

WSX29 – Transition and Delivery

Business plan
2025-2030



Wessex Water
YTL GROUP

FOR YOU. FOR LIFE.

WSX29 – Transition and Delivery

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Annexes – None.

This supporting document is part of Wessex Water's business plan for 2025-2030.

Please see 'WSX00 – Navigation document' for where this document sits within our business plan submission.

More information can be found at wessexwater.co.uk

Executive summary

Transition

The significant scaling up of the AMP8 and future investment plans has required a companywide approach. Our Transition Coordination Group consisting of senior managers from across the business is assessing the challenges we face and developing mitigation plans to address these risks.

Delivery

We are using our wealth of experience in delivering investment plans to develop our AMP8 delivery model which has been supported by collaboration and communication with the supply chain. Our approach will continue to efficiently manage and deliver the significantly larger programme in AMP8 and onward.

1. Transition

1.1. Background

The Board recognises the challenges in delivering the Plan, particularly as the various statutory drivers have contributed to an investment programme which in totex value greatly exceeds the programme in PR19. These challenges extend across the industry, and this will place corresponding pressure on the capacity of delivery partners and supply chains. The uncertainties inherent in the AMP8 drivers, the socio-economic challenges we all are experiencing and the significant increase in the size of the programme does mean there are more risks to mitigate than ever before.

Wessex Water with our in-house management and blended in-house and external design and construction teams has always needed to minimise the boom-bust profile from the end of one periodic cycle and the start of another. We have been very effective in bridging these periods through a combination of early start, transition investment and overlap programme.

Given the significant uncertainties visible, we recognised very early that there was a need for a company-wide approach to transition management was necessary and that these activities were much broader than the actual investment activities that would be included in the AMP8 transition investment. Our data tables and the associated commentaries CW12/CWW12 detail the transition investment proposals. The following sections provide a summary of our wider business transition and deliver arrangements.

1.2. Transition planning

1.2.1. Co-ordination & business change

A Transition Coordination Group was created consisting of Senior Managers from across the business reporting to the Executive. While its responsibility was to help in coordinating the preparation for investment programme delivery, its main role was to understand the wider enterprise implications and to take action to prepare the business for a sustained increase in the scale of the business.

The Transition Coordination Group is continuing to plan for and mitigate the risks relating to the future requirements on the business. Assessments have been carried out on:

- investigation and pre-delivery programme, such as land requirements and environment and planning.
- water quality and environmental sampling programmes required to inform future work requirements.
- asset planning and operational considerations.
- people and workforce planning.
- technology and information.
- engineering, procurement, and supply chain – see delivery section below.

We have identified challenges in each of these areas and developed plans to mitigate these risks. For example, with people and workforce planning some of the challenges faced and mitigations are:

- resources are already stretched, there is little headroom to accommodate additional/increased volumes of work. A detailed workforce plan supported by a dedicated recruitment team creating an improved employer value proposition for potential candidates will support the necessary internal recruitment required to manage and deliver the larger investment programme.

- employee wellbeing remains a priority – stress and mental wellbeing requires close monitoring. A refreshed and improved wellbeing strategy has been developed.
- we already have an ageing workforce – more 50+ year old experience will retire in the next AMP and that knowledge needs to be replaced. A structured succession planning, and talent management programme is in place to transition the knowledge.
- we have a recognised skill shortage in the utilities industry, an estimated 770,000 vacancies in the sector by 2029. Therefore, we must do more to create/retain skills through development rather than rely solely on resourcing required skills, which are difficult to find/attract. Significant increases in our successful career development activity such as our apprenticeships, industrial placements, graduate recruitment, and work experience alongside career development maps, linked training, development and competence will help develop and retain our own motivated people.
- candidates' expectations have changed since Covid – many candidates expect a true hybrid work flexibility regardless of whether roles are site or office based. A total reward approach enables candidates to decide what benefits they would like and gives control to candidates as to how they wish to be rewarded and would set us apart from other utilities and employers in our region.

