

Sustainable Procurement

Building our Supply Chain to 2020

Presentation for Constructing Excellence South West

March 2015

Head of Procurement: Mike Davies

Everything we do is about delivering the services our customers depend on in the **most efficient and sustainable** way possible

Pure Water

Pure Service

Pure Environment



WaterFuture

Ongoing
investment
requirements

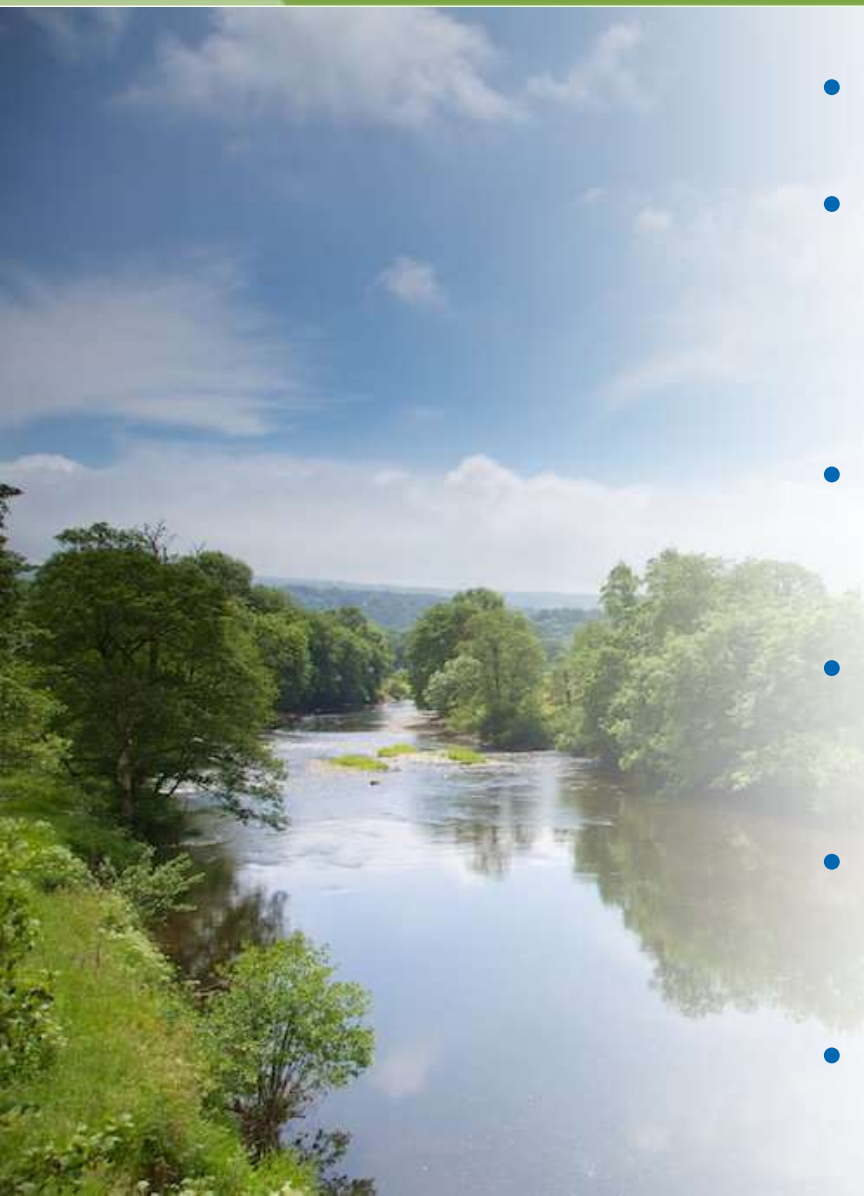
Meeting rising
customer
expectations

Protecting and
enhancing the
environment

Underpinned by a sustainable supply chain

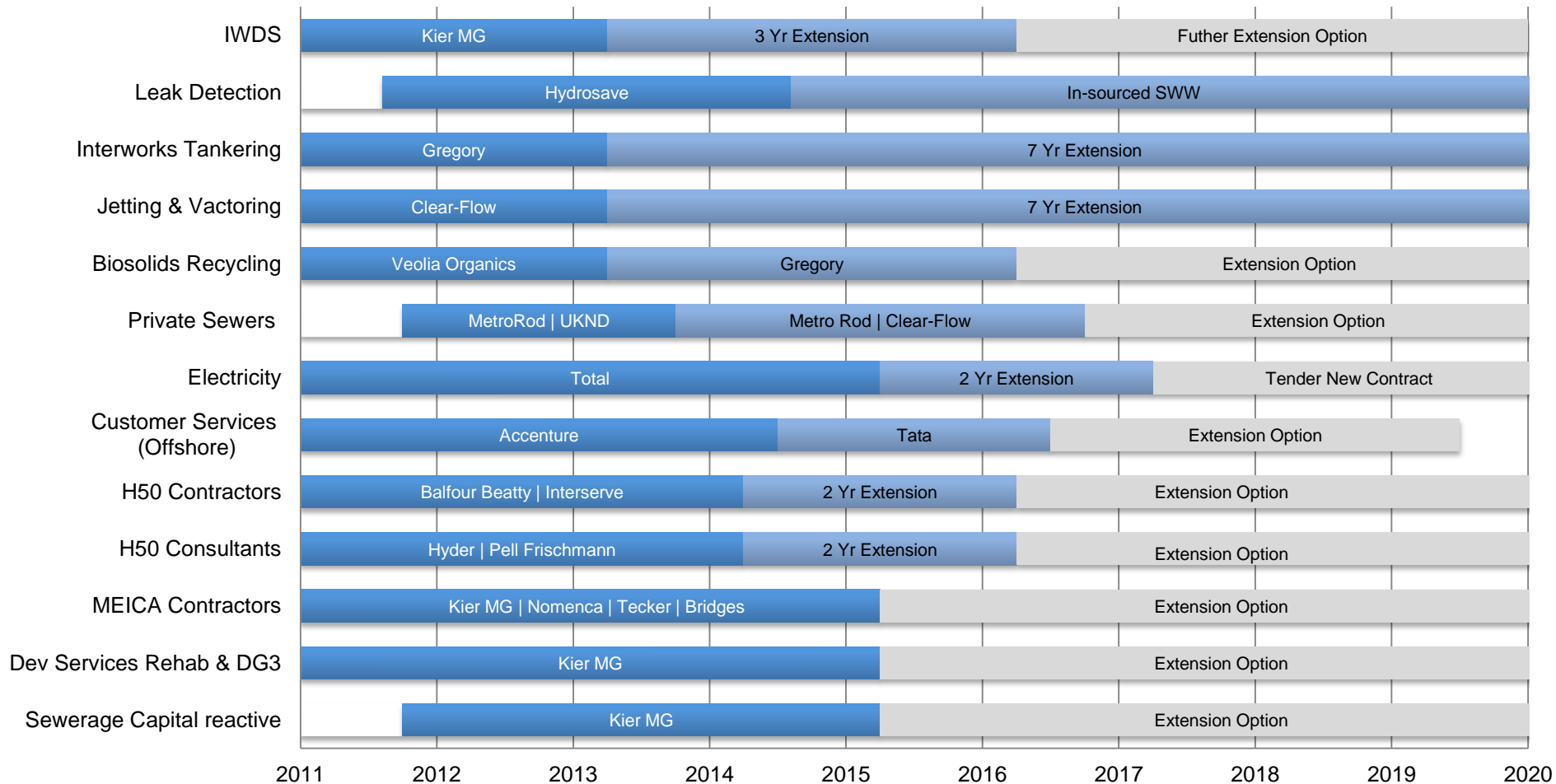
Efficiency and value
for money is vital

Sustainable supply chain

- 
- Represents value for money
 - Delivers the services and improvements our customers, stakeholders and regulators expect
 - Delivers efficiency through innovation
 - Values collaboration as integral to success
 - Shared values (service ethic, environmental standards)
 - Supports regional economy

Building our Supply Chain to 2020

Strategic Contracts K5 to K6 Transition



Background

What's different for PR14

PR09



- Output based Final Determination
- High level of prescription for business plan structure
- Prescriptive requirements to justify investment cases
- Customer and stakeholder research for priorities and WTP
- Reporter role with extensive audit programme and detailed auditors report submitted to Ofwat

PR14



- Outcomes based business plan developed and owned by each company
- Companies' decision on how to structure and write up business plans. High quality plan = less scrutiny
- Companies' decision on how to justify investment cases
- Extensive research with customers and stakeholders including WFCP
- No Reporter role, auditors providing internal assurances

Key Messages

5 Year Business Plan Board Pledges

Keep price rises well
below inflation

Deliver efficiency
through innovation
to keep costs and
customers' bills as
low as possible

Share the benefits
of success fairly
between customers
and investors

Make significant
improvements to
frontline customer
services

Deliver service
and environmental
improvements

Support sustainable
regional growth

Key Aspects of our Plan

Outcomes and Incentive Framework

CLEAN, SAFE AND RELIABLE SUPPLY OF DRINKING WATER



Providing an uninterrupted supply of fresh clean water that not only meets the highest water quality standards but is also free from unwanted taste, colour or smell.

