assumption	Scottish Water assumption
General rate pool	38.4%	48.9%	32.3%	39.6%	31.6%	34.8%	**37.2%**	**37.2%**
Long-life pool	48.4%	30.0%	53.5%	38.7%	43.3%	49.2%	**43.4%**	**42.2%**
Structures and Buildings Allowance pool	n/a	1.3%	1.4%	0.8%	3.0%	0.0%	**1.3%**	**1.7%**
Investigations	4.8%	11.1%	5.6%	9.7%	12.1%	8.0%	**8.5%**	**7.0%**

7.3.36 Our Draft Determination considered it prudent to assume that Scottish Water will make optimal use of the available capital allowances. As such, we assumed that any assets qualifying for the general pool would be fully depreciated in the year of spend, and those qualifying for the long-life pool would be depreciated by 50% in that year. This aligned with the approach adopted by Scottish Water in its business plan.

7.3.37 Using the approach and assumptions described above, we modelled Scottish Water's taxation over the 2027-33 regulatory period to set an expenditure allowance. Table 139 shows our Draft Determination allowance for taxation compared with the forecast from Scottish Water's business plan.

Table 139: Draft Determination taxation allowance for SRC27

	Taxation allowance for SRC27 (2024-25 prices)
Scottish Water's final business plan	£53.1m
WICS Draft Determination	£23.3m
Difference	*-£29.8m*

7.3.38 The proposed Draft Determination allowance for tax represented around a £30 million reduction compared to the forecast put forward by Scottish Water in its final business plan, as a result of the lower charge path compared with the Draft Determination.

Draft Determination consultation responses and new information

7.3.39 In its response to the Draft Determination, Scottish Water disagreed with WICS' assessment of the allocation of investment to tax depreciation pools. Scottish Water suggested that WICS' use of historical trends does not necessarily provide the best estimate of future outcomes. However, Scottish Water did not provide sufficient evidence of its assumptions such as the analysis underpinning its forecasts. As such, the further information made available to WICS in Scottish Water's response to the Draft Determination is limited.

7.3.40 Scottish Water also explained that it is unclear why WICS has aligned with Scottish Water's assumption for the General Rate Pool but not other pools.[495] We consider that Scottish Water has misunderstood the approach adopted in the Draft Determination because the same methodology was applied to all tax depreciation pools, with the exception of the Structures and Buildings Allowance and the intangible assets allowance, which are treated slightly differently due to the differing time series for which data is available for these allowances. To address this in the Final Determination, we have clearly set out our calculation of the assumptions underlying the allocation of investment to depreciation pools.

7.3.41 For the Final Determination, we have not updated our analysis to reflect the data reported in Scottish Water's annual return submission for the 2025-26 financial year. This is because discrepancies were identified in our review of the taxation analysis section of the provisional Regulatory Accounts submission. The timing of the Annual Return review process has meant that the discrepancies were not addressed in time for the updated figures to be reflected in the Final Determination.

Our assessment in the Final Determination

7.3.42 As explained above, Scottish Water did not provide sufficient evidence to support its proposed assumptions for the allocation of investment to tax depreciation pools. We have therefore not updated our approach. However, for clarity, this section sets out our calculations in more detail to improve clarity.

7.3.43 Our approach to assessing the allocation of investment to tax depreciation pools involves assessing historical data from the M21 table of Scottish Water's Regulatory Accounts submissions to WICS between 2019-20 and 2024-25. Most capital allowance pools have remained the same over this period, except for the Structures and Buildings Allowance (SBA), which was introduced from 2020-21 onwards. We also have data for the intangible assets allowance only from 2023-24. For the SBA and the intangible asset pools, we have applied the average percentage of spend allocated to these pools over the period for which data is available (i.e. five years for SBA, and two years for intangible assets).

7.3.44 A similar methodology was applied for the other allowances, although data for these pools is available for every year since 2019-20. Given the different time periods used to derive the assumptions for the SBA and intangible asset pools, the assumptions for the remaining pools were scaled proportionately so that the aggregate allocation across all capital allowance pools equals 100.0%. This calculation is shown in Table 140.

[495] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 2 – Specific Modelling and Funding Adjustments', 1 September 2026, paragraphs 5.1 to 5.10.

Table 140: Final Determination allocation of investment to tax depreciation pools

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Average	WICS adjusted assumption
General rate pool	38.38%	48.86%	32.27%	39.63%	31.65%	34.81%	**37.60%**	**37.17%**
Long-life pool	48.44%	29.98%	53.53%	38.74%	43.34%	49.16%	**43.86%**	**43.36%**
Structures and Buildings Allowance pool	n/a	1.35%	1.38%	0.77%	2.97%	0.00%	**1.29%**	**1.29%**
Investigations	4.81%	11.14%	5.62%	9.75%	12.14%	7.97%	**8.57%**	**8.47%**
Intangible assets	n/a	n/a	n/a	n/a	1.96%	0.79%	**1.37%**	**1.37%**
Not qualifying/ deferred	8.38%	8.67%	7.20%	11.10%	7.95%	7.28%	**8.43%**	**8.33%**
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**101.13%**	**100.00%**

7.3.45 The Final Determination applied the same taxation assumptions as the Draft Determination. However, changes in other areas, such as expenditure allowances, revenue assumptions, charging decisions, and inflation assumptions, affect the forecast tax payable over the 2027-33 regulatory period.

7.3.46 Table 141 shows our Final Determination decision for allowed for taxation.

Table 141: Final Determination taxation allowance for SRC27

	Taxation allowance for SRC27 (2024-25 prices)
Scottish Water final business plan	£53.1m
WICS Draft Determination	£23.3m
Scottish Water Draft Determination response	£53.3m
WICS Final Determination	**£26.8m**

Reasonable Cost Contributions

7.3.47 Scottish Water is required to provide water and wastewater services to households and non-household customers up to a reasonable cost. Where developers incur costs to connect new properties to Scottish Water's network, Scottish Water may reimburse the developer up to a maximum reasonable cost. These payments are referred to as reasonable cost contributions (or RCCs).

7.3.48 The reasonable cost contribution payments that Scottish Water is required to make can be difficult to forecast because they depend on the rate at which new developments are connected to its network. In 2024-25, Scottish Water's reasonable cost contribution

payments were higher than would typically be expected (£46.8 million). This is primarily because of large-scale developments such as Bertha Park in Perth.

Our assessment in the Draft Determination

7.3.49 In its business plan, Scottish Water explained that it expects reasonable cost contributions in 2025-26 to remain at higher than historical levels, before reducing to around £30 million per year in 2024-25 prices by 2026-27.

7.3.50 After reviewing Scottish Water's forecasts and after conducting our own analysis of historical data, we concluded that Scottish Water's projections for RCCs are broadly reasonable. However, we did not include the small increase to RCCs proposed by Scottish Water in 2027-28 as we did not consider this well evidenced. This resulted in a proposed allowance of £30.1 million per year for RCCs, or £180.8 million over the regulatory period, as set out in Table 142.

Table 142: RCCs allowance for SRC27

	RCCs allowance for SRC27 (2024-25 prices)
Scottish Water's final business plan	£185.3m
WICS Draft Determination	£180.8m
Difference	*-£4.5m*

Draft Determination consultation responses and new information

7.3.51 There were no material comments relating to the Draft Determination's proposed forecast for reasonable cost contributions.

Our assessment in the Final Determination

7.3.52 No changes to our allowance for reasonable cost contributions have been made for our Final Determination. Table 143 shows our Final Determination decision on the allowance for RCCs.

Table 143: Final Determination RCCs allowance for SRC27

	RCCs allowance for SRC27 (2024-25 prices)
Scottish Water final business plan	£185.3m
WICS Draft Determination	£180.8m
Scottish Water Draft Determination response	£180.8m
WICS Final Determination	**£180.8m**

Monitoring

7.3.53 Some of these forecasts are subject to external pressures that are not within Scottish Water's control. Future interest rates may be affected by wider economic and global events, while tax payable may be affected by changes to UK tax legislation or the treatment of capital allowances.

7.3.54 We will therefore keep these areas under review during the regulatory period as part of our ongoing monitoring of Scottish Water's performance. Where changes are material, we will consider the impacts within the safeguards framework described in Chapter 8.

8 Safeguards, risk and uncertainty

8.1 Summary of chapter

8.1.1 This chapter explains how we propose to protect customers from risks and uncertainties during the 2027-33 regulatory period.

8.1.2 In setting charge caps, we need to balance two considerations. Customers should not pay upfront for uncertain costs that may not materialise. At the same time, Scottish Water needs a clear route to recover unforeseen costs outside management control that are necessary to deliver services and invest.

8.1.3 For our Draft Determination, we proposed to use conditional charge caps for two categories of known uncertainty: the West Central Bioresources project, and specific operating expenditure uncertainties relating to energy costs and pension costs. We previously referred to these as 'OPEX uncertainties'.

8.1.4 We have decided to apply the conditional charge cap for West Central Bioresources without any changes to the proposal set out in our Draft Determination. We have also decided to apply the conditional charge cap for OPEX uncertainties, which we refer to as 'conditional charge cap for cost uncertainties' but have made two key changes to the proposal set out in the Draft Determination:

- We have decided to amend the scope of the conditional charge cap to include energy expenditure, capital cost inflation for enhancement growth and asset replacement investment and revenue collection rates. It no longer includes pension costs, given that Scottish Water did not include this in its counter-proposal in its response to the Draft Determination; and
- We have decided that the conditional charge cap for cost uncertainties will be available in years 3, 4, 5 and 6 of the regulatory period (i.e. from 2029-30) rather than only in years 4, 5 and 6.

8.1.5 The conditional charge caps will only be available where Scottish Water provides evidence that the relevant conditions have been met. For example, for the conditional charge cap for West Central Bioresources, Scottish Water will be required to provide a final project investment appraisal confirming the project's scope, cost, and outcomes.

8.1.6 This chapter also explains the role of interim determinations, which remain available where there are material changes in costs or revenues during the regulatory period.

8.1.7 This chapter is structured as follows:

- Risk and safeguards;
- Conditional charge caps;
- Interim Determinations; and
- Conclusions.

8.2 Risk and safeguards

8.2.1 Water companies face a number of risks, including:

- Economy-wide risks such as high inflation and interest rates; and
- Company-specific risks such as supply chain disruption, adverse weather impacts.

8.2.2 Where these risks materialise, they are likely to impact the level of costs that Scottish Water incurs and therefore the charges that customers pay for the service they receive. Where this happens, and the impact is material, then either:

- Ministers, as the owner of Scottish Water, provide additional funding;
- Ministers provide additional lending; or
- Investment, and therefore also outcomes, are reduced.

8.2.3 Risk cannot be removed from the system. It can only be allocated among Scottish Water (to manage as operator), Scottish Ministers (as owner), and current and future customers.

8.2.4 At present, as set out in the final Principles of Charging, the Scottish Government does not take a dividend from its ownership of Scottish Water.[496] Instead, the benefits of public ownership are returned to customers through lower charges and/or higher levels of investment and service improvement than might otherwise be possible. This can be viewed as an implicit dividend that is retained for the benefit of customers rather than distributed. In a privately financed company, shareholders would typically bear at least part of the impact of material external cost shocks through reduced returns or by providing additional equity. An analogous approach in Scottish Water could therefore be for material external

[496] Scottish Water (2026), 'Principles of Charging for regulatory period 2027-33', 23 October 2026.

cost shocks to reduce the value of this implicit dividend, either through higher charges, a reprioritisation of investment and outcomes, or a combination of both.

8.2.5 Such adjustments would require a framework that shows the value of the implicit dividend and how that value is shared between current and future customers through lower charges and/or better service. We therefore intend to undertake further work during the 2027-33 regulatory period to improve understanding of the allocation of risk. This could consider whether alternative frameworks for setting charges, such as a regulatory asset base and weighted average cost of capital framework used for publicly owned entities in other countries (e.g. Australia), could provide useful benchmarks for informing these assessments and should be considered as part of the framework for future regulatory periods beyond SRC27.

8.2.6 Regardless of possible future approaches, our role is to ensure that the allocation of risk reflects who is best placed to manage the risk, is transparent and in the customers' interests. As economic regulator, we need to achieve an appropriate balance between protecting customers from risks that Scottish Water should be able to manage (for example, efficient delivery of the investment programme) and recognising those risks that are genuinely outside management control and may require some adjustment to charges, investment or outcomes.

8.2.7 In this regard, the current regulatory framework already includes safeguards to protect customers from some risks. For example, setting caps on the charges Scottish Water collects from customers protects existing customers from the immediate risk of cost overruns that could lead to higher charges. Furthermore, our detailed annual monitoring and reporting of Scottish Water's performance provide an incentive for Scottish Water to ensure it meets the requirements of the Final Determination, given that WICS will highlight both outperformance and underperformance, with the latter attracting wider criticism.

8.2.8 Furthermore, we have the interim determination mechanism to adjust charges within a regulatory period in the event a factor has a material impact on Scottish Water's costs or revenues.

8.2.9 WICS must ensure the safeguards for the 2027-33 regulatory period are commensurate with the risks and uncertainties that may materialise. We see risks in three main areas:

- risks over West Central Bioresources, in particular, the risk of cost escalations or delivery delays associated with a project of its size;
- risks associated with the delivery of an investment programme which is larger and more complex than previous regulatory periods; and
- risks associated with uncertain costs outside of Scottish Water's control.

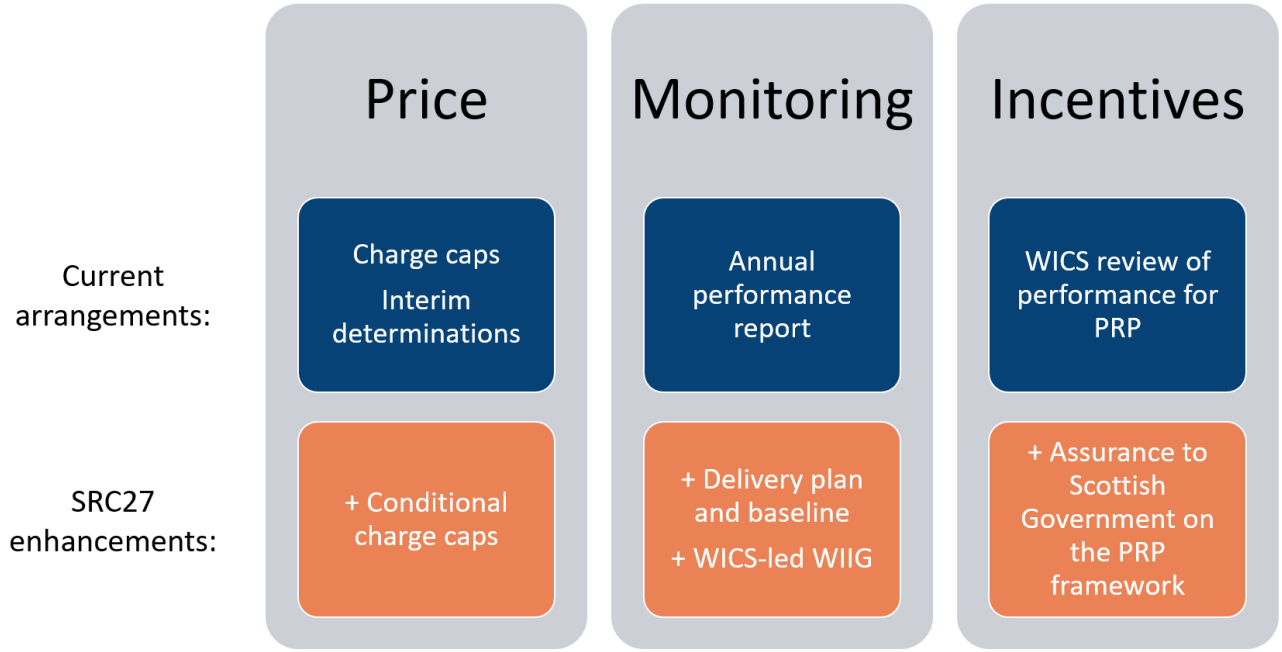
8.2.10 For our Draft Determination, we proposed to enhance safeguards across three areas:

- Price: through the use of charge caps that apply only where certain conditions are met, to protect customers in the event of costs escalating or if there are delays in developing a project. These could also be used to protect Scottish Water from cost increases that are fully outside management control. We refer to this safeguard as conditional charge caps.
- Monitoring: enhancing visibility of performance, ensuring there are early warning signals in the event of delivery delays and holding Scottish Water to account in delivering outcomes for customers.
- Incentives: strengthening the Scottish Government's oversight of performance related pay (PRP).

8.2.11 This chapter covers the safeguards relating to price: conditional charge caps and interim determinations. Chapter 10 covers safeguards for monitoring and incentives.

8.2.12 Figure 58 provides an overview of these safeguards.

Figure 58: Safeguards in SRC27



8.3 Conditional charge cap for West Central Bioresources

8.3.1 In setting charge caps, we ensure that customers are adequately protected from material uncertainties, recognising that it is customers who are likely to bear the risk if they materialise. When considering how best to protect customers from material uncertainties, we face a choice:

- We either allow the cost in charges at the time of our Determination, which risks leaving customers paying more than necessary if the uncertain costs do not materialise; or
- We do not allow the cost in charges, which could leave Scottish Water with a shortfall in funding, and leave customers with reduced investment and reduced levels of service if the uncertain costs materialise.

8.3.2 We consider that conditional charge caps protect customers from material risks, serving as a safeguard, and enable Scottish Water to deal with uncertainties that arise during the regulatory period. Our Draft Determination proposed a 'core' charge cap sufficient to provide the required funding for costs that are certain and are fully evidenced by Scottish Water. Our Draft Determination also set out an additional charge profile for uncertain cost items that could be accessed if required.

8.3.3 Other economic regulators apply similar mechanisms to take account of material uncertainties. For example, Ofwat applies a gated process for large projects.[497] Through this process, Ofwat can set charge caps at the start of the period, including an allowance for the development costs of agreed large projects. Companies must then submit project investment cases through the interim determination/ cost change process. Ofwat will assess the submission and, if accepted, amend the allowed charge cap to cover additional expenditure required to deliver the project.

8.3.4 Similarly, Ofgem uses uncertainty mechanisms to adjust allowances during the regulatory period for activities where there are uncertainties in the associated cost forecast at the time of setting the price control. Where, at the start of the control period, there is material uncertainty as to both prices and quantities, Ofgem has the option to use a re-opener mechanism during the control period to consider a variation in allowances.[498]

8.3.5 The West Central Bioresources project is set to be the largest project Scottish Water has ever delivered. The proposal includes the construction of a new advanced anaerobic digestion (AAD) facility on the site of the existing Daldowie bioresource facility, and upgrades at other wastewater treatment sites to enable the transfer of sludge to the AAD site. Until 1 April 2026, the Daldowie site was run by a PFI operator. Scottish Water plans to begin construction in June 2027 and complete the project by 2031. Further information on the proposed investment can be found in section 5.7.

Our assessment in the Draft Determination

8.3.6 We considered that there is a risk that during the development of the project, costs escalate to a point that the project is no longer in the customers' interests. WICS also

[497] Ofwat (2024), 'PR24 Final Determinations: Expenditure allowances', December 2024.
[498] Ofgem (2025), 'RIIO-3 Final Determinations Overview Document', 4 December 2025.

considered the risk that, if the project's construction start is delayed, the allocated funding could be used to pay for other investments or to cover cost overruns in other areas of the programme. If Scottish Water requested funding for West Central Bioresources in future periods, there is a risk that customers could end up paying twice for the project.

8.3.7 We also noted that there is uncertainty around potential opportunities for Scottish Water to receive funding from the UK Government's Green Gas Support Scheme (GGSS).[499] In technical appendix 10 of its business plan, Scottish Water estimated that, should this opportunity materialise, it could generate between £8 million and £10 million annually. We considered that, if they materialise, these additional funding sources must be used to offset the allowed cost of West Central Bioresources, ensuring that customers receive the full benefits of the funding. However, we did not have sufficient information to factor this funding into our Draft Determination.

8.3.8 Under WICS proposals for the Draft Determination, Scottish Water would only be able to access the funding associated with the conditional charge cap once the project reaches Gate 80/90 and the Scottish Water Board has approved the project, but prior to starting construction. Scottish Water would be required to apply to WICS to evidence that it has met the charge cap conditions. Scottish Water should commit to the construction phase of the project only after WICS approval, confirming that the conditions have been met. We emphasised that Scottish Water could apply for the conditional charge cap at any point during the 2027-33 regulatory period after Gate 80/90 has been reached, to avoid delays to starting the project.

8.3.9 We proposed that Scottish Water will be required to address the outstanding requirements of the Minister's policy position for the conditional charge cap to be accessed.

Draft Determination consultation responses and new information

8.3.10 Consultation question 6 covered both the conditional charge cap for West Central Bioresources and cost uncertainties. Question 6 asked to what extent respondents agree with our proposal to introduce a conditional charge cap.

- 19 respondents answered 'agree' or 'strongly agree';
- 11 respondents answered 'neither agree nor disagree';
- 13 respondents answered 'disagree' or 'strongly disagree'; and
- 8 respondents provided no direct answer.

8.3.11 Respondents who answered 'agree' or 'strongly agree' gave several reasons, including:

[499] Ofgem (2025), 'Green Gas Support Scheme Guidance v2.2', 7 July 2025.

- 8 respondents supported the principle of conditional charge caps as a mechanism to protect customers;
- 2 respondents also supported the principle but sought further clarification on the evidence required. 1 of these respondents also sought confirmation that lower revenue from reduced consumption due to the deployment of smart meters would not be recoverable under the mechanism; and
- 9 respondents provided no further comment.

8.3.12 Respondents who answered 'disagree' or 'strongly disagree' gave several reasons, including:

- 5 respondents had concerns over the conditional charge cap transferring risk and cost onto customers, with some also citing wider affordability concerns;
- 1 respondent had concern over the environmental impact of West Central Bioresources;
- Scottish Water disagreed with the proposal for several reasons (see below); and
- 6 respondents provided no further comment.

8.3.13 Respondents who answered 'neither agree nor disagree' raised similar points to those highlighted in paragraphs 8.3.11 and 8.3.12 above.

8.3.14 Other respondents did not provide a direct response to the question and instead provided a free-form submission.

8.3.15 The remainder of this subsection covers the specific comments on the conditional charge cap for West Central Bioresources. The next subsection captures the specific comments on the conditional charge cap for cost uncertainties.

