

Issues arising from the Periodic Review Process

Issues affecting service providers

Ken Farrer - Director MWH

Presentation Overview

- Impact on staff and knowledge
- Cost of bidding AMP frameworks
- Potential improvements

Staff and Knowledge

Staff experience and availability is essential for efficient delivery, but...

- Job vacancies are increasing
- Is the water industry attracting the best people?
- Number of UK engineers achieving professional status has been falling
- Approaching 50% of engineering graduates go into other markets and
- They rarely come back



Then



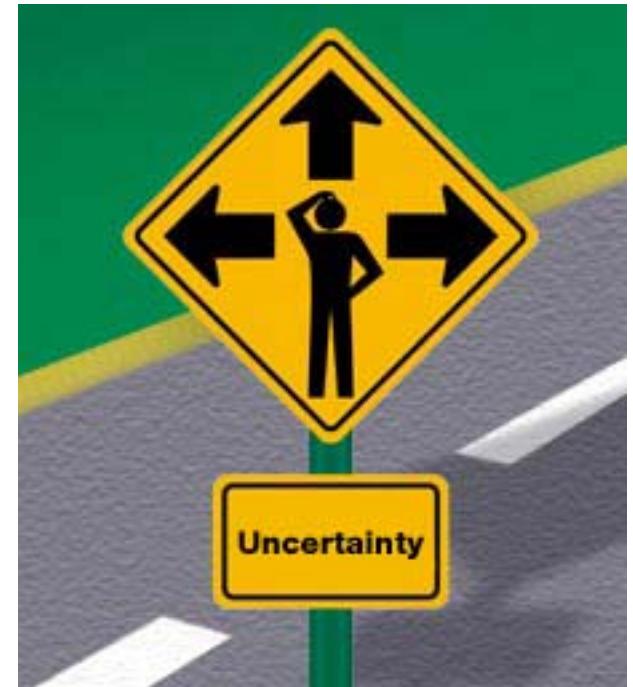
Now

The competitive resource market promotes a need to think differently

Specialist suppliers have to bid most of their future turnover every 5 years

This leads to:

- Staff uncertainty and concern for the future
- Drives people towards agency employment
- Drives people into other industries
- Boom recruitment or bust redundancy...

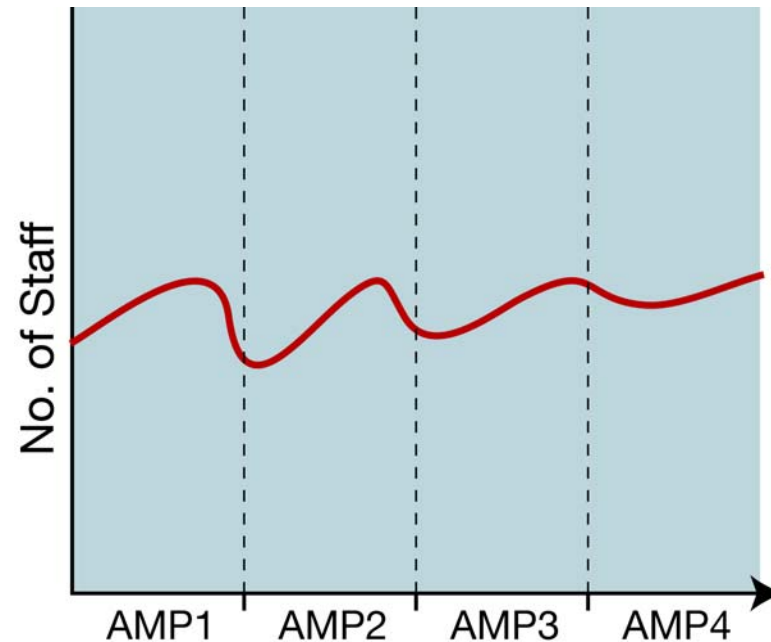


Resulting in inefficiency, loss of knowledge and short term thinking on systems and processes.

Peaks and troughs lead to ineffective performance

- 5-year AMP periods produce peaks and troughs
- Investment has tended to be back-end loaded
- Early start AMP4 work was sporadic and only partially successful in filling the gap, also...
- Focussed more on early finish
- Need more smoothing and transitions, to avoid...
- Loss of knowledge

Link programme scheduling to resource availability.



Knowledge management is not about storing data

Capture the hearts and minds:

- Data → information → knowledge
- Staff leaving the industry always take knowledge with them
- We must reverse the direction and attract people in, and keep them in
- Harvest knowledge for the use of others



NASA currently do not have the knowledge to put another person on the Moon!

Service is not solely about supplying people

- “Buying” people rarely achieves loyalty, improvement and commitment
- Staff perform better when they have access to the systems and knowledge with which they are familiar
- Where appropriate, Utilities would be better putting selected staff into supplier’s offices, than vice versa
- Good teams require effective systems and processes, and good leadership
- Are clients moving back to large in-house engineering departments to secure staff resources?