2. Delivery

The economic, supply-chain and resource risks that every organisation is experiencing all add more risk to the potential successful delivery of the AMP8 investment plan. Consequently, even greater efforts are being taken to mitigate and manage out these risks.

The significant step up in the scale of the investment programme required for AMP8 has been recognised by Ofwat in extending the transition investment period to cover 2023-24 as well as 2024-25. Nevertheless, given the significant preparatory work required, we have already incurred some costs in 2022-23 but we have not included them in this submission.

Our detailed delivery planning is progressing while we are also completing the AMP7 programme and commencing pre-construction activities for AMP8.

2.1. Developing an appropriate approach

The Company has taken steps to review critical factors and, drawing from its track record on delivery and its own in-house capability, to prepare a deliver solution with optimal prospects for successful delivery and which has been subject both to external assurance reviews and an internal assessment of deliverability confidence.

The Company's approach has taken account of:

- Delivery workstreams associated with the Plan including WINEP (nutrient removal), storm overflows, bioresources, water quality metering and smart metering.
- An assessment of the existing supply chain and its ability to expand capacity and capability at the rate required to deliver the increase in investment.
- An understanding of new supply chain opportunities, capacity, and market positioning.
- Consideration of the wider sector which is experiencing similar levels of growth.
- Opportunities to grow and support business to invest in the sector, encouraging growth in the supply chain in order to meet demand.
- An identification and mitigation plan linked to the key deliverability risks identified within the supply chain, regulators and third parties.

Despite the best efforts of the Company, the Board recognises that it is not possible to avoid all risks and while appropriate mitigation plans are in place, the Plan holds the same key delivery risks as apply to the rest of the industry, arising out of factors that are ultimately outside of companies' control.

Our focus has always been on developing positive, collaborative relationships with our supply chain partners. With the increase in the investment programme this has been even more important. A full summary of our engagement with the supply chain is provided in the table below. These sessions provided ongoing updates to the supply chain around AMP8 workload and volumes.

Table 1: Supply chain engagement schedule (** Contractors not currently working with Wessex Water)

| Consultant / Contractor | Meeting Dates |
|--------------------------------------|--|
| AECOM, Sweco, Pells, Trant, Envolve | 3/4/23; 10/5/23; 6/6/23; 10/7/23; 7/8/23 |
| Motts; Atkins | 17/3/23; 21/4/23; 19/5/23; 16/6/23; 21/7/23; 18/8/23 |
| Stantec | 15/3/23; 31/5/23; 21/7/23; 9/8/23 |
| Motts | 15/3/23; 26/4/23; 10/5/23; 10/8/23 |
| Aqua** | 20/6/23; 29/8/23 |
| GHD** | 17/3/23; 26/5/23; 13/7/23 |
| Galliford Try** | 9/6/23; 11/7/23; 16/8/23; 8/9/23 |
| MMB** | 27/4/23; 8/6/23; 29/6/23; 2/8/23; 7/8/23 |
| Costain** | 24/3/23; 23/5/23; 29/6/23 |
| Kier and Skanska** | 14/8/23 |
| Morgan Sindall** | 23/8/23 |
| Wider supply chain engagement days** | 27/1/23; 5/9/23 |

2.2. Developing from our track record and experience

The Company has been able to draw on a proven track record delivering the AMP7 capital programme, whilst proactively managing the challenges caused by the Covid pandemic, Brexit, the war in Ukraine and market supply and demand volatility.

This was achieved by developing a significant multidisciplinary in-house capability, with expertise in programme and project management, digital engineering, environmental and commercial matters, design and construction. Another key to this success has been a straight-forward partnering approach and proactive engagement with the supply chain, which has enabled us to build strong relationships and implement collaborative frameworks. Delivery of projects has been further facilitated by the Company's formation of an off-site build facility to provide both the in-house and external partners with access to a library of standard products required in high volume across the programme and by adoption of a digital led approach using BIM360 as our cloud-based solution enabling project teams to effectively work within a collaborative, connected environment,

The breadth and depth of internal experience has been enhanced with the coming together of all the operating, environmental, engineering and construction functions into the Company's Sustainable Operations and Engineering (SOE) division, creating a joined-up 'intelligent' design, build, operate, and maintain provider.

