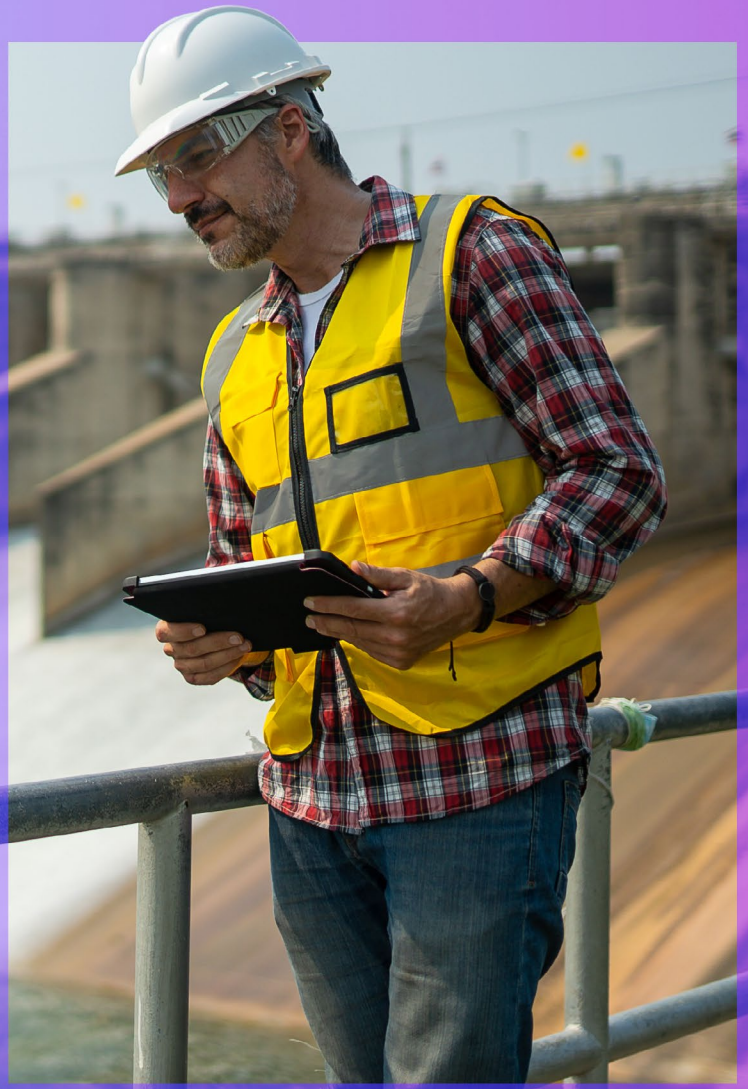
KPMG

A Framework for Change in AMP8

Supporting the delivery of the UK's future water needs

in collaboration with

BRITISH WATER



Executive summary

Asset Management Plan (AMP) 8 will see the water sector investing £104bn – a circa 75% increase on AMP7. This presents both a sizeable challenge and a unique opportunity for water companies.

An unprecedented step change in capital delivery is required to deliver AMP8 and bake-in long-term future resilience.

KPMG and British Water carried out extensive engagement with water companies, suppliers, and industry bodies to jointly assess a range of thematic challenges for AMP8. This distilled issues into three key areas: **Procurement**, **Cyclicality** and **Innovation**. Project teams have worked extensively to analyse the scope and impact of these topics to create practical recommendations. The culmination of this work is set out in this paper, which includes the **Framework for Change** to enable water companies and their suppliers to rise to the scale of the challenge ahead and make the necessary step change. The Framework's aim is to serve as a guide with recommendations that drive benefit-led actions to improve delivery for AMP8.

Mounting pressure demands action

Recognising the specific features and dynamics of the water sector, this paper highlights that while overall performance improved during AMP7, customer satisfaction continues to fall, and this must be addressed as a priority. Ofwat has announced that 13 water companies are likely to pay over £150m for missing key performance targets over AMP7. Some suppliers have chosen to exit or scale back their work in the water sector.

The significant scrutiny that the water sector has come under from media, customers and other stakeholders must now be a driver for change.

This will be possible, but also challenging during AMP8, due to its combination of hugely increased expenditure, new types of infrastructure projects, increased operational target pressures, and an increased penalty system for non-performance.

> "Given the substantial increase in investment, this framework for change – developed by British Water and KPMG, provides valuable recommendations to enable the delivery of AMP8."
>
> **David Black, Chief Executive of Ofwat**

Executive summary

Framework for Change

The Framework for Change considers **four key focus areas** and proposes initial recommendations (baseline good practice) and advanced recommendations (enhanced value-adding practice) to effectively tackle these focus areas. At a high level, the focus areas concern:

- **Market capacity** – fluctuations in market conditions endanger supply chain stability.
- **Client capability** – lack of expertise in complex capital programmes of this scale threatens the ability to deliver the plan.
- **Operational efficiency** – traditional legacy approaches may lead to delays, cost overruns and missed opportunities.
- **Regulatory alignment** – missing performance targets increase reputational damage.

A summary of the respective recommendations is as follows:

Market capacity

- Implement a more collaborative approach to working with suppliers that supports long-term contracting.
- Encourage new suppliers to enter the water sector.
- Clearly communicate the plan on a regular basis through targeted engagement.
- Drive targeted action across the supply chain to boost market capacity and capability.

Client capability

- Create capable client teams that can successful delivery large programmes of work.

Operational and efficiency

- Streamline project management, governance and assurance processes.
- Enable earlier supplier involvement to leverage their skills, knowledge and expertise.
- Benefit from increased AMP8 volumes by accessing increased economies of scale and presenting a stable, sustainable workload.

Regulatory alignment

- Ensure suppliers understand AMP8 objectives.
- Track and monitor benefits with greater accuracy and speed.
- Plan for addressing performance issues from lead indicators.