8.3.16 Scottish Water raised concerns regarding the Draft Determination's proposal to apply a conditional charge cap to the West Central Bioresources (WCB) project. Scottish Water considered that the proposal would create significant funding uncertainty, increase planning and delivery risk, and potentially delay project delivery.[500] Scottish Water further considered that any delays could reduce the operating cost efficiencies expected from the project during SRC27 and, consequently, reduce the funding available for investment elsewhere in the programme.[501]

8.3.17 Scottish Water explained that the conditional charge cap was unnecessary from a customer-protection perspective and considered that customer interests could be adequately protected through existing performance-monitoring arrangements and the

[500] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 1.3.24, 3.2.8, 7.2.1 and 7.2.2.
[501] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 7.2.3.

investment planning and prioritisation framework process (now the regulatory change process).[502] Scottish Water further considered that the proposal was inconsistent with the objective of maintaining a dynamic investment programme and achieving a smooth profile of investment and charges over time.[503]

8.3.18 Scottish Water also expressed concern that the proposal could create a circularity in project delivery, whereby Scottish Water may be unable to commit to procurement activities without funding certainty. However, Scottish Water may be unable to demonstrate costs without first undertaking procurement. Scottish Water considered that if the requirements to access the cap proved difficult to satisfy, it could be exposed to construction cost risks beyond its reasonable control, thereby increasing overall project costs.[504]

8.3.19 More broadly, Scottish Water considered that making approximately £225 million of funding contingent on a single project reduced the flexibility of the overall investment programme.[505] Scottish Water noted that, if the project did not proceed during SRC27, the funding would be removed rather than reprioritised through the investment planning and prioritisation framework process (now the regulatory change process). This could potentially create funding pressures in future regulatory periods when the project and other investment priorities would need to be funded simultaneously.[506] Scottish Water, therefore, considered that the conditional charge cap could undermine intergenerational fairness by creating sharper future increases in investment requirements and customer charges in future periods.[507]

8.3.20 Scottish Water also noted that it already provides transparency on financial performance and investment delivery, and that the investment planning and prioritisation framework (now the regulatory change process) provides an established mechanism to consider any required reprioritisation of investment.[508] Scottish Water further considered that making funding contingent on the delivery of the West Central Bioresources project would not

[502] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 3.2.9, 3.3.1 and 7.2.6.
[503] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 3.2.9, 7.2.4, 7.2.5 and 7.2.6.
[504] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 7.2.2.
[505] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 7.2.4, 7.2.5 and 7.2.9.
[506] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 7.2.4 and 7.2.5.
[507] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 3.2.9, 7.2.4, 7.2.5 and 7.2.6.
[508] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 7.2.8.

materially reduce the risk of cost overruns elsewhere in the programme, as any such issues would be visible through performance reporting and subject to stakeholder scrutiny.[509]

8.3.21 Consumer Scotland welcomed the use of conditional charge caps and considered them an effective mechanism for protecting customers from paying more than necessary and from paying in advance for uncertain costs. Consumer Scotland considered that this approach provides greater assurance that any future increase in charges will be supported by robust evidence and transparent decision-making.[510]

8.3.22 Consumer Scotland also emphasised the importance of transparency in the operation of any conditional charging mechanism. In particular, Consumer Scotland considered that customers and stakeholders should have visibility of the evidence required to trigger additional charges, the outcomes expected to be delivered, and the opportunities available for stakeholder scrutiny before any increase in charges is approved. Consumer Scotland considered that such transparency would be important in maintaining customer confidence that charges are only increased where costs are justified and demonstrably in customers' interests.

8.3.23 Similarly, the Independent Customer Group (ICG) welcomed the principle that customers should not pay in advance for costs that may not materialise during the regulatory period, including through the proposed conditional allowance for the West Central Bioresources project.[511]

8.3.24 Overall, consultation responses demonstrated support for the principle that customers should not be required to fund uncertain costs in advance. The responses also highlight the importance of transparency, clear governance arrangements, and appropriate safeguards to ensure that any future uplift in charges is justified and demonstrably in customers' interests.

Our assessment in the Final Determination

8.3.25 We have carefully considered Scottish Water's concerns regarding the potential impact of the conditional charge cap on the delivery of the West Central Bioresources project. However, Scottish Water has not provided evidence demonstrating that the conditional charge cap would create material planning or delivery uncertainty for the project. For example, Scottish Water has not set out the impact of the conditional charge cap on its

[509] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 7.2.11.
[510] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September, p.30.
[511] Independent Customer Group (2026), 'Water Industry Commission Draft Determination for SRC27: ICG response', 1 September 2026, paragraph 8.

internal milestones (or investment 'gates') for the development and delivery of the project demonstrating this material planning or delivery uncertainty.

8.3.26 We also disagree with Scottish Water's consideration that the conditional charge cap creates a circularity in the project development process. Scottish Water considered that it would need to progress procurement sufficiently to finalise project costs and meet the requirements of the conditional charge cap, but that it could not do so without certainty that the associated funding would be available. We do not consider this concern to be well-evidenced. For example, Scottish Water is already progressing several large projects for delivery over the 2027-33 regulatory period, where final funding remains subject to further confirmation as part of this Final Determination. Furthermore, Scottish Water could decide to utilise its borrowing notionally assigned to West Central Bioresources, which is not subject to the conditional mechanism, to support design development, option appraisal and procurement activities before a final investment decision is taken. However, it would be for Scottish Water to decide whether to use the borrowing, taking into account the risk that the project may not proceed.

8.3.27 Scottish Water also considered that the conditional charge cap is unnecessary because the investment planning and prioritisation framework (now the regulatory change process) already provides a mechanism to discuss changes to investment priorities and respond to changing circumstances. We agree that the investment planning and prioritisation framework (now the regulatory change process) plays an important role in supporting a dynamic investment programme. However, we do not consider it to provide the same level of protection for customers' funding of project costs before key uncertainties relating to scope, cost and deliverability have been resolved, recognising the value of the West Central Bioresources project. This is because the investment planning and prioritisation framework (now the regulatory change process) concerns how already-allowed funding is utilised, whereas the conditional charge cap concerns whether funding is allowed in the first place. The conditional charge cap therefore provides additional levels of protection. The conditional charge cap and the investment planning and prioritisation framework (now the regulatory change process), therefore, serve different purposes within the regulatory framework and should be regarded as complementary rather than alternative mechanisms.

8.3.28 We recognise, however, that Scottish Water's concern extends beyond the interaction between the conditional charge cap and the investment planning and prioritisation framework (now the regulatory change process). Scottish Water also considered that, if the West Central Bioresources project does not proceed as currently planned, the conditional charge cap could result in lower charges during the 2027-33 regulatory period, followed by higher charges in a subsequent regulatory period should the investment still be required. However, we do not consider that this outcome necessarily follows. If, during the 2027-33 regulatory period, Scottish Water sought to bring forward investment requirements that would otherwise have been funded in a subsequent regulatory period while rephasing the

West Central Bioresources project, we consider that the regulatory framework provides a mechanism to achieve a similar outcome through an interim determination. Where the rephasing of the project and re-prioritisation of investment requirements resulted in a material change to Scottish Waters's charges income, other resources or expenditure required for the exercise of its core functions, WICS could exercise its power to make an interim determination under section 29F of the Water Industry (Scotland) Act 2002 and adjust charges for the SRC27 regulatory period accordingly.

8.3.29 We therefore consider that the conditional charge cap remains an appropriate and proportionate safeguard for customers. It provides protection against customers' funding costs before uncertainties are resolved, while allowing Scottish Water to continue project development. We have therefore decided to apply the conditional charge cap for the West Central Bioresources project.

8.3.30 Scottish Water's response did not comment on the conditions that the Draft Determination proposed. One respondent explained that the conditions need to be more precisely defined (see Appendix 1 and responses to the consultation question 2). Our approach, which is set out below, is based on an objective, procedural review of the evidence with the requirements set out in Table 144. Its purpose is to enhance the transparency of the West Central Bioresources project while protecting customers from potential cost escalation. If costs have escalated from the forecasts in the final business plan, WICS need to understand how Scottish Water proposes to meet these additional costs and the consequences for outcomes in other areas before the project proceeds.

8.3.31 Evidence that Scottish Water has addressed these requirements should be submitted to WICS as part of the application to access the conditional charge cap. The application will need to provide evidence in the areas set out in Table 144.

Table 144: Evidence required for Scottish Water to access the West Central Bioresources charge cap

Area	Form of evidence
Confirmation of scope, cost, outcomes, cash inflows and value for money	• Final project investment appraisal confirming the scope, cost and outcomes of the West Central Bioresources project, and evidence of any cash inflows that will offset part of the cost (e.g. GGSS, savings from renewable energy generation). If costs have escalated above those allowed for in the Determination, then Scottish Water should explain how the additional cost will be met; • An up-to-date benchmarking assessment of the capital costs based on the cost estimates in the Stage 4 Project Investment Appraisal; and • Assurance from Scottish Water's Board that the West Central Bioresources project is the appropriate solution and that it will satisfy SEPA's requirements.
Consents and approvals	• Assurance from Scottish Water's Board that it has completed the relevant impact assessments (e.g. the environmental impact assessment) and has received the relevant consents and approvals (e.g. planning consents, environmental consents); and • Visibility of these consents.
Confirmation of timescales	• A detailed timeline for the delivery of the project post-Gate 80/90 for monitoring.

8.3.32 Once the project has reached Gate 80/90, Scottish Water may submit its application. We would welcome Scottish Water doing so at the earliest possible date, as we consider this to be in the best interests of all parties.

8.3.33 Following the submission of the evidence, WICS will decide whether Scottish Water has met the conditions and can access the conditional charge cap. WICS will seek to reach a decision within 3 months of receiving the application. Any decision that the conditions have been met and that access to the charge cap should be granted will remain subject to Scottish Water submitting a compliant Scheme of Charges for the years in which the conditional charge cap applies.

8.3.34 Scottish Water can submit its application at any point after the project has reached Gate 80/90. However, we require that the evidence be submitted to WICS no later than the end

of August in the year prior to the charging year in which Scottish Water wishes to access the conditional charge cap. This is to ensure that WICS has sufficient time to consider the merits of the evidence presented by Scottish Water prior to the review of the Scheme of Charges. If Scottish Water were to submit evidence to WICS after the end of August, WICS may exercise its discretion to extend the deadline should we consider it in the interests of customers to do so. We will ensure that any decision to accept a late submission of evidence does not impact WICS' ability to apply full due diligence in its role to review the Scheme of Charges submission. If this is not possible, then WICS will consider the evidence for the following charging year.

8.4 Conditional charge cap to deal with cost uncertainties (previously 'OPEX uncertainties')

Our approach in the Draft Determination

8.4.1 In our review of Scottish Water's business plan and the wider evidence base, we considered that there are two known cost uncertainties that may materialise within the regulatory period and could be material enough to warrant a conditional charge cap. These are energy costs and pension costs.

8.4.2 We proposed that a conditional charge cap be applied to these cost uncertainties, and that before allowing Scottish Water to access these conditional charge caps, it must be evidenced that these cost movements are efficient and cannot reasonably be managed within Scottish Water's existing allowances.

8.4.3 For energy costs, we noted that these can be volatile due to geopolitical factors, as we observed in the 2021-27 regulatory period. As explained above, Scottish Water's use of power purchase agreements shielded customers from the 2022 spike in energy costs caused by geopolitical instability.

8.4.4 At the time of preparing the Draft Determination, we noted that we are in a period of geopolitical instability. Depending on how quickly the situation is resolved, there may or may not be a material long-term impact on energy costs.

8.4.5 If WICS were to allow for uncertain energy costs, customers would pay more than necessary if the uncertain cost does not materialise or can be mitigated. For this reason, we proposed applying a conditional charge cap for cost uncertainties, including energy costs.

8.4.6 We proposed to use the Department for Energy Security and Net Zero (DESNZ) measure of energy prices for large users to review the impact of changing energy costs.

8.4.7 For pension costs, Scottish Water explained in its business plan that its employees are part of Local Authority pension funds and that these funds are currently in surplus. Scottish Water forecasts that if the surplus status were to change, then its contributions to the fund

would increase by around £7 million per year. These revaluations are undertaken by an independent party, meaning Scottish Water does not have control over this aspect of pension costs.

8.4.8 Our view in the Draft Determination was that such an increase in operating costs would be beyond Scottish Water's control, but allowing these costs to be included in customer charges from the start of the period could result in customers being overcharged if the costs do not materialise. As such, we considered it appropriate to apply a conditional charge cap to provide funding that may be required to meet increased pension costs resulting from a revaluation. We proposed that the conditional charge cap for pension costs would apply only to additional costs arising from the pension revaluation. This is because such adjustments to charge caps must be due to additional costs outside management's control that cannot be absorbed through efficiency improvements.

8.4.9 For both items, we proposed that from year four of the regulatory period (2030-31), charge caps can be amended if the cost uncertainties have materialised. We noted that we expect Scottish Water to engage with WICS in advance of its Scheme of Charges submission and to provide appropriate evidence to support its application to access the conditional charge cap if it views an adjustment to charges is required. This evidence was to cover the following areas:

- A quantification of the impact that changing energy costs and/or a pension revaluation have had on operating costs (such quantification must be based on actual data rather than forecasts);
- An explanation of why Scottish Water has not been able to manage these costs; and
- An explanation of why Scottish Water has not been able to absorb these costs through outperformance in other areas.

8.4.10 We proposed that evidence must be submitted to WICS before the end of August in the year preceding the charging year in question. We also proposed, in line with the approach we have adopted for the West Central Bioresources conditional charge cap at paragraph 8.3.34, that WICS may decide to accept a late submission of evidence from Scottish Water if it considered it to be in customers' interests to do so.

Draft Determination consultation responses and new information

8.4.11 Paragraph 8.3.10 onwards covers the general feedback on conditional charge caps. This subsection covers the specific comments on the conditional charge cap for cost uncertainties.

8.4.12 We covered Scottish Water's position on real price effects above in section 5.9, including its view that WICS' proposed treatment of RPEs in the Draft Determination was inconsistent

with recent regulatory approaches adopted elsewhere in the UK water sector (see paragraphs 5.10.11 to 5.10.13).[512]

8.4.13 However, Scottish Water supported the principle and use of uncertainty mechanisms where costs arise from factors outside management control.[513] Scottish Water considered that the uncertainty mechanisms proposed in the Draft Determination should be replaced with a different mechanism covering real price effects (see paragraph 5.10.13), household growth, and cash collection rates.[514] This alternative mechanism did not include additional pension contributions associated with the pension scheme's triennial revaluation of the pension fund.

8.4.14 Scottish Water considered that these factors should be managed through a combination of an uncertainty mechanism of up to +/-0.5% on charges in each of the final four years of the regulatory period and the reprioritisation of investment through the investment planning and prioritisation framework (now the regulatory change process).[515]

8.4.15 We understand that the +/-0.5% proposed by Scottish Water was based on its estimation of the potential cost impact and then assuming that 50% would be reflected through an adjustment to charges, capped at 0.5%, with the remaining 50% reducing the funding available for investment through the IPPF. The adjustment to charges would be based on a two-year lag. For example, 50% of the revenue or cost impact arising in 2027-28 (year *t*) would be reflected in charges in 2029-30 (year *t*+2), up to a maximum adjustment of 0.5%. We understand that the mechanism would also allow impacts exceeding the 0.5% cap or collar to be carried forward to subsequent years.[516] Scottish Water proposed a model for calculating the uncertainty mechanism in each year.

8.4.16 Scottish Water considered that a strengthened uncertainty mechanism would provide a better balance between protecting customers and maintaining the deliverability of agreed outcomes when material cost pressures arise.

8.4.17 We received feedback from other respondents on conditional charge caps for uncertain cost items. As discussed above, Consumer Scotland, the Independent Customer Group and a number of consultation respondents supported the principle that customers should not pay in advance for uncertain costs. However, several respondents considered that

[512] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 6.2.2
[513] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 1.3.22
[514] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 1.3.23, 2.2.28 and 5.3.4
[515] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 5.3.4
[516] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination response – Annex 9b – Uncertainty Mechanism', 1 September 2026.

transparency is important for maintaining confidence that any future increases in charges are justified and in customers' interests.

Our assessment in the Final Determination

8.4.18 As set out in paragraph 8.4.13, Scottish Water proposed an alternative uncertainty mechanism instead of the conditional charge cap. This covered household growth rates, movement in cash collection rates and real price effects for both operating and capital expenditure.

8.4.19 We have considered Scottish Water's alternative uncertainty mechanism carefully, including through engaging with Scottish Water further on it.

8.4.20 We cover Scottish Water's uncertainty mechanism in its component parts:

- Our assessment of Scottish Water's proposed mechanism;
- Household growth;
- Collection rates; and
- Real price effects.

8.4.21 We then provide our overall assessment.

Our assessment of Scottish Water's proposed mechanism

8.4.22 Scottish Water proposed that uncertainty associated with growth, revenue collection rates and future input price pressures should be managed through a predefined mechanism, which is set out in paragraph 8.4.15.

8.4.23 In considering Scottish Water's proposal, we have several overall design considerations for how such a conditional charge cap for cost uncertainties could work in practice. In particular, there are choices in the following areas:

- whether uncertainty should be managed through a mechanistic approach with predefined rules, or through a more judgement-based approach;
- the extent to which any additional costs should be recovered through customer charges as opposed to adjustments to investment and outcomes through the regulatory change process (previously named the IPPF); and
- the timing of any adjustments.

8.4.24 Adopting a predefined mechanism based on indices offers several advantages. Most notably, it provides greater certainty and predictability for Scottish Water, customers and other stakeholders. By establishing clear rules in advance, all stakeholders can understand how the mechanism would operate and under what circumstances adjustments would be made.

8.4.25 However, a predefined mechanism also has several disadvantages. The main disadvantage is that changes in market-wide indices may not accurately reflect movements in Scottish Water's own costs. This could result in Scottish Water receiving additional funding or having funding removed when not merited if changes in indices diverge from Scottish Water's actual experience. For example, had such a mechanism been in place during the 2021-27 regulatory period, Scottish Water may have been entitled to additional funding reflecting the significant increase in energy costs in 2022 and 2023, despite its energy costs being largely fixed through pre-purchase arrangements. In such circumstances, customers could have faced higher charges without Scottish Water having incurred equivalent additional costs.

8.4.26 Furthermore, we consider that a mechanistic approach may weaken incentives for Scottish Water to actively manage risks. For example, if Scottish Water's costs and funding are linked to movements in market-wide indices, it may face reduced incentives to mitigate its exposure through procurement strategies, long-term contracts, or other cost-management measures. We consider that this ultimately shifts more risk onto customers.

8.4.27 More generally, mechanistic approaches can introduce additional complexity through the specification of indices, adjustment factors and other design features such as caps and collars. This complexity can make mechanisms more difficult for customers and stakeholders to understand and may ultimately undermine confidence in, and predictability of, the regulatory framework. This is one of the findings of the Independent Water Commission in England and Wales, which noted that the incentive landscape is now overcomplicated, such that the overall incentives and risks companies face are no longer clear to companies, investors, water regulators, or customers.[517] We have concerns that the use of such mechanistic adjustments could lead the water sector in Scotland down a similar path.

8.4.28 As such, having considered Scottish Water's approach in detail, we remain unconvinced that a fully mechanistic approach is appropriate for the reasons set out above.

8.4.29 At the opposite end of the spectrum, a purely judgement-based approach would provide maximum flexibility to consider the specific circumstances faced by Scottish Water. However, such an approach can create uncertainty regarding how decisions will be reached and may reduce Scottish Water's ability to plan effectively. We therefore consider that neither a wholly mechanistic nor wholly judgement-based approach is appropriate.

8.4.30 Our Draft Determination sought to strike an appropriate balance between these considerations. In the case of energy costs, we indicated that we would review relevant

[517] Independent Water Commission (2025), 'Final Report', July 2025, p.212.

market evidence, including the DESNZ energy price indices, and set out the evidence that Scottish Water would be required to provide to demonstrate the impact.

8.4.31 We have also decided to apply the conditional charge cap for OPEX uncertainties, which we refer to as the conditional charge cap for cost uncertainties. However, the conditional charge cap no longer includes pension costs, given that Scottish Water did not include this item in its counter-proposal in its response to the Draft Determination (as set out in paragraph 8.4.13).

Household growth

8.4.32 Household revenues are a function of the annual change in charges and growth in the chargeable customer base. When we set a Final Determination, we make an assumption for household growth. Scottish Water proposes that the uncertainty mechanism adjust charges when actual household growth differs from these assumptions. This is based on the premise that household growth is outside management's control and that lower-than-forecast growth could result in a material reduction in the funding available to deliver investment and outcomes during the 2027-33 regulatory period. Scottish Water proposes that 50% of the revenue difference be captured by the uncertainty mechanism, subject to a cap or collar of 0.5%.

8.4.33 We consider this proposal would, if implemented, move the current price cap closer to a revenue cap for household customers. Throughout the Strategic Review of Charges 2027 (SRC27) process, Scottish Water has sought to move towards a revenue cap.

8.4.34 For example, in response to our methodology consultation, Scottish Water proposed a revenue cap that would enable them to recover a fixed amount of revenue over the regulatory period. In our final methodology, we noted concerns about potential volatility in charges that could arise from the approach and that we did not consider a revenue cap in the customer's interests. We confirmed the use of the price cap in our final methodology.[518]

8.4.35 In its final business plan, Scottish Water proposed a revenue cap for non-household charges rather than a charge cap. It proposed this mechanism because of uncertainty about changes in non-household consumption resulting from the rollout of non-household smart meters.

8.4.36 In our Draft Determination, we explained that we did not consider a revenue cap in the customer's interests, as the customer would bear the risk of lower-than-forecasted growth, and we retained the price cap. We also considered that the charge cap approach is consistent with the principle of stable charges in the Scottish Government's Principles of

[518] WICS (2024), 'Strategic Review of Charges 2027-2033: Final Methodology', 12 December 2024, pp.91-93.

Charging, and that it continues to be in the best interests of non-household customers who might otherwise see significant increases to their charges above the forecasts in our Determination for reasons outside of their control.[519] We recognised the uncertainty regarding changes in consumption; however, we considered that the reasoning in our Methodology remained valid.

8.4.37 We consider that the same points continue to stand, and we have concerns that Scottish Water's proposal moves the framework closer to a revenue cap and transfers a greater proportion of growth-related risk from Scottish Water to customers. If household growth were to decline materially relative to forecasts, due to a recession, for example, there is a risk that charges for existing customers would increase materially to offset lower revenue at a time when customers are struggling financially. We note that higher growth would have the opposite effect. However, we do not consider the revenue cap consistent with the Principles of Charging, including the principle of stable charges and fair, equitable and affordable charges.[520] In conclusion, we have decided that household growth should not be included in the conditional charge cap

Revenue collection rates

8.4.38 On revenue collection rates, for over 99% of customers, local authorities collect household revenues on Scottish Water's behalf based on the council tax band of the property. Scottish Water works with local authorities to ensure they achieve a high collection rate.

8.4.39 In its response to the Draft Determination, Scottish Water provided evidence that household revenue collection rates appear to be declining over time.[521] As Scottish Water is not responsible for billing, it considered this a material factor outside its control that could affect its ability to secure the funding assumed in the Final Determination. This is new information that was not included in the business plan.

8.4.40 Scottish Water explains that there are two factors that affect its cash flow:

- Declining revenue collection rates and an increase in the time taken to receive customer charges (which reduces its cash flow over the regulatory period compared to current levels); and
- Delivering a larger investment programme and increasing the level of payments to suppliers (which increases its cash flow over the regulatory period compared to current levels).

[519] WICS (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 30 June 2026, pp.246-247.
[520] Scottish Government (2026), 'Principles of Charging for regulatory period 2027-33', 23 October 2026.
[521] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination response – Annex 9b – Uncertainty Mechanism', 1 September 2026.

8.4.41 Scottish Water modelled the potential impacts and set out a range of possible outcomes, given different scenarios for the potential reduction in cash flow over the 2027-33 regulatory period:

- A £7 million surplus in cash over the 2027-33 regulatory period based on the highest recent collection rate (based on collection rates in 2022-23);
- An £81 million shortfall in cash over the 2027-33 regulatory period based on the five-year average collection rate; and
- A £185 million shortfall in cash over the 2027-33 regulatory period based on the highest recent collection rate (based on collection rates in 2025-26).[522]

8.4.42 Therefore, Scottish Water proposed that the uncertainty mechanism covers household revenue collection rates, recognising that declining cash collection could reduce the funding available for investment during the regulatory period.