2.3. AMP8 key programmes

The Company has given careful consideration to delivery of the various key programmes, in particular:

- **Waste Treatment:** this area sees the most significant increase in investment from AMP7, however it is also an area with an established understanding of site-specific risks and challenges. Furthermore, 10 – 15% of the increased costs relate to process technologies which will not carry the risks associated with increased construction activity, but instead place greater emphasis on the need to proactively manage and engage with the supply chain to provide the necessary visibility and investment commitment, to secure production.
- **Storm Overflows:** we are undertaking significant early investigations through AMP8 transition investment in order to mitigate the increased risk profile associated with this area and arising out of uncertainties over river quality modelling guidance as well as the extensive reliance on third-party stakeholders (including landowners, local authorities and power utilities).
- **Bioresources:** This area will be the biggest area of expansion for the supply chain. Significant work is programmed at all five sites (Avonmouth, Taunton Ham, Berry Hill, Trowbridge, and Poole), to meet the requirements of the Industrial Emissions Directive (IED), process safety essentials, resilience, and capital maintenance. Additional sludge treatment capacity is being created in AMP7 to facilitate the overall strategy.

2.4. AMP8 Delivery Model

Our knowledge and understanding of differing investment requirements have enabled an approach that maximises the effective use of in-house capability and supply chain partners, and that promotes the management and mitigation of the risks associated with such a significant increase in the capital programme.

The following considerations have shaped the delivery model: work type, site familiarity and performance, site data quality, opportunities to batch by work type, geography or expertise, capacity of in-house and supply chain, complexity, innovation, value, risk, and market incentives.

Internal discussions and challenge by the Board, including through the PR24 Non-Executive Working Group, have contributed to the development of the model as set out in Figure 1 below. This shows the interaction of the various work Lots with the framework of the gated process.

