

Chapter SRN09

Deliverability

9. Deliverability

9.1. Introduction

Delivering our customers' and communities priorities requires a scale of investment beyond any of our previous programmes. We are facing up to this challenge and have already taken steps as part of our [Turnaround Plan](#)¹ to secure shareholder funding, increase our investment run-rate, scale up our workforce procurement and supply chain capability and engage our work force. This has given us confidence to plan for and deliver a significant increase in outputs.

Ofwat has recognised the step-change needed to deliver the additional enhancements will be a sector-wide challenge. It has asked that water company boards satisfy themselves that PR24 plans and expenditure proposals within them can be delivered.

We take this requirement very seriously and are confident we have considered each of the factors needed to deliver this plan and confirm to Ofwat that the plan is deliverable:

- **Taking a rational view of future requirements and phasing:** We have considered which areas of our plan could feasibly be phased into AMP9
- **Planning for Alternative Delivery:** We have developed Alternative Delivery routes through which some of our key enhancements can be delivered through third parties
- **AMP8 delivery capability:** We have studied our current capabilities for delivering AMP8, in core areas of delivery and we want to invest further in these capabilities through specific planned projects

Our Board will continue monitoring our progress on our [Turnaround Plan](#) and our preparedness to deliver our proposed AMP8 Business Plan.

We recognise further deliverability risks will arise through the AMP, and we are committed to managing these further risks in a structured and fully governed manner.

This chapter outlines the scale of the challenge we face, the steps we have taken so far and how we have planned to deliver a plan that meets the priorities of our customers, communities and regulators.

9.2. Delivering Transformation 2025–30 – scale of the challenge

The wholesale component of our Business Plan for AMP8 is expected to be about 50% more than the size of our previous plan – growing from £5 billion (in 2022–23 prices) to £7.5 billion (in 2022–23 prices)² in total investment, as outlined in the figure below. This growth is driven by the enhancements we need to make to our services and environment. They make up 56% of our AMP8 costs, compared to just about 23% expected in AMP7.

Our WINEP is the largest in our history, and is the largest enhancement programme in our plan – totalling £1.5 billion (in 2022–23 prices, including delivered in-house and alternative delivery routes) to reduce storm overflows and pollution and improve water quality in more than 1,000km of river. Enhancements in our WRMP total £1.6 billion (in 2022–23 prices, including delivered in-house and alternative delivery routes) and will help us create new sources to leave more water in the environment, install more than 1 million smart meters, reduce leakage and start work on the cross-boundary sources we need in the future.

These enhancements will help us meet statutory and regulatory requirements as required by Defra, the EA and Ofwat.



¹ [6579_ofwat_company_turnaround_plan.pdf \(southernwater.co.uk\)](#)

² The total cost of our wholesale plan is £7.5 billion. We will deliver £6.3 billion in-house and £1.3 billion will be delivered through alternative delivery routes, including Direct Procurement for Customers (DPC). These values are post RPEs and frontier shift, net of grants and contributions and include third party services and in 2022/23 prices.

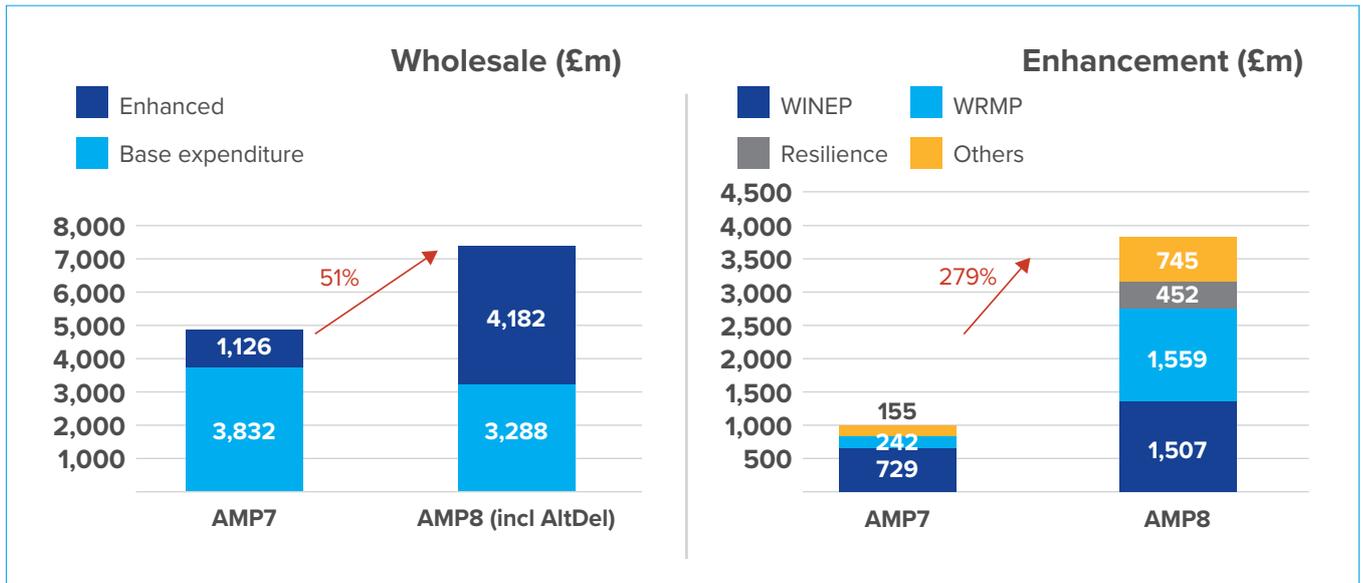


Figure 1: Cost of Southern Water’s AMP7 and AMP8 wholesale plans in 2022–23 prices
 Sources: AMP7, 2020–21 to 2021–22 are outturns as reported in Annual performance reports, adjusted to 2002–23 prices. AMP7, 2022–23 to 2024–25 are taken from PR24 business plan, tables CW1/CWW1. The values are net of grants and contributions and include third party services. AMP8 figures are sourced from PR24 business plan, tables CW1/CWW1, CW3/CWW3 and SUP12.

