

Deliverability of the Green Recovery

Annex 10

Severn Trent
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WONDERFUL ON TAP



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1. Introduction

As part of the submission requirements, Defra and our Regulators have asked us to provide reassurance that we have the capacity and capability to deliver our proposals without any adverse impact on either the delivery of our existing AMP7 commitments or our ability to achieve efficient costs across both our existing programme and any new proposals.

We have put forward an ambitious set of proposals, but we are confident that we can deliver our proposed green recovery investment programme without any detrimental impact for five main reasons;

- we have a smaller, less complex capital programme compared with AMP6;
- we have greatly increased our in-house capability;
- we have audited our supply chain's delivery capacity to ensure they can deliver the additional activity;
- we have utilised a combination of PR19 Ofwat assessed efficient costs and the AMP7 contract costs to build our green recovery estimates; and
- several of our proposals intentionally draw on local businesses who are not currently part of our supply chain and many of which have seen a downturn in work due to the pandemic.

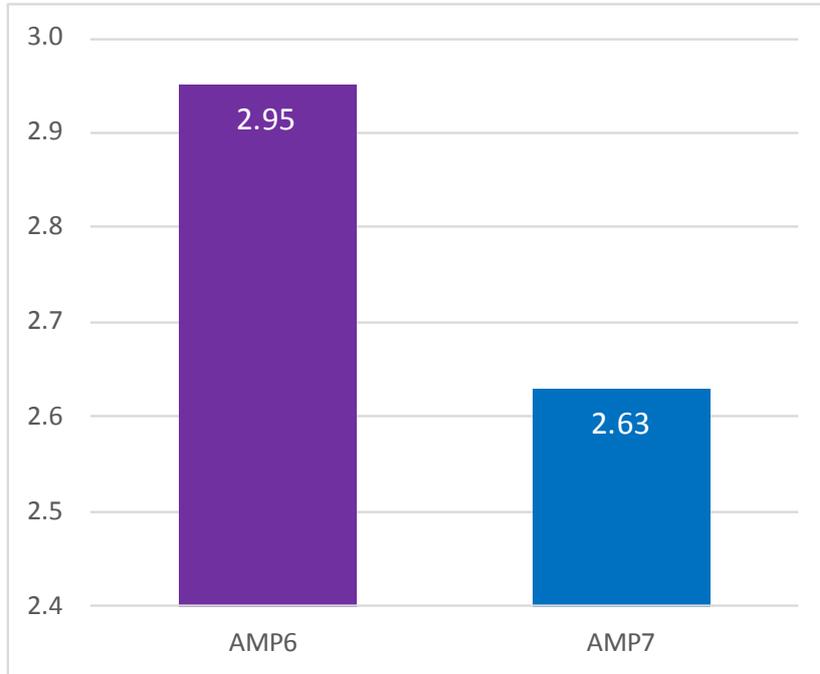
Most importantly, from a deliverability perspective the vast majority [redacted] of risk will sit with us. [redacted]

This means that customers will only pay for the remainder once the investment and the benefits have been delivered. This is quite different to traditional regulatory arrangement whereby investments are funded up front, with Ofwat having a requirement to assess delivery and claw back funding to customers if the outcomes are not delivered. This is an important distinction when considering deliverability risk. More detail on our ability to finance our proposals and how we propose to recover costs from customers post-delivery can be found in Annex 04 Affordability and Financeability.

2. We have the capacity

In AMP6 we delivered capital projects with a combined expenditure of £2.95bn. Our AMP7 final determination includes investment of £2.63bn – £320m less than what we have proven we can successfully implement at the same time as improving services.

Figure 1: Capex spend in AMP6 and AMP7 (17/18 prices)



However, the difference between our proven capacity and our plans for this AMP is actually much starker. The complexity of the capital programme is arguably more important than its scale. Last AMP we had a range of difficult projects, most notably including the highly-complex c£300 million Birmingham Resilience Scheme which includes the Elan Valley Aquaduct project – the most complex water enhancement project we have ever completed. We also had a number of large and complex waste water projects, including the £60m scheme at Newark which included a complex collaboration to tackle flooding, as well as a number of complex waste treatment projects such as Rugby and Finham upgrades. There are fewer large complex schemes in AMP7 and this reduced complexity means we have greater capacity for additional delivery than the total expenditure headline suggests.

As set out in Annex 01 we have also accelerated delivery of some of our AMP7 programme, particularly linked to our environment programme which provides additional headroom to deliver more during the remainder of AMP7.