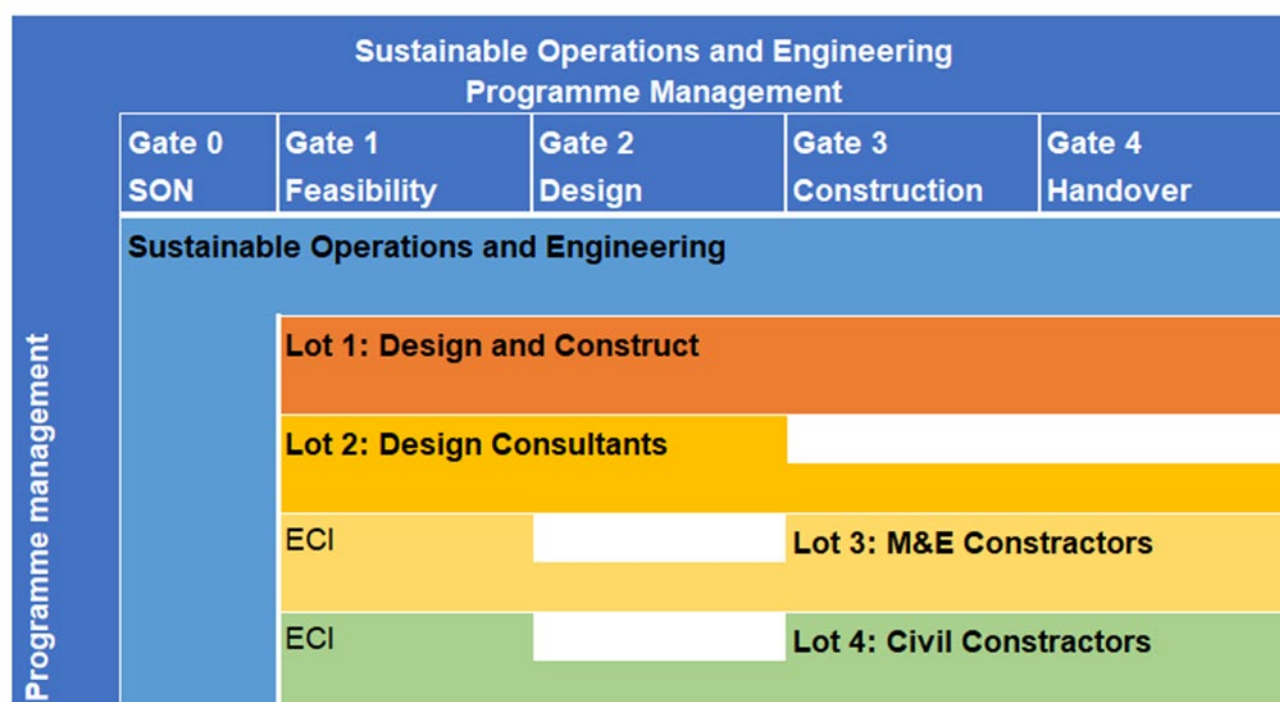


Figure 1: Illustration of AMP8 delivery model

We will manage the capital programme to ensure that overall budgetary and commercial requirements and delivery of agreed commitments are met. Whilst there is clearly a need to upscale in-house resources across all services including project management, commercial, procurement, environmental, construction and estates; AMP8 also requires an expanded suite of collaborative delivery routes to successfully meet the challenge.

The Board has acknowledged that this will require circa 30% growth internally for programme delivery as well as the appointment of a Strategic Programme Partner (SPP) to fulfil the remaining requirements.

Our overall approach is to grow the in-house construction delivery from £400m to £800m and grow construction partnering from £300m to £600m, with the remaining large schemes to be procured through a new design and construct delivery route.

The water treatment programme will largely be retained in-house, given the lack of appropriate skills in the market. Bioresources, waste networks and smart metering programmes are to be delivered through collaboration between in-house and construction partners.

2.5. Market Factors

The Company has considered and evaluated a wide range of global, national, and regional aspects in providing the Board with an assessment of those market factors influencing deliverability and supply chain capacity. Key areas include:

- Global market supply and demand.
- Wider UK infrastructure demand – power, gas, nuclear and HS2.
- Water sector – very significant increase in spend from £21bn to £43bn.
- Market volatility – inflation, energy, commodities, labour, and skills.
- Market intelligence – in sector, supply chain and other sectors.
- Resourcing strategy for ourselves, competitors, and supply chain.

When assessing deliverability in the supply chain the Company has particularly considered:

- The capacity for growth of existing capital delivery partners.
- Ability of existing product and commodity partners to meet increased demand.
- The scope to attract new partners and to create new delivery routes.
- The ability of delivery partners to pick and choose clients, increase fees, drive greater incentivisation and mitigate risk.
- The need for early commitment in respect of investment for growth.
- Collaboration with partners - including opportunities for co-location.

We have also given consideration to opportunities to procure services from within the wider YTL group.

2.6. Delivery – Procurement of Partners

We have undertaken extensive engagement with existing delivery partners for over 12 months in the lead-in to PR24 discussions, through market workshops and individual meetings. Market intelligence suggests the approach being taken by the supply chain is more targeted than ever before, focusing on their existing customers to enable growth and supplementing this with one or two additional strategic targets. Feedback from workshops and meetings indicates that all of the Company's current partners identify Wessex Water as the right long-term partner for AMP8.

Our own in-house delivery growth, coupled with the main capital delivery partners targeted growth, would notionally meet the Company's expected construction annual turnover requirement of £250m.

This has highlighted the biggest risk to deliverability, the need to secure partners to deliver the remaining £500m-£800m of the large schemes in the nutrient removal programme.