We fully recognise the challenge of such a significant increase in investment. The steps we have and are taking to increase our capabilities are outlined in the next section.

9.3. Turnaround 2023–25 and measures taken so far in AMP7

Our turnaround has taken us from a position of being unable to deliver key outputs in AMP7, to addressing our core problems. We have put in place the following measures that have started to prepare us for the delivery of AMP8:

-  Securing funding and shareholder backing
-  Engaging our whole workforce with fresh leadership
-  Ramping up our investment run-rate
-  Scaling up procurement and our supply chain
-  Planning and demonstrating delivery of our key projects

9.3.1. Securing funding and shareholder backing

One of the constraints to delivery in AMP7 has been available funding. In 2021, we lacked the funding to be able to deliver our remaining commitments. Since then, our shareholders have approved substantial additional investment over and above regulatory allowances – while taking no dividends, and with none expected for the remainder of this AMP.

For the last seven years our external shareholders did not receive a dividend as we prioritised the critical investment we need to improve our resilience for the benefit of our customers, communities and environment.

Shareholder backing has improved our financial resilience and enabled an investment of an extra £300 million to accelerate improvements in operational performance. This phase is broadly complete and on target to finish by the end of 2023. We raised a further £550 million in 2023 to manage the impact of the high inflation and interest rate environment on our operating, maintenance, and funding costs, and maintain our momentum.

Given our shareholder support, we are now in a position to fund delivery of a much larger plan going forward into AMP8.

9.3.2. Engaging our whole workforce with fresh leadership

As part of our [Turnaround Plan](#), we have created a new Executive management team, with skills and experience from inside and outside the industry. This has been important to give us fresh direction and develop a new vision for our future.

We have refreshed senior leadership across our businesses, with a replacement of 35% of roles. For example, we have brought in new senior experience in capital delivery from HS2 and Heathrow.



We have also refocused our organisational structure with a Managing Director for Wastewater and separate Managing Director for Water. In addition, we have created a central Transformation Office, with transformation and change teams in each of our business units. This new focus will allow us to lead the change and preparedness for the step change for the next AMP.

In order to embed a new culture and leadership, we launched our Steps to Success programme, which has now engaged over 1,800 of our people and partners. This programme allows our colleagues to see the changes that are planned and to feel part of our future as a high-performing and high-delivering business.

Building on this initiative, we have also refocused our efforts on training and apprenticeships, with 130 colleagues in apprenticeships and 21% our employees completing training programmes in the last year.

9.3.3. Ramping up our investment run-rate

With financial support, we have increased our capabilities to deliver increased output. We have increased investment in capital maintenance, recognising the short-term need for investment and the challenge we will face from 2025.

As part of Phase One of our [Turnaround Plan](#), we invested to improve operational practices, capacity monitoring, reporting, and the capability and resilience of our wastewater networks. This phase is 98% complete and will be finished during 2024.

Given this investment focus, we are already building up to delivering investment on an annual scale needed to fulfil our AMP8 plan, as shown in the figures below.

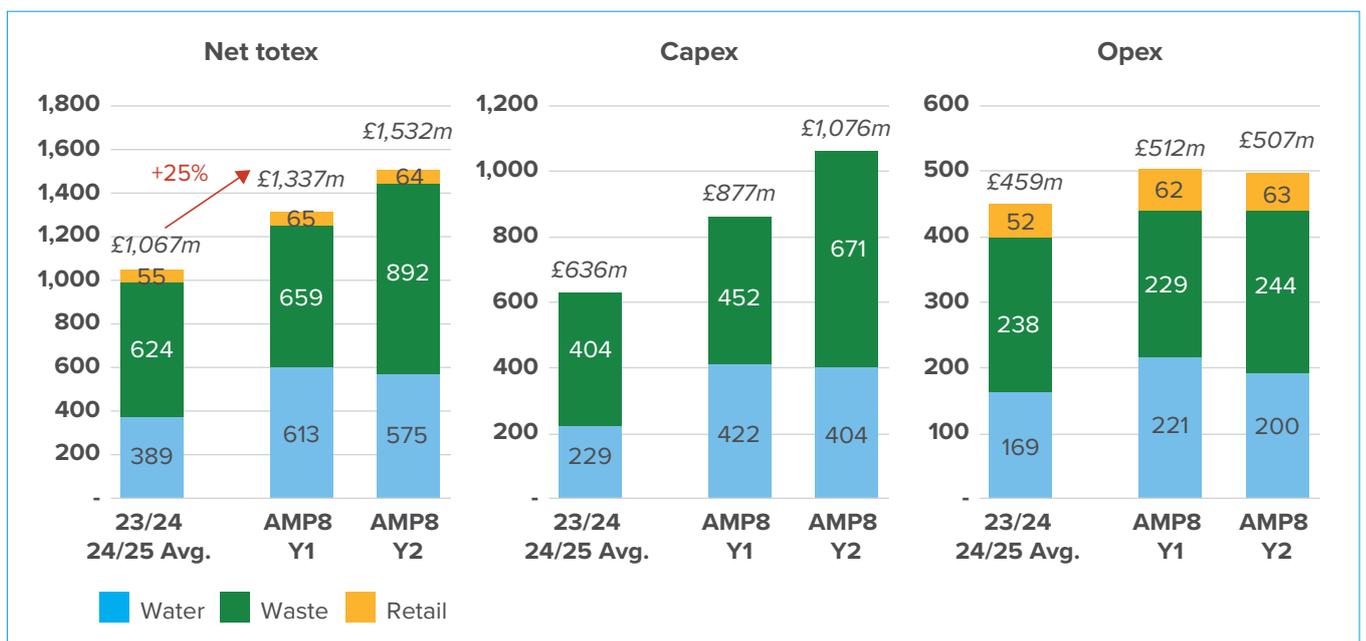


Figure 2: Annual investment run-rate (totex, capex and opex) in AMP7 and projected into AMP8
 Note: Net totex includes opex, capex and G&A (not shown separately above). Excludes pension deficit cost. Includes cost of DPC set-up only (not payments to DPC suppliers).

