Stantec

REPORT FOR NORTHUMBRIAN WATER GROUP, ON AMP8 DELIVERABILITY

Final Report of potential AMP8 supply chain capacity based on PQQ data supplied by NWG

2023 (V2), prepared by Stantec

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Identifying the existing Contractor supply chain

Using information that has been made available by NWG regarding the AMP8 supply chain for NWG based upon anonymised PQQ submissions

Living Water Enterprise Bidders (Long Cycle)				Contractor NWL Turnover Capacity (AMP8)				
	Company	Company Turnover 2	Company Turnover 2	Year 1	Year 2	Year 3	Year 4	Year 5
1	Contractor M	£ 10,409,000.00	£ 16,366,000.00	£ 40,000,000.00	£ 50,000,000.00	£ 60,000,000.00	£ 70,000,000.00	£ 90,000,000.00
2	Contractor D	£ 23,482,000.00	£ 24,462,000.00	£ 80,000,000.00	£ 100,000,000.00	£ 100,000,000.00	£ 100,000,000.00	£ 100,000,000.00
3	Contractor K	£ 79,159,000.00	£ 115,386,000.00	£ 25,000,000.00	£ 35,000,000.00	£ 45,000,000.00	£ 50,000,000.00	£ 60,000,000.00
1	Contractor A	£ 129,830,000.00	£ 142,800,000.00	£ 75,000,000.00	£ 100,000,000.00	£ 120,000,000.00	£ 130,000,000.00	£ 130,000,000.00
2	Contractor I	£ 193,181,000.00	£ 233,876,000.00	£ 35,000,000.00	£ 45,000,000.00	£ 55,000,000.00	£ 65,000,000.00	£ 75,000,000.00
3	Contractor F	£ 159,366,000.00	£ 235,435,000.00	£ 20,000,000.00	£ 30,000,000.00	£ 40,000,000.00	£ 50,000,000.00	£ 40,000,000.00
4	Contractor H (Median)	£ 670,575,000.00	£ 403,602,000.00	£ 100,000,000.00	£ 120,000,000.00	£ 120,000,000.00	£ 120,000,000.00	£ 120,000,000.00
5	Contractor J	£ 362,514,000.00	£ 472,024,000.00	£ 55,000,000.00	£ 65,000,000.00	£ 80,000,000.00	£ 90,000,000.00	£ 70,000,000.00
6	Contractor E	£ 522,822,000.00	£ 593,095,000.00	£ 30,000,000.00	£ 40,000,000.00	£ 45,000,000.00	£ 50,000,000.00	£ 55,000,000.00
2	Contractor B	£ 813,434,000.00	£ 1,027,582,000.00	£ 70,000,000.00	£ 77,000,000.00	£ 84,700,000.00	£ 93,170,000.00	£ 102,487,000.00
3	Contractor L	£ 1,096,181,000.00	£ 1,105,254,000.00	£ 60,000,000.00	£ 120,000,000.00	£ 120,000,000.00	£ 110,000,000.00	£ 80,000,000.00
3	Contractor C	£ 1,133,435,247.00	£ 1,380,135,108.00	£ 45,000,000.00	£ 55,000,000.00	£ 65,000,000.00	£ 70,000,000.00	£ 70,000,000.00
4	Contractor G	£ 1,416,470,000.00	£ 1,474,820,000.00	£ 30,000,000.00	£ 35,000,000.00	£ 40,000,000.00	£ 45,000,000.00	£ 50,000,000.00

Determining capacity of the existing supply chain

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- When determining the capacity of the existing supply chain, we have followed UK Government Procurement Policy Note – Supplier Financial Risk Issues   Information Note 02/13 18 February 2013, Contract limits set by turnover, 14:

  "*A contract limit is the size of contract considered 'safe' to award to a potential provider based on a simple comparison of the annual contract value to the annual (or average annual) turnover*."

- The thresholds applied are there to show the ideal exposure per annum for any one client to any one supplier to maintain the client's leverage and importance. The turnover thresholds are indicative and depend upon external influences (such as economic cycle, supplier capability, supplier financials, supplier's structure, supplier's global structure, supplier's elasticity to supply).

- In the original OGC guidance (2008) the lower limit is suggested to be 25%, while private sector organisations (e.g., Tier 1 Contractors) tend to model their Tier 2 exposure on 30%. Hence why 30% is used as a reflection of the private sector's own approach to leverage and exposure risk. 30% was used at the outset for assessing supply chain capacity for the 2012 London Olympics, Crossrail, Thames Tideway, New Hospital Programme (NHP) and HS2.

Determining annual capacity of the existing supply chain

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Given issues over the current state of the AMP7 construction supply chain, departing capacity and resourcing constraints being experienced, we have broadened this range to 20% to 30% to test sensitivity of this theoretical capacity vs. the current delivery environment.

As per the Water UK AMP8 Deliverability methodology:

- The NWG combined turnover of the AMP8 supply chain ranges between £6.6bn pa to £7.2bn pa.
- The AMP7 Supply Chain theoretical capacity is estimated to range between £1.3bn pa (20% of £6.6bn) and £2.2bn pa (30% of £7.2bn pa)
- NWGs demand is £700m/a and, theoretical capacity exists.

Looking at NWGs choice of 7 Contractors from the anonymised PQQ turnover list:

- The NWG average turnover of the AMP8 supply chain is £555m pa. With 7 Contractors to be selected, the average total capacity will be £3.9bn pa.
- The AMP8 Supply Chain theoretical capacity is estimated to range between £778m pa (20%) and £1.17m pa (30%)
- NWGs demand is £700m/a and, theoretical capacity exists.