We have made an initial approach to the market for 'Expressions of Interest' (EOI) in June 2023, for the following Lots:

- Lot 1 – Design and Construct
- Lot 2 – Design
- Lot 3 – Civil Construct Only
- Lot 4 – M&E Construct Only

For Lots 2, 3 and 4 a good response was received from existing and known partners. We have engaged an external assurance provider, Hargreaves Jones, to review these initial responses. Their initial conclusions are that the response to Lots 2,3 and 4 EOI appears positive, with a balanced mix of main contractors and design consultants.

Lot 1 involves large-value, complex schemes where a contractor's proven track record is important to give assurance of delivery. Upon review, we have concluded that the Lot 1 responses did not meet expectations for the planned delivery model. We have further engaged with the market and reissued the EOI for further consideration. As a result, expressions of interest were received from a number of additional contractors meaning the response now meets our expectations.

In addition to the Lots stated we have commenced the procurement process for a Strategic Programme Partner to supplement internal programme management capability. The purpose of this framework is to support SOE with the Programme Management of the increased programme. This will enable access to a nationwide capability providing support in key areas including programme management, commercial, finance, procurement, innovation and opportunity and risk mitigation.

2.7. Delivery – Procurement of Commodities and Products

Due to the challenging market conditions, suppliers have already had to adapt their business models to maintain supply at current volumes. It is not possible to predict with certainty that the supply base will be able to expand capacity as required to meet the scale of the increased investment programme. We also anticipate a change in fees and availability of products, potentially creating an environment where bidders are played off against each other.

We have determined that its existing supply base is relatively stable - 90% of its top 50 suppliers have been awarded significant business since 2013, which has created valuable partnerships. We are continuing to build on these as well as exploring new supplier options with ongoing communication and supplier forums.

Throughout the challenging market conditions over the past two years, we have grown its knowledge and understanding of the supply chain. It has tracked commodity and raw material as well as UK construction indices monthly and collaborated with suppliers to better understand the full supply chain. Exposure to market volatility will continue to be mitigated by development of a supply chain mapping programme, focused scenario planning for critical categories, and strengthened contingency planning.

Our planned procurement strategy is differentiated according to product and service type, with key approaches as follows:

- Committing early to production slots and/or agreed volumes to be received each year.
- Increasing early procurement and storage opportunities.
- Committing and/or partnering with the supply chain to enable suppliers to invest for future demand.
- Acquiring companies through the supply chain, becoming investors, or creating formal ventures to strengthen leverage in the market.
- Where viable, placing early orders through existing frameworks for AMP8 requirements.
- Utilising the procurement expertise and reach of supply chain partners.
- Development and use of water sector procurement hubs (e.g., Western Procurement Hub) and/or cross industry procurement hubs to strengthen regional buying power.
- Utilising current framework supplier reviews and wider market contacts to identify suppliers at risk of leaving the water industry, or alternatively, those considering expanding.
- Utilising the YTL group of companies to support expansion of the global supplier base.

We currently estimate that over 25 frameworks will need to be renewed or created prior to the start of AMP8, to include provision for process equipment, materials, labour and chemicals. Many of these relate to requirements where there is a limited supply base, or alternatively, where the supply base has already highlighted concerns over its ability to scale capacity industry wide. We have prioritised key commodities and critical products to assess the supply and availability of these for AMP8.

2.8. Innovation

With the elevated levels of expenditure, we know capacity in the supply-chain will be impacted particularly, in the early years therefore, it is imperative we look to alternative and innovative solutions to support the programme.

Traditionally, the majority of building and assembling has been undertaken 'On-Site' which, in some instances is still applicable however, opportunities to build and assemble 'Off-Site' is an approach which can enhance our productivity by:

- Reducing Programmes
- Increasing Resource Capacity
- Lowering Asset Downtime
- Safer Systems of Work

Offsite solutions are currently limited however, through innovation and opportunity we can encourage change and lead by example, to this extent Wessex Water has done this with the creation of an Offsite Build Facility in Salisbury. Initially, the facility was set up to provide simple generic standard repeat products however, with innovation and investment the scope has grown to more complex items such as Containerised Ultra Violet Units, Large Ferric Dosing Kiosks and P Monitoring Kiosks.