From AMP7, the growth in the plan is significant. Wholesale totex increases by 61%, AMP on AMP, while enhancement totex increases by 198%. We have been increasing our capacity and delivery in the last few years, which reduces the increase in annual investment spend to c.25%, between the end of AMP7 and the start of AMP8. A similar increase in investment spending was achieved between the beginning and end of AMP7. This demonstrates our ability to manage the step-change in delivery.

AMP8 represents an unprecedented level of investment. However, having demonstrated previously the ability to increase investment spending between the start of AMP7 and the end of AMP7, at similar rates of increase to those required to start AMP8, we have proven that we can increase investment at the levels of intensity needed from 2025. Therefore, we are confident we can deliver our plan, subject to the mitigations described in this chapter.

9.3.4. Scaling up procurement and our supply chain

We have focused on preparing our procurement function for the challenge of increased use of our supply chain. We recognise the importance of, and reliance we have on, our supply chain in terms of innovation, water security, managing risks, corporate and social responsibility, and operational efficiency. Our partners act as the face of our business for many customers and communities. It is vital that we foster, cultivate and nurture the relationships we have with them, so they remain connected to, and understand, our business priorities and culture.

We are carrying out a three-year structured programme to learn the lessons from delivery challenges we have experienced earlier in AMP7, examine the constraints within the supply chain for AMP8 and develop our procurement and contracting strategy to optimise the efficiency of delivery.

We have completed the planning stages and are in the process of assembling new procurement frameworks to support delivering our AMP8 investment programme and we intend to keep assessing and mitigating risks to delivery throughout the AMP.

As part of our strategy to enable this, we have developed a Supplier Relationship Management (SRM) Framework, to foster an environment in which we work in collaboration, build trust and encourage open and honest communication. We want to be a client of choice because of our practices and behaviours, consistently positioning ourselves to receive preferential access to resources, ideas and the latest innovations.

The framework is organised around a set of design principles, informed by British Water Survey results. It includes a more detailed management diagnostic, an internal review of our supplier enablement capability and an independent assessment through a 'Voice of the Supply Chain' exercise. Principles include:

- Creating a system of governance to make sure there is regular engagement between all stakeholders
- Providing an environment where constructive 360-degree feedback is gathered and shared
- Promoting excellence by highlighting new areas of value and introduction of new initiatives
- Recognising contributions and celebrating success

Elements of this have been rolled out as part of our current procurement programme. New framework elements will be implemented before 2025 to allow content to mature and develop ahead of AMP8.

These elements include:

- Performance benchmarks using a consistent set of metrics
- Joint business plans to underpin engagement
- Supplier awards programme to recognise success
- Creating open collaboration forums to better direct and harness our partners' creative efforts

With this new focus on our supply chain, we are confident we can secure the partnerships we need to deliver our PR24 plan.

9.3.5. Planning and Demonstrating Delivery of Our Key Projects

Our focus in 2020–25, as set out in our WRMP19, has been preparing to deliver our major schemes in AMP8 and AMP9. This has involved the successful completion of ground investigations and surveys, environmental surveys, and public consultations.

Our Hampshire Water Transfer and Water Recycling project (HWTWRP) SRO has completed more than 130 boreholes and a further 130 trial pits along the length of the 47km transfer pipe route, alongside running a pilot recycling plant, providing essential information to support route selection, design, and de-risk delivery.

Following a requested Direction from the Secretary of State provided in May 2022, the HWTWRP will be consented under a development consent order (DCO) process. The scheme is now being progressed into the consenting and delivery phases. We are in the early stages of the pre-application process for our DCO, including consultation and engagement, Environmental Impact Assessment, preparing our consenting documentation and progressing scheme development.

We are working with Portsmouth Water on enabling works and a single pipeline tunnel as part of the already approved Havant Thicket Reservoir – this will help futureproof this long-term asset, reducing disruption during construction and will deliver potential cost savings of over £100 million.

We have progressed the delivery of our Hampshire strategic water supply grid with the system architecture developed, supported by hydraulic optioneering modelling to define system requirements. Route corridors have been developed and a contractor engaged to support development and delivery to outline design.

Beyond our Water for Life programme, and in line with our multi-AMP programme, we have established a water quality monitoring programme for the Medway recycling scheme to inform process requirements and confirm consentability. We are on track to deliver schemes for the Southampton and Andover link mains, as well as Sandown water recycling scheme, East Woodhay and other smaller transfers.

Our WRMP19 plan included more uncertainties than our WRMP24 plan (such as sources from other companies) – resulting in the need to adapt the plan. The most significant change has been the switch from coastal desalination to water recycling for Hampshire.

We have undertaken a thorough risk review of key deliverables for all WRMP24 projects, this has enabled us to refine delivery dates for some projects to ensure these are realistic and deliverable. Actions include:

- Changes to potential earliest delivery dates of some options including the Havant Thicket Reservoir, the Hampshire Water Transfer and Water Recycling Project and Littlehampton water recycling option
- Developing a mitigation plan of shorter-term actions or adjustments intended to supplement or accelerate our ability to secure supply and minimise potential environmental impact
- Extending of a bulk supply option, and increasing the volume, from SES Water until 2031
- Developing an extended and enhanced contingency plan to address delivery risks

We have developed a once-in-a-generation plan to rebuild our four largest water treatment works. We have completed the first phase of the rebuild at our Otterbourne treatment plant.

9.4. Taking a rational view of future requirements and phasing

In preparing our Business Plan, we have taken a rational view to prioritise investment to maximise the benefits to our environment and customers, while still making the plan deliverable and affordable. We are committed to delivering the required full WINEP and environmental improvements our customers expect, but over a longer timeframe to ensure it is deliverable, efficient and affordable for our customers.

