# **Assurance of Management Approach Policies**

## **Purpose**

Independent third-party assurance of a subset of Scottish Water’s Management Approach policies ahead of the submission of our Business Plan for WICS Strategic Review of Charges 2027.

## **Context**

Management Approaches were established to allow delegation of investment promotion authority to the asset planning teams within a clear risk framework, ensuring consistency in investment. These have transformed how investment is managed in Scottish Water, ensuring all investment needs are promoted in line with policy, align with Ministerial and Strategic Objectives, legislative requirements and Board risk appetite statements. As they have matured, they have incorporated cost-benefit analysis, improved data and analytics and detailed resilience requirements for a changing climate for specific asset classes.

Over £794m of investment was promoted under Management Approaches in 2023/24 (17/18 prices). They will form a key part of setting out the investment required for Scottish Water’s medium-term (SR27) business plan, covering the period from 2027 to 2033[[1]](#footnote-2).

A three-line assurance model is in place for Management Approach policy development. External assurance is sought as the third line. Therefore, it is essential that the third-party assurance undertaken on the Management Approaches is completely impartial.

## **Timelines**

The timelines for when the assurance work is required is between January and May 2025 for the Draft Business Plan. There may be further assurance required between October and December 2025 for the Final Business Plan. These dates are fixed due to the submission dates set out by WICS for both plans.

## **Assurance scope**

### **Number**

There are [54] Management Approach v2 to be completed by March 2025. It is proposed in the first instance a sub-set of the higher value MA v2 are assured: 11 (c20%) covering c£1Bn of investment demand in 17/18 price base]. We may request further assurance activities post draft Business Plan submission if required/appropriate during 2025.

### **Questions**

The questions to be posed through the assurance of Management Approaches are:

* **How are we improving the capabilities within the Sustainable Investment Decision Making (SIDM) Programme to define the unconstrained demand set out in the Management Approaches?**
  + What have been the enhanced capability builds in 2024/25
  + Have we identified other areas of improvement for future iterations which might be material to decision making?
  + If possible, can we benchmark our capabilities to peer companies [E&W water companies]?
* **Are the investment demands identified by the MAv2 reasonable given our data and analytical maturity?**
  + How has risk been considered in the development of the policy position?
  + Are the data sources and confidence clear?
  + Is the use of analytical models clear (where they are available)
  + Have the data and analytical assumptions been captured and adequately evidenced? Are the assumptions reasonable?
  + Have the data and analytical future improvements for future iterations been documented?
  + Is the economic analysis between the MAv2 consistent and reasonable?
  + Have we got the right capabilities in place for their development?
  + Have we got a robust governance model in place?

### **Additions**

In addition, Scottish Water requires that its independent assurer:

* Is able to demonstrate that it is free from any conflicts of interest and/or that where any actual or perceived conflicts of interest may arise as a result of its appointment, that the assurer can put in place measures/arrangements to manage those conflicts of interest for the duration of the appointment;
* Is able to demonstrate the impartiality of its approach to the assurance of the Management Approaches
* Provides timely efficient feedback on the Management Approach v2 to allow Scottish Water to make improvements in its data, evidence and/or processes ahead of the Final Business plan submission;

In order to facilitate the assurer in its role, Scottish Water shall grant the assurors any necessary and timely access to premises, assets, systems, data, working papers, other records and relevant personnel associated with the carrying out of Scottish Water’s regulated activities. Scottish Water shall supply the assurors with any information relevant to the assurance process including all material assumptions underpinning the data submission as well as access between the assurors and the financial auditors.

Scottish Water shall not be required to do anything which is outside their control, or to do, or allow the assurors to do, anything which would materially disrupt Scottish Water's business.

## **Our requirements**

The independent assurers should be able to demonstrate a track record in the following areas:

* Independent Third-Party Assurance provision for regulated businesses.
* Experience of working with regulated water companies.
* Specific asset management expertise such as assisting asset intensive businesses to develop, refine and implement asset management policies.

1. The business plan will set out Scottish Waters investment plans together with the outcomes that we propose to deliver for our customers, communities and the environment, as well as the underlying evidence that we have prepared to support those plans. The information in Scottish Water’s business plan submission will be used by the Water Industry Commission Scotland (WICS), Scottish Water’s independent economic regulator, in the preparation of its Final Determination. [↑](#footnote-ref-2)