A call to action

Through the Framework for Change, this paper serves as both a call to action and a practical guide for delivering meaningful change in AMP8, and beyond. Implementation will require a coordinated move in the water sector from project-level thinking to a programmatic and sectorial perspective.

KPMG and British Water call on water companies and suppliers to work closely together to better bridge the gaps and actualise the benefits – creating a stronger water sector with a sustainable long-term future.

Introduction

The water sector is about to enter a critical period of change. UK water and wastewater companies[1] need to transition to large scale infrastructure delivery organisations. This represents a significant challenge and a huge opportunity. Many water companies have argued that previous determinations have not allowed for sufficient investment in asset health, which jeopardises customer service. At the same time, some of these water companies have come under heightened regulatory scrutiny and suffered pervasive negative media coverage.

The water sector has a great deal to be proud of. It has seen overall improvements over the past Asset Management Plan (AMP) periods in drinking water quality at a cost-effective price and sewer flood protection for homes, along with increases in wastewater treatment investments.

However, unpermitted sewage discharges, rapidly increasing operational costs and declining customer satisfaction amidst higher cost-inflation and population growth have raised questions on the sector's performance and investment required for the future.

To address this, the sector is due to invest £104bn into maintenance, operations and upgrades over AMP8 as agreed by Ofwat[2], the economic regulator. This equates to a circa 75% increase on AMP7 regulatory allowances, which many companies saw as an already challenging delivery period. However, money alone will not be the key in unlocking successful delivery of AMP8 for the sector. To deliver this in current market conditions, water companies will need to address the fundamentals of the way they deliver infrastructure. **This necessitates an unprecedented step change in the scale and complexity of Capital Delivery required in the sector.**

Companies will need to implement targeted actions to bring about sustained operational and environmental performance improvements that meet the expectations of both regulators and customers. These changes also need to be achieved in parallel with water companies continuing to operate and deliver for their customers. Therefore, change must be implemented in a progressive way, that allows for realisation of benefits while long-term evolution happens. Given immediate delivery pressures, this is a very big challenge indeed.

The purpose of this paper is to set out the problems that confront the water sector and offer a Framework for Change that both water companies and suppliers can use in AMP8. **The Framework's aim is to support decision-making on benefit-led actions to improve delivery.**

1. Water and wastewater companies will be referred to jointly as 'water companies'.
2. Ofwat, or the Water Services Regulation Authority, is the economic regulator of the water and sewerage industry in England and Wales.

This paper has been developed by KPMG and British Water who have worked closely together to harness subject matter expertise and specialist insights. This included KPMG's Infrastructure Advisory Group and Major Projects Advisory team who developed a methodology to drive the creation of the Framework for Change and its recommendations.

Special thanks to the following for convening the workshops, wider stakeholder engagement, and contributions to authoring this paper:

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Introduction

KPMG first identified the specific features and challenges of delivering infrastructure in the water sector and in the context of AMP7, AMP8 and beyond. This was supported by work from the British Water Supply Chain Task Force which previously identified several critical supply chain issues. This work was underpinned by engagement with water companies and the UK Water Industry Research (UKWIR) to ensure a well-rounded understanding of the challenges, stemming from those directly involved in delivery.

A series of workshops were then held with KPMG, British Water, water companies, suppliers, and industry bodies to agree a core set of challenges and a range of potential solutions.

These solutions were supplemented by a review of existing infrastructure industry guidance, such as the Construction Playbook, Project 13, a Systems Approach to Infrastructure Delivery (SAID) and Transforming Infrastructure Performance (TIP). Solutions were finally prioritised and developed into recommendations based on key criteria across impact, feasibility and ease of implementation to form a clear framework of the top actionable recommendations, benefits and considerations.

Outline of methodology behind the Framework for Change

Structure of the paper

In this paper KPMG and British Water:

- Provide an overview of the specific features of the water sector and the need for a tailored delivery framework (page 6).
- Assess the significant challenges arising towards the end of AMP7 and the likely impact on UK water companies and their supply chains (page 7).
- Highlight the need for a significant step-change in the delivery approach for AMP8, and future AMPs (page 9).
- Set out the key challenges of traditional delivery that impede the success of AMP8 (page 10).
- Provide key recommendations (in the form of the Framework for Change) to address challenges and tackle focus areas which threaten AMP8 deliverability (page 12).

The specific features of the sector must be considered

There is plethora of UK infrastructure sector advice from industry working groups, published papers and government guidance. Therefore, good practice and process improvement relating to common cross-sector problem areas are well-understood. However, the water sector has several characteristics that needed consideration when developing our recommendations. Each of these specific features create distinct challenges, as well as opportunities, when considered through the lens of AMP8.

5-year cycles

Water companies and their supply chain plan around 5-year regulatory delivery cycles, which typically impose a peak and trough delivery profile. This ramp-up and ramp-down approach often leads to supplier capacity gaps and increased sector wide costs. While other sectors also have 5-year investment cycles, this approach may not be appropriate for all types of investments in water companies' capital portfolios. For example, design and build periods of new, major complex infrastructure are often likely to well exceed 5 years.

Geographic location

Each water company has a distinct geographic location and profile, which presents unique challenges of topography, climatic conditions and local characteristics, such as customer base and access to skills. In addition, crossovers between water companies, such as the supply of water from one to another, require cross-working to occur, which in turn creates further complexity.

Unique regulation

Water companies are regulated by several bodies that include the Office of Water Services (Ofwat), the Drinking Water Inspectorate (DWI), the Environment Agency (EA), Natural Resources Wales (NRW) and the Department for Environment, Food and Rural Affairs (Defra). While these regulators have distinct yet complementary interests, their oversight creates a multifaceted regulatory landscape for the water sector. This requires water companies to navigate multiple standards and targets when delivering and operating infrastructure, particularly in the context of AMP8.