8.4.43 We consider that Scottish Water's assessment has merit, and it has evidenced the potential impacts through scenarios based on recent revenue collection rates. Furthermore, we have two observations on Scottish Water's proposal that are relevant to the size of the allowance we make available within the conditional charge cap for cost uncertainties.

8.4.44 Firstly, if the recent decline in household revenue collection rates is due to affordability pressures, raising charges to offset the funding shortfall could exacerbate the challenges customers face.

8.4.45 Secondly, Scottish Water's proposed approach for measuring the impact of lower collection rates is unclear. Scottish Water proposed that the adjustment would be based on the revenue reported in the audited Regulatory Accounts.[523] However, the reported revenue is based on revenue billed in the year, not on cash collected. We therefore consider that the impact would not be fully captured to enable an objective adjustment at present. We have since sought to clarify this point with Scottish Water, which has acknowledged it and explained that actual cash collection levels could be added to the audited Regulatory Accounts to provide the basis for an adjustment.[524]

[522] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination response – Annex 9b – Uncertainty Mechanism', 1 September 2026, paragraphs 1.1 to 1.9.
[523] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination response – Annex 9b – Uncertainty Mechanism', 1 September 2026, p.10.
[524] In response to clarification question 7, Scottish Water explained "On review, we see that the wording presented in Annex 9b needs clarifying slightly: we note that the cash collection number (i.e. actual household revenue collected for the relevant year) is not currently included in the audited regulatory accounts, but Scottish Water could produce this figure as part of the Table M information in the Annual Return (which is subject to agreed procedures by the auditors) for the purpose of facilitating this uncertainty mechanism."

8.4.46 We cover the overall size of the conditional charge cap for cost uncertainties in paragraphs 8.4.85 to 8.4.87 below.

8.4.47 In conclusion, recognising the new information and evidence from Scottish Water, we have decided that revenue collection rates should be included in the conditional charge cap, recognising the inherent uncertainty in this area. The adjustment will be subject to Scottish Water reporting cash collection in the Annual Return and Regulatory Accounts which, as discussed above at paragraph 8.4.45, will allow us to understand the impacts of changes to revenue collection rates and accurately calculate the basis for an adjustment.

Real price effects

8.4.48 Paragraphs 5.10.2 to 5.10.6 provides further background on RPEs, including what RPEs are and how we consider RPEs need to be taken in the round with overall allowances for operating and capital maintenance expenditure. Scottish Water proposes that allowance is made for RPEs to the extent that they arise in the following areas:

- Labour cost inflation in relation to operating and capital expenditure;
- Energy cost inflation in relation to operating and capital expenditure; and
- Materials in relation to capital expenditure.

8.4.49 Scottish Water has provided a framework for measuring the impacts in each of the areas in paragraph 8.4.48.[525] The framework is based on creating a weighted average inflation index based on individual indices for each of the cost items multiplied by how much of Scottish Water's expenditure relates to that cost item for both operating and capital expenditure. The cost item, individual indices and expenditure shares for both operating and capital expenditure are provided in Table 145 (operating expenditure) and Table 146 (capital expenditure) below.

[525] Scottish Water (2026), 'SR27 Final Business Plan: Draft Determination Response – Annex 9b', 1 September 2026, paragraphs 2.1 to 2.9.

Table 145: Real price effect composite index (operating expenditure)

Cost item	Proposed index	Proposed expenditure share
Employment costs	Average weekly earnings: Public sector wages[526]	44.0%
Energy	Large users energy price index[527]	11.0%
Other[528]	Consumer Price Index	45.0%
Total	-	100%

Table 146: Real price effect composite index (capital expenditure)

Cost item	Proposed index	Proposed expenditure share
Energy	Large users energy price index	8.2%
Employment costs	Average weekly earnings: Construction sector wages[529]	44.6%
Materials	Construction output price indices: new works infrastructure[530]	32.0%
Other[531]	Consumer Price Index	15.2%
Total	-	100%

8.4.50 Scottish Water also provided two separate spreadsheet models used to calculate the adjustment.[532]

8.4.51 Our starting point is that we consider allowances for RPEs to be a regulatory policy choice; as such, it is not the case that regulators must include an allowance for them. Furthermore, we consider that WICS' decision not to include an allowance for RPEs must be considered in the context of the wider regulatory framework and how WICS sets expenditure allowances. In contrast to the econometric approaches followed by regulators that allow RPEs, WICS has undertaken a detailed assessment of Scottish Water's proposed capital and operating expenditure, reviewing individual cost categories, investment requirements and supporting evidence. This approach allows us to consider specific cost drivers directly

[526] The KAC7 – public sector wages index, available at Office for National Statistics (2026), 'EARN01: Average weekly earnings', last accessed on 24 September 2026.
[527] Department for Energy Security and Net Zero (2026), 'Industrial energy price indices', last accessed on 24 September 2026.
[528] Implied by Scottish Water's expenditure shares.
[529] The K5CD – construction sector wages index, available at Office for National Statistics (2026), 'EARN01: Average weekly earnings', last accessed on 24 September 2026.
[530] COPI – New Works Infrastructure index, available at Office for National Statistics (2026), 'Construction output price indices', last accessed on 24 September 2026.
[531] Implied by Scottish Water's expenditure shares.
[532] One spreadsheet model is used to calculate the energy price reference point. This is then an input into a further spreadsheet model to calculate the impact of the real price effects.

within our expenditure assessment and captures elements that might otherwise require to be addressed through a separate mechanistic RPE adjustment, such as energy and chemical costs.

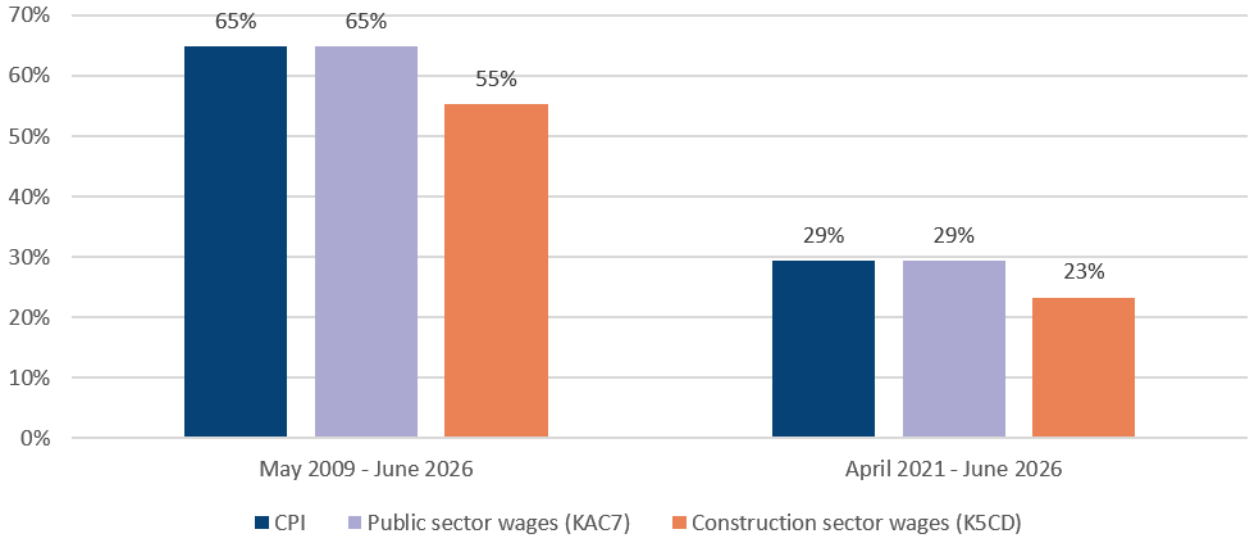
8.4.52 However, for completeness, we provide below our assessment of Scottish Water's requested adjustments for such inflationary cost pressures. That assessment explains why we do not consider that the full scope of the adjustment for RPEs is required and why we do not consider a fully mechanistic approach appropriate. In examining Scottish Water's proposal, we have considered four key questions:

- Is the cost material?
- Is it beyond management control?
- Has WICS already made allowance for it through its disaggregated assessment of expenditure?
- Has Scottish Water evidenced that the proposed inflation index is appropriate? For example, has Scottish Water evidenced that it closely reflects the cost pressures it faces?

Opex RPEs

8.4.53 We first assess the operating expenditure items. For employment costs, we are not persuaded that the additional cost pressures above CPI are material in relation to operating expenditure. We have updated our assessment of the Draft Determination by comparing CPI with various indices of average weekly earnings, which show no material difference between CPI and these labour indices across timeframes, as demonstrated in Figure 59 below.

Figure 59: Total change in selected price indices over separate timeframes



8.4.54 Scottish Water has also not evidenced that it is fully outside management control. For example, WICS considers that it has control over annual pay changes within the overall framework of public sector pay policy. As such, we do not include employment costs in the conditional charge cap for cost uncertainties.

8.4.55 Turning to energy costs, we agree that changes in energy costs are subject to international markets and are impacted by geopolitical factors. As a result, these costs are largely beyond management's control, at least in the short term, given that Scottish Water still relies on grid energy for most of its consumption.

8.4.56 However, the Final Determination has now largely accepted Scottish Water's request for additional energy costs related to both the end of its power purchase agreements and the recent increase in non-commodity costs affecting large industrial users in the allowance for operating expenditure set out in section 6.11 above. As such, we consider that our disaggregated and tailored assessment of expenditure already allows the equivalent of a one-off 22% RPE to rebase Scottish Water's energy costs to market rates in 2024-25. Table 147 sets out this allowance.

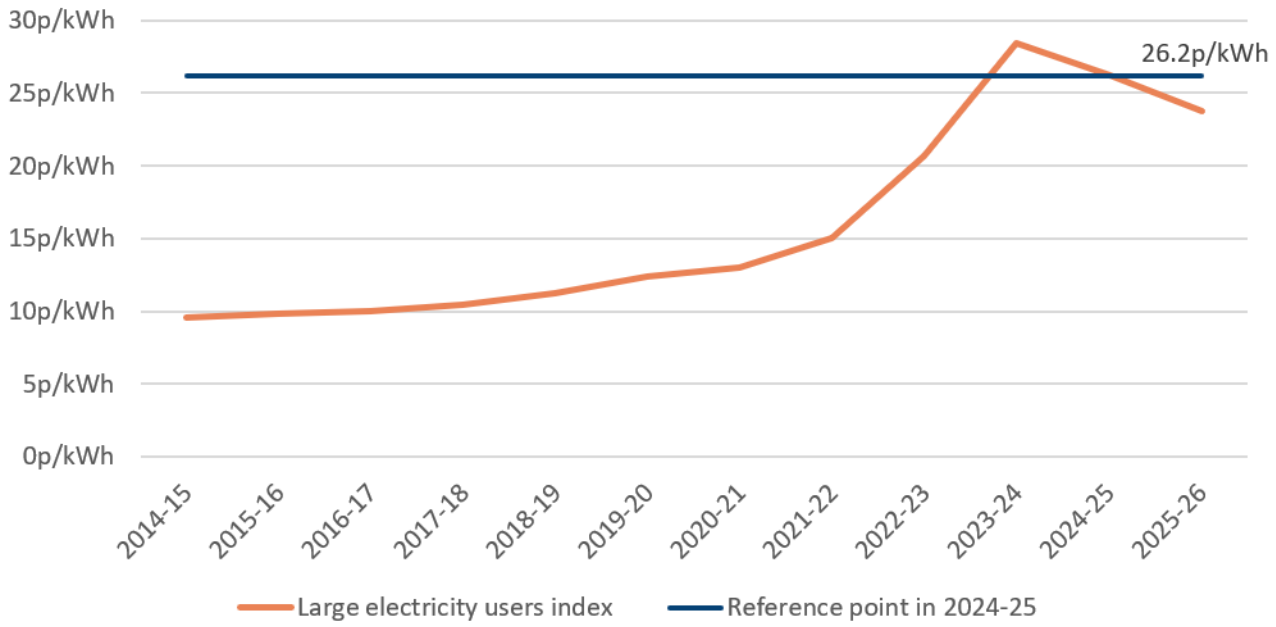
Table 147: Energy cost RPE already allowed

Energy costs	£ million (2024-25 prices)	Reference
Energy costs in 2024-25	77.6	Regulatory Accounts table M18W and M18WW for 2024-25
Adjustment to market rates	10.0	Table 133
Non-commodity cost adjustment	6.8	Table 133
Energy costs in 2027-28	94.5	Calculated as the sum of the above
Percentage uplift	22%	Calculated based on (94.5 - 77.6) / 77.6

8.4.57 Our Final Determination will allow for any further increase in energy costs in excess of the allowance for operating expenditure made in section 6.11. This adjustment will be based on the DESNZ large users index as part of the conditional charge cap for cost uncertainties. We will use an index value for 2024-25, the base year for the Strategic Review of Charges, of 26.2p/kWh, as the reference point for the adjustment. A review of this index will be part of the two-stage assessment set out in paragraph 8.4.79.

8.4.58 Figure 60 shows the index value for each financial year. As shown, the value for 2024-25 is among the highest in the recent period.

Figure 60: Timeline of the large electricity users price index over SCR21



CAPEX RPEs

8.4.59 We consider that there are additional complexities with regard to real price effects for capital expenditure compared with operating expenditure.

8.4.60 The principal challenge is that there is uncertainty over how Scottish Water and its delivery partners cost investment projects. If costed on an outturn basis with an estimate of input cost inflation, then deflated back to 2024-25 prices based on a forecast of CPI inflation, then we consider that the allowance will already include Scottish Water's and its delivery partners' forecast of inflationary cost pressures over and above forecast CPI. There is also an uncertainty over whether inflation risk is already captured in the risk provisions that Scottish Water applies across its investment programme, and also in individual projects for further project-specific risk.

8.4.61 Therefore, we consider that there is a real risk that capital real price effects mechanism would compensate Scottish Water for cost pressures or inflation risks that have already been reflected in the underlying project costs within the investment programme. If this is the case, it would result in double counting of these costs.

8.4.62 A further consideration is that movements in market-wide input costs do not necessarily translate directly into changes in the costs ultimately borne by Scottish Water. The extent to which changes in energy, labour or material costs affect Scottish Water will depend on the commercial arrangements agreed with its delivery partners, including the allocation of risk, contractual pricing arrangements and any cost-sharing mechanisms. Consequently, movements in external indices may not be a reliable indication of the costs ultimately incurred by Scottish Water.

8.4.63 Scottish Water has not provided detailed evidence on how these risks are allocated through its commercial arrangements with delivery partners, nor how changes in input costs would be expected to pass through to Scottish Water's investment programme in practice. As a result, we do not have the information required to assess the extent to which the proposed indices would accurately capture the costs faced by Scottish Water.

8.4.64 In relation to labour costs, we accept that there is a stronger case for considering labour cost pressures in the capital investment programme than for operating expenditure. That is because Scottish Water has explained that the delivery of its investment programme relies heavily on the workforce of its delivery partners, who are predominantly private-sector contractors. As such, changes in the labour costs faced by these contractors may feed through into the costs of delivering capital projects, to the extent that these changes are not already reflected in the programme's underlying cost estimates.

8.4.65 However, we have concerns regarding the interaction between a labour cost adjustment and Scottish Water's proposed treatment of capital cost inflation. Scottish Water proposes using construction output price inflation (COPI) as an index of material cost pressures. We note that COPI is not solely a measure of material costs but also reflects movements in a range of construction input costs, including labour, materials, and plant costs. As a result, if adjustments were made separately for labour and capital cost inflation, there is a risk that labour cost pressures could be double counted.

8.4.66 We have discussed this point with Scottish Water through our engagement with it following its response to the Draft Determination. Scottish Water accepts this point and considers that COPI could be used to capture both labour costs and material costs.

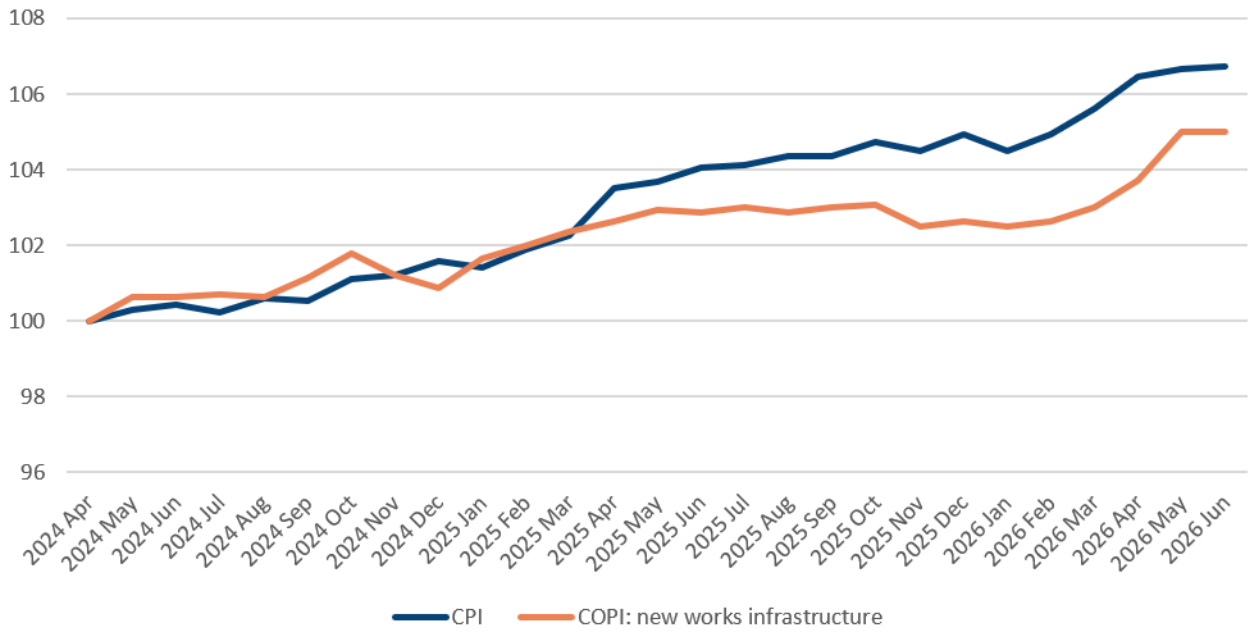
8.4.67 We have also considered whether COPI should be used to index a subset of costs for all categories of investment covering enhancement, growth, replacement, refurbishment and repairs. We consider that these different categories may be subject to different inflationary pressures. For example, the delivery of enhancement and growth projects, strategic replacements, and major infrastructure investments may be exposed to different cost drivers than asset repairs and routine refurbishment activities. The latter may face inflationary pressures that are more closely aligned to operating expenditure costs than to major construction activity.

8.4.68 For the reasons set out above, we do not, therefore, consider it appropriate to apply a single COPI measure across the entirety of the capital investment programme. Our decision is that any adjustment that is based on COPI should only be applied to enhancement, growth and replacement investment, which account for around two thirds of Scottish Water's capital investment programme.

8.4.69 We also note that this is consistent with Ofwat's assessment of capital cost inflation, which is the precedent that Scottish Water cites.[533] In particular, Ofwat did not provide an adjustment for capital cost inflation for materials for capital maintenance investment.[534]

8.4.70 Finally, we also note that 'COPI: new works infrastructure' is below CPI on a cumulative basis from 2024-25 onwards, with 2024-25 being the starting point for any adjustment, given it is the base year for the Strategic Review of Charges. This is shown in Figure 61. As such, we may enter the period with the COPI index below CPI, as has been the case since 2024-25, providing further headroom against rising capital cost inflation.

Figure 61: CPI vs COPI: new works infrastructure (April 2024 = 100)



Our overall assessment in the Final Determination

8.4.71 Having considered Scottish Water's proposal in detail, we have decided not to make a further adjustment for RPEs in the manner that Scottish Water has proposed, as set out in paragraph 8.4.13. This recognises several points.

8.4.72 Firstly, the approach proposed by Scottish Water does not reflect the wider regulatory framework and how WICS sets expenditure allowances. In particular, WICS has undertaken a detailed assessment of Scottish Water's proposed expenditure movements, including a disaggregated assessment of Scottish Water's proposed changes in operating expenditure. Using energy as an example, WICS has allowed a further £16.8 million per year for energy costs to reflect movements in energy costs associated with the end of power purchase

[533] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination response – Annex 9b – Uncertainty Mechanism', 1 September 2026, p.6.
[534] Ofwat (2025), 'PR24 final determinations: Expenditure allowances', February 2025, p.270 and 273.

agreements, the move towards market-based rates, and an increase in non-commodity costs.

8.4.73 As set out above in Figure 60, our reference point for energy costs for SRC27 is among the highest values for the large users index over the previous decade. As such, we consider that there is already some headroom within our allowance in the event that energy costs, as measured by the index, increase due to geopolitical factors.

8.4.74 Secondly, for capital investment, we have concerns that Scottish Water's proposed mechanism does not reflect its commercial arrangements with its delivery partners, where there will be arrangements over the allocation of risk, contractual pricing arrangements and any cost-sharing mechanisms. As such, it is not necessarily the case that movements in labour, energy, and construction costs will be reflected in Scottish Water's project costings.

8.4.75 However, as we already recognised in our Draft Determination, there is already some uncertainty over costs, including energy. We therefore refine our approach proposed in the Draft Determination.

8.4.76 Our Final Determination decision is provided in paragraphs 8.4.77 to 8.4.89.

8.4.77 First, as a pragmatic approach, we decide that the conditional charge cap for cost uncertainties should cover energy expenditure, capital price inflation for enhancement, growth and asset replacement investment, and revenue collection rates.

8.4.78 Second, we decide on the indicators we will monitor for energy and construction cost inflation. These indices are set out in Table 148. In making any adjustment, we would have regard to these indices when considering the impact of energy and capital price inflation on Scottish Water's expenditure.

Table 148: Reference values for energy and construction cost indices

Cost	Index	Reference point
Energy	Large users energy price index[535]	2024-25 financial year 26.2p/kWh
Construction cost inflation relative to Consumer Price Index (CPI) inflation	Construction output price inflation: new works infrastructure[536]	2024-25 financial year COPI value of 144.65 CPI value of 134.78

8.4.79 Third, we decide that we will adopt a two-stage assessment.

- We will consider movements in the relevant indices in Table 148 of this Final Determination to assess whether there has been a material divergence between these indices and CPI inflation. This will provide an initial indication of whether cost pressures have emerged that may warrant further consideration.
- Where relevant indicators suggest that material divergence has occurred, Scottish Water will be required to provide evidence demonstrating whether its own costs have experienced comparable movements and whether there are offsetting factors.

8.4.80 This evidence should take into account Scottish Water's actual procurement arrangements, contractual commitments and mitigation actions. This two-stage approach recognises the value of objective indicators while ensuring that any adjustment remains linked to Scottish Water's actual circumstances. We are open to Scottish Water using the first year of the regulatory period to engage with WICS to test what would represent reasonable evidence, especially for capital price inflation, recognising that there are several factors that impact on capital costings.

8.4.81 To support transparency, Scottish Water should report the relevant evidence through its audited Regulatory Accounts and Annual Return. WICS will review the information provided and report its assessment through the annual Performance Report. This approach provides greater clarity on the evidence and indicators to be considered while retaining the flexibility to reflect Scottish Water's actual circumstances.