Utilising this approach, we are encouraging our teams to investigate other areas of the build programme which can adopt similar techniques within the supply-chain to assist with lowering 'On-Site' demand. Some manufacturers are already realising the potential of this market and are consequently widening their offerings to include products that assist and advance the construction processes, for example:



Fiber Glass Systems - Pipex Thermoplastic Civil Engineered chambers are designed to suit project specific requirements. Whether it's a Combined Sewer Overflow (CSO), Flow Splitter Chamber, or Distribution style chamber, chambers can be supplied with factory fitted rebar, designed by engineers to suit the specific ground conditions.

For some products, the industry is reliant upon single source suppliers/manufacturers who provide specific technologies or services who are not either financially capable or motivated to scale to the demands of AMP8 therefore, an inherent risk exists whereby these suppliers create a micro-climate resulting in product shortages and programme constraints. It is vital these potentially constraining businesses are managed with early notification and

orders to enable adequate management of their production activities however, for some businesses the issue will surround outright production capacity verses the needs of the Water Industry rather than a particular Water Company. For these companies, the Water Industry or a Water Company will need to provide investment and assurance by developing an intelligent solution which considers the needs of all parties.

3. Delivery assurance

3.1. Assurance factors

The scale of increase for the capital programme is unprecedented and there are multiple moving parts and interfaces, some under our control but many not. We are working in partnership to develop a risk assessment framework which will allow it to identify and track the key delivery risks to the programme. This is based on an understanding of:

- The key inputs required to deliver each capital programme in the Plan;
- The options available to obtain these inputs; and
- The risks associated with these options.

This risk assessment is informed by our in-house expertise and discussions with its partners and industry experts and by available data on key metrics.

The Board recognises that not all the risks inherent in the delivery of the investment programme at AMP8 can be entirely mitigated by the company at this stage. Wessex Water's PR24 Business Plan holds the same key delivery risks as the rest of the industry, including the following:

- Lack of specificity and clarity around regulatory requirements.
- Supply chain tightness around key inputs.
- Availability of resource and specialist skills.
- Local Government Planning and Highways.
- Environmental and Flooding Impact Assessments and permitting.
- Land acquisition for site expansion and new sites.
- Power network expansion restrictions.
- PR24 Plan uncertainty delaying early commitment.

3.2. Board engagement

As set out in WSX44 (our assurance strategy), the Board has been actively engaged in this process through scrutiny of Board papers and updates provided by officers in the Company, as well as meetings of the dedicated PR24 Non-executive Group. The Board has subjected the Company to challenge during these discussions, for example to ensure that appropriate allowances have been made for lead-in times and for external factors outside of our control.

The Board has reviewed the evidence provided to support the deliverability of the Plan and has provided further challenge in Board meetings to ensure that we have given ample consideration to securing reliable delivery partners in the supply chain, that appropriate mitigation of risk has been put in place, and that steps are being taken to provide for adequate internal resource.

The Board has confidence that the expenditure proposals in the Plan are deliverable, provided that the Plan as a whole is agreed.

The Board has challenged the cost and outcomes included in the plan robustly throughout the process. At a high level the costs and outcomes assessment has included:

- The Company's performance commitment levels.
- Expenditure forecasts.
- Options proposed within the plan.
- Incorporating customer views into solution proposals.

The scope of the cost and outcomes assessment includes:

- WRMP
- DWMP
- WINEP
- Carbon
- Bioresources
- Direct Procurement for Customers
- Cost adjustment claims
- Performance Commitments
- DWI submission
- Price Control Deliverables (PCDs)

There are a number of strategic planning frameworks in place to ensure the right outcomes are delivered at the right time. The Board has been briefed frequently across all planning frameworks and scrutinised the risks and proposed performance improvements expected to be delivered through these programmes of works from base expenditure and enhancement expenditure.

The Board have also been involved in challenging proposed performance commitments and Price Control Deliverables (PCDs) which will measure progress towards delivering proposals in the plan.