

The background features a large, abstract graphic composed of overlapping, semi-transparent blue polygons in various shades, creating a dynamic, layered effect. The top and bottom edges of the page are framed by these blue shapes, while the central text area is white.

# **TA 12.MG05 M&G Central Costs and PR24 Business Case**

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Version 1.0

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## Executive Summary

Name of technical annex	TA.12.MG05 Central Costs and PR24		
Context	Southern Water has central management and general functions, such as Board costs, Finance, Human Resources, and Procurement etc.; that require central funding budgets in order to operate effectively.		
Scope of this technical annex	This investment case includes wholesale investment to continue to effectively and efficiently carry out its central function activities such as Finance, Human Resources, and Procurement etc. This investment case also includes the wholesale investment required to deliver the PR24 business plan.		
Customer and stakeholder views	Central costs and PR24 are business support functions that will support the business with improvements in current service levels and resilience in all key water and wastewater metrics.		
Our aim	We aim to provide central functions with an opportunity to improve operational efficiency, staff wellbeing and productivity, which in turn will support improved affordability, resilience, serviceability, and performance for customers. Our PR24 business plan aims to deliver resilience, innovation, affordability and customer satisfaction improvements into the future.		
	Botex	Enhancement	Total
Totex (£'m)	154.2	-	154.2
Opex (£'m)	141.5	-	141.5
Capex (£'m)	12.8	-	12.8
Residual, post-AMP7 capex (£'m)	-	-	-
Materiality (% of the overall plan)	-	-	1.3%
Relevant business plan table lines	WS1/WWS2 Lines: 6, 13	-	WS1/WWS2 Lines: 6, 13
<b>Botex</b>			
Overview of AMP7 proposals	We are spending £154.2m during AMP7 on these central costs. Our strategy is to minimise these costs whilst ensuring essential services are effective.		
Why are the proposals the best option for customers	The programme level option selected is the 'minimum' cost plan option and provides the greatest value for money for customers.		
<b>Performance Commitments supported by this technical annex</b>			
PC	How relevant is this technical annex?	Comment	
All Performance Commitments	Some, but limited relevance as this is a support function.	Central function costs and delivery of PR24 business plan will support delivery of all performance commitments in AMP7 and further into the future planning.	

## Management & General Finance, HR, Other

Table 1 – Summary of Finance, HR, Other

£m	AMP6 Actual	AMP7 Total
TOTEX	152.526	141.224
CAPEX	6.991	2.675
OPEX	145.534	138.549

This investment area covers the base opex investment to enable the support functions of our company for AMP7. The support functions included within this investment area include:

- Finance
- HR
- Legal
- Procurement
- Directors
- Insurance
- Communications
- Developer Services

All of these functions are vital in supporting our company to provide a great service to customers. To this effect we are planning to spend £141m to ensure we can run as effectively and efficiently as possible. This opex investment has been derived using the opex cost estimation methodology described in the Bottom-Up Cost Estimation Technical Annex 14.4. In summary, this investment is based on baseline 2019/20 budgets continuing into AMP7 with minor adjustments included to reflect AMP7 specific budget requirements.

For AMP7 we are actively transforming the way we operate and provide service for our customers. This is aiming to achieve lower bills for customer and increase resilience of our core activities. With a strong set of reliable support functions we will be better able to respond to any issues we are experiencing. This investment will ensure this occurs.

# Management & General PR24 Business Planning

**Table 2 – Summary of PR24 Business Planning investment**

£m	AMP6 Actual	AMP7 Total
TOTEX	16.15	13.024
CAPEX	12.356	10.075
OPEX	3.794	2.95

This investment area covers base capex and opex investment to deliver a successful PR24 Business Plan. The PR24 Business Planning investment area is focusing on preparing the business for the next AMP period from 2025 to 2030. To this effect we are planning to invest £13m in preparing for PR24.

As this was a relatively small amount of investment (less than 1% of the overall wholesale plan) it was deemed unnecessary to develop a technical annex on this management & general investment area. Therefore, we provide a short explanation below on this investment inclusion.

Our PR24 plan includes a wide range of activity specifically to support strategic planning, as follows:

- Specific risk assessments for strategic planning
- Environmental modelling to support the WINEP and WISER
- Totex solution development to support WINEP and WISER
- Strategic growth studies and solution development for water and wastewater
- Policy interpretation
- Customer and stakeholder engagement for strategic planning
- Specialist external advice and support services
- Independent assurance costs
- Publication of materials

Activities associated with asset management capability improvement initiatives, such as for data collection or system development, and the costs for company employees are not allocated to PR24 business planning.

The £13m investment level is based on what we expected PR19 business plan development to cost when we submitted our PR14 business plan. However, we recognise that we have invested more money than PR14 business plan predicted in delivery of PR19. This has mainly been due to the fact that we have had to carry out new, not previously itemised activities to create a high quality plan for PR19. Increased levels of investment at PR19 have been in areas such as assurance and customer insight activities; both areas have required enhanced activity compared to PR14 business plan delivery. The extra investment required to deliver PR19 has come from rebalancing base opex and capex budgets.

However, we do not think it justifiable at this stage to increase business planning investment beyond what we included previously. It is expected that lessons from PR19 business planning will be learnt, improvements in planning and delivery will be made and as a result

costs for the next price review planning period will be lower. Furthermore, when we come to deliver PR24 our transformational activities delivered in AMP6 and AMP7 are expected to reduce our planning costs; this will further support creating a high quality but lower cost PR24 plan; this will ensure we keep business planning at a more affordable level for customers.