8.4.82 Fourth, we decide on how any such cost movements are recovered and interactions with the regulatory change process (previously the investment planning and prioritisation framework). We decide that recovery should occur first through customer charges, subject

[535] DESNZ large electricity users price index, available at Department for Energy Security and Net Zero (2026), 'Table 3.4.2 (incl CCL)', last accessed on 12 October 2026.
[536] COPI – New Works Infrastructure index, available at Office for National Statistics (2026), 'Construction output price indices', last accessed on 12 October 2026.

to the conditional charge cap provisions set out in this Determination. Any remaining impact that cannot be accommodated within the conditional charge cap should either be carried forward to the next year or managed through the regulatory change process (previously the investment planning and prioritisation framework) and, if required, reflected in the annual delivery plan refresh. This approach contrasts with Scottish Water's proposal to recover 50% of the cost increase through charges (with any difference carried forward to the next year), with the remaining 50% reducing the funding available for investment through the regulatory change process (previously the investment planning and prioritisation framework).

8.4.83 Fifth, we decide on the timeframe for the conditional charge cap for cost uncertainties, covering the four years of 2029-30, 2030-31, 2031-32 and 2032-33. Any conditional charge cap adjustment will then be applied on a rolling basis with a two-year lag, commencing from 2029-30, consistent with Scottish Water's proposal. We note there is scope for the adjustments to be made for the final two years of the period, 2031-32 and 2032-33, in the opening years of SRC33. That decision will be assessed at the SRC33 determination.

8.4.84 Table 149 shows when the adjustment for each year(s) would be made.

Table 149: Timeline of adjustments for real price effects

Year of adjustment	Collection rates	Energy and construction cost inflation
2029-30	2027-28	2025-26 to 2027-28[537]
2030-31	2028-29	2028-29
2031-32	2029-30	2029-30
2032-33	2030-31	2030-31

8.4.85 Finally, on the appropriate level of the conditional charge cap, we carefully considered Scottish Water's proposal. Based on the assessment above, we decide that an overall 0.3% adjustment is appropriate to balance the recognition of uncertain costs that may impact Scottish Water, while ensuring that Scottish Water is appropriately incentivised to manage these cost risks.

8.4.86 The 0.3% is to cover lower revenue collection rates and energy and capital cost inflation above CPI inflation. It cannot be used to recover any other revenue or cost items, which was a source of concern for respondents to the consultation (see paragraph 8.3.11).

8.4.87 The 0.3% is based on an 'in the round' assessment considering the following points:

- The starting point for the energy index is at its highest level over the past decade, reducing the likelihood that an adjustment is required;

[537] 2025-26 and 2026-27 are included because 2024-25 is the base year for the Final Determination.

- The lower starting point for capital price inflation index (COPI all new works), which is already below CPI inflation on a cumulative basis from 2024-25 onwards, providing further headroom against rising capital cost inflation, reducing the likelihood that an adjustment is required;
- We will apply capital cost inflation for a subset of the investment programme, covering enhancement, growth and asset replacements, which, based on Scottish Water's cost shares, would suggest an adjustment of 0.1% for the full impact based on the experience since 2014; and
- It is also broadly consistent with the impact of energy (excluding SRC21) and capital cost inflation relative to CPI inflation, based on Scottish Water's cost shares, of 0.4%.

8.4.88 We will not apply the adjustment symmetrically on the basis that it would add significant further complexity into the regulatory framework.

8.4.89 We will also further develop the process of the conditional charge cap in the first year of the regulatory period. This will cover how the process is incorporated into the review and approval of the annual Scheme of Charges and how Scottish Water and WICS provide transparency on the adjustments that may apply, recognising the consultation responses received on the process.

8.4.90 The remainder of this section sets out how we have arrived at the 0.3% as a combination of two approaches.

8.4.91 The first approach assumes no further allowance for energy costs, recognising that the benchmark index we have set for energy already allows headroom for these costs to rise above inflation. Therefore, the only real price effect we allow is materials and employment costs relating to capital enhancement, growth and replacement expenditure (Table 150). We then calculate a weighted-average index using the relative weights of Scottish Water's expenditure, expressed as a percentage of its total expenditure. This is shown in Table 151.

Table 150: Calculation for capital enhancement, growth and replacement expenditure (approach 1)

Cost item	Proposed index	Period examined	Proposed expenditure share	Difference to CPI
Energy	Consumer Price Index	-	8.2%	-
Materials and employment costs	Construction output price indices: new works infrastructure	2014-2026	76.6%	0.4%
Other[538]	Consumer Price Index	-	15.2%	-
Total	-	-	100.0%	0.3%

Table 151: Weighted average index for total expenditure (approach 1)

Area	Total expenditure share based on Draft Determination	Difference to CPI
Operating expenditure	27%	-
Capital maintenance expenditure relating to repairs and refurbishment	21%	-
Capital enhancement, growth and replacement expenditure	40%	0.3%
Other expenditure	13%	-
Total / weighted average	100%	0.1%

8.4.92 The second approach allows a real price effect for energy. We note that the rebasing of energy costs to 2024-25 already captures the SRC21 inflationary effects. Therefore, we have examined the 2014-2021 period when assessing the long-run difference relative to CPI to avoid double-counting. The tables below set out how we have calculated the real price effect on Scottish Water's total cost base. This is based on the past impact of these factors on Scottish Water's operating expenditure (Table 152), capital enhancement, growth and replacement expenditure (Table 153) and capital maintenance expenditure relating to repairs and refurbishment (Table 154). We then calculate a weighted-average index using the relative weights of Scottish Water's expenditure in these areas, expressed as a percentage of its total expenditure. This is shown in Table 155.

[538] Implied by Scottish Water's expenditure shares.

Table 152: Calculation for operating expenditure (approach 2)

Cost item	Proposed index	Period examined	Proposed expenditure share	Difference to CPI
Energy	Large users energy price index	2014-2021	11.0%	3.8%
Other	Consumer Price Index	-	89.0%	-
Total	-	-	100%	0.4%

Table 153: Calculation for capital enhancement, growth and replacement expenditure (approach 2)

Cost item	Proposed index	Period examined	Proposed expenditure share	Difference to CPI
Energy	Large users energy price index	2014-2021	8.2%	3.8%
Materials and employment costs	Construction output price indices: new works infrastructure	2014-2026	76.6%	0.4%
Other[539]	Consumer Price Index	-	15.2%	-
Total	-	-	100%	0.6%

Table 154: Calculation for capital maintenance expenditure relating to repairs and refurbishment (approach 2)

Cost item	Proposed index	Period examined	Proposed expenditure share	Difference to CPI
Energy	Large users energy price index	2014-2021	8.2%	3.8%
Other[540]	Consumer Price Index	-	91.8%	-
Total	-	-	100%	0.3%

[539] Implied by Scottish Water's expenditure shares.
[540] Implied by Scottish Water's expenditure shares.

Table 155: Weighted average index for total expenditure (approach 2)

Area	Total expenditure share based on Draft Determination	Difference to CPI
Operating expenditure	27%	0.4%
Capital maintenance expenditure relating to repairs and refurbishment	21%	0.3%
Capital enhancement, growth and refurbishment expenditure	40%	0.6%
Other expenditure	13%	-
Total / weighted average	100%	0.4%

8.4.93 Based on these two approaches, and acknowledging the uncertainties around revenue collection rates, we arrive at an 'in the round' adjustment of 0.3% as explained in 8.4.87. We reiterate that including the 0.3% in the conditional charge cap is a pragmatic approach, and we will revisit our position on RPEs in the methodology for the Strategic Review of Charges 2033 (SRC33).

8.5 Interim Determinations

8.5.1 In certain circumstances, it could be necessary to amend charge caps during the regulatory period beyond the conditional charge caps set in the Final Determination. The process by which WICS may adjust charge caps within the regulatory period is known as an 'Interim Determination' or 'IDoK'.

8.5.2 WICS may make an interim determination where, since the making of the Final Determination, there has been or is likely to be a material change in Scottish Water's income from charges, or other resources, or expenditure required for the effective exercise of its core functions. Where these circumstances apply, the Commission may decide to amend the maximum charge caps.[541] The Commission will consider several factors in deciding whether to amend the maximum charge caps. The Commission will, for example, assess whether the relevant change results from underperformance, from risks that could reasonably have been managed by Scottish Water, or from standard forecasting errors.

8.5.3 The scope of an interim determination is strictly limited to reassessing the specific elements that triggered it, rather than a re-opening of the price review process. The mechanism therefore protects customers from paying for unjustified cost increases while ensuring that Scottish Water can recover material costs.

8.5.4 Where Scottish Water wishes WICS to make an interim determination, it must submit proposals for the revision of the maximum charge cap. WICS may reject a proposal if it

[541] Section 29F of the Water Industry (Scotland) Act 2002 provides WICS with this power.

considers that the change is not material. To assess the materiality of a change, WICS will apply a materiality test. WICS will generally consider the change sufficiently material to trigger an interim determination if the Net Present Value of the change over the regulatory period is greater than 10% of Scottish Water's turnover in the year of the request. The change to costs or revenues will be considered net of Scottish Water's ability to mitigate, manage, or reprioritise investment in response to the change.

8.5.5 For the avoidance of doubt, WICS can pursue, and Scottish Water can request, an interim determination in circumstances where the Net Present Value of a change to its income from charges, or other resources, or expenditure required for the effective exercise of its core functions over the regulatory period is less than 10% of its turnover in the year of the request. WICS will assess the materiality of a change and its impact on Scottish Water's effective exercise of its core functions having regard to the particular circumstances of the request and any evidence submitted by Scottish Water.

8.5.6 To ensure that WICS has appropriate time to consider the proposal and consult with industry stakeholders, Scottish Water must make its proposal prior to the end of June for the interim determination to be in place in time for the next charging year. The full timeline for the interim determination process is shown in Table 156.

Table 156: Timeline for application for an interim determination

Date of relevant year	Description of stage
No later than the end of June	Scottish Water initiates the interim determination process with a proposal
One month after Scottish Water's submission, meaning no later than end of July	If the proposal meets the materiality threshold then WICS will invite stakeholders to comment on the material change item no later than one month after the draft submission
No later than end of October	WICS issues draft interim determination for consultation
No later than end of December	WICS issues final interim determination
April	New charges take effect

8.5.7 WICS may also request that Scottish Water send proposals to WICS for revising the charge caps of the Final Determination.

Our approach in the Draft Determination

8.5.8 We did not propose any changes to the interim determination mechanism in the Draft Determination.

Draft Determination consultation responses and new information

8.5.9 Scottish Water considered that, given its financing arrangements and limited ability to absorb in-period shocks, the threshold at which Scottish Water will generally consider a

change sufficiently material to trigger an interim determination should be reduced from 10% to 5% of annual revenue (on a net present value basis).[542]

Our assessment in the Final Determination

8.5.10 Although we have provided an indication of what WICS generally considers to be a sufficiently material change to trigger an interim determination process, there is no expressly fixed materiality threshold that applies to WICS's powers in relation to an interim determination. For example, Scottish Water can request an interim determination in circumstances where the Net Present Value of a change to Scottish Water's income from charges, or other resources, or expenditure required for the effective exercise of its core functions over the regulatory period is less than 10% of Scottish Water's turnover in the year of the request. As such, WICS considers that no change is required in the Final Determination.

8.6 Conclusion

8.6.1 WICS considers that the application of conditional charge caps will reduce the risk faced by Scottish Water's customers at the same time as ensuring that Scottish Water has the funding required to meet its objectives. This approach will support the wider safeguarding mechanisms described in Chapter 10.

8.6.2 Chapter 9 develops the conditional charge cap approach and sets out how the core charge cap and conditional elements interact.

9 Charge caps

9.1 Summary of chapter

9.1.1 This chapter brings together the allowances for investment, operating costs, and other income and expenditure set out in previous chapters to calculate the charge caps required over the 2027-33 regulatory period.

9.1.2 Our Final Determination separates the charge cap into three components.

9.1.3 The first is the core charge cap, which allows charges to rise by CPI+2.5% in each of the first three years of the period, and CPI+0.5% in the final three years. This reflects the need to continue the transition towards higher investment while avoiding unnecessary volatility in charges.

[542] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 3.2.10 and 3.3.1.

9.1.4 The second is a conditional allowance for West Central Bioresources (WCB), which is a significant project with a forecast cost of around £560 million. The conditional allowance of CPI+2% would apply only in the final three years of the period and only if Scottish Water provides the evidence required for the project to proceed. Customers would therefore not pay the WCB element unless the project is sufficiently evidenced and taken forward.

9.1.5 The third is a conditional charge cap for cost uncertainties outside Scottish Water's control. This would allow a further CPI+0.3% in the final four years only if those uncertain costs materialise and are evidenced.

9.1.6 Taken together, these components reduce the cumulative real terms increase from Scottish Water's proposed 21.5% over 2027-33 to 16.0% assuming WCB proceeds, or 17.3% if WCB proceeds and uncertain costs materialise.

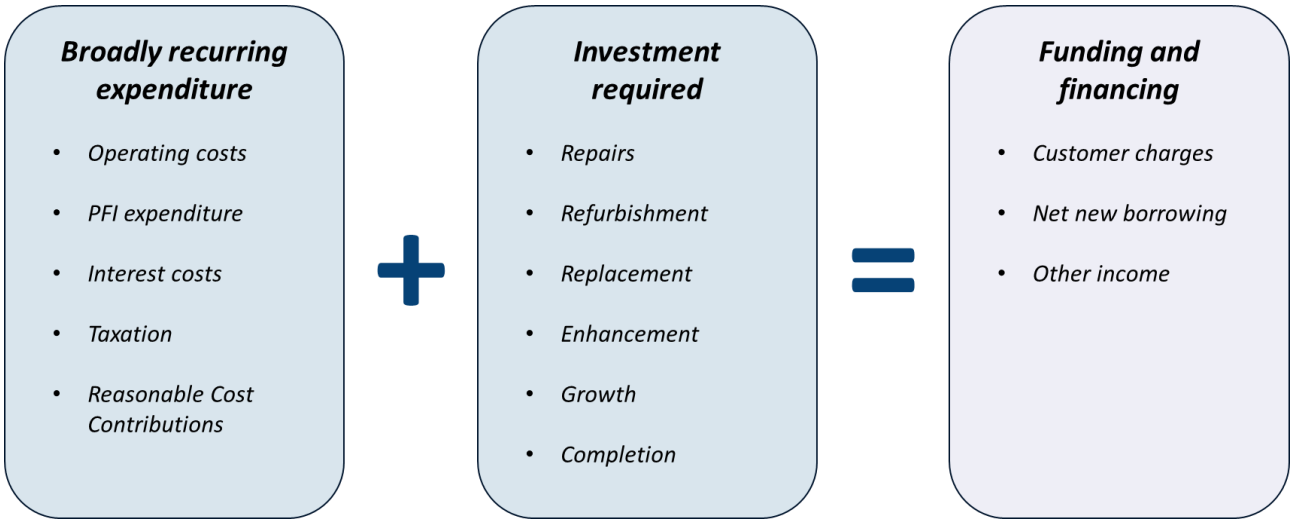
9.1.7 This chapter is structured as follows:

- What are charge caps and how do we calculate them?
- Our approach in the Draft Determination;
- Draft Determination consultation responses and new information;
- Our approach in the Final Determination;
- Implications for customer bills and Scottish Water's revenue; and
- Income and expenditure baseline.

9.2 What are charge caps and how do we calculate them?

9.2.1 The cash-based approach to setting charge caps involves balancing cash inflows and outflows over the regulatory period. To do this in practice, WICS forecasts the efficient expenditure needed to achieve the outcomes. We then calculate the charges required to fund this expenditure after accounting for other sources of income, such as net new borrowing from the Scottish Government. This calculation is summarised in Figure 62.

Figure 62: The cash-based approach to setting charge caps for SRC27



9.3 Our approach in the Draft Determination

Charge cap (assuming WCB conditions are met)

9.3.1 We proposed allowing Scottish Water to increase charges by CPI+2.0% each year between 2027-28 and 2032-33. This is equivalent to a CPI+12.6% cap for the period.

9.3.2 This charge profile was sufficient to deliver the investment programme set out in Chapter 5, including the West Central Bioresources project (see section 5.7) and provided additional funding of c.£168 million (see section 5.11) for unallocated investment. This charge cap, however, does not include any allowances for cost uncertainties, which are covered below.

9.3.3 WICS considered that this charge path supports the continuation of the long-term transition to addressing the asset replacement challenge over subsequent regulatory periods.

9.3.4 We proposed that the charge cap will continue to apply on a cumulative basis; however, in any given year, we will not allow Scottish Water to exceed the cumulative charge cap up to that point. For example:

- In 2027-28, we would not allow Scottish Water to exceed the cap for that year;
- In 2028-29, we would not allow Scottish Water to exceed the cumulative cap covering years 2027-28 and 2028-29; and
- In 2029-30, we would not allow Scottish Water to exceed the cumulative cap covering years 2027-28 to 2029-30.

Conditional charge cap for West Central Bioresources

9.3.5 Our Draft Determination proposed that only a proportion of the capital cost of the project is paid directly from customer charges. To assess the funding required under the conditional charge cap, we assumed that 60% of the project's capital cost is financed through borrowing from the Scottish Government. This 60:40 split between borrowing and charges, which is in line with industry standards, meant that around £225 million of the project's capital cost would be funded by customer charges.

9.3.6 In considering the application of conditional charge caps for the West Central Bioresources project, we identified two potential conditional price paths. Both options subject around £225 million of funding to the same conditions, though the timing of the conditional charge cap differs between the two options.

9.3.7 In both options, charges are adjusted downward if Scottish Water cannot evidence that it has met the conditions attached to the conditional charge cap. If the project does not go ahead, customers will see a reduction in their charges compared to what they would otherwise have been, and the borrowing allocated to the project will be reallocated to other customer priorities and/or regulatory requirements.

9.3.8 Our Draft Determination explained that we would consider other offsetting factors such as the potential for Scottish Water to receive funding from the UK Government's Green Gas Support Scheme (GGSS) and/or savings that come as a result of renewable energy generated (see paragraph 6.7.18). However, recognising that the conditional charge cap represents the maximum charge, we did not include such offsetting factors in our assessment of charge caps and revenues in the Draft Determination.

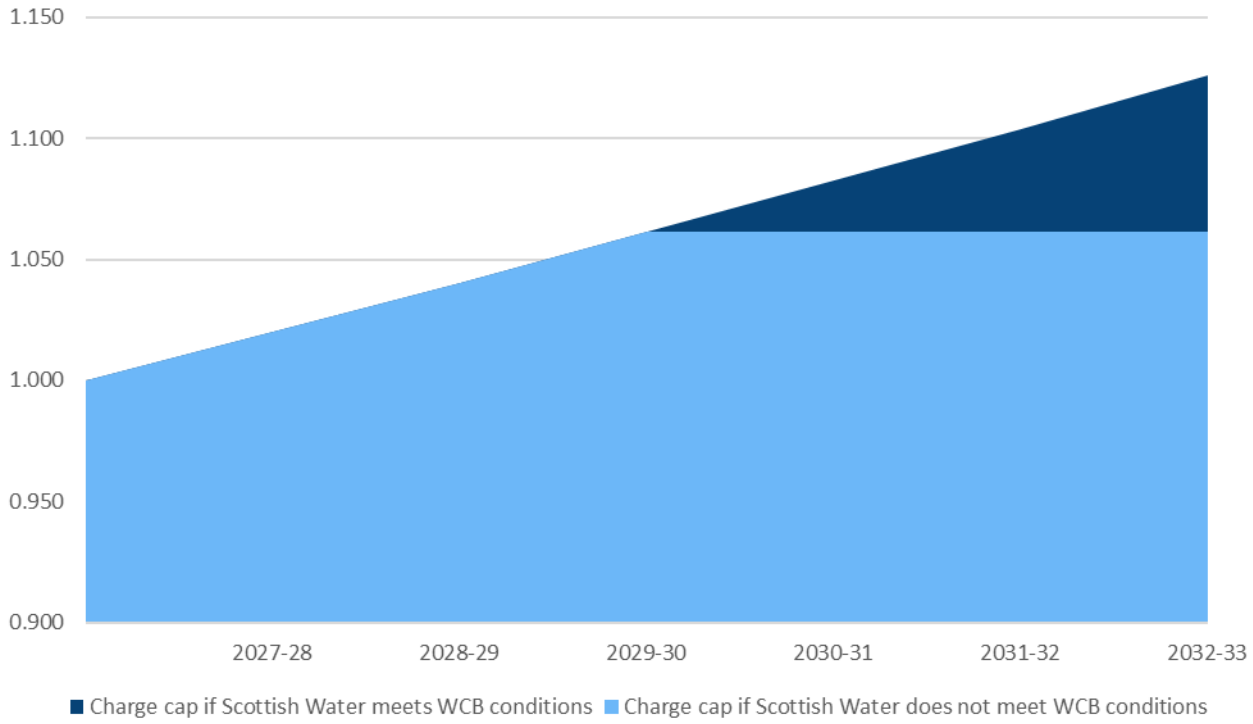
9.3.9 Our proposed option for consultation was to allow Scottish Water to secure the required funding for the West Central Bioresources project over the final three years of the regulatory period. This means the charge caps for years 1 to 3 are fixed, with the second half of the period being used to adjust charges if the project is approved.

9.3.10 The proposed Draft Determination annual and cumulative charge paths for Option 2 are shown in Table 157 and Figure 63.

Table 157: Annual charge profile for Option 2 (real terms)

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Charge profile not subject to conditions	+2.0%	+2.0%	+2.0%	+0.0%	+0.0%	+0.0%
Conditional charge profile *(West Central Bioresources)*	+0.0%	+0.0%	+0.0%	+2.0%	+2.0%	+2.0%
Total change in charges *(if WCB conditions are met)*	**+2.0%**	**+2.0%**	**+2.0%**	**+2.0%**	**+2.0%**	**+2.0%**

Figure 63: Cumulative charge profile for Option 2 (real terms)



9.3.11 We considered the proposed approach would give customers certainty about the charge caps in the first three years of the regulatory period, while ensuring they are not overcharged if the West Central Bioresources project is delayed beyond year four of the period or does not occur at all. We considered that this option was in the best interests of customers due to the lower risk of volatile charges, while also providing Scottish Water with greater certainty about the funding available for the period, as the charge profile is only affected if the project is delayed by three years or more. We considered this to be the optimal balance of risk and charge stability for both Scottish Water and its customers.

9.3.12 We proposed that, in any year, Scottish Water can apply to access the conditional charge cap available for the years 2030-31 to 2032-33. This means that:

- If the project is delayed for any reason, then Scottish Water has sufficient time available to apply for the additional charge cap before the charge cap takes effect; and
- Scottish Water does not need to wait until the charges scheme for 2030-31 to apply for the charge cap, avoiding any delay in progressing the project.

9.3.13 For example, if the project is delayed beyond 2030-31, Scottish Water should still have sufficient funding available to progress it within the available charge cap, recognising that it will span both the 2027-33 and 2033-39 regulatory periods.

9.3.14 However, any decision to grant access to the conditional charge cap would be subject to Scottish Water submitting a compliant Scheme of Charges for the years in question.

Conditional charge cap for cost uncertainties

9.3.15 Our Draft Determination also proposed a conditional charge cap for the materialisation of known uncertainties. These uncertainties were limited to energy costs and pension costs.

9.3.16 The Draft Determination proposed that additional charges to address these uncertainties would be capped at 0.3% per year for the final three years of the regulatory period. WICS believed this was appropriate given the need for customers to have relative certainty about what they will pay. We explained that we would assess the extent to which uncertainties in energy and pension operating expenditure have materialised through the Scheme of Charges in the relevant year.

Summary of the charge cap proposal in the Draft Determination

9.3.17 Our Draft Determination separated the charge cap into three components.

9.3.18 The first was the core charge cap, which allows charges to rise by CPI+2% in each of the first three years of the period. This reflected the need to continue the transition towards higher investment while avoiding unnecessary volatility in charges.