Ownership of delivery and operation activities

Water companies have historically delivered, owned, operated and maintained their infrastructure assets. This differs from many other infrastructure providers. However, AMP8 will see a shift, with third-party ownership of some strategic water assets. As a result, some water companies will need to be comfortable in adapting to a new approach. To tackle potential challenges and safeguard the delivery process, robust governance frameworks and clear procedures will be essential to ensure the successful management and sustainable operation of these assets.

Direct relationship with the end customer

Water companies have a direct relationship with their end customer and therefore have direct accountability for their end customer outcomes. This means that customer experience is influenced by water company performance and must be carefully considered when developing communication and delivery plans for new infrastructure.

Competing priorities

Water companies often face competing priorities, each with its own set of pressures, that can potentially lead to conflicting objectives. Balancing these diverse and sometimes opposing goals from a wide range of stakeholders – including financial interests, regulatory requirements, customer service, and infrastructure asset management – can present challenges in ensuring long-term success and sustainable operations.

Context of AMP7

Although AMP7 has seen a significantly lower level of investment than that forecast for AMP8, at the time of the 2019 Price Review it was positioned as a stretching 5-year period for water companies. It is therefore perhaps not a surprise that although overall performance improved through the AMP, and compared to previous AMPs, there are still various areas where performance has not met Ofwat's targets.

During the 2023/24 Ofwat review[3], the following areas were identified as needing improvement:

01

"Most companies reported a reduction in annual leakage, but improvement needs to be accelerated."

02

"Customer satisfaction continues to fall. Improving this should be a key priority for all companies."

03

"Almost all companies reported an increase in internal sewer flooding incidents and companies must take actions to address this."

04

"The majority of companies improved their performance for water supply interruptions, but some companies still have unacceptable levels."

05

"Companies need to take action to reduce pollution incidents which have increased and are at an unacceptable level."

Ofwat also announced in 2024 that pending a final review, 13 water companies would be likely to pay over £150m in penalties for missing key performance targets over AMP7.

Yet, even at the outset of AMP7, confidence was not high. Balfour Beatty, previously one of the largest construction suppliers to support the water sector, agreed to terminate historical contracts.

> Under the new AMP7 regulatory period (2020-2025) contracts are generally being awarded on terms that are not acceptable to Balfour Beatty."[4]

Leo Quinn, Chief Executive of Balfour Beatty

3. Water Company Performance Report 2023-24, Ofwat
4. Balfour Beatty plc – H1 2020 results

Context of AMP7

Generally, when compared to previous AMPs, overall operational performance levels and capital investment levels have risen.

AMP7 has also been delivered against a backdrop of financial uncertainty in the wider economy, which has impacted water companies and their investors. Rising debts and higher energy costs paired with increased inflation and tighter regulation is shifting the perception that private sector water company ownership is a safe investment.

Nevertheless, AMP7 has seen various improvements. Generally, when compared to previous AMPs, overall operational performance levels and capital investment levels have risen.[5]

There has also been further progress made in the ways that water companies work with their suppliers, with a move away from transactional approaches, albeit at different rates of pace across the sector. Anglian Water's @one Alliance, introduced in 2005, was able to sustain performance improvements and, over ten years, saw a reduction in the cost of investment projects and amount of carbon embodied in new infrastructure.[6]

The sector has also continued to embrace digital technologies over AMP7. For example, various water companies have invested in smart sensors and loggers across assets, providing granular information associated with usage or performance. However, there is still a significant proportion of water assets not yet digitalised. Furthermore, companies are often yet to fully benefit from the wealth of accessible data due to data analysis issues often related to aging back-office systems that need upgrading or replacement.

In summary, generally AMP7 has been a period where performance levels have improved, when compared to previous AMPs. However, higher targets set by Ofwat have meant that overall performance levels have proved difficult to achieve. These perceived performance issues, paired with several high-profile controversies, have led to significant scrutiny from both the media and customers against the water sector. This scrutiny, in part, has been a catalyst for the change that is about to commence in AMP8.

5. Long-term data series of company costs, Ofwat.
6. Project 13: from Transactions to Enterprises, Institution of Civil Engineers (ICE).

AMP8 and beyond

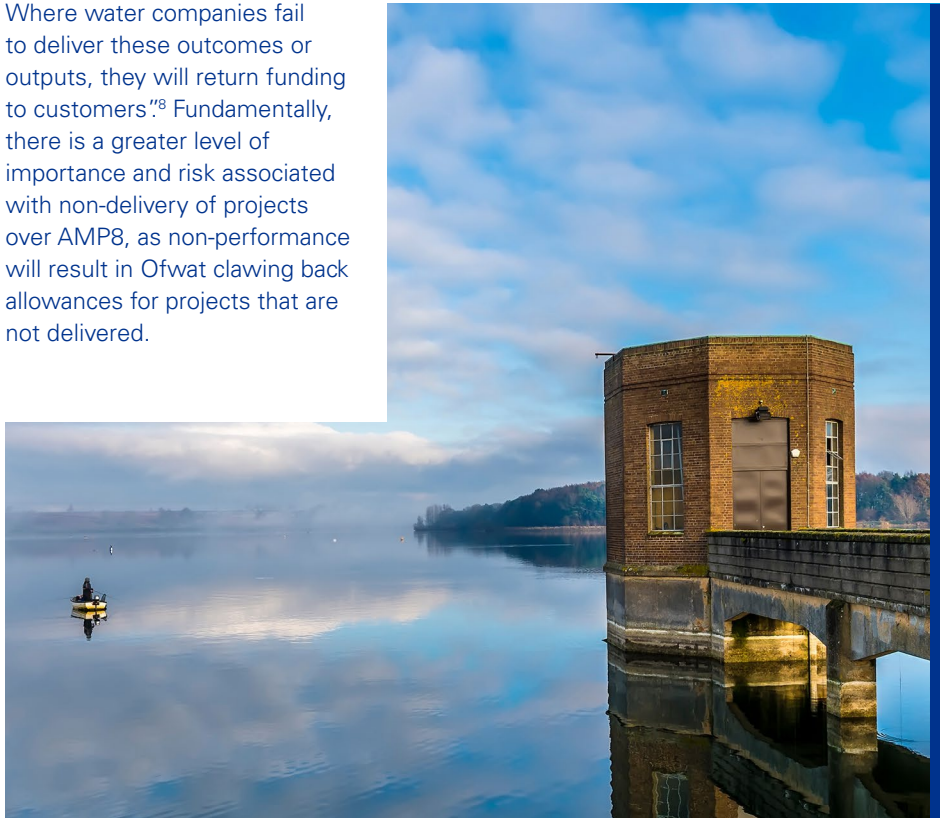
Over AMP8, the total allowed expenditure for the sector is £104bn, representing a circa 75% increase on the £59bn allowance at PR19. It is also a significant increase on the Draft Determinations at £88bn.[7]