We have proposed to the Environment Agency that circa £900 million of WINEP investment (circa £1.1 billion in 2022/23 prices) could be delivered over eight years instead of five years, phasing this spend into AMP9. The cost of our final AMP8 WINEP is £1.5 billion, of which £1.4 billion in wastewater and £74 million in the water service (2022/23 prices), including what we plan to deliver through alternative delivery routes.

This level of investment is unprecedented. It is an important opportunity to make significant enhancements to our environment and support delivery of the Government's Environmental Improvement Plan 2023 and Defra's Plan for Water. However, there is both an affordability challenge (customer feedback supports this) and deliverability challenge with the scale of this plan combined with other requirements such as our Water Resource Management Plan (WRMP).

Our phasing proposals reflect the importance of ensuring reliable and resilient drinking water supplies and wastewater services for our customers. These proposals will improve the phasing and deliverability of environmental improvement programmes, taking account of customers' priorities and benefits for the environment.

We recognise the importance of all of our investment in the short to medium term. However, even with the significant increase in investment, we have taken a rational view to the essential items needed for AMP8.

9.5. Planning for Alternative Delivery

Our capital programme for PR24 is significantly larger than in previous AMPs. We remain committed to deliver for our customers, although we recognise we cannot deliver all of the requirements ourselves.

Therefore, we want to seek partners to deliver some of our programme. Ofwat has developed the concept of alternative forms of delivery, through its Direct Procurement for Customers (DPC) model. This plan proposes projects that would benefit from Alternative Delivery. In addition to Ofwat's DPC, we have developed a new *DPC-lite* model, in which a more moderated process recognises the features of the project, and yet still provides certainty for Ofwat, our customers and new partners.

This section provides our summarised proposals for Alternative Delivery routes and our Proposed Alternative Delivery projects.



Many of the projects and processes included in this concept are new and need to be developed further. We want to work with Ofwat during the remaining PR24 review period to advance these projects and ideas into a final form for Ofwat's approval.

In total, we project AMP8 totex investment via Alternative Delivery at £1.31 billion³ with a development and transaction cost of £194 million⁴. Further detail is included in [SRN17: Direct Procurement for Customers and Alternative Delivery Model technical annex](#).

All of our Alternative Delivery projects will be critical to enable us to deliver for our customers.

9.5.1. Direct procurement for customers

Ofwat's DPC model sets out competitive tendering for the delivery of certain large infrastructure projects, by a third-party Competitively Appointed Provider (CAP). Ofwat expects this route to achieve significant benefits for customers, both through innovation and lower whole life costs of the project. We would run a competitive procurement process to identify a CAP delivery entity.

The CAP could be appointed at any stage in the project's development process. We would enter into a CAP Agreement (CAPA) setting out the CAP's obligations and payment terms. CAP payments would be due when the service starts, deferring the cost to customers compared to in-house delivery.

During the CAPA, we would recover the payments for the CAP under an Allowed Revenue Direction (ARD) to enable the CAP to raise debt and/or equity. The CAP is not licenced. We remain responsible for the CAP's performance under our licence.

³ See table SUP12.

⁴ This is reported in: £100m part of CW3.55, plus £49m in CW1.31 plus £44m in CWW3.182 (any difference is due to rounding).

The DPC model features stages in its approval regime, at which the projects are matured and Ofwat's approval is secured, as shown in the figure below.

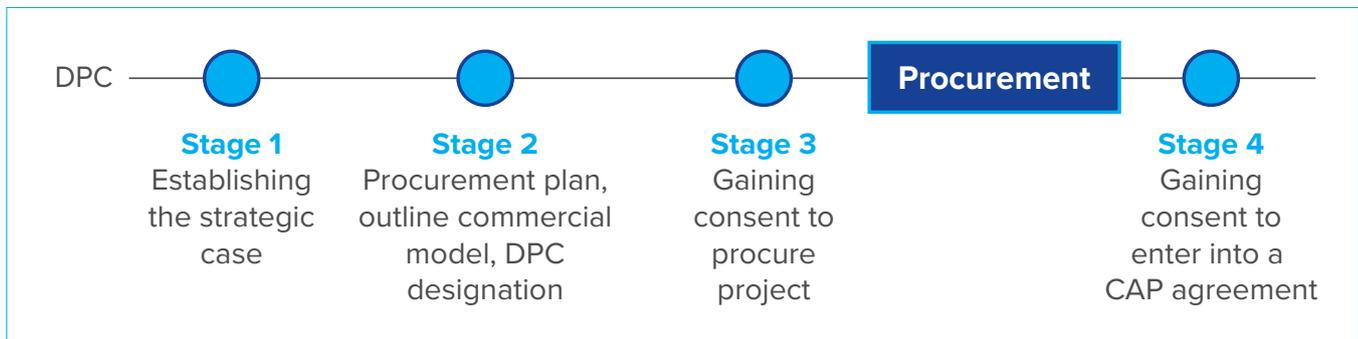


Figure 3: DPC stages

9.5.2. Our new DPC-lite model

We propose our new DPC-lite model for projects that cannot be delivered via DPC. DPC-lite is similar to DPC – suitable projects are competitively tendered and delivered under long-term contracts by a third-party delivery partner, which can be appointed at any stage in the projects' development process.

We acknowledge Ofwat's additional technical discreteness guidance and its implications for the DPC eligibility of projects which excludes several small assets and those whose asset lives are less than the typical length of a DPC contract (circa 25 years).