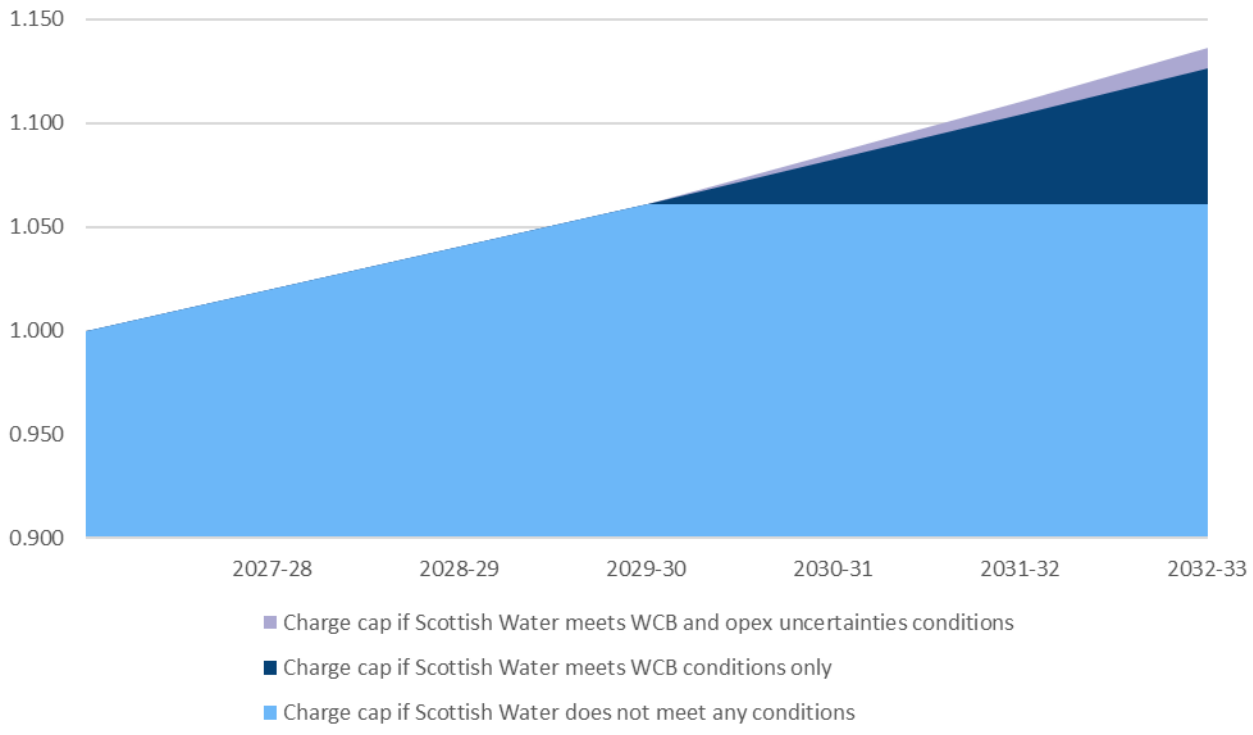
9.3.19 The second was a conditional allowance for West Central Bioresources. This would apply only in the final three years of the period and only if Scottish Water provides the evidence required for the project to proceed. Customers would therefore not pay the WCB element unless the project is sufficiently evidenced and taken forward. This increase, disaggregated by the associated conditions, is shown in Table 158 and Figure 64.

9.3.20 The third was a conditional charge cap for cost uncertainties.

Table 158: Annual charge profile if all conditions are met in full (real terms)

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Charge profile not subject to conditions	2.0%	2.0%	2.0%	0.0%	0.0%	0.0%
Conditional charge profile *(West Central Bioresources)*	0.0%	0.0%	0.0%	2.0%	2.0%	2.0%
Total change in charges *(if WCB conditions are met)*	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**
Conditional charge profile *(cost uncertainties)*	n/a	n/a	n/a	0.3%	0.3%	0.3%
Maximum allowed for charge cap *(if WCB conditions are met & cost uncertainties materialise)*	**2.0%**	**2.0%**	**2.0%**	**2.3%**	**2.3%**	**2.3%**

Figure 64: Cumulative charge profile if all conditions are met in full (real terms)



9.3.21 Therefore, our Draft Determination included four possible charge paths:

- A core charge cap if the West Central Bioresources (WCB) project does not proceed (CPI+2% over 2027-28 to 2029-30, then CPI thereafter);
- A charge cap if Scottish Water meets our conditions for WCB and it proceeds (CPI+2% over 2027-33);

- A charge cap if Scottish Water meets our conditions for WCB, it proceeds and uncertain operating expenditure materialises (CPI+2% over 2027-28 to 2029-30, then CPI+2.3% thereafter);
- A charge cap if the West Central Bioresources (WCB) project does not proceed but uncertain cost items materialise (CPI+2% over 2027-28 to 2029-30, then CPI+0.3% thereafter).

9.3.22 We considered that these charge paths best met the requirements outlined in the Commissioning letter for SRC27, recognising the risks associated with whether the West Central Bioresources project proceeds.

Other assumptions that impact the calculation of revenue and bills

9.3.23 In addition to the Draft Determination setting out the proposed charge cap, it also noted the different factors that will impact the revenue Scottish Water will collect over the period. To model revenues over the SRC27 regulatory period, we made assumptions for the following factors:

- Price inflation;
- Household and non-household growth;
- Discounts and exemptions; and
- Change in non-household consumption.

9.3.24 Our Draft Determination assumptions for each of these drivers of revenue are covered in turn below.

Price inflation

9.3.25 WICS sets charge caps relative to the CPI measure of inflation. This approach is in line with the Principles of Charging and is consistent with the approach adopted in previous regulatory periods. Our Draft Determination explained that we would continue to use CPI from October of the previous year as the inflation measure for customer charges.

9.3.26 To model revenues and to calculate the caps we will set on customer charges, we forecast price inflation. We reviewed external inflation forecasts from sources such as the Bank of England's Monetary Policy Reports and the Office for Budget Responsibility's Economic and Fiscal Outlook reports.

9.3.27 For our Draft Determination, we applied the Office for Budget Responsibility (OBR) forecast from its Economic and Fiscal Outlook report published in March 2026.[543] The Office for Budget Responsibility forecasted inflation to 2030. For this reason, where detailed

[543] Office for Budget Responsibility (2026), 'Economic and fiscal outlook – March 2026', 3 March 2026.

forecasts are not available, we chose to apply the Bank of England's long-term target of 2.0%.

9.3.28 This forecast is shown in Table 159.

Table 159: Price inflation forecast (CPI in October of previous year)

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Price inflation forecast	1.9%	1.9%	2.1%	2.0%	2.0%	2.0%

Household growth rate

9.3.29 For household revenues, we used reported values for 2024-25 and then roll them forward with actual charge caps and forecast growth rates for the remainder of the 2021-27 regulatory period, followed by charge caps and forecast growth rates for the 2027-33 period.

9.3.30 The household revenue that Scottish Water collects depends on the number of billed connections to the water and wastewater network and the proportion of households in each council tax band. We apply a Band-D equivalent growth rate to household revenues to account for both factors. This is calculated as an average growth rate, weighted by the council tax band multipliers used to set household charges.

9.3.31 Scottish Water's business plan forecast an increase in Band-D equivalent growth rate of 0.6% and 0.9% for 2025-26 and 2026-27, respectively. We assumed a growth rate of 0.9% for both years, in line with the assumption in the SRC21 Final Determination. Our Draft Determination explained that we would review the 2025-26 forecast and assumptions for household revenue following the submission of the 2025-26 Annual Return and Regulatory Accounts in June 2026.

9.3.32 For 2027-33, Scottish Water forecast an annual Band-D equivalent growth rate of 1.0% in each year. Having reviewed this proposal from Scottish Water's business plan, we agreed that Scottish Water's forecast is reasonable in our Draft Determination. This was supported by our analysis of the number of chargeable dwellings from publicly available council tax datasets.[544] This forecast is shown in Table 160.

Table 160: WICS Band-D equivalent household growth rate assumption

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Band-D equivalent growth rate	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%

[544] Scottish Government (2025), 'Council tax datasets: Number of chargeable dwellings', September 2025.

Non-household growth rate

9.3.33 Similar to household revenue, non-household revenue is dependent on the number of billed connections to Scottish Water's network. Scottish Water forecast a reduction in non-household-billed properties in 2025-26 of 1.3%, followed by a 0.3% increase in 2026-27. We adopted the non-household growth assumption from the Final Determination in SRC21 with an increase of 0.75% in both years.

9.3.34 Our Draft Determination explained that we would review the 2025-26 forecast and assumptions for non-household revenue following the submission of the 2025-26 Annual Return and Regulatory Accounts in June 2026.

9.3.35 Scottish Water's non-household customers are generally charged for water and wastewater services based on their metered consumption. However, some non-household customers without meters are instead charged based on an assessed volume. This assessed volume is set based on the Rateable Value (RV) of the property. Non-household drainage charges are also set relative to the RV of the property. This is set out in the Principles of Charging.

9.3.36 Every three years, the Live RV for non-household properties is updated. Our Draft Determination explained that the most recent Live RV update took effect on 1 April 2026 for the charging year 2026-27. As a result of this revaluation, we expected Scottish Water's revenue in 2026-27 to be higher than forecast in the business plan. WICS did not model this adjustment as part of this Draft Determination but explained we would consider this further for the Final Determination, alongside the impact of updating the forecast revenue in 2025-26 for the actual revenue in 2025-26 reported in Scottish Water's Regulatory Accounts. WICS requested that, in its response to the Draft Determination on 1 September 2026, Scottish Water provide an updated forecast of non-household revenue for 2026-27 with underlying assumptions and supporting evidence, showing the impact of both the reported actuals for 2025-26 and the Live RV update as of 1 April 2026.

9.3.37 For 2027-33, Scottish Water proposed a forecast growth rate of 0.5% in each year. This proposal is in line with WICS analysis, so we did not propose any updates to Scottish Water's assumption. This forecast is shown in Table 161.

Table 161: WICS non-household growth rate assumption

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Non-household growth rate	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%

Change in non-household consumption

9.3.38 Around one third of Scottish Water's revenue from non-household customers is charged volumetrically. As such, any change in consumption will impact the revenue Scottish Water collects from businesses.

9.3.39 In its business plan, Scottish Water forecasts a reduction in non-household consumption.

9.3.40 Overall, WICS agreed that Scottish Water's modelling assumptions in the business plan were reasonable and applied the same modelling assumptions in our Draft Determination. Further information on WICS view of this assumption can be found in section 4.4 (outcome 1.09). This assumption is shown in Table 162.

Table 162: WICS change in non-household consumption assumption

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Change in non-household consumption	-1.00%	-1.51%	-3.73%	-3.81%	-3.64%	-3.45%

Discounts and exemptions

9.3.41 While WICS does not have a role in setting policy, such as discounts and exemptions, we must understand the impact that policy decisions have on revenue.

9.3.42 In 2024-25, around half of household customers were in receipt of a discount or exemption. These discounts are paid for through the generality of Scottish Water's customers.

9.3.43 Similarly, non-household charitable organisations may also receive an exemption or reduction on water and wastewater charges.[545]

9.3.44 In the draft Principles of Charging for SRC27, the Scottish Government did not propose any changes to the discounts and/or eligibility criteria for households or charitable organisations.[546] As a result, in the Draft Determination, we did not model any impact on Scottish Water's revenue relative to 2024-25, which is the base year for SRC27.

Other revenue

9.3.45 'Other revenue' relates to income received by Scottish Water that does not relate directly to the provision of water and wastewater services to households and non-households.

9.3.46 In line with Scottish Water's business plan, our broad assumption in the Draft Determination was that 'other revenue' will increase in line with the primary charge cap.

[545] Subject to the criteria set out in Annex 2 to the Principles of Charging.
[546] Scottish Government (2026), 'Water Services: investing in and paying from 2027', 6 January 2026.

This recognises that various items included in 'other revenue' are indirectly linked to the provision of water and wastewater services (e.g. charges for the provision of standpipes). These assumptions resulted in around £113 million of revenue over the regulatory period in 2024-25 prices.

9.4 Draft Determination consultation responses and new information

Overall charge caps

9.4.1 Consultation question 1 asked to what extent respondents agree that the draft determination strikes the right balance between outcomes, investment and charges.

- 17 respondents answered 'agree' or 'strongly agree';
- 8 respondents answered 'neither agree nor disagree';
- 19 respondents answered 'disagree' or 'strongly disagree'; and
- 7 respondents provided no direct answer.

9.4.2 Respondents who answered 'agree' or 'strongly agree' gave several reasons, including:

- 6 respondents supported the balance with several citing the need for value for money;
- 2 respondents commented on more action being required on leakage and demand reduction targets; and
- 9 respondents provided no further comment.

9.4.3 Respondents who answered 'disagree' or 'strongly disagree' gave several reasons, including:[547]

- Scottish Water cited several reasons (see below);
- 5 respondents cited charge levels and the affordability of the CPI+2% charge increase;
- 5 respondents cited outcomes, covering the need to ensure outcomes are appropriately defined to the level of stretch in outcomes, especially in relation to environmental performance;[548] and
- 2 respondents cited concerns over executive remuneration;
- 4 responses related to policy areas such as the rateable value methodology for calculating drainage charges, concern over the impact of data centre policies on water availability;
- 1 respondent also commented on Ethical Business Practice and Regulation (EBP&R); and

[547] The responses do not add to 19 on the basis that some responses raised more than one issue.
[548] This includes one response that also cited charge levels and another response that covered another area.

- 3 respondents provided no further comment.

9.4.4 Respondents who answered 'neither agree nor disagree' cited similar reasons to those set out by both sets of respondents above.

9.4.5 Scottish Water explained that the Draft Determination does not strike the right balance between outcomes, investment and charges. Its primary concern is that it considers that the proposals in the Draft Determination create an overall package that does not provide sufficient funding to enable delivery of its business plan for the 2027-33 regulatory period.[549] It suggested that a charge cap of CPI+2.0% would not be sufficient to deliver Ministerial Objectives.

9.4.6 Scottish Water suggested that our Draft Determination for the 2027-33 regulatory period used the charge profile or assumptions for the 2021-27 regulatory period as a fixed or stable benchmark.[550] While we note that our regulatory approach for the 2027-33 period is a continuation of our long-term approach established in the 2021-27 regulatory period, our assessment in the Draft Determination was based on a disaggregated analysis of Scottish Water's proposals for investment, expenditure, and efficiency in its business plan. Our Draft Determination did not, therefore, treat SRC21 as a fixed or stable benchmark.

9.4.7 Scottish Water considers that the Draft Determination places too much weight on short-term charge reduction without sufficient protection for the delivery of the outcomes customers have supported or consideration of intergenerational equity. Furthermore, it makes the point that customer protection is about more than affordability, and that affordability needs to be considered over both the current period and the longer term, taking into account service quality, environmental performance, resilience, and other factors.[551]

9.4.8 We confirm that our assessment in the Draft Determination was based on a disaggregated analysis of Scottish Water's proposals for investment, expenditure and efficiency from its business plan. The Draft Determination, therefore, was based on WICS assessment of Scottish Water's efficient costs, rather than short-term charge reduction. We also considered intergenerational equity throughout the Draft Determination. For example, in our Draft Determination, we noted that the evidence could have supported a greater challenge to Scottish Water's proposed costs. However, we did not consider that applying

[549] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, p.11, paragraphs 2.2.1 and 2.2.2.
[550] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 1.3.4 and 2.2.13.
[551] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 1.3.16, 3.1.2 and 10.2.3.

the maximum possible challenge would be in the interests of current or future customers.[552]

9.4.9 Other respondents expressed concern about the affordability of above inflation charge increases.

9.4.10 There were also 7 responses that did not provide a direct answer to this question as per the consultation questionnaire. Some of these welcomed the reduced charge caps applied in the Draft Determination. For example, Consumer Scotland supported the proposal to limit increases to CPI+2% rather than the CPI+3.3% proposed by Scottish Water.[553] Similarly, the Independent Customer Group welcomed the lower proposed charge cap.[554]

9.4.11 Finally, Consumer Scotland also made broader points on the Strategic Review of Charges, some of which fall outside WICS' remit and relate to policy. In particular, Consumer Scotland sought a strengthened approach to affordability. It considered that a revised approach is required in future regulatory periods to assess and ensure the affordability of charges for different groups of customers.[555]

9.4.12 On conditional charge caps, Chapter 8 explains in more detail the consultation responses relating to the principle of applying conditional chare caps, and our Final Determination decision to apply conditional charge caps.

Other assumptions that impact the calculation of revenue and bills

9.4.13 Our Draft Determination accepted Scottish Water's assumptions, growth rates, and consumption changes for the years 2027 to 2033. Scottish Water did not challenge these assumptions in its response to the Draft Determination.

9.4.14 However, Scottish Water disagreed with WICS' assumptions for the remaining two years of the 2021-27 regulatory period. These assumptions are material because they are inputs to the calculation of revenue in 2026-27, which is the opening revenue value for the 2027-33 regulatory period.

9.4.15 Following the Draft Determination, Scottish Water has submitted its Annual Return and Regulatory Accounts to WICS for the financial year 2025-26. This has allowed us to update our modelling of household and non-household revenues using an additional year of actual

[552] Water Industry Commission for Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination, 30 June 2026, p.33.
[553] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p.3.
[554] Independent Customer Group (2026), 'Water Industry Commission for Scotland for SRC27: ICG response', 1 September 2026, paragraph 8.
[555] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, pp.12-13.

data, so we now rely on forecasts for only the final year of the 2021-27 regulatory period, i.e. 2026-27.

9.4.16 In its response to our Draft Determination, Scottish Water explained that it believes WICS has overestimated growth rates for 2026-27 in the Draft Determination. Scottish Water explained that household connection growth in 2026-27 to date is around 0.7%, and that provisioning will reduce this to 0.57%. Scottish Water therefore proposed that the Final Determination reduce the forecast household revenue growth rate in 2026-27 from 0.90% to 0.57%.[556]

9.4.17 Scottish Water also explained that its latest forecast for non-household revenue growth in 2026-27 is 0.16%, 0.54% lower than the assumption of the Draft Determination. Scottish Water explained that this value does not only represent the change in the number of connections, but it instead represents the forecast total change in revenue for all factors other than pricing decisions and non-household consumption.[557] We requested clarification on this point following the Draft Determination response and asked Scottish Water to disaggregated this further into the individual drivers of non-household revenues. However, Scottish Water explained that it is unable to disaggregate this assumption further.

9.4.18 Scottish Water explained that it has observed a 9.8% increase in the total Rateable Value (RV) for drainage revenues in 2026-27, which will initially increase property drainage by £21 million. However, Scottish Water explains that it expects this value to be revised downwards following live RV appeals. It assumes that an appeals rate similar to that observed in the previous revaluation cycle will apply to the 2026 revaluation, resulting in a 3% decrease in the total RV following successful appeals. Scottish Water also explains that customers who deregister or convert to area-based charges will further reduce the RV for property drainage by 5%. Scottish Water explained that the combined impacts of these two offsetting factors will reduce the initial £21 million increase to £1.4 million in 2026-27.

9.4.19 Following Scottish Water's Draft Determination consultation response, we asked for more detail on the impact of deregistrations and conversions to area-based charges, as it appeared that Scottish Water assumed that these adjustments would happen immediately following the implementation of the updated RV. Scottish Water provided further information on the experience from the previous revaluation, which showed that deregistrations and conversions to area-based charges occurred gradually over a three-year period and were broadly evenly phased (i.e. around a third of the impact in each year). As part of these responses, Scottish Water also identified an error in its initial analysis. This

[556] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 2 – Specific Modelling and Funding Adjustments', 1 September 2026, p.3.
[557] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination Response – Annex 2 – Specific Modelling and Funding Adjustments', 1 September 2026, pp. 7-8.

changes the net impact of the live RV revaluation from £1.4 million to £1.9 million. Our analysis of Scottish Water's further information on the impact of the live RV revaluation is covered in detail in section 9.5.

Other issues raised in consultation responses

9.4.20 Scottish Water proposed in its response to the Draft Determination that the inflation figure used for setting charges should be updated from CPI in October of the previous year to September of the previous year. In response to a query from WICS, Scottish Water explained that, had the September CPI been applied during SRC21, the impact on charges would have been negligible.

9.4.21 We received several responses to the consultation that provided a view on WICS' proposed approach to the assessment of charges based on the RV of non-household properties. These responses generally challenged the principle of RV-based charging, which has meant that some non-household customers have seen an increase in their water and wastewater charges higher than the headline charge increase. This is because the live RV of non-household properties is reassessed every three years. Following a revaluation, some non-household properties will see a reduction in their RV but others will see an increase, which will therefore impact the customers water and water charges if those are based on the RV.

9.4.22 The Scottish Government's policy for non-household drainage charges is that they should generally be based on rateable value. This is set out in the Principles of Charging for the 2027-33 regulatory period issued by the Scottish Ministers under section 29D of the Water Industry (Scotland) Act 2002. The final Principles of Charging also requested that, by 2029, Scottish Water reviews the wholesale tariff to encourage water efficiency, for implementation over the remainder of SRC27, and that WICS reviews the directions for the default retail tariff accordingly. This provides a route to consider wider questions about tariff design over the medium term, including how charges apply to different types of non-household customers, subject to remaining consistent with the Principles of Charging.

9.4.23 Two licensed providers supported the review of default retail tariff. One licensed provider requested that Scottish Water retain flexibility to adjust wholesale charges and structures during the regulatory period. The other licensed provider was also supportive of retaining the charge cap, rather than moving to a revenue cap for wholesale charges.

9.4.24 One licensed provider also supported the proposal that changes in aggregate rateable values arising from the reviews in 2029 and 2032 should be revenue-neutral.

New information

9.4.25 As mentioned above, the Scottish Government has finalised its Principles of Charging for the 2027-33 regulatory period.[558] In relation to charging and affordability, these confirm the proposals in the draft Principles of Charging.

9.4.26 In addition to the consultation responses, WICS has also considered updated inflation assumptions. Following the Draft Determination, there has been a general increase in short- to medium-term inflation forecasts. We have updated our modelling to reflect these more recent expectations for inflation

9.5 Our approach in the Final Determination

Charge caps and conditional charge caps

9.5.1 We have decided to adopt the proposal set out in the Draft Determination and to separate the charge cap into three components (see paragraphs 9.3.17 to 9.3.20). This section explains that decision and provides our reasons for it.

9.5.2 The first component is the core charge cap, which allows charges to rise by CPI+2.5% in each of the first three years of the period, and 0.5% in the final three years of the period. This reflected the need to continue the transition towards higher investment while avoiding unnecessary volatility in charges.

9.5.3 The second component is a conditional allowance for West Central Bioresources. This applies in the final three years of the period and on the basis that Scottish Water provides the evidence required for the project to proceed. Customers will therefore not pay the WCB element unless Scottish Water provides the evidence required to demonstrate that the project is ready to proceed in line with the requirements set out in paragraphs 8.3.31 to 8.3.34.

9.5.4 The third component is a conditional charge cap for cost uncertainties, covering the areas set out in paragraph 8.4.77.

9.5.5 These increases, disaggregated by the associated conditions, are shown in Table 163.

[558] Scottish Government (2026), 'Principles of Charging for regulatory period 2027-33', 23 October 2026.