There are allowances made for 30 large standalone infrastructure investment projects, of which 27 are to be delivered through DPC/SIPR mechanisms, and 3 schemes in-house with RAPID oversight. These projects represent an opportunity to develop a large new market for major infrastructure projects in water that third parties will be able to bid for.

However, in parallel to increasing expenditure levels, the water companies must significantly improve their operations during the 5-year period. For example, companies must reduce spills from storm overflows by over 45% compared with the 2021 level, reduce leakage by 17%, reduce sewer flooding to homes by 27%, and target 29% fewer complaints about drinking water quality.

A major new development in AMP8 will be the use of Price Control Deliverables (PCDs). PCDs set out Ofwat's expectations for "delivery specifically on improvements (or 'enhancements'), funded through enhancement expenditure allowances.

Where water companies fail to deliver these outcomes or outputs, they will return funding to customers".[8] Fundamentally, there is a greater level of importance and risk associated with non-delivery of projects over AMP8, as non-performance will result in Ofwat clawing back allowances for projects that are not delivered.



In summary, AMP8 sees a combination of hugely increased expenditure, new types of infrastructure projects, increased pressure of operational targets, and a robust penalty system for non-performance; all commencing from April 2025. This difficult balance of delivery, operation and performance management will require water companies to implement targeted changes across their businesses. To be successful, companies must understand their current strengths and weaknesses to determine necessary improvements.

It is also likely that future AMPs will represent major periods of investment and sector-wide change. Therefore, the recommendations positioned in this paper should not be viewed as short term adjustments. Instead, they are long-term improvements to adapt water companies to the 'new normal': becoming major capital infrastructure delivery and operation organisations.

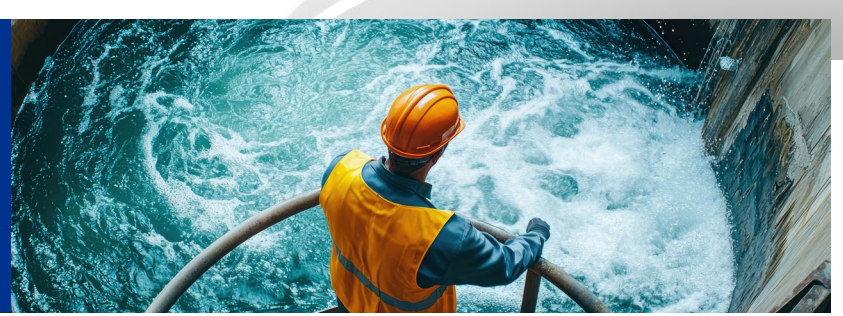
7. Final determinations, Ofwat.
8. Price control deliverables, Ofwat.

Delivery challenges

By considering the specific attributes of the water sector, experiences of previous AMPs, and the future requirements of AMP8 KPMG and British Water ran an extensive engagement process across water companies, suppliers and industry bodies. This process identified several challenges which could impede future delivery.

This collection of delivery challenges has been categorised and grouped under four key focus areas. Developing a strategy which addresses and tackles these focus areas is crucial to the overall successful delivery of AMP8.

Market capacity
There is currently perceived to be an insufficient market appetite and capacity to deliver the requirements for AMP8.



Client capability
Client teams are often small and have not delivered capital programmes of the scale and complexity demanded by AMP8.

A perceived imbalance of risk and reward leading to critical suppliers leaving the industry and prioritising work in other sectors. For example, the Water Industry Forum and the British Water Supply Chain Task Force have found growing evidence of suppliers being more selective of who they work with – or leaving the sector altogether. Suppliers have described that this is in part due to a lack of early transparency and two-way engagement from water companies and an often-disproportionate approach to outsourcing risk to the supply chain.

Inconsistent approaches to supply-chain collaboration resulting in an inconsistent cost base and varying risk allocations. For example, Anglian Water's @ One alliance has demonstrated the delivery benefits of an alliancing approach with open book costings, while also using the principles of Project 13. On the other hand, many other water companies continue to implement traditional contracting approaches such as competitively tendering every capital project, usually at a fixed price.