However, DPC-lite would still benefit us and our customers, by enabling us to better manage our in-house delivery capacity. We also believe that delivering needed assets, not eligible for DPC, via DPC-lite would enable the timeliest delivery. The table below lists other benefits:

Table 1: Benefits of DPC-lite

Benefit	Explanation
Managing delivery capability	By transferring responsibility for key projects and activities to third-party providers, this can free up our internal resources to focus on delivering other parts of the capital programme
Efficiency in delivery	As per Ofwat's DPC efficiency assumptions, DPC-lite may enable capital and operational efficiencies in the delivery of major infrastructure projects
Innovation in design	External parties may be able to offer innovation in the design of new assets or unlocking economies of scale from other sectors
Access to external financing	The voluntary DPC-lite delivery route allows funding of large projects by a third-party provider
Enhancement of relationships and reputation	Delivery routes which enable partnership and localisation could provide an opportunity to engage directly with local stakeholders and businesses, not only improving project delivery, but also enhancing our relationships with key stakeholders
Flexibility in the timing of customer bill impacts	It may allow some flexibility in the timing of impact to customer bills, depending upon the payment and revenue commencement structures adopted

We propose a long-term payment mechanism or uncertainty mechanism that is similar to DPC's ARD – 'ARD-lite'. This would form a guarantee to the CAP of relevant cost recovery from customers, spanning multiple AMPs. It would also give security over the treatment of residual asset values at the end of the contract term. The proposed process would provide more agility and flexibility than the current DPC process.

Similarly, we propose a lighter touch **approval regime** than for DPC projects, reducing Ofwat's burden. We would assume the responsibility to ensure that contract terms delivered value for money for customers. Criteria would be agreed with Ofwat, and these would need to be met, both before a contract is tendered and before the contract is awarded – ensuring the project would be delivered while protecting customers and offering value for money.

This approval process is shown in the figure below:

- **Project identification:** Projects will be agreed to be delivered via a pre-agreed delivery route
- **Pre-procurement update:** Prior to procurement, we will provide Ofwat with the terms in the draft contract, including key commercial terms and a summary of the procurement process to be conducted, giving Ofwat the opportunity to raise any questions or concerns
- **Pre-contract award review:** Before contract award, we will provide Ofwat with a review of the procurement outcome and value for money. We would then seek an ARD-lite. Any amount not covered by this mechanism would be for us to cover from base allowances or efficiencies elsewhere

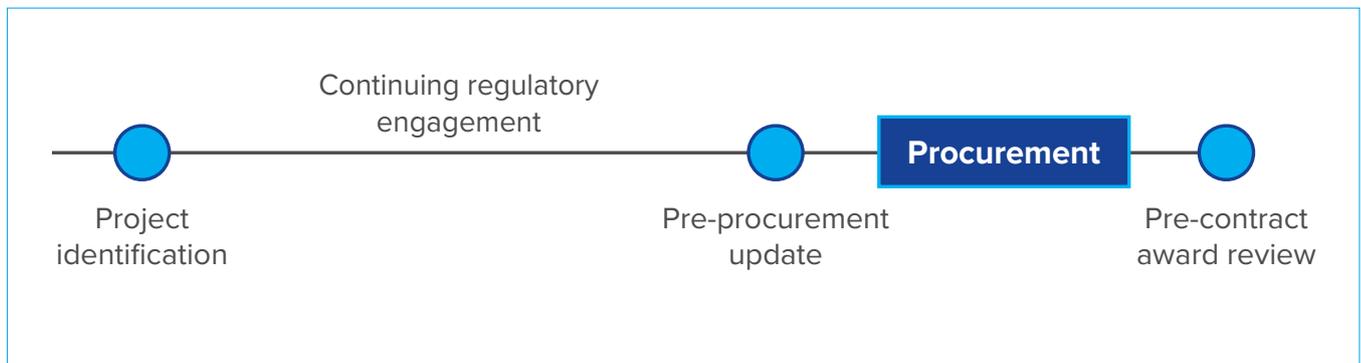


Figure 4: Proposed route for DPC-lite projects

Further detail is included in [SRN17: Direct Procurement for Customers and Alternative Delivery Model technical annex](#). We will seek to work collaboratively with Ofwat to explore whether the underlying principles of DPC could also be applied to the projects under a new DPC-lite route for a select few projects for AMP8.

9.5.3. Proposed Alternative Delivery projects

To identify projects which may be suitable for Alternative Delivery routes, we conducted a systematic review of our entire capital programme for PR24 including a DPC eligibility assessment for each project.

While some projects are excluded from DPC under Ofwat's guidance, all projects progressed are sufficiently high value, with a level of separability, with currently no known construction or operational risks that would reduce their attractiveness to investors.

Following the identification of candidates suitable for Alternative Delivery routes, we developed:

- **Project totex:** The efficient cost projections for each project;
- **Contract model:** Stages in the project that we expect a third-party to undertake: D-Design; B-Build, F-Finance, O-Operate, and M-Maintain; and

- **Tender model:**

- **Early:** We would identify a partner on the basis of need, a choice of options or a preferred solution, prior to the completion of project development activities, such as initial design, surveys and studies and consenting. The partner would continue through the development phase into detailed design, construction, operation and maintenance, also providing the financing necessary to deliver the project;
- **Late:** We would complete the majority of the pre-construction project development activities in-house, before procuring a provider to complete the detailed design, construction, operation and maintenance, also providing the financing necessary to deliver the project; and
- **Very late:** We would undertake all project development activities, prepare the detailed design and construct the assets potentially using contractors and partners. Post-construction a third-party provider would be appointed to refinance the project and to operate and maintain the asset.

We have identified a list of candidates, set out in the table below.