Table 163: Annual charge profile if all conditions are met in full (real terms)

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Charge profile not subject to conditions	2.5%	2.5%	2.5%	0.5%	0.5%	0.5%
Conditional charge profile *(West Central Bioresources)*	0.0%	0.0%	0.0%	2.0%	2.0%	2.0%
Total change in charges *(if WCB conditions are met)*	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**
Conditional charge profile *(cost uncertainties)*	n/a	n/a	0.3%	0.3%	0.3%	0.3%
Maximum allowed for charge cap *(if WCB conditions are met and cost materialise)*	**2.5%**	**2.5%**	**2.8%**	**2.8%**	**2.8%**	**2.8%**

9.5.6 Allowances for uncertain costs have not been included in our operating cost allowances for SRC27. As such, the conditional charge cap for cost uncertainties has not been included in the modelling of Scottish Water's revenues for this Final Determination.

9.5.7 The charge cap not subject to conditions in Table 163 above will apply on a cumulative basis over the regulatory period. If Scottish Water decides to deviate from the annual charge cap profile in the Final Determination, we expect Scottish Water to provide a credible plan to recover the same level of investment over the regulatory period and meet the Ministerial Objectives, subject to remaining within the overall charge cap for the period.

9.5.8 Furthermore, the conditional charge caps for WCB and cost uncertainties do not apply on a cumulative basis. Therefore, if Scottish Water decides to deviate from the annual charge cap profile in the Final Determination, then it would need to be at least in line with the cumulative cap by 2029-30 (i.e. a cumulative cap of 7.7%, equivalent to 2.5% cumulative for 3 years) to ensure that the conditional charge cap for West Central Bioresources is sufficient to recover the element of that project funded through customer charges (i.e. the £225 million outlined above). This is a funding risk for Scottish Water and its Board to manage.

9.5.9 To reiterate, if the evidence threshold for the 0.3% conditional charge cap in year 3 (2029-30) of the period is not satisfied, Scottish Water will not be able to access the year 3 (2029-30) conditional charge cap in any subsequent year. Though Scottish Water could put forward evidence to access the additional 0.3% for 2030-31 in the following year. A similar approach will be adopted should the WCB project be delayed such that the conditions are not satisfied in year 4 (2030-31).

9.5.10 As set out in paragraph 3.4.22, we are assured that the final business plan commands customer support. We consider that the Final Determination remains consistent with the basis on which customers supported the business plan given that it requires the same or

better outcomes for lower charges than proposed in the business plan. As such, we consider that this meets the requirement from the Commissioning letter for the Final Determination to command customer support.

Other assumptions that impact the calculation of revenue and bills

Price inflation

9.5.11 As explained in section 6.9, our Final Determination recognises that inflation forecasts have changed in the time since our Draft Determination was published. To reflect this and to best estimate future inflation, we have applied the Bank of England's forecasts from its Monetary Policy Report (MPR) of July 2026. Where forecasts are not available in the MPR, we have applied the Bank of England's long-term target of 2.0%. The complete profile for price inflation is shown in Table 164.

Table 164: Final Determination price inflation forecast

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Price inflation forecast	3.2%	2.1%	1.9%	2.0%	2.0%	2.0%

9.5.12 As explained in paragraph 9.4.20, Scottish Water proposed that the inflation measure applied to charges should be changed from October of the previous year to September of the previous year. This recognises that the timescales for the development and approval of the annual Scheme of Charges are currently compressed due to October CPI being released in mid-November and the need to update local authorities, who collect charges on behalf of Scottish Water for most customers, on the charges to apply in late January/early February. We consider this a reasonable proposal; however, we note that the current billing and collection order is in place until 31 March 2028 and refers to October CPI.[559] To avoid misalignment between the Final Determination and the billing and collection order, we will move to September CPI from 2028-29. This means that October CPI will continue to apply in the first year of the 2027-33 regulatory period.

Household growth rate

9.5.13 As explained in paragraphs 9.4.13 and 9.4.14, WICS and Scottish Water are broadly aligned on forecasts for the band-D equivalent household growth in the 2027-33 regulatory period. However, Scottish Water challenged WICS assumptions for growth in the final two years of the 2021-27 regulatory period. Recognising that WICS now has actual data for 2025-26, we have updated modelling to reflect the values reported in the 2025-26 Regulatory Accounts.

9.5.14 For the final year of the 2021-27 regulatory period, we consider that Scottish Water has provided sufficient evidence that growth in household properties in 2026-27 will be slightly

[559] Scottish Government (2023), 'The Water and Sewerage Services to Dwellings (Collection of Unmetered Charges by Local Authority) (Scotland) Order 2023', February 2023.

lower than its longer-term forecast for SRC27. As such, WICS decides to adopt a forecast growth rate of 0.7% for 2026-27. Scottish Water proposed a further reduction to the assumption to reflect provisioning. WICS considers this further reduction has not been evidenced by Scottish Water. For example, Scottish Water did not provide any underlying data or sources of information supporting the proposal to further reduce the 2026-27 revenue assumption to 0.57%. This means we have not accepted Scottish Water's proposal to further reduce the forecast to 0.57%.

9.5.15 Our decision for assumed household growth in 2026-27 and the 2027-33 regulatory period is shown in Table 165.

Table 165: WICS Final Determination Band-D equivalent household growth rate assumption

	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Household growth rate	0.7%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%

Non-household growth rate

9.5.16 Similar to our assessment of household revenue, we have updated our analysis of non-household revenue to account for actual revenue in 2025-26 as reported in the Regulatory Accounts submitted after the publication of our Draft Determination. However, in its response to the Draft Determination, Scottish Water also proposed an updated forecast for the non-household growth rate in 2026-27. Scottish Water provided insufficient evidence to support this updated assumption. As explained above, it was unable to provide a disaggregation of its assumption between different revenue drivers such as the impact of the recent RV update. Therefore, WICS has not updated its analysis to reflect Scottish Water's proposed assumption. However, WICS has reviewed the assumption in the Draft Determination and considers it to be reasonable to reduce the forecast from 0.75% to 0.5% as this aligns the assumption for 2026-27 to the long-term growth rate put forward by Scottish Water in its final business plan. This assumption does not include the increase in revenue we expect Scottish Water to receive as a result of the recent live RV revaluation. Our live RV update assumptions are covered below.

9.5.17 The complete profile for non-household growth in 2026-27 and the 2027-33 regulatory period (prior to adjustments for the live RV revaluation) is shown in Table 166.

Table 166: WICS Final Determination non-household growth rate assumption

	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Non-household growth rate	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%

Non-household drainage live RV update

9.5.18 To assess the increase in non-household drainage revenue that we expect Scottish Water to receive as a result of the recent RV revaluation we have applied the figures provided by Scottish Water in its consultation response to our Draft Determination and subsequent query responses. Our calculation based on these figures is explained in detail below.

9.5.19 Scottish Water explained that the RV revaluation will initially increase non-household drainage revenues by 9.8%, but that the initial increase would be offset by 3% as a result of successful appeals, and would be further reduced by around 5% as customers deregister from drainage services or convert to area-based charging.

9.5.20 Overall, we do not consider that Scottish Water has fully evidenced its forecast revenue for 2026-27, and we have broader concerns over its lack of understanding of the drivers of revenue between growth in connections, and the impacts of the RV revaluation. We also consider that Scottish Water has not fully evidenced the impact of deregistrations and conversions to area-based charging. In particular, it has assumed that these happen immediately, rather than gradually over a three year period as has been shown to be the case from the previous revaluation which took effect on 1 April 2023.

9.5.21 Furthermore, we consider that the impact of deregistrations and conversions to area-based charging is already reflected in the long-term growth estimate of 0.5% as this will include growth in connections, net of any customers who disconnect from the network.

9.5.22 As such, we could disallow further reductions for deregistrations and conversions from RV to area-based charging, which would increase non-household revenue over the 2027-33 period by around a further £70 million. However, we are also conscious that there remains a level of uncertainty around non-household revenue forecasts more broadly. As such, recognising this uncertainty, we accept Scottish Water's estimate for deregistrations and conversions to area-based charging, but phase the reductions over a three year period. This analysis results in the profile shown in the Table 167.

Table 167: WICS Live RV revaluation assumptions

	2026-27	2027-28	2028-29	Total
Initial RV revenue impact	9.80%	0.00%	0.00%	**9.80%**
RV appeals adjustment	-3.01%	0.00%	0.00%	**-3.01%**
Deregistrations and conversions to area-based charging	-1.97%	-1.97%	-1.97%	**-5.91%**
Net RV revenue impact	**4.82%**	**-1.97%**	**-1.97%**	**0.88%**

9.5.23 To model the impact of these adjustments on revenue, we first adjust the figures to reflect that the RV revaluation will impact only drainage revenues. Drainage revenues represent

around 43% of non-household revenues. Therefore, a 43% factor is applied to the figures in Table 167 before the percentage change is applied to forecast revenues.

9.5.24 Table 168 sets out the decision for assumed non-household growth including the live RV adjustment.

Table 168: WICS Final Determination non-household growth assumption with Live RV adjustment

	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Non-household growth rate (pre-live RV adjustment)	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Live RV adjustment	2.07%	-0.85%	-0.85%	0.00%	0.0%	0.00%	0.00%
Non-household growth rate (post-live RV adjustment)	2.57%	-0.35%	-0.35%	0.50%	0.50%	0.50%	0.50%

9.5.25 We expect this to have around a £14 million impact on revenues over the 2027-33 regulatory period. This is slightly higher than the forecast put forward by Scottish Water, primarily as a result of assumptions for the phasing of deregistrations and conversions to area-based charging. The revenue impact of our Live RV assumptions is shown in Table 169.

Table 169: Revenue impact of Live RV adjustment[560]

	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	SRC27 total
Revenue impact of Live RV adjustment	£9.3m	£5.6m	£1.6m	£1.7m	£1.7m	£1.7m	£1.8m	**£14.1m**

Change in non-household consumption

9.5.26 Paragraph 9.3.40 sets out the rationale for this assumption. No changes to the assumption for the change in non-household consumption have been made between the Draft and Final Determinations.

9.5.27 The complete profile for the change in non-household consumption in 2026-27 and the 2027-33 regulatory period is shown in Table 170.

[560] Table in 2024-25 prices.

Table 170: WICS Final Determination change in non-household consumption assumption

	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Change in non-household consumption	-1.00%	-1.00%	-1.51%	-3.73%	-3.81%	-3.64%	-3.45%

Discounts and exemptions

9.5.28 Paragraph 9.3.44 sets out the rationale for this assumption. No changes to assumptions relating to discounts and exemptions have been made between the Draft and Final Determinations.

Other revenue

9.5.29 Paragraph 9.3.46 sets out the rationale for this assumption. No changes to assumptions relating to other revenue have been made between the Draft and Final Determinations.

9.6 Implications for customer bills and Scottish Water's revenue

Household charges

9.6.1 Applying a CPI+2.5% charge cap to household charges results in an average charge of around £707 in projected outturn prices (£623 in 2026-27 prices) by the end of the 2027-33 regulatory period, as set out in Table 171.[561] This assumes that Scottish Water can evidence that it has satisfied the West Central Bioresources conditions to access the full WCB conditional charge cap.

Table 171: Average household bill if uncertain costs do not materialise

If uncertain operating costs do not materialise	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Before inflation (2026-27 prices)	£537	£551	£564	£578	£593	£608	£623
After inflation (projected outturn prices)	£537	£568	£594	£620	£648	£677	£707

9.6.2 If the conditional charge cap for cost uncertainties were required in each year from 2029-30 to 2032-33, this would increase average charges to £716 in projected outturn prices (£630 in 2026-27 prices) by the end of the 2027-33 regulatory period, as set out in Table 172.

[561] The average household bill is expressed after the discounts that eligible customers receive.

Table 172: Average household bill if uncertain costs materialise

If uncertain operating costs materialise	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Before inflation (2026-27 prices)	£537	£551	£564	£580	£596	£613	£630
After inflation (projected outturn prices)	£537	£568	£594	£622	£652	£683	£716

9.6.3 A full breakdown of annual unmeasured household charges is provided in Table 173 and Table 174.

Table 173: Unmeasured household charges with CPI+2.5% and the conditional charge cap for cost uncertainties (2026-27 prices)

	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Band A	£434.88	£445.75	£456.90	£469.69	£482.84	£496.36	£510.26
Band B	£507.36	£520.04	£533.05	£547.97	£563.31	£579.09	£595.30
Band C	£579.84	£594.34	£609.19	£626.25	£643.79	£661.81	£680.34
Band D	£652.32	£668.63	£685.34	£704.53	£724.26	£744.54	£765.39
Band E	£797.28	£817.21	£837.64	£861.10	£885.21	£909.99	£935.47
Band F	£942.24	£965.80	£989.94	£1,017.66	£1,046.15	£1,075.45	£1,105.56
Band G	£1,087.20	£1,114.38	£1,142.24	£1,174.22	£1,207.10	£1,240.90	£1,275.64
Band H	£1,304.64	£1,337.26	£1,370.69	£1,409.07	£1,448.52	£1,489.08	£1,530.77

Table 174: Unmeasured household charges with CPI+2.5% and the conditional charge cap for cost uncertainties (projected outturn prices)

	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Band A	£434.88	£459.67	£480.81	£503.41	£527.57	£552.90	£579.44
Band B	£507.36	£536.28	£560.95	£587.31	£615.50	£645.05	£676.01
Band C	£579.84	£612.89	£641.08	£671.21	£703.43	£737.20	£772.58
Band D	£652.32	£689.50	£721.22	£755.12	£791.36	£829.35	£869.16
Band E	£797.28	£842.72	£881.49	£922.92	£967.22	£1,013.65	£1,062.30
Band F	£942.24	£995.95	£1,041.76	£1,090.72	£1,143.08	£1,197.95	£1,255.45
Band G	£1,087.20	£1,149.17	£1,202.03	£1,258.53	£1,318.94	£1,382.25	£1,448.59
Band H	£1,304.64	£1,379.00	£1,442.44	£1,510.23	£1,582.72	£1,658.70	£1,738.31

9.6.4 Based on the assumptions explained above, we expect our Final Determination to generate around £8,965 million of household revenue over the period in 2024-25 prices. This assumes that Scottish Water can evidence that it has met the conditions associated with the West Central Bioresources conditional charge cap, but does not include any revenue that may result from the conditional charge cap for cost uncertainties.

Non-household charges

9.6.5 Based on the assumptions explained above, we expect our Final Determination to generate around £2,975 million of non-household revenue over the period in 2024-25 prices. This assumes that Scottish Water can provide evidence that it has met the conditions associated with the West Central Bioresources conditional charge cap, but does not include any revenue that may result from the conditional charge cap for cost uncertainties.

Default tariffs

9.6.6 Consistent with our duty to protect customers' interests, we will continue to set default maximum tariffs for the non-household retail market. These tariffs are the maximum that any licensed provider can charge for a standard level of service and therefore act as a safety net for all non-household customers.

9.6.7 Our decision is to set default maximum tariffs at a level that maintains the same percentage of gross retail margin available to licensed providers as currently exists until the review of default maximum tariffs is completed. This review, to be completed by 2029, will be part of a wider review of the non-household wholesale charges as directed by the Scottish Government's Principles of Charging for SRC27.[562] Amongst other factors, we will consider the impact of the rollout of smart meters on the non-household wholesale costs and make any necessary adjustments to the gross retail margins available to licensed providers.

9.6.8 Our approach up until 2029 mirrors the approach taken in SRC21 and involves establishing a default maximum tariff for each year that reflects Scottish Water's proposals for non-household wholesale charges in its Scheme of Charges.

9.6.9 We will continue to monitor the margins available to licensed providers and make any necessary adjustments to ensure that default maximum tariffs are, and remain, consistent with the Scottish Government's Principles of Charging and competition law.

Live Rateable Value updates

9.6.10 As explained in paragraph 9.3.35, non-household customers are generally charged for drainage services based on the RV of the property. Additionally, there are a relatively small

[562] Scottish Government (2026), 'Principles of Charging for regulatory period 2027-33', 23 October 2026.

number of non-household customers who are charged for water and wastewater services based on the RV of the property. These RVs are updated every three years.

9.6.11 The next revaluation is due to be completed prior to the 2029-30 financial year, and there will be a further revaluation prior to 2032-33. After the update, individual customers may see their RV increase or decrease. As a result, without further adjustment, Scottish Water's revenue would change in line with the aggregate movement in RV. The Final Determination requires that charges must be adjusted in the year of the revaluation to ensure the update is revenue-neutral to Scottish Water. This will ensure that Scottish Water does not over- or under-recover revenues due to changes in Rateable Values over the regulatory period. This approach was supported in the response to the Draft Determination consultation (see paragraph 9.4.24).

9.6.12 The approach adopted for the 2026-27 live RV update in section 9.5 of this Final Determination should not be taken as an accepted approach for future live RV update cycles. Given that we continue to apply a charge cap, rather than a revenue cap, our assessment of the impact of the 2029-30 and 2032-33 live RV update will not include an adjustment to charges to reflect deregistrations or conversions to area-based charges as a result of updated RVs. As such, Scottish Water must manage this risk.

9.7 Income and expenditure baseline

9.7.1 Throughout the previous chapters in this Final Determination, we have set out the expenditure allowances and our forecasts for the income required by Scottish Water to fund and finance this expenditure. Together, these items of income and expenditure form a baseline that Scottish Water's delivery plan should be consistent with. The full income and expenditure baseline is shown in the table below.

Table 175: Income and expenditure baseline[563, 564]

	2027/28	*2028/29*	*2029/30*	*2030/31*	*2031/32*	*2032/33*	*SRC27 total*
Household revenue	1,367.0	1,418.6	1,466.5	1,517.5	1,570.2	1,624.8	**8,964.7**
Non-household revenue	474.9	483.7	491.3	499.5	508.3	517.7	**2,975.4**
Other revenue	17.7	18.2	18.6	19.1	19.6	20.0	**113.3**
Total revenue (excl. ICI & disposal proceeds)	**1,859.6**	**1,920.6**	**1,976.5**	**2,036.1**	**2,098.1**	**2,162.5**	**12,053.4**
Infrastructure charges income	16.0	16.0	16.0	16.0	16.0	16.0	**96.0**
Disposal proceeds	1.6	1.2	1.2	1.2	1.2	1.2	**7.8**
Total revenue (incl. ICI & disposal proceeds)	**1,877.2**	**1,937.8**	**1,993.7**	**2,053.3**	**2,115.3**	**2,179.8**	**12,157.1**
Net new borrowing	155.8	153.1	150.1	147.1	144.2	141.4	**891.7**
Total cash inflows	**2,033.0**	**2,090.9**	**2,143.8**	**2,200.4**	**2,259.5**	**2,321.2**	**13,048.8**
Operating costs	(573.6)	(570.4)	(592.4)	(596.6)	(588.3)	(583.4)	**(3,504.8)**
PFI costs	(114.9)	(115.8)	(72.5)	(49.4)	(39.5)	(29.0)	**(421.0)**
Net interest	(158.4)	(162.1)	(164.8)	(167.1)	(171.5)	(174.3)	**(998.3)**
Taxation	0.0	(1.1)	(4.0)	(5.9)	(6.7)	(9.0)	**(26.8)**
Total operating expenditure	**(846.9)**	**(849.5)**	**(833.7)**	**(819.1)**	**(806.1)**	**(795.8)**	**(4,950.9)**
RCCs	(30.1)	(30.1)	(30.1)	(30.1)	(30.1)	(30.1)	**(180.8)**
Completion investment	(15.4)	(2.1)	(0.3)	(0.1)	(0.1)	(0.0)	**(18.1)**
Gross SRC27 investment (incl. repairs)	(1,121.3)	(1,198.1)	(1,283.9)	(1,358.9)	(1,439.0)	(1,520.5)	**(7,921.7)**
Grants and contributions	4.6	4.5	4.4	4.3	4.3	4.2	**26.4**
Net SRC27 investment (incl. repairs)	**(1,116.6)**	**(1,193.6)**	**(1,279.4)**	**(1,354.6)**	**(1,434.7)**	**(1,516.4)**	**(7,895.3)**
Change in working capital	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Change in cash	**24.0**	**15.5**	**0.3**	**(3.5)**	**(11.4)**	**(21.1)**	**3.8**

9.7.2 These forecasts assume that West Central Bioresources proceeds and Scottish Water accesses the conditional charge cap for West Central Bioresources. If West Central Bioresources does not proceed as planned and Scottish Water does not access the conditional charge cap, we recognise that Scottish Water may need to revise its financial forecasts in its annual delivery plan refresh (e.g. for operating expenditure).

[563] Note this table assumes that Scottish Water meets the relevant conditions such that it can collect funding for the West Central Bioresources project. If conditions are not met, then revenue and capital investment would be lower. There would also be a reduction in tax payable over the period primarily as a result of the reduction to revenue. This table does not include conditional charge caps associated with cost uncertainties.
[564] Table in £m in 2024-25 prices.

9.7.3 Scottish Water can propose changes to this baseline through the delivery plan process. We cover this in more detail in Chapter 10.

Financial strength

9.7.4 As an indicator of Scottish Water's financial strength, we measure various financial ratios. To ensure that Scottish Water is appropriately funded in SRC27, we have forecast these ratios to 2032-33. We consider the following ratios in our assessment of Scottish Water's financial strength:

- Funds From Operations (FFO): net debt; and
- Cash interest cover.

9.7.5 Our forecasts for these ratios for the 2027-33 regulatory period are shown in Table 176 below.

Table 176: Financial strength forecast for SRC27

	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
FFO: net debt	21.3%	22.2%	23.4%	24.7%	25.9%	27.0%
Cash interest cover	7.378	7.564	7.895	8.252	8.518	8.868
Cash interest cover *(net of asset maintenance)*	3.159	2.882	3.076	3.357	3.344	3.456

9.7.6 Overall, Scottish Water is expected to have more than sufficient financial strength in the 2027-33 regulatory period. Financial strength is expected to increase due to the gradual increase in Scottish Water's revenue and the reduction in net new borrowing in real terms.

10 Monitoring performance

10.1 Summary of chapter

10.1.1 The monitoring of performance is a key component of the regulatory framework. Its aim is to clarify whether Scottish Water is delivering its investment efficiently and on time, whether its performance is in line with targets, and, ultimately, whether it is producing the desired outcomes for customers. The framework also provides flexibility for Scottish Water to propose updates to its forecasts and take corrective action if external circumstances impact the ability to achieve the regulatory settlement during the regulatory period. We also strengthen performance monitoring during the 2027-33 regulatory period by reintroducing requirements for delivery plans and by strengthening the regulatory change process.

10.1.2 The chapter is structured as follows:

- Our proposals in the Draft Determination;
- Draft Determination consultation responses and new information; and
- Our decisions in the Final Determination.

10.2 Our proposals in the Draft Determination

10.2.1 In our Final Methodology, we set out our proposed approach for monitoring Scottish Water's performance over the 2027-33 regulatory period.[565]

10.2.2 The performance monitoring framework is set out in Table 177.

Table 177: Performance monitoring framework elements

Activity	Monitoring framework
Baseline	The baseline refers to the financial forecasts, delivery commitments and service targets (see paragraph 2.3.11). It is defined through the Final Determination and Scottish Water's delivery plan, which must be consistent with the Final Determination.
Delivery plan refresh	Scottish Water updates its delivery plan in advance of each year, providing its latest forecasts for performance.
Annual performance review	WICS publishes Scottish Water's Annual Return and produces the Performance Report at the end of each year.
Ongoing monitoring	Regular forum (Water Industry Investment Group, WIIG) for Scottish Water to update stakeholders within each year of the 2027-33 regulatory period to demonstrate achievement of the Ministerial Objectives and gain feedback for any proposed changes to the baseline.

