

# Making Direct Procurement for Customers a Success

Roundtable discussion on the learnings and key success factors

29 September 2021



## Introduction

Almost two years after the first Water Industry Forum roundtable discussion on Direct Procurement for Customers (DPC), we met again in September 2021 to discuss the lessons learnt and key success factors.

Our roundtable brought together leaders from across the industry representing the regulator, water companies, private financiers, contractors and advisors to reflect on:

- The evolution of the DPC model and any emerging trends
- The market acceptance of the model
- The availability of Ofwat guidance and standardisation of documentation in general
- The way DPC is addressing wider strategic policy objectives such as net zero, social value, sustainability etc.

## Background

Introduced at PR19, DPC is a first of a kind delivery model for capital delivery of large projects in the English and Welsh water and sewerage sector. It is commonly seen as a hybrid between the PPP and RAB model and different from the Thames Tideway model in the sense that it is a contracting rather than licensing model.

There are now three DPC projects with the combined value in excess of £1bn progressing towards tender launch:

- **United Utilities HARP project** – tender due in Q1 2022
- **Anglian Water Middlegate Treatment Works** – tender due in Q1 2022
- **Welsh Water Cwm Taf Water Treatment works** – tender due in Q2 2022

Additionally, there is a pipeline of 18 RAPID projects going through different Ofwat gateways, some of which may be delivered as DPC projects. Ofwat is also considering the use of the Specified Infrastructure Project Regulations (SIPR) for the delivery of large-scale complex programmes similar to the Thames Tideway project.

## Roundtable participants

- **Martyn Andrews** – Ofwat
- **Karen Thompson** – Anglian Water
- **Helen Smith** – United Utilities
- **Seb Eyre** – Thames Water
- **Ian Boothroyd** – Welsh Water
- **Nicholas Hives Condon** – Mott MacDonald
- **Steve Slessor** – Galliford Try Environment
- **Andy Barrett** – Equitix
- **Shelley De Souza** – SMBC Bank
- **Stefanie Voelz** – Moody's
- **Sacira Coric** – Turner & Townsend
- **Jason Jones** – Turner & Townsend
- **Sandeep Basra** – Turner & Townsend
- **Peter Drake** – Water Industry Forum

## Key learning points

**Value for Money** – Ofwat’s key objectives for DPC is to ensure customers continue to receive safe and reliable services at a fair price. Ofwat is in the process of preparing Value for Money guidance for assessing DPC delivery versus business as usual which will be published shortly.

**Challenges to Date** – The three water companies preparing DPC projects are generally in agreement that the pre-tender development has not been a smooth journey. Challenges have included:

- Time, resources and overall capability has been higher than anticipated.
- The perceived “discreteness” of a DPC project due to for example, water treatment plants typically being an integrated part of a wider water supply network making it challenging to transfer O&M obligations to a third party.
- Optimising the risk profile between the CAP and Appointee is a fine balancing act, ultimately defining Value for Money for customers.

**Standardisation** – It’s agreed across all parties that a certain level of standardisation would improve the process. Standardisation of the DPC documentation (e.g., CAP Agreement, Allowed Revenue Direction (ARD), Independent Technical Advisor’s (ITA) role, etc) is of major importance to the financing market, but is not achieved yet. It is recognised that the current three DPC projects all have very different risk profiles and contract models (e.g., DBF, DBFM, DBFMO) which requires bespoke, project specific approaches.

**DPC Process** – Ofwat is working closely with the water companies and through continuous dialogue guiding the DPC development process. Going forward standardisation of the CAP agreement is expected as well as more guidance on the ARD. Ofwat is currently working on specifying the role of ITA; the risk of multiple assurance / certification parties undertaking the same role for different parties has been acknowledged.

**Credit Ratings** – Credit rating of the DPC project and the Appointee has also been touched on in the context of standardisation, as different water companies have different credit ratings, which may influence their appetite for risk.

**Collaboration** – Collaboration across the sector is key, whilst water companies are engaging bi- laterally on an ad-hoc basis there is no forum / network created for knowledge share.

**Business Case** – With regard to the latest policy objectives and their assessment in the business case analysis, it is broadly recognised that water companies are required to meet sustainability, net zero and social value objectives as part of their normal business delivery. So, business case analysis for DPC wouldn’t necessarily require any more prescriptive guidance to assess these objectives.

**PQQ Test** – Ofwat has already set out PR24 standards around public value and net zero, and water companies have their own unique approaches to meeting these standards. They are at different stages, particularly with regard to net zero and digitalisation. Water companies are reasonably good at articulating these standards and in practice it becomes a PQQ test for bidders to demonstrate they are on the same journey.

**Continuous Engagement** – Market interest in DPC has been good so far, but it is acknowledged that continuous engagement is necessary as “the devil is in the detail”.

## Key factors for success

Considering the lessons learnt, the following factors were prioritised as being the key influence on the success of DPC projects going forwards:

### 1. CAP Agreement

- Detailed risk allocation and where risk sits up and down the supply chain
- CAP Agreement should define the required behaviours if things don't go as envisaged

### 2. Commercial decision making

- Understanding of go/ no go decisions for water companies to avoid significant wasted effort
- If DPC fails then "fail fast and fail safe"

### 3. Economic regulation

- Stability of the regulatory regime to give confidence in the DPC model (at least 10 years)

### 4. Market appetite

- Full engagement and understanding of private financiers' interests and concerns
- Ongoing market engagement
- Standardisation where appropriate to attract financiers' interest
- Understanding of supply chain capacity challenges and demand from other projects

### 5. DPC process and driving efficiencies

- Realistic assessment of resource requirements for DPC process to achieve CAP contract award
- Continuing open and regular dialogue with Ofwat
- Mindfulness of challenging timelines
- Learning lessons from across DPC projects

## About the Water Industry Forum

The Water Industry Forum launched in 2012 to meet the need for an independent, not-for-profit stakeholder forum for the whole of the UK water sector. Our membership comprises around 600 organisations including government, regulators, regional water companies, contractors, consultants, manufacturers, research organisations, third sector organisations and investors.

Our primary aim is to tackle the many challenges facing the UK water sector through facilitated collaborative working. We do this by providing a forum that is both neutral and independent. This allows us to bring together and engage a wide range of stakeholders to focus on the specific challenges identified by our partners.

## About Turner & Townsend

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We offer independent advice, transforming performance to safeguard the commercial interests of clients embarking on investment programmes across real estate, infrastructure and natural resources.