



ANNEX I1

Efficiency of Gate 2 Spend

This document has been written in line with the requirements of the RAPID gate two guidance and to comply with the regulatory process pursuant to Severn Trent Water's statutory duties. The information presented relates to material or data which is still in the course of completion. Should the solution presented in this document be taken forward, Severn Trent Water will be subject to the statutory duties pursuant to the necessary consenting process, including environmental assessment and consultation as required. This document should be read with those duties in mind.

Severn Trent Sources SRO

Annex I1: Efficiency of Gate 2 Spend

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1. Introduction

This document provides a technical annex to the Gate 2 Report for the Severn Trent Sources SRO (STS SRO) project, providing the supporting information, data and analysis to confirm the efficiency of spend to RAPID Gate 2 as summarised in Chapter 11.

The overall structure of this Annex is as follows:

- Section 2 provides the breakdown of the actual and forecast spend to Gate 2.
- Actual costs are provided to the 29th July 2022 and forecast costs from August 1st 2022 to 14th November 2022.
- A reconciliation of costs will be undertaken post Gate 2 submission. In order to meet the RAPID submission deadlines, actual costs to 14th November 2022 were not available at time of final publication.
- Section 3 documents the procurement approach taken for the support services required for Gate 2, including shared procurement between integrated SROs, and how this has driven efficiency into the programme, change control & delivery to budget.

All costs throughout this annex are deflated to FY2017/18 prices.

2. Gate 2 Cost Breakdown

2.1 Introduction

The Gate 2 cost breakdown is presented, initially, compared to the RAPID Gate 2 allowance as a whole, and then broken down for comparison across the technical workstreams required for Gate 2. The costs are made up of internal Severn Trent Water (STW) staff costs, which are focused upon SRO leadership, technical integration and co-ordination, and also external consultancy costs for technical and other support services that were required for successful Gate 2 delivery.

2.2 RAPID Gate 2 Allowance

The cost allowances to produce the Gate 2 submission were provided in Ofwat's Final Determination documentation¹. The allowances for the STS SRO are shown in Table 1 below.

The RAPID Gate 2 allowance is £795,000. RAPID approved the use of the SRO's Gate 1 underspend (£262k) as part of the Gate 2 budget (email January 2022). The total Gate 2 budget is therefore £1,057,000.

Table 1- RAPID cost allowances for Severn Trent Sources SRO (excluding Gate 1 underspend)

	Severn Trent Allowance (£M)(FY2017/18 base price)	Total (£M) (FY2017/18 base price)	% Split
Stage			
Gate 1	0.530	0.530	10%
Gate 2	0.795	0.795	15%
Gate 3	1.855	1.855	35%
Gate 4	2.120	2.120	40%
TOTAL	5.300	5.300	100%

¹ [PR19-final-determinations-Strategic-regional-water-resource-solutions-appendix.pdf](https://www.ofwat.gov.uk/pr19-final-determinations-strategic-regional-water-resource-solutions-appendix.pdf) (ofwat.gov.uk)

2.3 Gate 2: Actual and Forecast Costs

The actual costs are recorded to 29th July 2022, based upon actual invoices / costs received on the project, plus forecasted costs to the Gate 2 submission, 14th November 2022. We anticipate that our Gate 2 out-turn cost will be £813,924.

For deflation values from our current costs & forecasts, we have used Table 2 below, which has been formulated via Severn Trent Water financial services.

Table 2 - RAPID deflation CPHI index to 2017-18 prices

2017/18	CPI-H	Def/Fac	2017/18	Benchmark

2.4 Expenditure Efficiency

The anticipated Gate 2 out-turn cost will be £813,924. We have made an efficiency saving on the STS SRO when comparing the deflated forecast cost against the total Gate 2 budget of £1,057,000.

Whilst we have carried out the Gate 2 activities and positioned STS SRO with effective resources and information, we have delivered against the Gate 2 budget with an efficiency saving of 23% creating an SRO saving against the Gate 2 budget of £243,076. As with Gate 1, this saving will be brought forward into Gate 3, whereby this saving will create additional opportunity to validate the STS SRO's by way of bolstering environmental surveys, environmental and ecological effects and positively gaining data and information to support the EIA.