10.2.3 The Draft Determination set out a strengthened framework for monitoring Scottish Water's performance during the 2027-33 regulatory period. The framework builds on the approach adopted in SRC21, introducing more structured reporting and a clearer process for managing changes during the regulatory period.

10.2.4 The Draft Determination also covered Scottish Water's performance-related pay (PRP) arrangements. Decisions on PRP fall within the scope of the relationship between Scottish Water and the Scottish Government, the owner. Scottish Water's Board and Remuneration Committee retain responsibility for setting targets and approving payments, while WICS has a role in supporting the Scottish Government's oversight. The Draft Determination set out the assurance WICS could provide to the Scottish Government on PRP.

10.2.5 The Draft Determination proposed that our assessment of performance is based on enhanced annual reporting through the Annual Return process, which is the information

[565] WICS (2024), 'Strategic Review of Charges 2027-33: Final Methodology', 12 December 2024, p.116.

that WICS collects annually from Scottish Water. Scottish Water will report its actual performance against outcomes, outputs, investment delivery and financial forecasts, enabling WICS and stakeholders to assess delivery against commitments. This information will underpin WICS' annual Performance Report, which will provide an independent assessment of Scottish Water's progress and highlight strong performance, emerging risks, and areas of concern.

10.2.6 The Draft Determination also set out the proposals for updating the investment planning and prioritisation process, which we now refer to as the regulatory change process for the 2027-33 period. This change control process will allow Scottish Water to respond to new information, emerging risks and changing priorities while maintaining transparency and accountability. Material changes to outcomes, outputs, expenditure or major projects would be subject to this process, supported by evidence and stakeholder scrutiny through existing governance arrangements.

10.3 Draft Determination consultation responses and new information

10.3.1 Consultation question 7 asked to what extent respondents agreed with our proposals for monitoring Scottish Water's performance over the 2027-33 regulatory period.

- 26 respondents answered 'agree' or 'strongly agree';
- 11 respondents answered 'neither agree nor disagree';
- 6 respondents answered 'disagree' or 'strongly disagree'; and
- 8 respondents provided no direct answer.

10.3.2 Respondents who answered 'agree' or 'strongly agree' gave several reasons, including:

- 5 respondents supported our proposals for reporting, covering several areas such as the frequency of reporting. 1 of these respondents commented on the need to ensure the reporting remains proportionate and focuses on the right criteria;
- 4 respondents welcomed the inclusion of outcome targets to drive delivery;
- 1 respondent supported the proposals but suggested wider monitoring of areas such as affordability, customer confidence and distributional impacts of charging methodologies;
- 1 respondent commented on the linkage between Scottish Water's performance and Executive remuneration; and
- 15 provided no further comment.

10.3.3 Respondents who answered 'disagree' or 'strongly disagree' gave several reasons, including:

- 2 respondents considered that the proposals for performance monitoring should go further with additional sanctions for underperformance;
- 1 respondent highlighted concern over the accuracy of Scottish Water's reporting and requested further assurance;
- 2 respondents requested updated service level agreements with Scottish Water relating to firefighting; and
- 1 provided no further comment.

10.3.4 Respondents who answered 'neither agree nor disagree' raised similar points to those above. One further point raised was concern over WICS chairing WIIG and the level of oversight of investment delivery. The respondent requested that WICS set out its rationale for accepting the role as chair.

10.3.5 Consultation question 8 asked to what extent respondents agreed with our proposals for monitoring the delivery of Scottish Water's investment programme over the 2027-33 regulatory period.

- 25 respondents answered 'agree' or 'strongly agree';
- 12 respondents answered 'neither agree nor disagree';
- 5 respondents answered 'disagree' or 'strongly disagree'; and
- 9 respondents provided no direct answer.

10.3.6 Respondents who answered 'agree' or 'strongly agree' gave several reasons, including:

- 7 respondents supported our proposals for reporting of the investment programme covering several areas, including enhanced accountability;
- 1 respondent supported the proposals, but requested greater detail on the operation of the conditional charge cap for uncertain costs;
- 1 respondent supported the proposals but suggested wider monitoring of areas such as affordability, customer confidence and distributional impacts of charging methodologies;
- 1 respondent commented on the linkage between Scottish Water's performance and executive remuneration;
- 1 respondent agreed with reservations, but sought more detail on the consequences of underperformance; and
- 14 provided no further comment.

10.3.7 Respondents who answered 'disagree' or 'strongly disagree' gave several reasons, including:

- 1 respondent had concerns that the in-period process for agreeing changes to the delivery plan would reduce accountability and sought that funding be returned to customers for undelivered investment;
- 1 sought further incentives for additional investment;
- 2 respondents sought further engagement from Scottish Water on its delivery plan with respect to firefighting; and
- 1 provided no further comment.

10.3.8 The strong support for our monitoring proposals aligns with the feedback from customers on Scottish Water's business plan, with the support for the plan being conditional on WICS holding Scottish Water to account for delivery.

10.3.9 In its response, Scottish Water welcomed WICS' proposals to strengthen monitoring and reporting during the 2027-33 regulatory period and committed to providing a delivery plan aligned with the Final Determination. It also emphasised the importance of maintaining a proportionate, risk-based monitoring framework that remains focused on customer and environmental outcomes, whilst being integrated with the existing governance arrangements.[566]

10.3.10 Consumer Scotland, SEPA, DWQR and other stakeholders highlighted the need for a clear and publicly accessible baseline against which Scottish Water can be held to account throughout the regulatory period. Respondents sought greater visibility of what has been delivered, what benefits have been realised, and where investment has been deferred, reprioritised or removed, together with clear explanations for those decisions.[567, 568, 569]

10.3.11 Respondents highlighted the importance of demonstrating how investment contributes to improved customer, community and environmental outcomes and of providing a clear line of sight between expenditure, outputs and realised benefits.[570]

10.3.12 Several respondents sought greater clarity regarding how Scottish Water will respond to changing circumstances during the period. SEPA and DWQR highlighted the importance of maintaining sufficient flexibility to address emerging drinking water, environmental and compliance risks while ensuring that any reprioritisation remains visible to stakeholders and subject to appropriate scrutiny.[571, 572]

[566] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraphs 9.1.1 to 9.3.1.
[567] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, p. 31.
[568] SEPA (2026), 'SEPA Feedback on WICS Draft Determination of Charges 2027-2033', 31 August 2026, pp.2-3.
[569] DWQR (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 31 August 2026, p.2.
[570] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, pp.10-11.
[571] SEPA (2026), 'SEPA Feedback on WICS Draft Determination of Charges 2027-2033', 31 August 2026, p.3.
[572] DWQR (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 31 August 2026, p.3.

10.3.13 Several respondents also highlighted the need for performance and investment reporting to be accessible and meaningful to customers and stakeholders.[573, 574]

10.3.14 On the proposed performance-related pay (PRP) framework, Scottish Water broadly welcomed the principles underpinning the proposed approach.[575] Scottish Water emphasised that decisions on whether, and to what extent, employees should receive performance-related pay should remain matters for Scottish Water's Board and Remuneration Committee, subject to the normal approval arrangements with the Scottish Government.[576] Scottish Water also expressed concern that WICS' proposed in-the-round assessment of performance prior to PRP payments could introduce an additional element of judgement and reduce the certainty of the framework.[577] Scottish Water considered that this could weaken the scheme's incentive properties and, if perceived as overly restrictive, affect employee motivation.[578]

10.3.15 Consumer Scotland considered that customers have a limited understanding of Scottish Water's executive pay and performance-related pay arrangements.[579]

10.3.16 Consumer Scotland also considered that WICS should provide assurance that any reported outperformance reflects genuine improvements in customer outcomes and that any associated rewards are proportionate to the value delivered.

10.3.17 The response from the Scottish Fire and Rescue Service (SFRS) requested engagement with Scottish Water on the development of the delivery plan and when material changes are proposed to investment in water supply continuity. As a general point, it is Scottish Water's responsibility as the operator to comply with all relevant legislation and engage with relevant stakeholders when developing its investment plans.

[573] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, pp.19-25, 35.
[574] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, pp.30-36.
[575] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, p.47, paragraph 8.2.3.
[576] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, p.47, paragraph 8.2.5.
[577] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, p.47, paragraph 8.2.6.
[578] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, pp.47-48, paragraphs 8.2.6 and 8.2.8.
[579] Consumer Scotland (2026), 'Strategic Review of Charges 2027-33: Draft Determination', 1 September 2026, pp.37-38.

10.4 Our decisions in the Final Determination

10.4.1 The overarching objective for the 2027-33 period is to balance the flexibility for Scottish Water to respond to changing circumstances with a clear, accountable and monitorable framework for delivery.

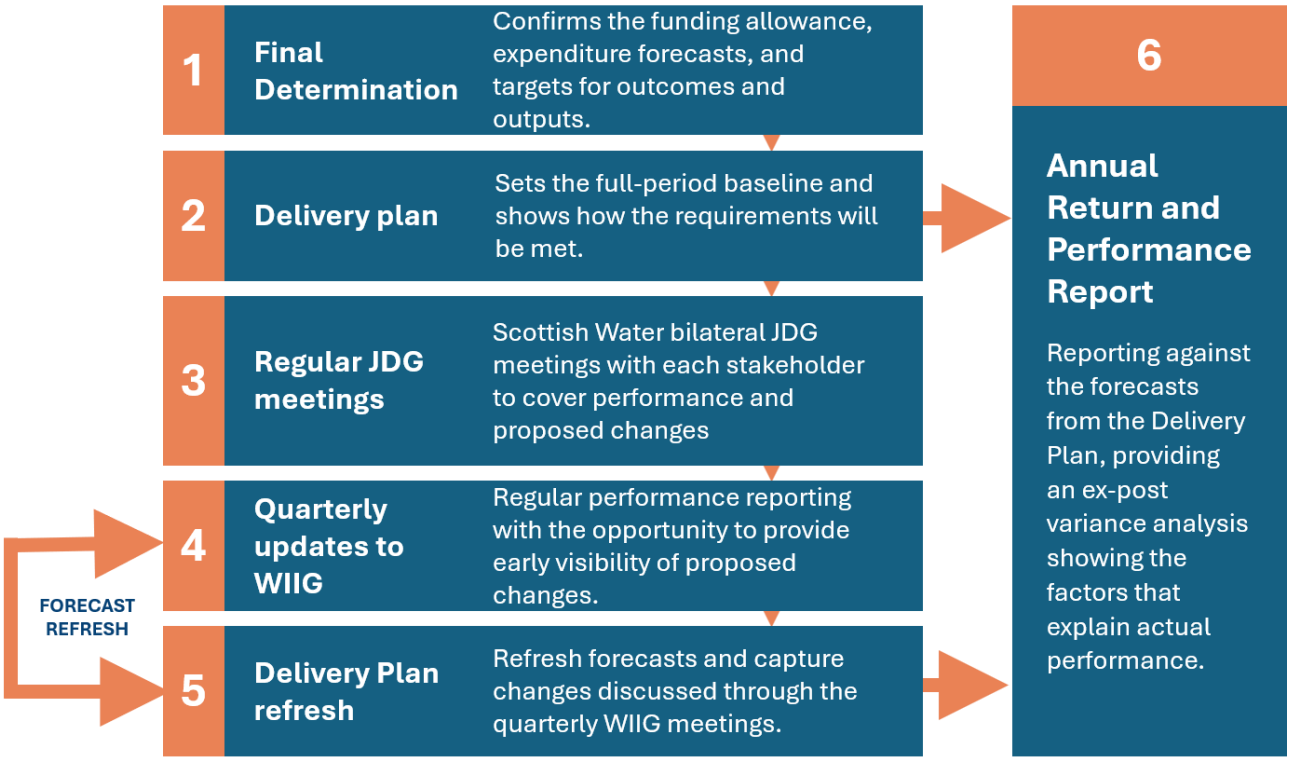
10.4.2 The success of the regulatory framework relies heavily on the principles of Ethical Business Practice and Regulation (EBP&R). WICS recognises that, as any well-established regulatory framework changes, parties may feel uncertain as pre-existing norms adjust. WICS is committed to building trust and confidence in the new framework. We will make reasonable regulatory judgements, recognising that the available evidence is unlikely to be perfect and that there are competing factors to take into account when making complex decisions. We expect that Scottish Water also takes a reasonable approach in the best interests of customers and acts with transparency and clarity.

10.4.3 The regulatory architecture will involve six critical components:

- The Final Determination, which confirms the funding allowance, expenditure forecasts and targets for outcomes and outputs;
- The delivery plan, which sets out how Scottish Water will meet the requirements for the Final Determination. This will provide the full baseline for the regulatory period;
- Bilateral Joint Development Group (JDG) meetings between Scottish Water and each stakeholder. This allows for in-depth engagement between Scottish Water and each regulator or stakeholder on their area of responsibility, such as DWQR on drinking water quality and SEPA for the water environment. The JDGs would be the main forum for discussing any proposed changes initially (the regulatory change process);
- The JDGs would report to the Water Industry Investment Group (WIIG), providing early visibility of proposed changes through the regulatory change process to be reflected in annual delivery plan updates (if required);
- An annual delivery plan refresh, if required, that will reflect Scottish Water updated forecasts, including changes as discussed during the quarterly Water Industry Investment Group (WIIG) meetings; and
- Reporting against the forecasts from the delivery plan in the Annual Return, providing an ex-post variance analysis showing the factors that explain actual performance.

10.4.4 Figure 65 sets out the proposed regulatory architecture for SRC27.

Figure 65: Regulatory architecture



10.4.5 We cover each of the main components of the regulatory change process in turn below.

Delivery plan

10.4.6 A central feature of the regulatory framework is the requirement for Scottish Water to prepare a delivery plan for the six-year regulatory period and update it annually if required. The delivery plan will establish the detailed baseline for the regulatory period, demonstrating how Scottish Water intends to meet the requirements of the Final Determination. Scottish Water can refresh its delivery plan annually, if required, reflecting progress against commitments and any changes to the baseline. The delivery plan provides a transparent record of what Scottish Water has committed to deliver and how delivery is expected to evolve over time.

10.4.7 The detailed baseline in the delivery plan should be consistent with the interim targets or allowances we have set in this Final Determination. For example, for outcomes and investment these interim targets cover the following areas:[580]

- The 3-year (2029-30) and 6-year (2032-33) targets for all of the outcomes in Table 1;
- The total investment programme values for maintenance and enhancement expenditure in Table 4a; and

[580] We have reflected these in the delivery plan tables we published as part of this Final Determination.

- The major projects in Table 5.

10.4.8 We expect Scottish Water to set a credible path consistent with the interim targets or allowances we have set in this Final Determination and explain it in the delivery plan.

10.4.9 We are cognisant that WICS may be requested to provide assurance on the delivery plan by the Scottish Government. We also note that there needs to be consistency between the information provided in the delivery plan and the information we will collect in the annual return to monitor performance. Therefore, we provide guidance on what information should be included in a standard delivery plan, based on those in place during previous regulatory periods. We publish our delivery plan table guidance (and associated data tables) separately from this document.

10.4.10 WICS would require a draft in February of each year throughout the 2027-33 regulatory period to enable WICS to provide assurance, if requested by the Scottish Government. Once finalised, we consider it best practice for Scottish Water to publish it.

10.4.11 Scottish Water can refresh its delivery plan each year if it considers this necessary, including to reflect the regulatory change process (set out below). The regulatory change process allows flexibility for justified variations resulting from external impacts, provided they are supported by appropriate evidence. WICS will review any changes to the delivery plan to ensure it remains consistent with the Final Determination.

Regulatory change process

10.4.12 Scottish Water has the opportunity to propose updates to the baseline established in the delivery plan through annual delivery plan refresh. Previously, these changes would be made through the investment planning and prioritisation framework. For SRC27, we now refer to this process as the regulatory change process. The purpose of the regulatory change process is to ensure that Scottish Water can respond appropriately to new information, emerging risks, changing customer priorities, regulatory requirements and improved data or new evidence, while maintaining transparency, accountability and value for money for customers. Ultimately, in proposing changes, the test is whether the delivery plan remains consistent with the Final Determination.

10.4.13 Scottish Water has the opportunity to be proactive in raising any material change to provide the opportunity for early comment. This will enable stakeholders to comment on proposals in advance and allow Scottish Water to include stakeholder views in its proposals for the annual delivery plan refresh. This will provide WICS with greater confidence when reviewing the annual delivery plan refresh and in assessing its consistency with the Final Determination.

10.4.14 The regulatory change process is not intended to revisit decisions taken through the Strategic Review of Charges or to accommodate changes solely arising from delivery challenges, cost pressures or forecasting inaccuracies. Any proposal to amend the baseline must be supported by robust evidence and demonstrate that the proposed change is in customers' interests. In line with feedback from both Consumer Scotland and the Independent Customer Group, we consider it crucial that the delivery plans remain consistent with the basis of which customers supported the final business plan and which underpinned the assurances relating to the Determination commanding customer support. Otherwise, customers will receive a different balance of priorities than they had originally supported and ultimately funded. If there are material deviations, then we expect Scottish Water to evidence that the changes command customer support.

10.4.15 The regulatory change process also recognises the respective roles and responsibilities of Scottish Water as operator and its different regulators and Consumer Scotland (see paragraph 1.3.8). For example, it is SEPA's responsibility to regulate Scottish Water's environmental performance against the requirements set out in consents and oversee delivery of investment projects related to the environment. Similarly, it is DWQR's responsibility to regulate drinking water quality standards. To support these arrangements, Scottish Water has Joint Development Groups (JDGs) with each industry stakeholder. At these meetings, Scottish Water covers matters of interest to each stakeholder, including recent performance, progress on delivering the investment and any proposed changes to investment priorities.

10.4.16 For minor changes that do not impact any other service area, the JDGs should be the primary forums for agreeing changes to projects contained within the individual quality programmes with the relevant regulator. For example, if the proposed changes relate to substitutions within a programme of works (e.g. substituting one named UID or water quality scheme for another) within the existing allocation of funding to that programme and without affecting committed outputs or outcomes, then this could be resolved within the relevant JDG.

10.4.17 Sometimes more material changes may be required, requiring reallocation of funding, outcomes and/or outputs across programmes, or have impacts on other investment or outcome areas. The cause of the change should be external in nature and occur by exception. It is not intended to capture routine project management decisions, such as a slippage in the programme or a cost change in a minor project. In these cases, Scottish Water should consider the impacts and its proposed solution, and has the opportunity to engage with stakeholders to gather feedback as set out in paragraphs 10.4.21 to 10.4.25.

10.4.18 Scottish Water can also propose changes to the profiles in the financial baseline set out in Chapter 9 (Table 175). For WICS to be satisfied that the delivery plan remains consistent with the Final Determination, we will examine whether:

- The delivery plan forecasts align with the forecasts for the regulatory period for years 3 (2029-30) and 6 (2032-33) of the regulatory period, in line with Table 175; and
- Scottish Water provides a clear explanation of the differences in the underlying assumptions from the Final Determination if Scottish Water proposes to deviate from the profile or overall expenditure allowances (the total columns) in Table 175.

10.4.19 Subject to materiality thresholds, there is also the interim determination mechanism in the event changes cannot be incorporated through the existing investment programme. We outline this process further in section 8.5.

10.4.20 We set out our expectations for the regulatory change process in relation to delivery plans in the delivery plan guidance document.

Regular monitoring and stakeholder engagement

10.4.21 As discussed in paragraph 10.4.15, the JDGs between Scottish Water and each stakeholder cover matters of interest to each stakeholder, including recent performance, progress on delivering the investment and any proposed changes to investment priorities. The JDGs have the opportunity to report to the Water Industry Investment Group (WIIG).

10.4.22 The function of WIIG is to allow Scottish Water to regularly inform its stakeholders of its progress in delivering the Ministerial Objectives and the Final Determination. Until recently, the Scottish Government has chaired the WIIG forum. In April 2026, the Scottish Government requested that WICS take responsibility for chairing WIIG. One respondent asked for more information on WICS rationale for accepting the role of chairing WIIG (see paragraph 10.3.4). This was accepted on the basis that it aligns with WICS broader performance monitoring role.

10.4.23 The chairing of WIIG transferred to WICS in July to allow for a transition period for the remainder of the 2021-27 regulatory period ahead of the 2027-33 regulatory period. WICS now has an updated terms of reference.[581] Furthermore, we have set out a programme to enhance existing reporting to reflect the evolving regulatory framework for the 2027-33 period.

10.4.24 Scottish Water has the opportunity to raise proposed changes to the relevant JDGs and then to Water Industry Investment Group (WIIG) to gain feedback from stakeholders before any update to the delivery plan. WIIG is not a decision-making body and can be utilised by Scottish Water as a forum to gain feedback, not approval, on its proposals.

[581] The terms of reference for the Water Industry Investment Group is available at WICS (2026), 'Water Industry Investment Group Terms of Reference for the 2021-27 regulatory period', September, available at WIIG Terms of Reference Sept 2026.pdf, last accessed on 02 November 2026.

Scottish Water should then consider the feedback it has gathered and update its delivery plan if required.

10.4.25 Following the group meetings, WICS will produce a short report summarising the outcomes and setting out any significant factors regarding the delivery of the investment programme and, ultimately, Ministerial Objectives.

10.4.26 There are many opportunities for Scottish Water to regularly engage stakeholders. This includes through the WIIG, regular Joint Development Group (JDG) meetings, and other forums. We expect Scottish Water to explain the steps it has taken to gather stakeholder feedback on its proposals and demonstrate how it has taken stakeholders' views into account when formulating its plans, and, when necessary, where it has had to compromise between differing points of view. Scottish Water has full responsibility for ownership of its delivery plans, and we expect it to take ownership of these decisions. We recognise that decisions are often complex and require the balancing of many competing factors. We expect Scottish Water to be proportionate in its proposals, and, in return, we will make reasonable regulatory decisions, recognising that evidence can be imperfect.

Annual Return and Performance Report

10.4.27 The quarterly reporting to WIIG is one input into WICS monitoring of Scottish Water's performance. Another key input is the Annual Return, which is the information we collect each year from Scottish Water. Through the Annual Return process, each year Scottish Water will report the final resulting outturn for the year just completed for outcomes, outputs and the detailed investment plan. We will incorporate these tables into the existing Annual Return process, removing legacy information reporting requirements for previous regulatory periods. Each year, WICS' Performance Report will review Scottish Water's performance against its delivery plan and baseline.

10.4.28 Scottish Water will submit an Annual Return in June of each year setting out actual performance for the preceding year against the year's delivery plan and the baseline. The Annual Return will provide the definitive record of performance, delivery and expenditure against the commitments established through the Final Determination and subsequent changes.

10.4.29 Where performance differs materially from the baseline, Scottish Water will be expected to provide a clear explanation of the reasons for the variance, the actions it intends to take to recover delivery, mitigate impacts and any implications for future delivery. Where WICS identifies material underperformance against the baseline, it may require additional reporting, corrective action plans, enhanced assurance activities or targeted project reviews.

10.4.30 For the 2027-33 regulatory period, we will incorporate outcomes, outputs and full baseline reporting into the Annual Return tables, replacing legacy tables from the 2021-27 regulatory period to allow direct reconciliation to Scottish Water's delivery plan for the corresponding year.

10.4.31 We will use the Annual Return to undertake an ex-post review of Scottish Water's performance and to assess whether delivery has remained consistent with the objectives, assumptions and commitments established through the Final Determination and delivery plan process. The review will consider:

- Performance against committed outcome and output levels;
- Delivery of the investment programme;
- Management of risks and dependencies;
- Delivery of benefits to customers, communities and the environment;
- Financial and expenditure performance; and
- The extent to which changes approved through the regulatory change process have delivered the intended benefits.