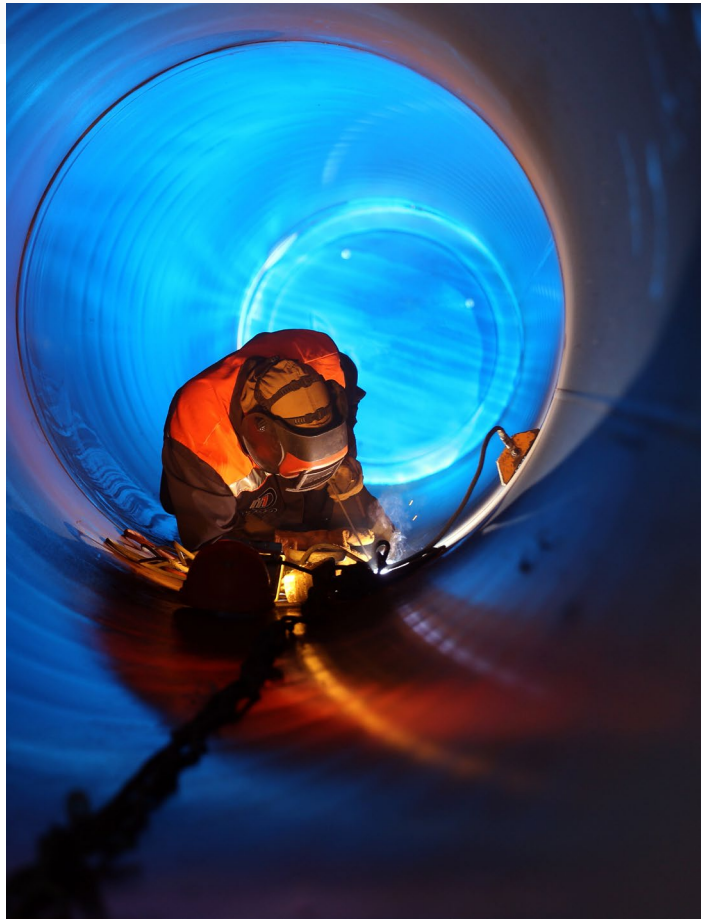
Competition for resources with other major programmes that may be offering more favourable commercial arrangements and risk positions. There is a competitive global market for capital, even within utilities.

Skills and labour gaps, with over 35% of skilled water sector roles struggling to be filled, especially in specialist trades such as professional water engineers and pipefitters.

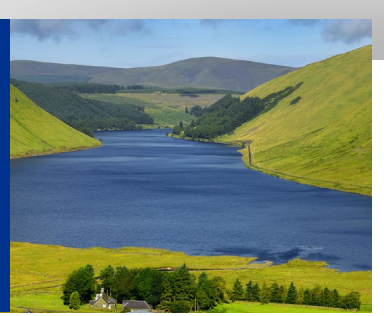
AMP8 will see a quadrupling of new investment over the next 5 years driven by large projects, and a step change in deliverability will be required. Companies will need to expand their teams and drive improved capability to support expenditure levels and meet increased regulatory requirements. At the same time, The Engineering Construction Industry Training Board (ECITB) reports that the water treatment sector saw a decline of nearly a fifth of its workforce over the pandemic, with a significant proportion set to retire in the next 20 years, while employers struggle to fill skilled vacancies. Additionally, this is in the context of wider skills shortages in the infrastructure sector – for example, the Construction Industry Training Board has identified that over 250,000 extra workers will be required in construction by 2028 to meet growth demands.[9] Water companies will be challenged to expand their capital delivery capabilities at a period of intensified industry-wide competition.

9. CSN Industry Outlook - 2024-2028, CITB.

Delivery challenges



Operational efficiency
A persistent combination of over- and under-spend against cost allowances indicate that capital delivery is often suboptimal, with frequent delays to schedules and cost overruns.



Regulatory alignment
The level of regulatory scrutiny in AMP8 is increasing and aligning internal targets to these requirements will be more challenging for water companies in current dynamics.

A lack of digitalisation/ automation across the sector leading to an overemphasis on human interventions and lower-than-expected productivity. In British Water's most recent supply chain survey of water company performance, innovation and digital performance received the lowest average scores across 12 performance metrics.[10]

Siloed and under-resourced teams causing ineffective communication, fragmented approaches and duplication of resources.

Ineffective co-ordination between asset management and capital delivery leading to inconsistent approaches to project prioritisation and benefits realisation.

Inefficient, complex or inconsistent governance and reporting leading to extended approval durations or a lack of key decisions being made.

A misalignment between commercial agreements and forecast volumes leading to missed opportunities to realise cost reductions based on the increased demand levels.

A misalignment between the performance targets of water companies and the contractual obligations of the supply chain, straining relationships and reducing water companies' overall abilities to achieve their objectives for AMP8. As proposed by the Project 13 approach, commercial interests of owners and suppliers must be aligned and all parties committed to maintaining long-term relationships for more efficient delivery of investment programmes.

A focus on 5-year investment cycles paired with a reactive approach to capital projects has manifested in reactive 'short-termism', rather than proactive long-term planning. The British Water Supply Chain Taskforce has argued that cyclicality has strained the supply chain and affected retention in a sector with an already constrained workforce.

10. Supply Chain Impact Surveys.

Framework for Change

To support water companies, and their suppliers, with tangible ways to tackle the focus areas and delivery challenges associated with traditional approaches, KPMG and British Water have developed the Framework for Change.

The Framework also takes lessons and guidance from industry papers related to infrastructure delivery, while also considering the specific features of the water sector. Various publications, and associated themes, were considered as examples of good practice literature across public sector infrastructure.

Key themes considered

Construction Playbook

- Early and ongoing supply chain involvement to aligning round a single view of an outcome-based approach.
- Risk allocation and the fair return of reward for risk held.
- Whole life thinking in the delivery, operation and maintenance of assets, including an appropriate should-cost model.
- Modern methods of construction to improve productivity.

Project 13 transitions to enterprises

- Forming long term partnerships that support clients and suppliers to come together in an enterprise rather than a transactional relationship.
- Fair and equitable risk-reward sharing for all members of the enterprise.
- Focusing on, and improving, governance, organisational structures, integration, asset owner capabilities and digital transformation.
- Focus on activities which enhance the performance baseline of the enterprise and the end outcome for the customer.

Considering the specific aspects of the water sector, and these key themes, the Framework for Change was set up. It articulates pragmatic recommendations that link back to each of the delivery challenges to be addressed for AMP8

The Framework is structured with initial and advanced recommendations. This is because water companies must continue to deliver and operate their assets in parallel to transforming their businesses. Therefore, this Framework for Change enables water companies to progressively navigate the necessary step-change and evolve using a holistic approach.

Hence, that change should not be seen as ‘all or nothing’. Instead, initial recommendations can be viewed as ‘quick wins’, paving the way for advanced recommendations that will drive delivery transformation.