RELIABLE WASTEWATER SERVICE



Ensuring our customers can rely on us to remove and dispose of wastewater safely and efficiently, and that the likelihood of sewer flooding on customers' property is minimised.

AVAILABLE AND SUFFICIENT RESOURCES



Preventing restrictions on water use and managing and delivering the region's supplies as efficiently as possible.

RESILIENCE IN EXTREME CONDITIONS



Making sure water and wastewater services can withstand the potential impacts of extreme weather and security threats.

RESPONSIVE TO CUSTOMERS



Dealing with customer requests, problems and queries quickly and efficiently, and ensuring the service our customers receive represents value for money.

PROTECTING THE ENVIRONMENT



Minimising our impact on the world around us and taking steps to protect and enhance it where possible.

BENEFITING THE COMMUNITY



Having a positive long-term effect on people and quality of life in the region.

FAIR CHARGING



Being efficient in order to keep our costs as low as possible and offering support to those who struggle to pay.

History of Capital Procurement

- K1** 1990 -1995 Tendered 'fixed price', I Chem E Red Book
- K2** 1995 – 2000 Project partnering, I Chem E Green Book
+ target price and Risk Share Deed
- K3** 2000 – 2005 Further development of project partnering
- K4** 2005 – 2010 Strategic Partnering, programme based, I
Chem E Green Book
- K5** 2010 – 2015 H50 Alliance Delivery, NEC contract,
programme incentives

Working together to build Supply Chain Excellence

Supply Chain Excellence

- Why did we need to change?
- Taking it to the next level
- H₅O key principles
- Examples of how
- Evidence of success



Supply chain history

- Commitment to the supply chain over previous investment periods
- Successful management of the “boom and bust” cycle
- Met previous efficiency targets



Taking it to the next level

- 20% efficiency target set by Ofwat
- Changing programme
- Essential improvements required at minimal cost
- Supporting the local economy
- Minimising customer and economic impact
- Expanding partnerships
- Delivering balance and value



H₅O's key principles

- Partners signed up to efficiency targets aligned with Business Plan
- Back-to-back contracts across the supply chain
- Strong partnerships with “model” contractors not chasing turnover
- Mixed economy model



H₅O's key principles

- Utilisation local supply chain - 60% delivery
- Partner visibility of capital delivery programme - 70% two-year look ahead
- Co-located partners optimising resource utilisation
- Ensuring right person for job philosophy
- Significant impact to South West Water



Over 5,000 asset improvements

£9million OPEX savings across AMP5

Improving year on year from year 1 (£140k) to year 5 (£3.1m)

Including upgrading 187 sewage pumping station controllers - £267k annual saving

- One H₅O team approach
- Delivered by specialist Tier 2 partners
- Expert teams working across sites with resources shared across partners
- Partner scheduling based upon delivery efficiency
- Sharing best practice and knowledge

Restormel and Wendron projects

- Significant affordability challenge
- Specialists across H₅O provided £2million saving against original budget
- Mixed economy approach
- (MGB) created – shared risk and opportunity
- Building Information Modelling – all partners, one model
- Off-site build philosophy with 16-week programme saving (£450k cost saving)



Truro project

What's in
the pipeline?

Truro sewer upgrade



- Key challenge to overcome technical challenges in sensitive area
- Reduced the project budget from £7m to £3.4m
- Reduced 60-week programme to 40 weeks
- Engagement with local supply chain

Benefits:

- Industry-leading AFR performance 0.15
- Strategic client delivery alignment between both South West Water and H₅O
- Best people from across five organisations
- Outperformance of efficiency challenge by 5.5% (Over and beyond the 20% set by Ofwat.)
- South West Water cost models integral to high-quality business plan which resulted in enhanced status. Alliance partners helped in this determination, signed up for AMP6.

Thank You For Listening