10.4.32 The ex-post review will also assess whether changes made through the regulatory change process were supported by appropriate evidence and delivered the anticipated outcomes. WICS will have particular regard to any changes affecting outcomes, outputs or major investment commitments, reflecting the high evidential threshold that applies to such changes. We will also consider whether assumptions underpinning previous baseline changes remain valid and whether lessons should be applied to future change requests.

10.4.33 WICS will publish its assessment through the annual performance report including an accessible summary for the public. This report will provide transparency to customers, regulators, Ministers and other stakeholders on Scottish Water's performance against the delivery commitments established through the Final Determination and delivery plan process. It will identify areas of strong performance, emerging risks and any areas requiring corrective action. The results of the ex-post review will inform annual delivery plans refreshes (if required), ongoing stakeholder discussions through WIIG and, where relevant, consideration of any future requests to amend the baseline.

End-of-period Performance Report

10.4.34 At the end of the 2027-33 period, we will publish a standalone report assessing Scottish Water's performance over the entire regulatory period. This report will consider Scottish Water's performance over the 2027-33 regulatory period, encompassing outcomes, outputs and the investment programme. We will also consider whether Scottish Water has made improvements in certain key areas that allows it to make better decisions – in

particular its understanding of its asset base, how it measures and communicates customer and environmental benefits, and how it manages its investment programme.

10.4.35 We will also assess the success of the regulatory change process and whether changes to the original baseline were appropriate with the benefit of hindsight. Finally, it will analyse whether Scottish Water has made progress towards the Ministerial Objectives.

Project investment appraisal review

10.4.36 As part of its monitoring activities, WICS will undertake an ongoing review of Scottish Water's Project Investment Appraisals (PIAs). The purpose of the reviews is to support transparency, robust investment appraisal and effective stewardship of customer funding, and improve trust and confidence between regulators and Scottish Water. The reviews do not constitute a project approval process, nor do they create additional decision-making requirements beyond Scottish Water's existing governance arrangements. It provides independent scrutiny of how Scottish Water develops, justifies and refines investment proposals over time. The approach is intended to be proportionate, minimise unnecessary administrative burden and provide constructive feedback on the quality of project development and supporting evidence.

10.4.37 WICS expects Scottish Water to submit PIAs for selected projects, typically greater than £6 million in value, as they progress through the relevant stage-gate process. The review of PIAs will focus on whether projects demonstrate:

- A clearly evidenced Need;
- Sound engineering and option selection;
- Appropriate consideration of costs, risks and value for money;
- Deliverability of the proposed project or programme;
- Appropriate consideration of environmental impacts and obligations; and
- Delivery of benefits for customers and communities.

10.4.38 WICS will provide project-specific feedback where appropriate. Feedback may include observations on the quality of the evidence, areas where further justification may be required, and opportunities to strengthen investment appraisal. The outcome of a PIA review will not alter the regulatory baseline.

10.4.39 WICS may use the findings from PIA review to monitor the quality of investment planning and decision-making, to better inform its assessment of delivery against the baseline or support proposed changes to the baseline. The outcomes will be summarised annually in the Performance Report covered below.

10.4.40 For projects identified by WICS as strategically significant, we expect Scottish Water to provide enhanced reporting through the delivery plan and Annual Return processes. This

should include progress against scope, schedule, costs, risks, milestones and anticipated benefits, together with an explanation of any material variances from approved project investment appraisals. This would include the West Central Bioresources project, if it proceeds.

Performance-related pay

10.4.41 Scottish Water's performance-related pay (PRP) framework gives its employees the opportunity to receive additional remuneration based on organisational performance. PRP is funded through outperformance of the Final Determination, so customers do not directly fund the scheme.

10.4.42 For SRC27, we proposed to support the Scottish Government in its oversight of Scottish Water's PRP to ensure that it remains appropriate and incentivises performance on outcomes that matter to customers.

10.4.43 As set out above, the delivery plan should be consistent with the Final Determination. PRP arrangements should align with the targets from the delivery plan and, by extension, the Final Determination. WICS will support the Scottish Government's review of performance-related pay arrangements for the 2027-33 regulatory period, if requested.

10.4.44 WICS will comment on whether the targets proposed by Scottish Water for the payment of PRP are aligned with the delivery plan and, by extension, the Final Determination. This could occur during our review of the delivery plan and the annual refresh (if required), enabling Scottish Water to take our comments into account when finalising its PRP targets.

10.4.45 During the 2027-33 regulatory period, WICS will review Scottish Water's performance on an annual basis as part of our annual reporting of performance. By extension, this will also cover performance against PRP targets. We expect to confirm Scottish Water's performance before the Scottish Water Board and Remuneration Committee confirm PRP payments. This may require Scottish Water to review the timing of PRP payments so that they occur after the Annual Return and the publication of the WICS performance report. We consider that this approach retains the clear roles and responsibilities of Scottish Water, WICS, and the Scottish Government. Ultimately, the Scottish Water Board and Remuneration Committee retain responsibility for setting the targets and approving payments. However, if we do not consider that Scottish Water has taken our feedback on board, we would comment on this in our performance report.

11 WICS duties

11.1 Summary

11.1.1 This chapter sets out how WICS has met its duties and other requirements through this Final Determination. It covers the following duties and requirements:

- WICS statutory duties;
- WICS duties as a public body, including relevant impact assessments; and
- The requirements of the Commissioning letter.

11.2 WICS statutory duties

11.2.1 WICS' statutory duties are set out in the Water Industry (Scotland) Act 2002 (the Act):

- Part 1 of the Act establishes WICS and confers on it its general function (Section 1), its power to advise Scottish Ministers (Section 3) and its power to require information (Section 4); and
- Part 3 of the Act establishes the requirement for WICS to make a charge determination (Sections 29B-29G).

11.2.2 Section 29B of the Act requires WICS to determine (subject to redetermination by the UK Competition and Markets Authority (UK CMA) on a reference by WICS) the maximum amounts chargeable by Scottish Water for the provision of water and sewerage services. These maximum amounts (which may be reviewed by WICS in the event of a material change (Section 29F)) are determined by reference to the amount required in order to permit Scottish Water to meet the objectives set by Scottish Ministers at the lowest reasonable overall cost (Section 29G).

11.2.3 We consider that the Final Determination is consistent with Scottish Ministers' final Ministerial Objectives and final statement of Principles of Charging.[582, 583] As such, WICS considers that its Final Determination is consistent with its legislative duties under Sections 29B-29G of the Act.

[582] Scottish Government (2026), 'Water Industry: Strategic Review of Charges for regulatory period 2027-33: Ministerial Objectives', 23 October 2026.
[583] Scottish Government (2026), 'Principles of Charging for regulatory period 2027-33', 23 October 2026.

11.3 WICS duties as a public body

11.3.1 There are several duties placed on WICS as a public body, some of which are legislative requirements. Table 178 provides a list of duties that apply to WICS under legislation that are relevant to the Strategic Review of Charges.

Table 178: WICS duties as a public body

Duty	Legislation	Requirement
Consumer Duty	Consumer Scotland Act 2020	The public body must consider the impact its strategic decisions will have on consumers.
Accessibility regulations	Public sector bodies (website and mobile applications) accessibility regulations 2018	Public bodies must make their website or mobile app more accessible by making it 'perceivable, operable, understandable and robust'.
Biodiversity duty	The Wildlife and Natural Environment (Scotland) Act 2011 The Nature Conservation (Scotland) Act 2004	Places a duty on all Scottish public bodies, requiring them to further the conservation of biodiversity through the exercise of their functions. The Wildlife and NE (S) 2011 Act requires a report of their actions.
The UN Convention on the Rights of the Child (UNCRC)	UNCRC (Incorporation) (Scotland) Act 2024.	Public bodies are expected to take a children's rights approach to decision making, including considering potential impacts on children and young people.

11.3.2 We have not conducted a Strategic Environmental Assessment (SEA) alongside this Final Determination, given that it is Scottish Water's responsibility as the relevant authority to produce the SEA. In line with this, as set out in section 2.5, Scottish Water completed the pre-screening assessment, noting that the business plan will be supported by a detailed delivery plan, which will be considered against the SEA requirements. Scottish Water confirmed that it will continue to comply with the requirements of the Environmental Assessment (Scotland) Act 2005 and ensuring all capital investment projects during the 2027-33 regulatory period comply with all relevant planning and environmental legislation.[584]

[584] Scottish Water (2026), 'Strategic Review of Charges 2027-33 Draft Determination: consultation response', 1 September 2026, paragraph 10.4.5.

11.3.3 We have also assessed how our Strategic Review of Charges supports wider outcomes in Scotland, as part of the existing National Performance Framework (NPF).[585]

11.3.4 We cover how we have met each requirement in turn below.

Consumer Duty

11.3.5 We have published the Consumer Duty impact assessment alongside this Final Determination. The impact assessment demonstrates that we have met this duty as follows:

- Customer outcomes have been built into the process from the start. SRC27 involves major, strategic decisions affecting all customers, and customer impacts (including bills, service quality and value) have been considered throughout.
- Our Final Determination is built on a strong customer engagement and evidence base. Decisions are informed by extensive customer research, independent challenge from the Independent Customer Group, and collaboration with Consumer Scotland to ensure customer views shape outcomes.
- We have rigorously tested Scottish Water's plans, challenging costs and assumptions to reduce charges while maintaining essential investment and service standards.
- We have sought to balance short-term bill impacts against the need for sustainable investment, aiming to minimise harm.
- We consulted on the Draft Determination and have considered the feedback for this Final Determination.

Accessibility regulations

11.3.6 We have produced an HTML version of the Final Determination Overview, ensuring the summary can be easily read on both computer screens and mobile phone devices.

Biodiversity duty

11.3.7 The biodiversity duty applies to how WICS' activities further the conservation of biodiversity. Our regulatory framework and decisions in this Final Determination (see section 4.6) enable Scottish Water to undertake initiatives that protect and further biodiversity, in line with its proposals in its business plan.

[585] The Scottish Government has published draft proposals for a revised National Performance Framework. We assess our Draft Determination against the existing NPF.

The UN Convention on the Rights of the Child (UNCRC)

11.3.8 We have also had regard to the UNCRC and the need to consider the rights and well-being of children and young people. We consider that our Final Determination is compatible with the UNCRC. In particular, our decisions:

- Balance the interests of current and future customers, helping to ensure that future generations benefit from safe, reliable water and wastewater services;
- Support investment that protects public health, including high standards of drinking water quality and environmental performance; and
- Recognise that increases in charges may have indirect cost-of-living impacts, including on households with children, and have therefore challenged Scottish Water to deliver the same or better outcomes more efficiently, helping to keep charge increases lower than proposed and deliver better value.

11.3.9 Overall, we consider that the Final Determination supports both the short- and long-term interests and well-being of children and young people and is compatible with the UNCRC.

National Performance Framework (NPF)

11.3.10 SRC27 contributes towards several areas of the NPF, as shown in Table 179.

Table 179: Alignment with the existing National Performance Framework

NPF Area	How SRC27 contributes
We respect, protect and fulfil human rights and live free from discrimination.	SRC27 can support this outcome by helping to ensure charges remain evidence-based, transparent and informed by consumer impacts, including affordability and the interests of customers in vulnerable circumstances.
We have a globally competitive, entrepreneurial, inclusive and sustainable economy.	SRC27 contributes by supporting a sustainable model for investment in essential water and wastewater services, while promoting efficiency, long-term value for money and confidence in Scotland's economic infrastructure.
We are open, connected and make a positive contribution internationally.	SRC27 supports this outcome through benchmarking and learning from best practice across the UK and internationally to inform our approach and set efficient targets for Scottish Water.
We tackle poverty by sharing opportunities, wealth and power more equally.	SRC27 supports this outcome indirectly by helping to keep charges as low as is consistent with delivering the investment and service levels required, through robust challenge on efficiency and the overall level of charges.
We live in communities that are inclusive, empowered, resilient and safe.	By enabling investment in reliable, resilient water and wastewater services, SRC27 helps support communities across Scotland to be safe, resilient and better able to adapt to future pressures, including climate change.
We have thriving and innovative businesses, with quality jobs and fair work for everyone.	SRC27 supports this outcome indirectly by helping to secure efficient, reliable water and wastewater services that underpin economic activity and public services across Scotland.

We are healthy and active.	SRC27 supports this outcome indirectly by underpinning investment in safe, high-quality water and wastewater services that protect public health and support everyday wellbeing.
We value, enjoy, protect and enhance our environment.	SRC27 contributes strongly to this outcome by enabling investment that protects and enhances the water environment, improves environmental resilience and helps meet long-term climate and nature objectives.

11.4 Requirements of the Commissioning letter

11.4.1 Our Final Determination also meets the requirements of the Commissioning letter as set out in Table 180 (as discussed in paragraph 2.3.3).[586]

Table 180: Requirements of the Commissioning letter

What does the Commissioning letter require?	How does our Final Determination meet these requirements?
The Review needs to respond to the challenges of a changing climate on the industry both in terms of mitigation and adaptation.	Responding to the challenges of a changing climate is embedded in the Final Determination, including through the outcome measures and proposed investment.
The Review needs to respond to the risks associated with Scottish Water's ageing asset base.	Our Final Determination makes further progress toward transitioning to a higher level of asset maintenance investment, allowing an 18% increase in asset maintenance between 2021-27 and 2027-33.
The Review needs to respond to the next cycle of River Basin Management Plans for Scotland. **The Review needs to respond to our commitment to aligning with new EU legislation in the best interests of Scotland, including the recast Drinking Water Directive and the imminent Urban Wastewater Treatment Directive.**	Our Final Determination allows Scottish Water's proposed investment to respond to the next cycle of River Basin Management Plans.
The Review needs to respond to the ongoing economic situation and cost of living crisis.	Our Final Determination reduces Scottish Water's proposed charges of CPI+21.5% over 2027-33 to 16.0% if WCB proceeds, or 17.3% if WCB proceeds and uncertain costs materialise. The mechanism for uncertain and uncontrollable costs protects customers from paying upfront for costs that may not arise, while allowing Scottish Water to recover efficient costs where these are outside its control and properly evidenced.
The Review needs to respond to the need to move to nature-based solutions that deliver on responses to climate change, the nature crisis, environmental protection and green spaces for the enjoyment of Scotland's population.	Our Final Determination allows for Scottish Water's proposed investment in more nature-based solutions. For example, the Final Determination includes Scottish Water's proposed investment to develop and deliver rainwater removal projects, in collaboration with others, to reduce overall flood risk.

[586] WICS (2024), 'Strategic Review of Charges 2027-33: Commissioning letter', 12 June 2024.

What does the Commissioning letter require?	How does our Final Determination meet these requirements?
In conducting the Review, Ministers look to… the Commission… to build on the partnership arrangements with Scottish Water, Consumer Scotland, SEPA, DWQR. In particular, they expect the Commission to enhance and embed its commitment to working with Scottish Water according to the Ethical Business principles. We expect the Commission to work constructively with Scottish Water to collectively ensure the best outcome for Scotland.	We have followed the principles of Ethical Business Practice and Regulation (EBP&R) for SRC27 and have worked constructively with Scottish Water and industry stakeholders.
Ministers request that the Draft Determination sets out a range of possible charge paths for both the domestic and non-domestic sectors for the services provided by Scottish Water: drinking water, sewerage and drainage. Ministers want the Review to provide them with the necessary information to appreciate the progress towards objectives and the level of risk of service failure associated with different levels of investment in the short, medium and long terms. In calculating the range of charge paths, for planning purposes the Commission should assume that similar levels of lending to 2021-27 period will be made available (around £1,030 million).	Our Draft Determination set out different possible charge paths with different levels of risk. Our Final Determination follows this structure and the different charge paths are laid out below: 1. The first is the core charge cap, which allows charges to rise by CPI+2.5% in each of the first three years of the period, and by CPI+0.5% for the final three years. This reflects the need to continue the transition towards higher investment while avoiding unnecessary volatility in charges. 2. The second is a conditional allowance of CPI+2.0% for West Central Bioresources. This would apply only in the final three years of the period and only if Scottish Water provides the evidence required for the project to proceed. Customers would therefore not pay the WCB element unless the project is sufficiently evidenced and taken forward. 3. The third is a conditional charge cap for cost uncertainties. This would allow a further CPI+0.3% in the final four years only if those uncertain costs materialise and are evidenced. We propose that drinking water, sewerage and drainage all follow the same charge path.
As the industry is aware, Scottish Ministers recently consulted on policy proposals (Nov-Feb 2024) to equip the Water Industry with the necessary powers to ensure that essential water, wastewater and drainage services can continue to be provide in a changing climate. The Review must remain cognisant of ongoing policy development and any resulting legislative changes.	We have been cognisant of ongoing policy development in preparing the Final Determination.
Ministers request that the Commission ensures, together with water industry stakeholders, that consumers, communities and the environment are placed at the heart of this Review. They expect that the consumers are engaged throughout this process	Customers have been at the heart of SRC27, including through significant customer research and the confirmation pillar, which tested whether Scottish Water's business plan commands customer support.

What does the Commissioning letter require?	How does our Final Determination meet these requirements?
and that the Commission can demonstrate that Final Determination commands consumers' support.	This research found support for and acceptance of Scottish Water's final business plan. As our Final Determination delivers better outcomes for lower charges, we consider such a package to be consistent with the basis on which customers supported the business plan.
To ensure continuity, Ministers request that the Commission considers measures that ensure a smooth transition of investment activity between and beyond regulatory periods (current 2021-2027 period to the 2027-33 period being considered in this Review).	The rolling investment programme ensures a smooth transition of investment activity between regulatory periods.
Ministers expect that the outputs necessary to achieve their objectives reflect the best possible value for money in terms of the improvement in outcomes achieved for the investment made.	Our Final Determination reduces Scottish Water's proposed charges of CPI+21.5% over 2027-33 to 16.0% if WCB proceeds, or 17.3% if WCB proceeds and uncertain costs materialise. We also challenge Scottish Water to deliver better outcomes.
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 its wider supply chain faces.	The total investment falls within the middle to upper range of what we consider deliverable. We consider that some deliverability risks remain; however, to provide further assurance, we have imposed additional requirements on Scottish Water, including sharing its supply chain readiness assessment with us and a further Board assurance statement confirming its capacity to deliver the programme. We also propose additional safeguards to protect customers from under-delivery.
Scottish Ministers request that the Commission work with Scottish Water to establish a monitoring framework and process to review the delivery against these objectives during the Regulatory Period.	Our Final Determination sets out the regular investment programme reporting requirements that will be monitored through the WICS-chaired WIIG through SRC27, as well as the change process for Scottish Water to proactively inform stakeholders of proposed changes to the baseline.
Scottish Water will also be required to continue to meet their statutory obligations in responding to Net Zero and should ensure systematic monitoring and reduction of carbon emissions to ensure that reductions can be quantified. Ministers recognise that adapting services to the impact of climate change is an increasing challenge and wish an explanation to be included in the investment scenarios on the impact of delaying investment on the resilience of services.	The Final Determination includes 9 outcome measures related to Net Zero and carbon emissions reduction.
Capital Maintenance – Over this and future regulatory periods, Scottish Water should continue the transition to a risk-based approach to maintaining the overall condition and performance of its assets to ensure no deterioration of service levels to customers over the long term. Ministers accept that capital maintenance is key to achieving and maintaining service levels and	Our Final Determination makes further progress toward transitioning to a higher level of asset maintenance investment.

What does the Commissioning letter require?	How does our Final Determination meet these requirements?
compliance with statutory obligations in relation to drinking water quality and the environment and to reflect customer priorities. They wish the Commission to ensure that there is a stable and sustainable funding regime, recognising the economic conditions prevailing and forecast, for this important part of the investment programme.	
Resilience – Ministers recognise the progress Scottish Water has made in developing a strategic approach to identifying the work required to ensure the resilience of the network, not least to adapt to the impacts of climate change. They request that the Commission provides assurance that Scottish Water's approach is proportionate, fit for purpose over the long term and represents value for money for customers. **Strategic Capacity – Ministers wish to ensure that Scottish Water is properly financed and incentivised to provide strategic and local water, sewerage and drainage assets in a manner that does not place a constraint or restriction on the achievement of their housing and economic development targets. To achieve this Ministers look to the Commission to ensure that finance is available to Scottish Water for this purpose over the regulatory period and that the funding arrangements for additional capacity (including the Reasonable Cost Contribution) remain fit for purpose and strike the correct balance of cost between existing customers, new customers and borrowing.**	Using Scottish Water's assumptions for the number of new connections to the network, WICS estimates that an infrastructure charge that increases in line with inflation will be sufficient to fund Part 3 growth investment. WICS will review Scottish Water's proposals for the infrastructure on an annual basis as part of the review of the Scheme of Charges, to ensure that the infrastructure charge remains cost-reflective. Our Final Determination also allows investment in growth projects and requires Scottish Water to improve outcome performance in several areas, including leakage reduction, thereby enhancing resilience.
Private Finance Initiative funded Projects – Ministers recognise that 4 PFI contracts (Seafield, Tay, Moray and Ayrshire) mature in the period 2027-33. Highland and North East have already returned and Daldowie and Dalmuir return in 2026 with Levenmouth the final PFI due to complete in 2040. Scottish Water has been asked to consider the options and costs for the future operation and funding of these assets. Ministers request that the Commission undertake a full examination of Scottish Water's approach to establishing the options and costs.	We have examined the proposed investment in West Central Bioresources in line with the Scottish Ministers' assurance statement. The Final Determination includes a conditional charge cap for West Central Bioresources, recognising that some uncertainty remains.
Partnership Projects – Ministers recognise the progress that Scottish Water has made in delivering improvements in partnership with other stakeholders, and in particular Local Authorities. They consider that, increasingly, delivering outcomes particularly in relation to drainage, the reduction of flood risk and	We encourage Scottish Water to undertake Partnership projects to deliver the Ministerial Objectives. Our Final Determination also includes Scottish Water's proposed investment to develop and deliver rainwater removal projects, in collaboration with others, to reduce overall flood risk.

What does the Commissioning letter require?	How does our Final Determination meet these requirements?
compliance with bathing water standards will require Scottish Water to work closely with Local Authorities, Developers, landowners and communities. Ministers therefore request that the Commission ensures that the funding arrangements are sufficiently flexible so that Scottish Water can deliver to agreed timetables within partnership frameworks.	
Supporting innovation – Ministers look to Scottish Water to contribute to inclusive and sustainable economic growth to which end they are encouraged to be innovative in their operation and with regards to capital enhancement and maintenance. In addition, Scottish Water is expected to support the Hydro Nation programme through their renewable energy (including hydrogen), and energy efficiency programmes and by working with communities and customers in Scotland for example to manage water demand or create drainage assets. Ministers therefore request that the Commission ensures that the financing and funding arrangements for Scottish Water's regulated elements create appropriate incentives towards efficient delivery of these objectives.	We consider that our regulatory framework supports innovation and our Final Determination allows for Scottish Water's proposed investment in 'lighthouse' projects.
Security – Ministers recognise the importance of the security of Scottish Water's physical, operational and IT assets, and the increasing nature of threats particularly in relation to cyber attacks. They require that relevant security standards in relation to physical, personnel and digital systems as advised by Scottish Government Resilient Essential Services and Drinking Water Quality Regulator, should be met.	Our Final Determination allows Scottish Water's proposed investment in digital, including enhancements to cyber resilience.

WICS
Moray House
Forthside Way
Stirling
FK8 1QZ

T: 01786 430 200
E: enquiries@wics.scot

WICS Economic regulation for Scotland's water