Table 2: Summary of projects to be progressed under Alternative Delivery routes

Project	Totex in AMP8	Proposed delivery route	Proposed contract model	Proposed tender model	Summary rationale
Sandown re-use	£98m	DPC	FOM	Very late	Size and nature make it eligible for DPC. However, the required delivery timescales do not leave sufficient time to procure a DPC contractor pre-construction. Therefore, we plan to procure a CAP to Finance, Operate and Maintain the assets post-construction
Aylesford re-use	£99m	DPC	DBFOM	Late	Size and nature make it eligible for DPC. Changes to the delivery timescales under the WRMP24 we believe allow sufficient time to procure a DPC contractor pre-construction
Ford re-use	£63m	DPC	DBFOM	Late	
Sittingbourne industrial re-use	£109m	DPC	DBFOM	Late	Size and nature make it eligible for DPC
Whitfield WwTW	£50m	DPC-lite	DBFOM	Late	Project characteristics make it suitable for DPC and could be considered discrete. However, current estimates see it fall below the DPC size threshold, but still suitable for DPC-lite
Smart metering	£165m	DPC-lite	DBFOM	Late	Although ineligible for DPC under Ofwat's guidance, our analysis and engagement to date indicates that the project could be delivered under DPC-lite
Ham Hill Advanced Anaerobic Digestion (AAD)	£170m	DPC-lite	DBFOM	Late	Bioresources are excluded from DPC. We propose to package the two projects, Ham Hill and Ashford, into a single project and deliver via DPC-lite
Ashford Advanced Anaerobic Digestion (AAD)					
Wetlands	£80m	DPC-lite	DBFOM	Late	Although ineligible for DPC under Ofwat's guidance, we consider that a programme of Wetlands interventions across our network could form a package suitable for DPC-lite
Local Authority highways SuDS	£197m	DPC-lite	DBFOM	Late	Although ineligible for DPC under Ofwat's guidance, we consider that a programme of SuDS interventions along local authority highways could form a package suitable for DPC-lite
Hampshire Water Transfer and Water Recycling Project	£283m	DPC	DBFOM/DBFM	Late	This project is already part of Ofwat's formal DPC process and its VfM will be confirmed via that process

In total, we project AMP8 totex investment through Alternative Delivery at £1.31⁵ billion with a development and transaction cost of £194 million⁶. Further detail is provided in SRN17: Direct Procurement for Customers and Alternative Delivery Model technical annex.

9.6. AMP8 delivery capability

We have undertaken a study of our current capability to deliver the AMP8 programme and have made recommendations to our Board for growth areas, given the size and complexity of the plan.

In this section, we outline core delivery requirements, our current capabilities for delivering AMP8 and final planned actions to ensure deliverability.

9.6.1. Core delivery requirements

We recognise that the scale of AMP8 delivery will challenge our operation to a significant extent. To de-risk plan delivery, we need to have appropriate measures in place to address the key challenges we, and the wider water sector, face ([see SRN56: Deliverability technical annex](#) for further details).

Reflecting on these challenges and on best practice delivery across the sector, we assessed our ability to successfully deliver our Business Plan against four core deliverability requirements, these are:

1. Supply chain strategy
2. Portfolio execution plan
3. Portfolio delivery and performance management
4. Strategic workforce plan

The table below provides a summary of what these requirements include.

Table 3: Core requirements for successful delivery

	Supply chain strategy	Portfolio execution plan	Portfolio delivery and performance management	Strategic workforce plan
Requirements	Strong set of framework agreements and supplier relationships to provide capacity and capability, and managing it on an ongoing basis	A well-defined planning process at the portfolio, programme and project level, with appropriate collaboration across the business	Tracking and managing delivery performance, efficient delivery processes, and prioritisation of works	Identifying, sourcing, retaining and training the right resources and capabilities, at the right time for the right work
Specific measures	<ul style="list-style-type: none"> • Informed strategy • Supplier agreements • Scope consideration • Delivery partners • Supplier capability and capacity • Supplier relationships • Category management • Governance and performance management 	<ul style="list-style-type: none"> • Investment prioritisation • Planning process • Capex planning • Opex planning • Change planning 	<ul style="list-style-type: none"> • Capital investments • Execution tools and processes • Programme management • Risk and governance • Change control • Annual review cycle • Transformation management 	<ul style="list-style-type: none"> • Capability planning • Resourcing • Training and upskilling needs

9.6.2. Our current capabilities for delivering AMP8

For each of the core deliverability requirements, we assessed what current measures we have against a set of specific criteria that reflect best practice. This assessment concluded the maturity of our organisation to deal with the significant AMP8 increase in investment. This has allowed us to identify key gaps that we need to address. In undertaking the assessment, we engaged widely across our business.

Below is a description of the current measures we have in place to support our core deliverability components.

Further details about this assessment are included in [SRN56: Deliverability technical annex](#).

Maturity definitions

High – High level of measures in place to support deliverability or already planned to occur prior to AMP8

Medium – Moderate measures in place to support deliverability or already planned to occur prior to AMP8

Low – Low level of measures in place to support deliverability

5 See table SUP12.

6 This is reported in: £100m part of CW3.55, plus £49m in CW1.31 plus £44m in CWW3.182 (any difference is due to rounding).

9.6.3. Supply chain strategy

Maturity
High/Medium Mostly high evidence that measures are in place to support deliverability

To navigate the challenging delivery environment, we have developed a supply chain strategy within the scope of our AMP8 plan and beyond, that outlines:

- How we are procuring and contracting for services to enable us to secure the best solutions and outcomes for both existing and future work
- How we are managing and optimising our category spend based on the contract landscape
- What we will do throughout delivery to ensure supplier performance and relationships are managed on an ongoing basis to ensure our outcomes are achieved

Table 4: Current supply chain strategy measures

	Current measures	Details
1	Supplier agreements	We have developed new framework procurements aligned to the scope of AMP8 that have been informed by extensive market engagement, analysis of the sector, and the wider infrastructure market
2	Delivery partners	We are establishing sufficient depth and breadth of delivery partners, which will reduce the risk to delivery schedule that may arise in our supply chain due to capacity constraints and create a healthy level of competition that will drive supplier performance
3	Supplier capability and capacity	We are developing a deep understanding of who our potential suppliers are to gain early indication of their capability and capacity to deliver our investment commitments
4	Supplier relationships	Frameworks will be in place 12 months prior to the commencement of AMP8, enabling us to build strong relationships with our suppliers and involve them in early scoping and assessment of projects
5	Category management	We regularly update our category plans in alignment with our frameworks, ensuring we can capitalise on opportunities and identify and mitigate any risk to delivery
6	Informed strategy	Our Procurement and Contracting Strategy has considered wider sector needs and its impact on supplier capacity and appetite to work with us
7	Governance and Performance Management	Our refreshed procurement governance will ensure we stay in control of our supply chain throughout delivery and beyond, leveraging performance management data to drive supplier standards and facilitate decision-making

9.6.4. Portfolio execution plan

Maturity

Medium Moderate evidence that measures are in place to support deliverability

To drive effective delivery of the Business Plan, we will translate it into executable plans for different delivery areas. Clear processes will be fundamental in helping us to prioritise our investments and review our scope, spend (both capex and opex), and schedule.

