**Call-Off Schedule 20 (Call-Off Specification)**

This Schedule sets out the characteristics of the Deliverables that the Supplier will be required to make to the Buyers under this Call-Off Contract

**STATEMENT OF REQUIREMENT (SOR) FOR SPECIALIST WATER INDUSTRY TECHNICAL SUPPORT TO THE DEVELPOMENT OF MOD WATER, WASTEWATER AND SEWAGE SERVICE DELIVERY**

12 Sep 22

PFIRP/01/08

**Introduction**

1. The Defence Infrastructure Organisation (DIO) need a new Defence water and wastewater policy and implementation strategy to support the exit and reprovisioning planning for the Aquatrine Private Finance Initiative (PFI) contracts. The timescales for completion is no later than 30 Jun 2023 and is to examine and advise upon bespoke water industry operating and cost models, charging mechanisms and licensing issues.

**Current situation**

1. Aquatrine is MOD’s GB-wide water and wastewater Public Private Partnership (PPP) project, providing water and wastewater services and manages environmental risk across the GB Defence Estate allowing the MOD to focus on its core business. This has been achieved by utilising water industry expertise to improve MOD’s performance in environmental compliance and sustainability over the contract term. Aquatrine covers circa 2,600 sites on the MOD Estate, representing approximately 85% of the GB MOD Estate. Aquatrine has provides strategic management of the water and wastewater systems and assets. Its effect has been an upgrading of the MOD infrastructure so that it capable of meeting environmental standards using private sector capital.
2. **Current Scope**. The scope of Aquatrine covers all MOD sites throughout Great Britain (i.e. England, Scotland and Wales) unless they have been specifically excluded. It generally excludes sites occupied by US forces, certain other PFI sites, SFA built post-Commencement, and Army Careers Offices. Sites which are currently in disposal or are disposed of during the life of the contract remain in scope until legal completion of the sale has taken place. There remain some legacy locations where MOD is still the service provider to non-MOD assets, such as former Service Families Accommodation and some Annington homes developments.
	1. **Current service delivery principles and delivery of duties.** The Statement of Need sets out the service standards for Aquatrine and the Key User Requirements to be met by the Aquatrine Service Providers, which are:[[1]](#footnote-1)
		1. The provision of wholesome, potable water.
		2. The provision of water for firefighting.
		3. The collection and removal of surface and foul water.
		4. Prevention of flooding as a result of failure to take away surface or foul water.
		5. The provision of a 24hr Helpline.
	2. This is an output specification covering all sites. It requires the Aquatrine Service Providers to deliver no less a service than that provided by statutory undertakers and in some cases the service will be superior. In addition, there is an Asset Condition requirement focused on increasing the standards over the contract period, designed to protect MOD from Aquatrine Service Provider failure to maintain the assets. The water and wastewater assets (boreholes, sewage works etc) have been transferred to the Aquatrine Service Provider using leases, and the conduits (pipes) via an easement (commonly called licenced assets as opposed to leased assets). During the term of the contract, the Service Provider has the right to exploit the assets for third party income on a profit-sharing basis. Third party exploitation further increases the value for money (VfM) offered by the Aquatrine arrangement, however, this has not been taken up by the Service Providers in any significant way.

**The requirement for change**

1. In October 2018, the UK Government announced it would no longer use the PFI model for new investments while continuing to honour existing operational PFI contracts[[2]](#footnote-2). DIO is required to replace MOD’s existing PFI contracts delivering infrastructure services to Defence through the PFI Replacement Programme (PFI RP) and is implementing a strategic and consistent approach to managing PFI exit and re-provision, thereby seeking to reduce the risks of failing to secure Value for Money in the future arrangements.