The Framework includes the following headers which are defined below:

Key focus area
The delivery challenges the water sector is facing and must address for successful delivery of AMP8.

Recommendation overview
A high-level statement of the recommendation water companies should implement to tackle the focus area.

Initial recommendation
A minimum benchmark water companies should be aiming to achieve as baseline good practice to partially address the key focus area. However, it does not provide to the necessary transformation to fully address the challenge.

Advanced recommendation
Enhancing the baseline good practice to tackle the challenge and address the key focus area. These require additional commitment but hold the potential to achieve greater value in return.

Framework for Change: Market capacity

Key focus area	Recommendation overview	Initial recommendations	Advanced recommendations
Market capacity	Implement a more collaborative and equitable approach to working with suppliers that supports long-term contracting	**Is your contracting approach collaborative or transactional?** **Recommendation** – Assess which projects/areas of the capital programme could transition from fixed price arrangements towards target costs or open book approaches. **Benefit** – By aligning pricing approaches to scope certainty or risk profiles, water companies can increase supplier appetite and incentivise quality. Consider impacts on the broader commercial approach before implementing any change, for example, packaging, procurement routes and supplier management requirements.	**Does your contracting strategy extend beyond your immediate "Tier 1" suppliers?** **Recommendation** – Assess and implement a supply chain ecosystem review, assess if the contracting approaches at each tier contribute towards successful enterprise outcomes. **Benefit** – Water companies can use this analysis to support strategies to improve appetite, capacity and capability in categories that may not have been previously considered. Consider an appropriate transition plan from transactional to collaborative contracting, and how this plan would be implemented over multiple AMP periods. A delivery model assessment may be required.
	Encourage new suppliers to enter the water sector	**How are you proactively encouraging new suppliers to enter the water sector?** **Recommendation** – Invest time in implementing several rounds of early market engagement that are accessible to suppliers who may not have previously worked in the water sector. Invitations to market engagement sessions should be published openly using internationally accessible opportunity portals. **Benefit** – Through open and proactive engagement, a wider variety of suppliers will be alerted to, and gain an understanding of, opportunities. This engagement is particularly important for international suppliers and new entrants who are unlikely to have extensive prior knowledge of water companies and their specific requirements. Consider utilising different procurement approaches such as Open Frameworks and Dynamic Markets which are new concepts as part of the Procurement Act. Open Frameworks provide re-procurement points during the term of the Framework, allowing new suppliers to become members. Dynamic Markets provide access to prequalified suppliers, who can join the Dynamic Market at any point while it is live.	**Are you considering different delivery methodologies and applying standardisation or modern methods of construction (MMC)?** **Recommendation** – Conduct an assessment to identify and balance opportunities for standardisation and/or innovation. Consider how to integrate new methods for delivery into existing and new delivery models. For example, packages of work assembled off site and re-integrated into the final asset. **Benefit** – The assessment will demonstrate tangible whole life cost benefits such as reduced total expenditure (totex), time savings or quality improvements helping to develop the business cases to the recommended changes. Consider using market engagement to gain feedback on current specifications, particularly in relation to constraints in requirements or possible innovations that have not been incorporated. It is important to consider how changing the specification could impact other assets that might be interdependent. **Recommendation** – Collaborate across the sector in relation to market and supplier understanding, potentially considering some procurement collaboration. **Benefits** – There will be upfront time efficiencies and possible longer-term benefits through joint approaches, particularly where the requirements or constraints are similar and therefore are aligned to similar supply markets. Consider how cross sector collaboration can be delivered in a way that does not conflict with regulatory principles and provides benefits to companies, suppliers and customers.

Framework for Change: Market capacity

Key focus area	Recommendation overview	Initial recommendations	Advanced recommendations
Market capacity	Clearly communicate the plan on a regular basis through targeted engagement	Do suppliers understand the timeline, requirements and predicted volumes associated with AMP8?	How are suppliers at every tier integrated into the ecosystem?
	Drive targeted action across the supply chain to boost market capacity and capability	Is your risk allocation approach proportionate?	Where can you undertake specific investments to resolve capacity or capability issues?

Do suppliers understand the timeline, requirements and predicted volumes associated with AMP8?

Recommendation – Develop a pipeline communication plan which accounts for works and services expected throughout the AMP period. Communicate this plan on a regular basis through market engagement and targeted business to business engagement.

Recommendation – Encourage market feedback on key areas of future procurement processes including questionnaires and round table engagement events.

Benefit – Through market engagement and pipelines sharing, suppliers can plan and invest against specific needs early enough. Supplier's gain confidence that water companies are collaborative through this early sharing of information, which will increase appetite.

Utilise feedback and input from suppliers into the development of the pipeline and to inform delivery, commercial and procurement strategy. Target strategic suppliers at lower tiers and consider the communication of the pipeline beyond the current AMP period (i.e. AMP 8 and AMP9).

How are suppliers at every tier integrated into the ecosystem?

Recommendation – Review and update process and governance for opportunities to integrate suppliers across every tier of the supply chain. In addition to pipeline communication, consider proactive supplier performance feedback and proactive management of performance.

Benefit – By better integration and proactive supplier performance management water companies can find opportunities to improve performance indicators such as cost, quality and time. It can also help to mitigate issues occurring by giving suppliers the opportunity to highlight risks early on before they arise.

Consider the use of digital tools to support the planning and engagement with suppliers. Supplier Relationship Management (SRM) systems allow for information sharing to happen more freely between the parties.

Is your risk allocation approach proportionate?

Recommendation – Conduct a risk allocation review across existing contracts terms and conditions and demonstrate for future contracts risk is allocated to the entity with the appropriate capability and capacity; considering relevant adjustments to the commercial strategy.

Benefit – By aligning contract terms to market conditions and project risk profiles, suppliers are likely to increase their appetite to work with water companies.

Recommendation – Track live sector and wider industry capacity data risks with plans on how suppliers will support this.