Developing an execution plan and being transparent with our supply chain as early as possible, is critical to providing stability and alignment in our pipeline.

Table 5: Current programme execution plan measures

	Current measures	Details
1	Initial scoping	As part of our optioneering process in the development of our PR24 Business Plan, we developed initial scope assumptions to the extent that was possible depending on project maturity to inform our cost estimations
2	Portfolio and change management	We have enhanced our portfolio management. We have implemented transformation office that oversees the transformation and change the organisation. We have implemented tools that enable change initiatives to be tracked, assessed and reported on at each stage. Within the business each of our core business areas has a transformation lead and transformation teams. This drives accountability and ownership in each of those core business units
3	Planning process	We translate our Business Plan into a detailed programme of work that drives our delivery schedule
4	Capex planning	Our capital programme planning is managed through our defined Capex Investment Programme Planning (CIPP) process Most of the large capital schemes included in our plan already have detailed plans. We have included these as case studies in the appendix
5	Opex planning	We have an operating expenditure forecast methodology to plan for expected spend based on the scope of work and allowing for contingencies

9.6.5. Programme delivery and performance management

Maturity

Medium Moderate evidence that measures are in place to support deliverability

Delivery of the portfolio of works (across Capital Delivery, Alternative Delivery, operations, internal change etc) will rely on a strong and effective PMO with the appropriate tools and process and also strong project management capability.

Given the size and complexity of our capital programmes, and the intensifying focus on ensuring deliverability, we have strengthened our mechanism for delivering capital investments.

Table 6: Current programme delivery and performance management measures

	Current measures	Details
1	Capital investments	Our Asset Lifecycle Process (ALP) will support efficient capital investment delivery, driven by our Risk & Value (R&V) mechanism and Investment Decisions (ID) to ensure projects move efficiently from planning through to delivery. This is overseen and governed by our Investment Committee
2	Efficiency initiatives	We are implementing initiatives that will accelerate the speed at which projects move through our ALP
3	Investment prioritisation	We are introducing a new prioritisation process and supporting guidance to improve investment decision-making
4	Execution tools and processes	We use our Capex scheduling tool – [REDACTED] to create transparency in our schedule, supported by processes to assess and re-prioritise investments
5	Programme management	We maintain PMO capabilities in parts of our business to support delivery and track performance against our plan
6	Risk and Governance	Our Enterprise Risk Management (ERM) framework is in place to govern risk, which has a proven track record, and we are currently implementing a new Governance, Risk and Compliance (GRC) system that will be used to regularly track and monitor actions
7	Change control	We have a transparent and auditable approach to change control
8	Plan review	We review our Business Plan on an annual basis to understand any emerging changes and plan for potential changes

9.6.6. Strategic workforce planning

Maturity

Medium Our capabilities to deliver an increased output are in development

Delivery of our Business Plan will require strategic considerations around our workforce. The people in any business are key to the success of the company along with the leadership. Over the last year the leadership within the company has been refreshed. This has focused on bringing in the skills and capability to develop and deliver the [Turnaround Plan](#) and to lead the company through AMP8.

In addition, we have refreshed our senior leadership in the organisation with a replacement of 35% of roles. For example, we have brought in new senior experience in capital delivery from HS2 and Heathrow. We have also refocused the organisational structure with a Managing Director for Waste and a separate Managing Director for Water. In addition, we have created a central Transformation Office, with transformation and change teams in each of the business units. This new focus will allow us to lead the change and preparedness for the step change for the next AMP.

There have also been changes in our Board that broaden the range of knowledge of the Board level which will oversee our preparedness and progress for AMP8.

We have focused on workforce planning, particularly given an environment where there is strong competition for certain roles and the challenges we face in competition for resources in our Southeast location. There are skills shortages in key areas such as I&C engineers which will need to be addressed. Over the last two years we have developed the capability in our operations teams:

- Control centre
- Logistics function
- Recruitment of technicians
- In total we have grown our workforce to deal with future challenges, with a significant proportion of this increase in our operational and capital teams

Table 7: Current strategic workforce planning measures

	Current measures	Details
1	Capability planning	We have developed high level plans for our workforce and understand key pinch points and resource challenges
2	Resourcing	Through our Turnaround Plan , we are developing plans around retention of key skill areas (e.g. I&C engineers)
3	Training and upskilling needs	We have invested in workforce training and have a programme of training courses and curriculum by different experience and speciality

9.6.7. Final planned actions to ensure deliverability

Given that we have been ramping up our investment capabilities during the last years of AMP7, we are pleased that our capability is improving and that in 3 out of 4 of the core deliverability requirements we are at least a medium maturity rating. This gives us confidence we have a relatively strong set of capacity and capability measures in place to de-risk delivery. We do, however, recognise that this needs to increase further in order to deliver this plan.

In addition to the current measures we have in place, we will be taking key actions prior to the commencement of, and throughout, AMP8, to augment our ability to deliver. Our Board will closely monitor our progress on these. These six projects outlined below and will be critical to addressing the internal and external challenges during PR24 ([see SRN56: Deliverability technical annex](#)) and de-risking plan delivery – and address the gaps identified in the deliverability review.