Any anticipated savings in Gate 2, being transferred to the Gate 3 budget; in a similar fashion to Gate 1 to Gate 2, is being discussed at the ACWG meeting to determine if this is likely to be the case.

2.5 Gate 2: Cost breakdown by technical workstream

The actual costs are recorded against each of the main the technical workstreams. The details of why each workstream was required and the alignment of each of the Gate 2 requirements are outlined in Section 3. Table 3 provides the breakdown of the actual costs, showing the percentage of expenditure per Annex against the RAPID Final Determination allowance.

Table 3 - Gate 2 cost breakdown by workstream²

Category	Activity	Expenditure Activity (£)	% of Total Expenditure Activity	Expenditure Category (£)	% of Total Expenditure Category	Description
Programme and Project Management	PM & PMO	225,305	28%	243,050	30%	Project manager and project management office
	Assurance	17,745	2%			3rd line assurance and copywriting
Feasibility Assessment and Concept Design	Engineering	285,030	35%	285,030	35%	Engineering CDR
	Water resource	-	0%			(included in feasibility and concept design)
Option benefits, development and appraisal	Non-water resource benefits	-	0%	-	0%	(included in feasibility and concept design)
	Carbon, wider best value and option appraisal	-	0%			(included in feasibility and concept design)
	Environmental Assessments	92,675	11%			190,738
National Assessment Unit (NAU) & Environment Agency (EA) Area costs	88,605	11%	3rd party cost			
Natural England	9,458	1%	3rd party cost			
Data collection, sampling and pilot trials	Targeted baseline desktop studies	-	0%	-	0%	(included in feasibility and concept design)
Procurement Strategy	Procurement strategy	44,040	5%	44,040	5%	Procurement advice
Planning Strategy	Land and planning	40,402	5%	40,402	5%	Land referencing, field surveys, permitting plans
Stakeholder engagement	Customer Engagement	-	0%	-	0%	Customer research, benefits & impact
Legal	Legal advice and collaborative agreement	10,664	1%	10,664	1%	Legal activities related to the SRO
Other	Other	-	0%	-	0%	n/a
Total		813,924	100%	813,924	100%	
Gate 2 Allowance	OFWAT PR19 final determination for gate 2	795,000		795,000		
Transfer from gate 1	Gate 1 underspend approved for gate 2 use	262,000		262,000		RAPID approval January 2022
Revised gate 2 allowance		1,057,000		1,057,000		
Gate under / overspend		243,076		243,076		

² Leadership costs (shown in Table 4) are apportioned across workstreams in Table 3 according to the Expenditure Activity percentage

3. Efficient Delivery of Gate 2 Activities

3.1 Introduction

This section provides commentary on how we have driven efficiency into the Gate 2 submission. This efficiency includes:

- Alignment between the RAPID Gate 2 requirements and the work packages initiated to ensure all spend is relevant to SRO delivery of the Gate 2 submission;
- Agreement of a standardised methodologies for selected work packages across SROs via the All Company Working Group (ACWG).
- Application of competitive procurement approaches, wherever possible;
- Procurement across SROs, for aligned work packages;
- Robust change control processes and delivery to budget
- Considering efficiency in terms of both scope and procurement.

In delivering this submission we have adhered to the criteria provided by RAPID for efficient expenditure, namely that activities should be relevant, timely, complete and of high quality and that this is backed by benchmarking and assurance.

Opportunities have been identified to leverage efficiencies in the following ways:

- Undertake work internally where we have the appropriate skills and experience, with small teams working fulltime across the SROs we are partners in, with support from other specialist internal and external staff as required. Internal recharging to the scheme has been proactively monitored and robustly challenged to ensure that the SRO has not paid business as usual costs. Examples of this include WRMP modelling where we are utilising the existing Severn Trent model of the River Tame and Trent.
 - Utilise established supplier frameworks where appropriate, which have previously been competitively tendered to establish pre-agreed rates. This approach allows access to specialist advice from professionals who are already familiar with our existing assets, something which is of particular value at Severn Trent, where we are looking to add to an existing asset.
 - Opportunities have been sought to competitively tender work within frameworks where time allows. Of the 73% of Gate 2 costs which could be competitively tendered (Tables 4 and 6), 48% were let specifically for Gate 2 via company frameworks, 0.8% were Gate 2 work package extensions through company frameworks, 16.8% were direct awards and 7.2% were undertaken by internal company resources.
 - It was not possible to competitively tender all work elements. For example, work undertaken by STW and the costs of regulators such as the EA/NAU, Natural England and WRE could not be tendered. 27% of the Gate 2 costs could not be competitively tendered.
 - As an SRO we have reviewed existing data sources and undertaken gap analysis to ensure we have not duplicated existing research.
 - We have sought to identify opportunities for collaborative procurement with other SROs, where appropriate. For example, environmental assessment was completed via the STT SRO, whereby STW has contributed to the output and reviewed the environmental and ecological reports. This includes water quality surveys and modelling for Minworth SRO final discharge and STS SRO final discharge, which formed part of the Thames Water monitoring package to service its own five SROs. The sharing of this procurement across the SROs has had an impact upon the workstream percentages (Table 3) as a proportion of technical spend was incurred outside STSources SRO.
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Table 4: Gate 2 Cost breakdown by workstream with procurement route

Category	Activity	Expenditure Activity (17/18 FY £)	% of Expenditure Activity	Procurement Route and Comments
Programme and Project Management	PM	133,936	16.5%	Direct award
	PM	40,486	5.0%	STW internal resource
	PMO	18,054	2.2%	STW internal resource
	Assurance	12,950	1.6%	Competitive mini-tender under STW framework
	Copywriting	2,764	0.3%	Direct award
Feasibility Assessment and Concept Design	Engineering	230,617	28.3%	Competitive mini-tender under STW framework
	Engineering	6,910	0.8%	Extension to consultant contract procured via competitive mini-tender under STW framework
Option benefits, development and appraisal	Water resource	-	0.0%	Included in feasibility and concept design under STW framework
	Non-water resource benefits	-	0.0%	Included in feasibility and concept design under STW framework
	Carbon, wider best value and option appraisal	-	0.0%	Included in feasibility and concept design under STW framework
Environmental Assessment	Environmental Assessments	77,093	9.5%	Competitive mini-tender under STW framework
	NAU & EA Area costs	88,605	10.9%	3rd party costs
	Natural England	9,458	1.2%	3rd party costs
Data collection, sampling and pilot trials	Targeted baseline desktop studies	-	0.0%	Included in feasibility and concept design under STW framework
Procurement Strategy	Procurement strategy	36,636	4.5%	Competitive mini-tender under STW framework
Planning Strategy	Land and planning	33,609	4.1%	Competitive mini-tender under STW framework
Stakeholder engagement	Customer research, benefits & impact	-	0.0%	n/a
Legal	Legal advice	2,764	0.3%	3rd party costs
	Legal advice	6,679	0.8%	3rd party costs
Other	n/a	-	0.0%	n/a
Leadership costs	Leadership costs	113,361	13.9%	Internal costs
Total		813,924	100%	

3.2 Scope Efficiency

In order to ensure the scope of work delivered for the Gate 2 submission was efficient, we aligned the programme Work Breakdown Structure to the requirements defined by Ofwat in their Final Determination documentation from RAPID in their published assessment criteria for Gate 2 and also against the Gate 2 reporting template as supplied by RAPID.

The alignment of the workstreams with the Gate 2 submission requirements were cross-referenced to the supporting Technical Annexes or specific section of the Gate 2 report is shown in Table 5. The work that we have completed was all required for a robust submission at Gate 2, aligned closely to RAPID's requirements, and has been subject to independent assurance.