Cost of Bidding AMP Frameworks

Procurement strategies are imposing massive cost burdens on suppliers

- MWH's costs for bidding AMP4 frameworks were well into 7 figures
- All over 12 months
- Hoops and hurdles
- Difference of opinion over value of the process
- Much emphasis on resource availability, but...



When the bidding process was complete the work was not there to get started!

Is the water industry getting best value from its suppliers?

- Increase benefit or reduce cost, or both
- Emphasis on trying to drive down cost by reducing rates and squeezing margins
- Other markets are becoming more attractive than the water industry
- Suppliers have shareholders and performance expectations as well

$$\text{Value} = \frac{\text{Benefit}}{\text{Cost}}$$

$$\text{Cost} = \text{Rate} \times \text{Time}$$

Greater attention needed to achieving targets
and benefits for all

The solution is to look more at efficiency and incentivisation, and less at margins

- Reducing time input reduces cost
- Margins are necessary to develop the staff, efficiency ideas and innovative solutions
- Inefficiency drives up costs
- Attention to governance, and delivery processes and systems, and...

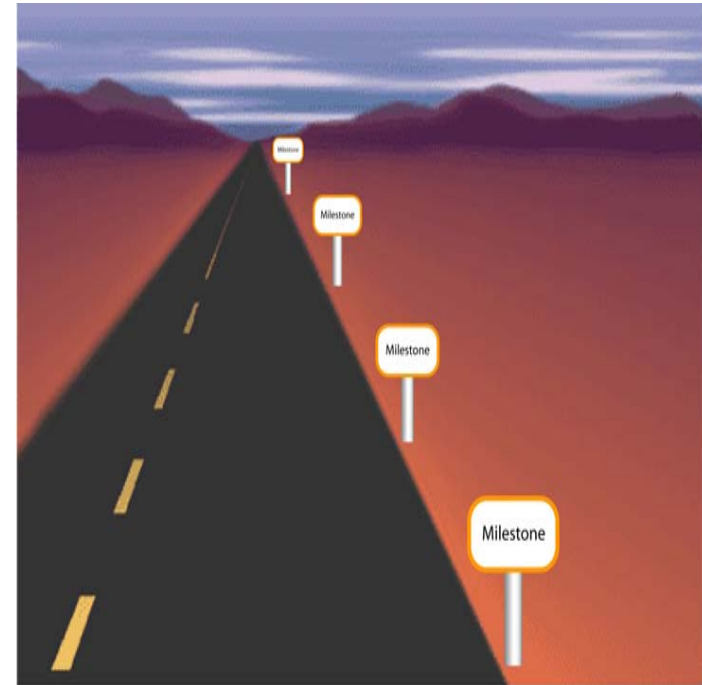


Effective knowledge management
and investment in people

Some ideas for the future

Undertake rolling strategic planning spanning 10-20 years

- Continue to account to the Regulator every 5 years
- WFD will help in this process
- Work more closely with suppliers in the planning and delivery process and in developing cost effective procurement



Innovation usually requires experimentation, risk taking and learning

But there are a number of inhibitors...

- Rigid, maybe adversarial, consent setting
- Risk-averse procurement and supply chain contracts
- Conservative design criteria and narrow thinking
- We don't give ourselves time to think and learn...together

Loading the dice...



Are we prepared to make the change?

Delivering efficiently with innovation

Problems...

- Difficulties with top down investment planning
- Giving service partners more programming autonomy, but ...
- Inhibited by converting investment plan to delivery programme, resulting in
- Squeeze on ability to get buy-in to innovative solutions

Solutions...

- Build the plan with the programme
- Adopt a more templated, lean approach to design
- Stakeholder buy-in to potential innovations
- Don't be afraid to use off-shore resources

Incentivisation can benefit all if applied properly

- 'Sell' the programme!
- Team incentives
- Realistic expectations
- Behaviour is important for all parties - not just suppliers
- Link all stakeholders(?) into success



The water industry (including the suppliers) needs to benefit through success

Conclusions

- More stability and a longer term view is needed to attract and retain people in the water industry, but...
- Don't be afraid to use off-shore resources
- Don't waste the knowledge gained
- Operate in partnership - risk, innovation and delivery
- More enlightened procurement, not buying oranges and apples, buying experience and expertise
- Recognise the difference between value and cost, and cost and charge rates
- Plan investment and delivery at the same time
- Develop realistic incentivisation - don't expect miracles when all the 'cream' has been removed

The 5-year periodic review process would benefit from taking account of the issues faced by suppliers as well as legislation and economic drivers

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Questions

Ken Farrer - Director MWH