Project 1	Establish an enterprise-wide agile AMP8 Management Plan
<p>An enterprise-wide plan is required that builds on the Turnaround Plan that is already in progress. This will utilise the transformation and portfolio management capability we have developed over the last year. This will prioritise and manage change and transformation across the business, which will ultimately support and de-risk delivery through improved operating efficiency. This will:</p> <ul style="list-style-type: none"> • Continue to develop the integrated transformation capability in the business. Integrate change management capability to oversee and manage overall business change programme (e.g. including CRM rollout, ██████ rollout, efficiency program and wider operating model changes) • Review of existing or planned change and transformation initiatives and develop into coherent and integrated programme • Establish and/or refine business cases for major change initiatives, and develop overall case for change for integrated transformation case • Develop costed transformation plan • Establish a line of sight between the different efficiency initiatives and how they will actually deliver the desired outcomes 	
Project 2	Developing a Strategic Workforce Plan focused on capital delivery
<p>In order to ensure the right capability and capacity is available to de-risk delivery, we will develop a workforce plan that covers resource levels, capabilities, recruitment/sourcing and development. This will cover a sufficiently granular planning of workforce requirements, including resource level, capability assessment and sourcing plan, linked to the work bank, and will focus on high priority areas below:</p> <ul style="list-style-type: none"> • Asset management • Capital delivery / portfolio management (including PMO) • Commercial and contract management • Supply chain <p>In addition, to address the market-wide challenges we are facing with respect to our workforce (e.g., the ageing workforce, skilled attrition, loss of IP, geographic challenges), we will also be developing a people strategy that covers all aspects of the employee lifecycle, from how we attract and retain talent (e.g. our EVP), to how we undertake succession planning, to ensure we do not lose our critical IP.</p>	
Project 3	Setting up an enterprise-wide Programme Management Office
<p>We will set up an overarching programme management office (PMO) function that will coordinate the entire planning and delivery process, from translation of Ofwat's final determination into a clear execution strategy, and throughout delivery.</p> <p>The programme management function will be responsible for the following:</p> <ul style="list-style-type: none"> • Defining programme roles and responsibilities • Coordinating input from stakeholders into the execution planning process • Setting up and implementing a formal dependency management process that identifies and proactively monitors dependencies between projects / schemes and across delivery teams • Designing and implementing a performance management framework to oversee delivery, including key PMO tools and processes • Resolving issues and initiating appropriate corrective actions <p>The portfolio execution plan, which will be coordinated by the programme management function, will provide a holistic view across all works being delivered, and clearly cascade down into our supply chain (i.e., category plans and supplier scheduling) and workforce planning (i.e., detailed resource requirements).</p>	

Project 4	Embedding best practice Asset Data Governance
<p>We recognise that while we have been taking positive steps to improve our IT system architecture, including recent and planned upgrades to drive improved performance (e.g., the transfer of our asset data storage from ██████████ asset management system), we have a track record of not utilising these systems as effectively as we should be, particularly due to poor management and integrity of data.</p> <p>To address this, we will refresh our enterprise data governance, with clear processes and accountabilities to drive a culture that treats data as an asset, throughout the entire data management lifecycle. We will focus on asset data during PR24 as this will have the biggest impact on deliverability. This will ensure we are utilising data to optimise our performance.</p> <p>Where required, we will carry out upskilling and training of our workforce to embed best practice systems and data management across the business, particularly at the front line.</p>	
Project 5	Enhancing our Alternative Delivery Capability
<p>Part of our delivery strategy and plan is a significant increase in alternative delivery models. We already have a team working on the Water for Life Hampshire project, the largest of the alternative delivery strategies. Given the step up, this delivery mode needs to be enhanced and expanded, with appropriate governance arrangements and new capability.</p> <p>The alternative delivery procurement function will need to be equipped to:</p> <ul style="list-style-type: none"> • Develop projects for tender • Manage and coordinate with external advisors and specialists • Negotiate commercial and regulatory arrangements • Manage projects during the delivery phase <p>While there may be opportunities to draw on existing capabilities, the organisational design must reflect that the procurement is different to the in-house approach.</p>	
Project 6	AMP8 Supply Chain Readiness
<p>Our supply chain is crucial to the success of the delivery of AMP8. We have set out in this chapter the progress we have made and our plans in this area.</p> <p>In addition to the work planned and ongoing in this area, we will further develop our category planning. While we are in the process of category planning, a step-change is required to develop more comprehensive detail, starting by focussing on high priority and high certainty areas of our Business Plan (e.g., botex), with a long-term outlook throughout AMP8.</p> <p>We will continually assess and monitor the supplier market, particularly to validate the capacity of our supply chain to deliver. This will be in the form of frequent engagement of our suppliers, requesting evidence from them (e.g., demonstrating workforce schedule and capacity), and triangulating with our own market analysis to validate levels of confidence in deliverability.</p> <p>Beyond the planning process, we will actively manage categories, with frequent refresh based on data feeds (e.g., emerging sector risks) and a regular reporting drumbeat.</p> <p>This will need to be supplemented by increasing our capability in commercial and contract management. The step-up in volume and complexity of our supply chain delivery necessitates a greater level of skill to better and more pro-actively manage our contracts and suppliers, in order to de-risk delivery.</p>	

9.7. Conclusion

Our PR24 plan represents a significant challenge to deliver. As part of our [Turnaround Plan](#), we are taking measures in the remaining years of AMP7 to secure shareholding funding, engage our whole workforce with fresh leadership, ramp up our investment run-rate, scale up procurement and our supply chain and demonstrate delivery of our key projects.

In forming the plan, we have also made the right decisions to reduce deliverability risks through phasing requirements to AMP9 and through seeking third-party provision through Alternative Delivery.

We reviewed our current delivery capability for the larger plan and established that we have a relatively strong set of capability and capacity measures, with a maturity rating of at least medium in three out of four key deliverability requirements. We want to take specific actions to improve our capability, through six specific

projects. We believe that by taking the actions already done and the projects planned we have mitigated as much of the deliverability risk as possible.

We recognise that some deliverability risk will remain as we proceed through the AMP, particularly from external sources. We will manage these remaining risks through our risk management process.

We maintain a risk register, which is updated by a dedicated team and governed by a new Deliverability Sub-Committee of the Board. We also maintain an Investment Committee of the Board to govern any further changes needs during the AMP to mitigate further risks.

With each of these structures in place, we are confident that we can deliver our PR24 Business Plan. (Further details of the review methodology and conclusions can be found in the [SRN56: Deliverability technical annex](#)).