**The requirement for support**

1. DIO requires specialist water industry technical support to help inform, shape and improve the future development of MOD’s water, wastewater and sewage service delivery across the GB estate.
2. **Contract duration**. The contract must be delivered in full no later than end Jun 23; this duration cannot be exceeded. The extent of delivery period is fixed, the project is on the PFI RP Aquatrine replacement project critical path and drives several key activities in the procurement cycle that cannot be deferred.
3. **Technical competence**. DIO would expect the supplier to have both a detailed strategic understanding of the water industry (with well-established, demonstrable working relationships with such organisations as Ofwat, Drinking Water Inspectorate (DWI), Water UK, The Environment Agency (and Natural Resources Wales), Defra, Consumer Council for Water (CCWater and CCWater Wales) etc) as well as in-depth industry know how across a range of specialist water industry related technical areas including:
	1. Leakage detection and reduction.
	2. Surface water management and flooding.
	3. Future abstraction and water sourcing policy implications.
	4. Supply and demand options, aimed at reduced consumption,
	5. Metering.
	6. Rainwater harvesting.
	7. Nature based solutions, biodiversity and enhancing estate / catchment area stewardship.
	8. Market deregulation implications and opportunities and the potential for self-supply efficiencies, cost savings and the ability to share resources.
	9. Retail market reform, the introduction of competition and industry funding (Ofwat PR24 and beyond)
	10. The types of cost models and charging mechanisms utilised in the water industry for large domestic and or commercial customers and their applicability to MOD, including service provision agreements without transfer of assets.
	11. The requirement for Trade Licences / Effluent Discharge Consents and the implications of such licences to MOD.
	12. The effect on other utility agreements such as the MOD’s agreement with Annington Property Limited.
	13. How best to avoid future ambiguity on demarcation points between supplier networks and MOD networks and land.
	14. Innovation and the use of emergent technology (such as AI) to enhance service provision and mitigate future workforce risks.

**Project deliverables**

1. PFI RP believes this project contains four key deliverables:
2. **Deliverable 1: Higher level option analysis.** Assess and make recommendations on whether MOD retains ownership of its current water, wastewater and sewage services through its private network or seeks to change service delivery, through transfer or adoption of assets, across GB, to statutory providers. This will be achieved by identifying and presenting evidence of Defence’s strategic and military capability drivers in respect of the provision of its water, wastewater and sewage services balanced against the myriad of technical delivery issues that may face private network owners or large domestic / commercial customers (as noted in para 7 above). The evidence presented is to enable MOD to take a decision regarding whether MOD retains its private network or seeks to divest itself of the assets and associated service provision capability in this area[[3]](#footnote-3).
3. **Deliverable 2: Delivery options analysis.** Present a range of delivery options for the provision of water, wastewater and sewage services that support the outcomes of Deliverable 1 regarding MOD’s future ownership of its wastewater and sewage services through its private network. These options are to incorporate options analysis, SWOT analysis, the types of delivery agreement, cost models, charging mechanisms, licensing issues etc. that are capable of supporting the detail analysis required by MOD’s Combined Operational Effectiveness Investment Appraisal (COEIA) process to make an evidenced based decision on the most appropriate VFM option to take forward.
4. **Deliverable 3: Risk transfer.** Examine the degree of risk transfer to future suppliers, that support the outcomes of Deliverable 1, and make recommendations on what risk should be transferred to suppliers and what may need to be retained by MOD. MOD assumes that the current degree of risk transfer achieved via the Aquatrine arrangements are unlikely to be replicated in future delivery models and would wish to establish a commercially acceptable, VFM solution for future arrangements.
5. **Deliverable 4: Climate change and sustainability**. The incorporation of comprehensive, estate wide measures to combat climate change and increase sustainability are to be at the heart of any future delivery strategy, enabling MOD to become market leaders in addressing such areas as leakage, flooding, reduced abstraction, reduced consumption, metering, rainwater harvesting, nature-based solutions and enhanced estate stewardship (this is not an exhaustive list). The supplier is to work with MOD to identify opportunities associated with each delivery option arising from Deliverable 2.