Benefit – Live data will help water companies to establish targeted mitigation strategies before capacity issues occur.

Consider the use of model-forms of contracts rather than bespoke agreements to reduce concerns from suppliers around unknown, or not understood, contractual risks. Test with the market how different risk positions would impact supplier's willingness to invest for long term growth.

Where can you undertake specific investments to resolve capacity or capability issues?

Recommendation – Conduct an in-depth review of UK infrastructure wide capacity-constrained markets including sub-tiers then identify which strategic suppliers are part of, or impacted by, these market.

Benefit – This review allows for bespoke approaches to developed (for example in risk allocation or incentivises) to encourage the strategic suppliers identified to invest in future capacity and capability.

Recommendation – Consider how delivery profiles are smoothed to remove peaks and troughs in the delivery profile.

Benefit – Smoothing delivery profiles will allow suppliers to manage capacity more efficiently.

Consider developing sub-tier commercial arrangements to bring these suppliers closer to the end-client or targeted investments, for example, logistics hubs and training academies.

Framework for Change: Client capability

Key focus area	Recommendation overview	Initial recommendations	Advanced recommendations
Client capability	**Creating capable client teams that can deliver a large programme of works**	**Is the client ready to act as a capable client throughout the AMP8 period, and have considerations been provided for new contracting and delivery model approaches?** **Recommendation** – Assess existing capabilities (skills, technology process and governance), reviewing if there are short, medium or long-term capabilities gaps or risks. **Benefit** – This assessment will support the business case to make changes by clearly highlighting areas of focus and possible options. Consider prioritising training, upskilling, and refreshing knowledge throughout the AMP. Ensure process and governance are fit for purpose at transition stages across the AMP period.	**How is the client balancing the appropriate capabilities over the long term to promote long term skill growth?** **Recommendation** – Run a full organisation-wide delivery options assessment, including internal, part or full outsourcing opportunities. **Benefit** – Supports a refresh and rethink of the appropriate delivery models to find the most effective solution per capability area. Consider wider engagement with other infrastructure delivery organisations in other sectors to understand how delivery capability compares and is structured in comparison to the water company.

Framework for Change: Operational efficiency

Key focus area	Recommendation overview	Initial recommendations	Advanced recommendations
Operational efficiency	**Streamline project management, governance and assurance processes**	**Are current processes inefficient and therefore likely to cause delays to delivery?** **Recommendation** – Streamline project management processes, removing duplication of effort with a particular focus on reducing duplication in the client and supply chain. Identify areas that lack integration within internal client and supplier functions. **Benefit** – These changes reduce time durations and internal overheads. As a knock-on effect, supplier appetite is increased due to improved confidence in water company decision making on approving contracts awards efficiently. Consider a review of governance and approvals structures against any new regulatory requirements including delegated approvals which may need to be scaled up appropriately to mirror the higher contract values existing in AMP8.	**Is the client considering supply chain efficiency in the post-award delivery approach to streamline project management, governance and assurance?** **Recommendation** – Deploy progressive assurance processes through implementing cross-programme multi-discipline teams who work closely with suppliers particularly during design stages. **Benefit** – Through progressive assurance, traditional stage-gate reviews can be reduced, therefore reducing lengthy re-work processes which impact time and cost.
	Enable earlier supplier involvement to leverage their skills, knowledge and expertise	**Are construction partners brought into projects too late on to leverage their skills and knowledge?** **Recommendation** – Improve early contract involvement (ECI) by getting a wider pool of specialist suppliers to influence design phases. **Benefit** – Risks or opportunities exist (such as in logistics) in the early-stage design can be mitigated or removed through contractor design input. Also, innovations, that design teams may not be aware of, can be incorporated. Contractors can subsequently reduce the period related to design verification or validation, as they have already gained significant knowledge of the design. Consider how Tier 1 management contractors can support market scanning and brokering innovation from a wider pool of suppliers.	**Could innovation be encouraged if demand was more predictable and suppliers could share some of the benefits?** **Recommendation** – Create incentive mechanisms that drive innovation, e.g. sharing gainshare with the supply chain, creating upside incentives against innovation related KPIs. **Benefit** – Innovations will be formally communicated at the programme level, rather than only incorporated once for a project, which could be missed by the water company, and therefore not incorporated again more widely. Consider how operational teams are engaged in the sourcing and evaluation of innovation. This supports innovation being adopted more readily and successfully – incentivising suppliers to drive greater amounts of innovation.

Framework for Change: Operational efficiency

Key focus area	Recommendation overview	Initial recommendations	Advanced recommendations
Operational efficiency	**Benefit from increased AMP8 volumes by accessing increased economies of scale and presenting a stable, sustainable workload**	**Is your existing procurement/commercial strategy able to benefit from the increased volumes associated with AMP8?** **Recommendation** – Review existing framework agreements to establish if opportunities exist to reduce costs based on increased volumes. **Benefit** – By implementing mechanisms that have been pre-negotiated water companies can make upfront savings with a relatively low level of effort and investment.	**Could you procure in a different way to further increase value for money?** **Recommendation** – Assess where benefits could exist in different delivery models including bulk buying specific components, or upfront investments with the supply chain (such as minimum order guarantees over defined time periods). **Benefit** – Different buying approaches allow for suppliers to reduce their costs associated with manufacturing runs or management of works – and therefore a proportion of these benefits can be passed back to the water company. Consider any risks that might be created through different delivery approaches. If bulk purchased components are no longer required by the water company, then they may be likely to incur a significant cost. **Recommendation** – Develop Tier 2 and Tier 3 commercial arrangements, where major volumes are forecast. **Benefit** – By directly engaging with suppliers in lower tiers, water companies will be able to greater reduce cost basis or improve quality. This direct engagement, such as through frameworks, provides suppliers with increased confidence to invest in areas such as capacity or capability.