Table 5: Workstream alignment to requirements for Gate 2 submission

OFWAT PR19 Annex 2: Gate Activities and Outputs – Gate 2	Category and Activity	Associated technical annex / chapter
Detailed feasibility and data collection (with increased certainty) in a concept design report	Feasibility Assessment and Concept Design: <ul style="list-style-type: none"> Engineering 	Annex A Chapters 1, 2, 3, 4, 5, 7, 8, 12, 13
Develop procurement strategy including assessment for potential direct procurement for customers' delivery.	Procurement Strategy	Annex E1 Chapters 1, 2, 3, 7, 8, 12, 13
Pre-planning application activity plan (land referencing, field surveys, environmental permitting plans)	Planning Strategy <ul style="list-style-type: none"> Engineering Environmental Assessment Project plan 	Annexes A, B and F1 Chapters 1, 2, 3, 4, 5, 6, 7, 8, 9, 12, 13
Full comparison of solutions' costs and benefits as tested in regional or national modelling with consideration of inter-regional options and systems impacts	Option benefits, development and appraisal <ul style="list-style-type: none"> Engineering Environmental Assessment 	Annexes A and B Chapters 1, 2, 3, 4, 5, 6, 7, 8, 12, 13
Identification of mutually exclusive solutions	Option benefits, development and appraisal <ul style="list-style-type: none"> Engineering 	Annex A Chapters 1, 2, 3, 7, 8, 12, 13
External assurance of data and approaches supported by Board statement	Programme and project management <ul style="list-style-type: none"> Assurance 	Annex H1 Chapter 7, 10
Updated regional stakeholder engagement including customer preference Studies	Stakeholder Engagement	Annex D1 Chapter 9
Details of efficient spend to gate submission on gate two activities, including a breakdown of costs against activities and evidence of efficiency of spend (benchmarking or tenders) and assurance	Programme and project management	Annex I1 Chapter 11
Assessment of key risks to identify potential regulatory barriers, guidance or changes required for the solution to progress	Procurement Strategy Option benefits, development and appraisal <ul style="list-style-type: none"> Engineering 	Annexes A, E1 Chapters 1, 2, 3, 7, 8, 12, 13

OFWAT PR19 Annex 2: Gate Activities and Outputs – Gate 2	Category and Activity	Associated technical annex / chapter
Identify impacts of solution on current supply-demand balance delivery plan with simple comparison to current programme solutions	Procurement Strategy Option benefits, development and appraisal <ul style="list-style-type: none"> Engineering 	Annexes A, F1 Chapters 1, 2, 3, 7, 8, 12, 13
Identification of any changes in solution partner (other water company) or solution substitutions	No changes identified	Chapters 1, 10
Develop solution programme plan to determine the activities that need to be undertaken prior to each subsequent gate	Programme and project management Project Plan	Annex F1 Chapters 7, 12, 13
Proposals for gate three activity and outcomes, and penalty scale, assessment criteria and contributions	Programme and project management Project Plan	Annex F1 Chapters 7, 12, 13

3.3 Procurement Efficiency

We have applied two key principles to ensure efficient procurement of the support services required for the Gate 2 submission:

1. For “below threshold” procurement, the “Nominated Purchaser” and “mini-bid competition” process across Severn Trent’s established frameworks will apply as set out in the current procurement letter-agreement.
2. For “above threshold” procurement, the “Nominated Purchaser” and “competitive tender” process across Severn Trent’s established consultants will apply as set out in the current procurement letter-agreement.

There have been no “above threshold” packages of work procured for Gate 2.

Common procurement principles are required, in order to ensure the efficient and timely securing of technical and professional support services. A common procurement approach was proposed and adopted across STS SRO with the approval of the Programme Management Board (PMB). This common approach confirms that all procurement activity shall be undertaken with agreement of the PMB.

These procurement guidelines provide:

- Standardised rules for procurement of services
- Seeking to provide best value for money and demonstrate efficient spend;
- Prioritised hierarchy of standard procurement approaches, including:
 - Mini-competition of existing valid framework suppliers;
 - Direct allocation to a valid framework supplier where the framework agreement allows
 - Procurement under the OJEU regulations for “above threshold” procurement; and
 - Requirement for PMB and water company commercial approval of alternative non-framework or OJEU procurement approaches (e.g. direct award) for particular, specialist work packages - to be used by exception.

These procurement guidelines allow governance and control over the procurement of technical services and drive accountable efficiency into the process and have been adopted in the delivery of the Gate 2 submission.