3. We have the capability

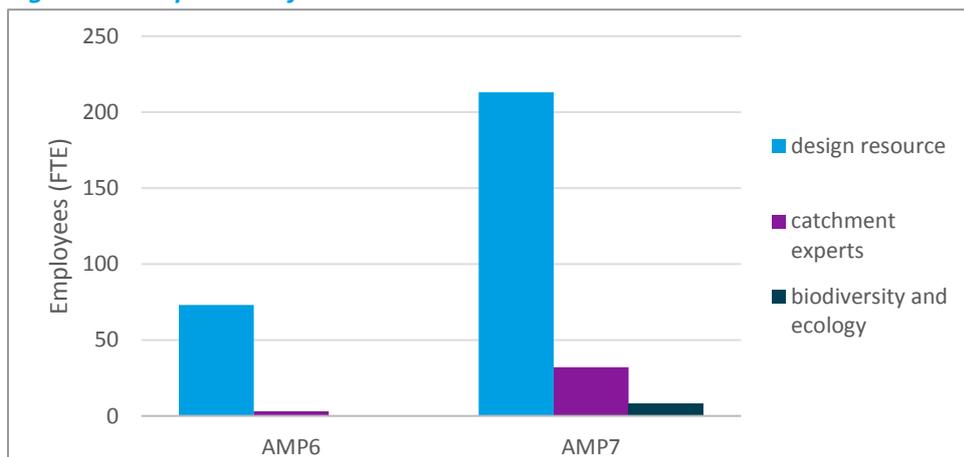
During the transition between AMP6 and 7, we have developed and grown our in-house teams where we can add the most value in terms of cost efficiency and improved outcomes. We have also focused on developing our expertise in areas where we need to create a step change in order to meet the future challenges (particularly around the environment and climate change) and need to drive the most improvement to meet growing customer expectations. The sections below identify the key areas where we believe our strengthened capabilities demonstrate that we will be capable of ramping up resources to delivery of our green recovery proposals.

3.1 Increased in-house capabilities

There are two key areas where we have strengthened our in-house teams for AMP7 delivery. Firstly, we have created an in-house design team which gives us more control over efficiency through innovation and thoughtful design and enables more focus on the outcomes we are aiming to achieve. This is particularly important for our green recovery proposals where we are targeting a much wider range of benefits and will require more holistic planning. For example, our proposal for decarbonising water resources requires us to tackle flood resilience, drought resilience, biodiversity and complex engineering.

Secondly we have significantly increased our capabilities in catchment management and biodiversity and ecology, this shows the increased emphasise that we see is necessary to meet environmental challenges and the value that we see from having in-house resource to ensure catchment thinking and biodiversity is considered across our wider programme. This is particularly important across our bathing rivers and flood resilient communities projects which both require integrated catchment solutions. The expertise we have built up over the last decade of catchment management will be key to delivering these proposals. Both of these teams are set up in a way that will enable us to grow resources to deliver the additional proposals without compromising on the quality.

Figure 2: Comparison of in-house resource between AMP6 and AMP7



Over the course of AMP7 we also see the need to grow our skills relating to energy and carbon. All of our green recovery proposals aim to reveal the costs, benefits and technology options to better understand how all new investment, as a minimum, creates no additional carbon burden.

In summary these changes give us greater in-house capability – and hence greater confidence that we can deliver both our AMP7 programme and green recovery proposals.

3.2 Strong track record

The capability of our commercial and delivery teams is going to be key to successful delivery of these proposals. All six of our proposals are in some related to a significant future challenge – that is why we selected them- which means that we have already been developing our people and focusing our innovation efforts in areas that are very closely related. Table 1 sets out relevant examples of where we have independently acknowledged capability, which provides confidence in our ability to deliver our proposals. This is not about blowing our own trumpet but providing evidence to show that we have developed skills and experience in areas that mean we are well placed to deliver our ambitious proposals.

Table 1: Relevant demonstration of the skills needed to deliver our green recovery proposals

Green Recovery proposal	Awards/ acknowledgement of successful delivery	Why its relevant
Creating bathing rivers	Nov 2019 European Contact centre and customer service awards – gold for most effective digital customer experience	We plan to leverage this experience as part of the real-time, customer friendly river quality information – a key enabler for unlocking the wellbeing benefits of cleaner rivers.
	2020 Water industry award – winner for “farming for water” which won alliancing and partnering initiative	This catchment and collaborative approach is key to ensuring bathing quality water. Our proposals require collaboration across 150,000 hectares of farmland
Decarbonising Water Resources	Water industry award 2019 – Gold for rapid detection of bacteria	This is relevant for both this and the bathing rivers proposal, as it reduces the time to get bacteria sample results from up to 24hours to 20 minutes – enabling better control and reducing chemical use and wasted water
Flood resilient communities	ICE – West Midlands Awards 2020 – Highly Commended - Flood Alleviation scheme	During this scheme we have developed state of the art modelling techniques and used computer aided excavators to reduce construction risk and disruption which will be needed on the flood resilient communities and to some extent supply pipes proposals.
Taking care of supply pipes	2020 UK National Contact Centre Awards – in which our learning and development team won Gold place and were recognised for driving personal development to achieve positive business outcomes	This is relevant across all of our proposal but particularly for supply pipes where the activity is particularly disruptive for customers and a key part of the solution is better communication with customers
	2020 National innovation awards – winner for our “seek a leak” innovation	Innovation such as this will be key to reducing disruption for customers and reducing costs
Accelerating Environmental Improvements (AMP8 WINEP)	Several awards for the CoMag pilot at Packington which is an innovative phosphorous removal technology	This technology is one of the key reasons for why we are able to make faster progress.