Framework for Change: Regulatory alignment

Key focus area	Recommendation overview	Initial recommendations	Advanced recommendations
Ensure suppliers understand AMP8 objectives		**Are the desired outcomes of programmes and projects clear, concise and measurable? Do these tie back to the AMP8 objectives?** **Recommendation** – Create awareness of AMP8 objectives through engagement sessions and briefings with the supply chain. **Recommendation** - Set clear and measurable outcomes to be delivered by suppliers at the outset of a project or programme. In developing outcomes, there should be a focus on how they contribute to AMP8 objectives. **Benefit** - Taking the time to create an understanding of the desired outcomes and benefits of AMP8 plans can be the beginning of developing a shared focus on outcomes and closer alignment between water companies and suppliers. **Are performance measures aligned to the delivery of desired outcomes and overarching AMP8 objectives?** **Recommendation** – Performance baselines should be developed at a programme-level to align with AMP8 objectives and can then flow through to performance targets in any individual contracts. **Benefit** – This ensures that high-level goals and regulatory targets are translated into actionable tasks at project level and supplier performance contributes to broader objectives. Consider creating opportunities to link KPIs to water company performance targets. This should drive a focus on delivery of AMP8 outcomes to support all partners working collectively towards the intended benefits.	**Are incentives and tools used to remove traditional blockers to collaboration between the client and suppliers?** **Recommendation** – Incentivise suppliers against company performance measures so that there is alignment of objectives between the client and supply chain. **Benefit** – Outcome-based approaches can help suppliers understand broader AMP8 ambitions without being overly prescriptive about how to get there. This can offer the opportunity for long-term relationships and enduring alignment of interests to be developed, where suppliers and water companies work closely together to innovate and improve performance towards the best interests of the consumer. Consider iterating and modifying commercial mechanisms throughout the AMP as new suppliers gain a greater understanding and influence on performance objectives.

Framework for Change: Regulatory alignment

Key focus area	Recommendation overview	Initial recommendations	Advanced recommendations
Regulatory alignment	Track and monitor benefits with greater accuracy and speed.	**Do existing monitoring and reporting processes provide the appropriate information required to meet AMP8 regulatory requirements?** **Recommendation** – Map new AMP8 reporting requirements and conduct a maturity assessment of current monitoring and reporting processes to assess whether there are clear accountabilities in place in your organisation for these reports and where capability gaps exist. **Benefit** – AMP8 introduces significant new reporting requirements which carry implications from resourcing to governance and assurance processes. Without ensuring organisational readiness, the risk of noncompliance and incurring avoidable penalties increases. Consider what a new target operating model may look like and developing a roadmap to transition to the new model.	**Is there an efficient system to collect relevant data and metrics? Do reporting tools effectively minimise manual data entry in the reporting process?** **Recommendation** – Integrate data analytics and digital technologies into the overall system architecture to support demonstrating performance. **Benefit** – Technology can help to streamline and increase efficiency of reporting. Beyond helping to effectively meet regulatory requirements, improving data integration and quality can also support asset investment decisions, improvements in performance, and therefore unlock additional value for consumers and investors. Consider incorporating improved data requirements into supplier scopes and the internal client team responsibilities.
	Plans for performance issues occurring from lead indicators	**Is there a clear process for how supplier performance will be benchmarked, assured and fed back to them throughout the life of a project?** **Recommendation** – Agree tangible supplier performance review processes across key agreements. These processes should be developed collaboratively with suppliers and include key points of contact for both parties. These contacts are responsible for initial reviews of performance issues that occur. **Benefit** – By actively reviewing performance in collaboration with suppliers it is likely that performance risks will be established earlier on and therefore allow quicker mitigation or rectification. Consider applying company-wide consistent approaches (based on data evidence rather than opinions) in relation to supplier performance management to avoid help disputes based on misunderstandings.	**Do contracts have an appropriate mechanism for addressing performance issues?** **Recommendation** – Implement a robust corrective-actions approach that allows for the water company, and the supplier, to collaboratively review performance issues and agree the appropriate measures to mitigate future events. The correct actions approach can be used to record and track performance over the term of the contract. **Benefit** – The use of a corrective actions approach will speed up the time required to address performance issues. This formalised process helps to focus attention across key stakeholders and can also be used to demonstrate where actions have not been properly implemented to resolve performance. Consider sharing actions across both the supplier and the water company, rather than just assigning actions to the supplier. In many causes, performance issues are associated with both parties. Therefore, corrective actions should be considered as a joint focus, so that improvement happens collaboratively, rather than in an adversarial way.

Conclusion

In conclusion, this paper serves as both a call to action and a practical framework for delivering meaningful change in AMP8 and beyond. The opportunity to implement the recommendations in the Framework for Change is critical for supporting AMP8 delivery. Standing still is not an option as the opportunities and challenges of AMP8 are too significant.

Realising the maximum benefits of the Framework will require a coordinated shift from project-level tactical thinking to a programmatic and sectorial perspective. By implementing these recommendations, water companies can bridge the link across their supplier ecosystem and broader stakeholder landscape to better ensure that tangible, measurable benefits are realised.

KPMG and British Water recognise that there will be specific challenges and opportunities for individual water companies, which will require tailored solutions. KPMG's significant infrastructure expertise is helping to support water companies in the development of these bespoke solutions. KPMG's specialist teams have deep experience across various sectors and infrastructure types on implementing infrastructure improvements, which can offer water companies with valuable lessons learnt, insights and opportunities for innovation.

To ensure the recommendations are adopted, British Water will continue to convene discussions, champion and develop these findings, and promote them at key industry events and conferences to support water companies in the application of the Framework for Change.

By treating this as a living document, we can all drive the cultural and behavioural shifts necessary for long-term resilience. Addressing the sector's challenges requires not only financial investment but also changes to traditional delivery models, procurement and commercial strategies, as well as approaches to adopting innovative solutions.

By working together, we can all create a resilient and sustainable water ecosystem that not only meets but exceeds the expectations of regulators, customers, and all relevant stakeholders for AMP8, and beyond.

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