**Project scope**

1. **Higher level option analysis**. The supplier is to conduct an assessment of MOD’s future operational capability requirements in respect of either retaining or divesting itself of its current private water, wastewater and sewage network. To achieve this the successful bidder will have access, as a minimum, to DIO senior leadership, MOD’s Financial Military Capability (Infrastructure) organisation, the Heads of Infrastructure for all MOD end users (MOD’s Top-Level Budgets (TLBs)), the DIO’s Regional Delivery (RD) Organisation, Aquatrine Service Providers and Aquatrine performance and asset data. The supplier will also utilise their strategic understanding of the water industry, including the likely legislative and regulatory changes that may be planned or anticipated and the potential impacts of deregulation, to ensure ‘industry factors’ are considered alongside MOD’s operational capability requirements. Suppliers may also wish to conduct market testing across the wider water industry to assess market appetite. The outcome of this assessment will be to present evidence and recommendations to enable MOD to make a decision on whether MOD retains ownership of its current water, wastewater and sewage services through its private network or seeks to change service delivery, through transfer or adoption of assets, across GB, to statutory providers.
2. **Delivery options analysis.** Having supported MOD make an evidenced based decision on whether the MOD’s private water network is to be retained or transferred out of MOD ownership (or part transferred), the supplier is to develop and present of a range of delivery options for the provision of water, wastewater and sewage services. These options are to incorporate options analysis, SWOT analysis and clearly demonstrate:
	1. They meet Defence requirements.
	2. How they address the specialist technical factors listed in sub-paragraphs 7a to 7n.
	3. They are in line with or exceed the statutory / regulatory standards applied by Ofwat.
	4. Consideration of the impacts of future market deregulation, abstraction legislative and regulatory change.
	5. The types of delivery agreement recommended.
	6. Recommended charging mechanisms and cost models to be utilised.
	7. Any licensing or leasing issues that may be present (e.g. IFRS16).

1. The information contained within each option analysis is to be capable of providing evidence to support the detailed analysis required by MOD’s COEIA process to make an evidenced based decision on the most appropriate VFM option to take forward.
2. **Risk transfer.** The suppliershould analyse the extent of the current risk transfer by MOD to its Aquatrine suppliers to determinethe degree of risk transfer that may be feasible under current and future market conditions. The supplier should prepare a detailed set of recommendations to MOD on what risk must / should / could be transferred to future MOD suppliers, and what risk may need to be retained by MOD. The MOD assumes that the current degree of risk transfer achieved via the Aquatrine arrangements are unlikely to be replicated in future delivery models and would wish to establish a commercially acceptable, VFM solution for future arrangements that treats both MOD and future suppliers fairly.
3. **Climate change and sustainability**. MOD perceives there is a significant opportunity that accompanies the replacement of the Aquatrine contracts to address a wide range of climate change, sustainability and net zero related initiatives. The incorporation of comprehensive, estate wide measures to combat climate change and increase sustainability are to be at the heart of any future delivery strategy, enabling MOD to become market leaders in addressing such areas as Leakage, Flooding, Reduced Abstraction, Reduced consumption, metering, rainwater harvesting, nature-based solutions and enhanced estate stewardship (this is not an exhaustive list). The supplier is to work with MOD’s climate change and sustainability personnel to identify opportunities associated with each delivery option.

**Governance**

1. Project Governance will be maintained via the PFI RP Programme Board (PB) and a dedicated Project Support Group (PSG). The supplier shall be required to report to the Senior Responsible Owner and PB on a 6-weekly report cycle, briefing board members on progress and presenting options for decision as required. In the interim the supplier will work on daily basis under auspices of a dedicated working group, with weekly progress updates being required.
2. **Project and payment milestones**. The supplier shall present a project plan, with payment milestones linked to specific deliverables as part of the tender submission. The detailed content of the plan, milestones and payment milestones will be subject to amendment and agreement with the buyer at the commencement of the contract.

**Security Requirements**

1. All personnel employed by the Potential Provider to work on, or handle information related to this Contract must have a valid UK Security Clearance of at least Baseline Personnel Security Standard (BPSS).
2. Further to DEFCON 658 the Cyber Risk Profile of the Contract is Very Low, as defined in Def Stan 05-138.
1. The 5 KURS cover the key services, however, there are many more services involved requiring review and understanding, and the options may be different for each one. For example, O&M & lifecycle of assets; Water Quality Testing; Payment of Water Bills from Statutory Undertakers for sites outside of Aquatrine (this is currently done in-house so there is a ‘make or buy’ issue); Charging of 3rd Party customers and maximising returns (circa 5000+ 3rd party customers on the MOD networks). [↑](#footnote-ref-1)
2. HM Treasury, Budget 2018, HC 1629, October 2018, para 1.51, p.29. [↑](#footnote-ref-2)
3. To achieve this deliverable the successful bidder will have access, as a minimum, to DIO senior leadership, MOD’s Financial Military Capability (Infrastructure) organisation, the Heads of Infrastructure for all MOD end users (MOD’s Top-Level Budgets (TLBs)), the DIO’s Regional Delivery (RD) Organisation, Aquatrine Service Providers, Aquatrine performance and asset data. Suppliers may also wish to conduct market testing across the wider water industry to assess market appetite. [↑](#footnote-ref-3)