3.3 Our supply chain is ready and able to support delivery

We have established a new supply chain for AMP7 delivery. We have changed the way we deliver capital schemes by moving to in-house design. The new delivery model puts us in a strong position to use partners in the most effective way – using large contractors on large complex schemes and small contractors for smaller jobs. We have increased the number of partners from 6 in AMP6 to 22 in AMP7 and through this combination of large, medium and small suppliers we have increased both depth and breadth of our supply chain. This gives us better access to innovation and the ability to contract directly with the experts we need. This is a more complex operating model than we had before, but is

built to deliver innovation benefits and spread supply chain risk. The benefits that we have unlocked through the new AMP7 delivery model, will also benefit the green recovery proposals. The benefits we are driving through our new delivery model include:

- **Organisational** – A reduced overall programme cost by not using large suppliers who are co-located on Severn Trent sites. This reduces overheads and programme fees, and fee on fee arrangements with their supply chain.
- **Value engineering** – An enhanced Expert Client function that enables totex thinking and innovation. Investing in our own people to make the right investment decisions in the medium and long term.
- **Cost saving** – Savings made directly through our procurement and contractual processes. We ensure the right work goes to the right sized supplier. We are more efficient in our ‘batching’ of work and we regulate and benchmark our supply chain performance through other commercial routes (e.g. mini-competition). This also gives us better cost transparency.
- **Technology** – We have invested in state of the art digital tools to support our new delivery model including a Common Data Environment to promote more effective collaboration, a Contract Event Management platform to enhance cost, contract and supplier relationship management and a suite of design tools and modelling software.
- We are **building on AMP6 successes** – This includes continuing with collaborative planning which has enabled us to drive significant programme efficiencies with our contractors. The use of standard products, to enable installation learning to be shared and replicated. Technology type batching, which has engendered LEAN, Safer, Better, Faster techniques to be successfully deployed.

3.4 Our AMP7 delivery partners

We have worked with our supply chain to model their capacity against (a) our current capital programme and (b) our total proposed programme, including our green recovery projects.

This modelling shows that we do have spare capacity even under the risk-averse assumption of no changes to current capacity. In reality, both ourselves and our contractors will increase employment to deliver our green recovery proposals and we will be looking for opportunities to utilise other parties. We also have the option of going back to the market to enhance our supply chain further.

Figure 3: Capacity within our supply chain

[redacted]

4. Efficiency will not be compromised

Setting up our AMP7 delivery model included an extensive tendering and market testing exercise. On larger programmes of work we also run mini competitions within our supply chain to further drive efficiency and innovation. Annex 09 Cost robustness and Efficiency provides more detail on this process and the efficiency that has resulted from the process. We have utilised the AMP7 contract costs as part of our green recovery estimates wherever possible. Annex 09 also includes details of our continuous improvement approach, which seeks to drive cost efficiency throughout delivery.

Annex 8 Stakeholders and third party funding sets out the extensive approach we have taken to find partners with shared objectives, and opportunities to share costs.

Overall our green recovery proposals are equally as efficient as our PR19 final determination, which Ofwat deemed to be relatively efficient compared to the other water and sewage companies.

5. Alternative delivery models will add greater benefits

One of the objectives of the green recovery is to stimulate the economy, especially in those areas hardest hit by the pandemic. Including providing opportunities for retraining or providing opportunities to improve skills.

We have considered how this can be best achieved and, as shown in table 2, we have concluded that for three of our proposals there is significant opportunity to develop a different delivery model. This has two main benefits – firstly it stimulates the economy in areas we have identified as having higher than average deprivation and secondly it reduces the pressure on our existing delivery model to ensure we don't increase the delivery risk that we targeted in our 2020-25 plan.

Table 2: Opportunity to draw on local business for delivery

Green Recovery Proposal	Alternative delivery model under consideration
Creating flood resilient communities	Market place approach, drawing on local suppliers and setting up a large number of lower value contracts
Taking care of supply pipes	<p>A pilot of three delivery models:</p> <ol style="list-style-type: none"> 1. Customer grant to allow them to directly employ a plumber – allows access to small local businesses 2. Outsource model – in which we will tender and then outsource packages of work (eg particular zones across our region) 3. Using our existing in-house delivery model, recruiting new members including apprenticeships to develop skills and capacity for the future to ensure roll out capability beyond AMP7
Smart metering	Combination of outsourcing and inhouse recruitment to supplement our existing delivery model. Creating jobs and maximising on the efficient costs that have been locked in for the significant uplift in activity that was already planned for AMP7