In accordance with these guidelines, where possible, mini-competitions or direct allocation of work packages to suppliers on existing company frameworks have been utilised. The breakdown of Gate 2 spend by procurement mechanism is shown in Table 6.

Table 6 - Breakdown of procurement mechanism

Award Type	Totals by Award type (£, 2017-2018 prices)	% of total spend	% eligible external spend
STW internal resource	58,541	7.2%	9.9%
Framework Mini-bid procured at gate 2	390,906	48.0%	65.9%
Extension to Framework Mini-bid procured at gate 2	6,910	0.8%	1.2%
Direct Award	136,700	16.8%	23.1%
3rd Party	107,507	13.2%	n/a
Leadership costs	113,361	13.9%	n/a
Total	813,924	100%	100%

3.4 Forecast spend to Gate 3

RAPID Gate 3 guidance (August 2022) confirmed that Gates 3 and 4 allowances will be merged and that the level of expenditure at each gate will not be assessed. As noted in the Guidance, the gate three and four allowances do not include funding for land acquisition, and this element is not included in the SRO's forecast spend. Our Final Determination allowance is £1.855M for Gate 3 and £2.120M for Gate 4 based on a 35% and 40% allocation respectively of £5.3M total funding.

We have developed a Gate 3 budget through engagement with workstream leads and external stakeholders. We have referenced the Gate 3 requirements published in the Final Determination and mapped activities and deliverables to achieve those outcomes. A detailed programme for Gate 3 can be viewed in our response to Chapter 7.

Our forecast spend for Gate 3 is provided in Table 7 below.

It should be noted that:

- This is a forecast and is based upon a number of assumptions, dependencies and risks, (as referenced in Chapters 3, 7, 8 and 11 of the Gate 2 submission).
- Any saving from Gate 2 (which might be carried over to Gate 3) has not been accounted for in the Gate 3 assessment.

Table 4: Gate 3 Forecast Spend

Category	Activity	Expenditure Activity (£, 2017-2018 prices)	Expenditure Category (£, 2017-2018 prices)	% of Total Expenditure Category
Programme and Project Management	PM & PMO	645,697	665,538	10%
	Assurance	19,841		
Feasibility Assessment and Concept Design	Solution design & support data	2,881,226	3,448,845	54%
	Development design sufficient for EA/EIA	524,487		
	Modelling	43,132		
	CDM	-		
Option benefits, development and appraisal	Water quality	603,850	682,528	11%
	Operational Strategy	78,678		
Environmental Assessment	Environmental (data)	129,396	198,407	3%
	National Assessment Unit (NAU) & Environment Agency (EA) Area costs	69,011		
	Natural England	-		
Data collection, sampling and pilot trials	Surveys & data collection	258,793	258,793	4%
Procurement Strategy	Procurement and funding strategy (support / advice) (DPC)	138,023	976,770	15%
	Engineering procurement (in house, included in hours assessment)	838,747		
Planning Strategy	Land referencing	10,352	75,050	1%
	Land acquisition	-		
	Planning (EIA co-ordinator / planning advisor)	64,698		
	Fees	-		
Stakeholder engagement	Stakeholder Engagement	17,253	17,253	0%
Legal	Commercial and legal advice	34,506	34,506	1%
Other	WRW regional planning	12,077	12,077	0%
Total		6,369,767	6,369,767	100%
Gate 3 Allowance	OFWAT PR19 final determination for Gate 3	1,855,000	1,855,000	
Gate 4 Allowance	OFWAT PR19 final determination for Gate 4	2,120,000	2,120,000	
Underspend from Gate 2	RAPID email 28/09/22	243,076	243,076	
Gate 3 & 4 allowance		4,218,076	4,218,076	
Remaining Budget		-2,151,691	-2,151,691	

3.5 Assurance of Current and Forecast Spend

We can confirm that our Gate 2 expenditure (costs to date) and forecast Gate 2 expenditure (to November 14th) has been assessed by Stantec - our external assurance providers - and the outcome of their assessment can be viewed in Annex H Assurance Report and Board Statement.