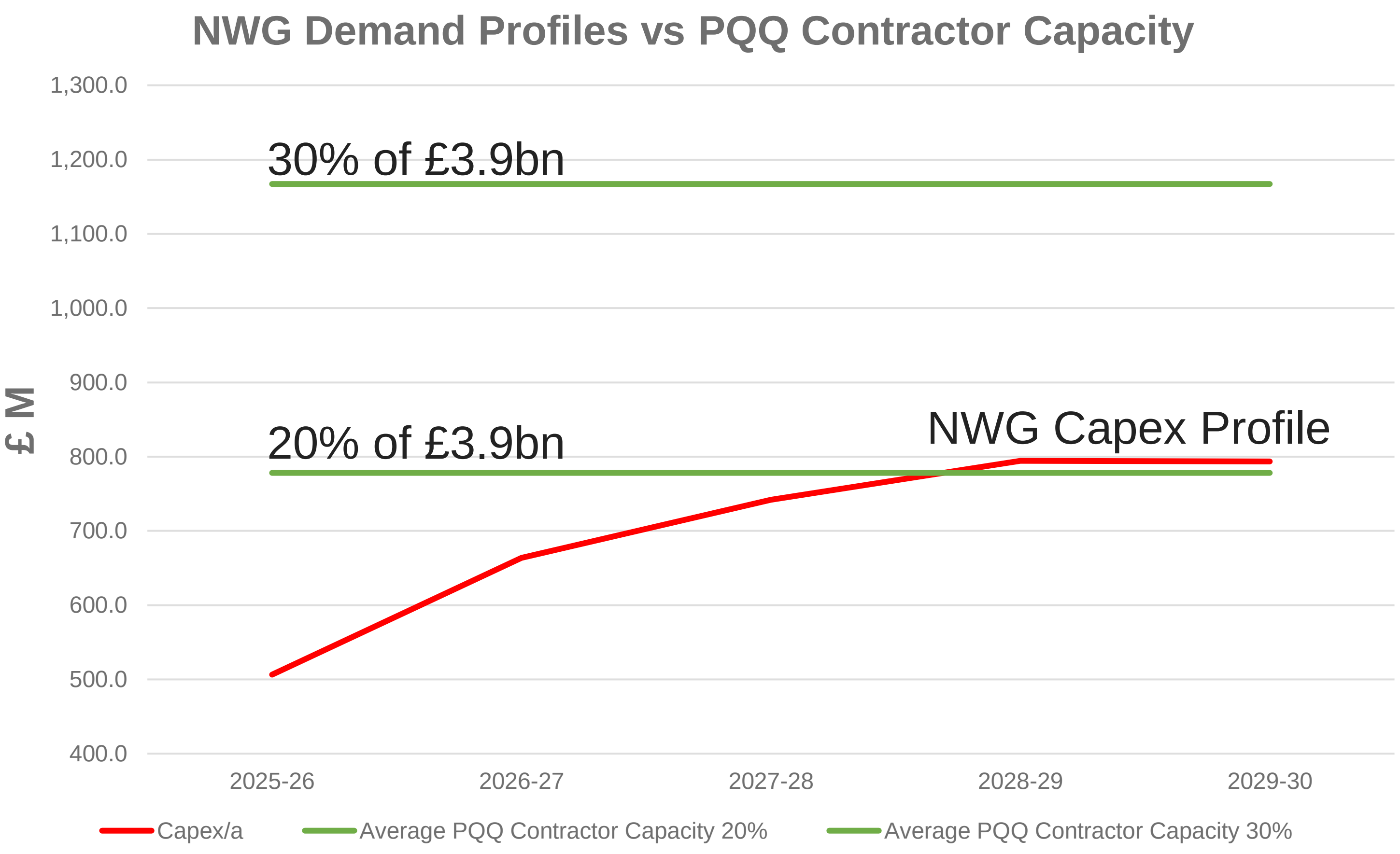
NWG Demand profiling & Capacity Assessment for AMP8

To profile NWGs AMP8 demand across the 5-year period 2025-2030, we have used the increasing capex profile indicated in the data received from NWG.

We have then compared increasing demand against static capacity, based on PQQ turnover figures of an average Contractor (£555m x 7 = £3.9bn pa).

This analysis has been done looking at the 7 Contractors planned to be appointed by NWG in its Long-cycle delivery model. We understand the 7 Contractors may be augmented with up to a further 3 Contractors on a reserve list.

Two of the turnover figures provided under-represent JV parent company Construction capacity. Additional capacity (c. £200m pa) will also exist on the wider supply chain frameworks.



NWG Demand profiling & Capacity Assessment for AMP8

To scenario test, we have also considered capacity vs. median PQQ Contractor turnover (£404m pa x 7 = £2.8b pa) and a random selection of 7 Contractors excluding the largest 4 Contractors (2.0bn pa). The capacity vs. your demand has then been expressed as a percentage indicating the % of PQQ Contractor capacity NWG intends to consume in AMP8. The comparison does not consider growth in turnover from the 2022 figures provided and is therefore conservative.

	Year 1	Year 2	Year 3	Year 4	Year 5
Median	18%	23%	26%	28%	28%
Average	13%	17%	19%	20%	20%
Random 7 Contractors (Excluding 4 largest)	24%	32%	36%	38%	38%

Conclusion:

NWG has attracted capacity in its selection of Contractors at the PQQ stage. A selection of 7 Contractors from the available list should be able to deliver NWGs construction programme as it is represented in the data provided.

End of Report