



CIWEM Conference

PR09 – A Business Plan for all Stakeholders

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CIWEM

The Chartered Institution of Water
and Environmental Management

Overall impression

- Would you want to be responsible for developing the next business plan?
- Either:
 - Fascinating challenge with a myriad of stakeholder requirements, or
 - It's an impossible task to satisfy all expectations
- Heard much about requirements
- Not much about solutions

Business Plans have improved over the AMP cycles but there are still concerns:

Water companies see the plans as mainly bids for money

The delivery plans bears little resemblance to the business plan

There is too much reliance on historic budgets when defining maintenance spend

Development of maintenance plans place too much reliance on judgment not fact

Are customer preferences properly taken into account

The links between quality, growth and maintenance are not fully defined

The stop-start nature of the programme is having an adverse impact on the supply chain

The Challenge - What

What are the criteria for an improved business plan:

Compelling – rubber stamped by Ofwat

Asset plans to deliver serviceability

Integrated Quality Programmes

A robust efficiency challenge

Balanced – as viewed by all stakeholders

Between bills, service and environment

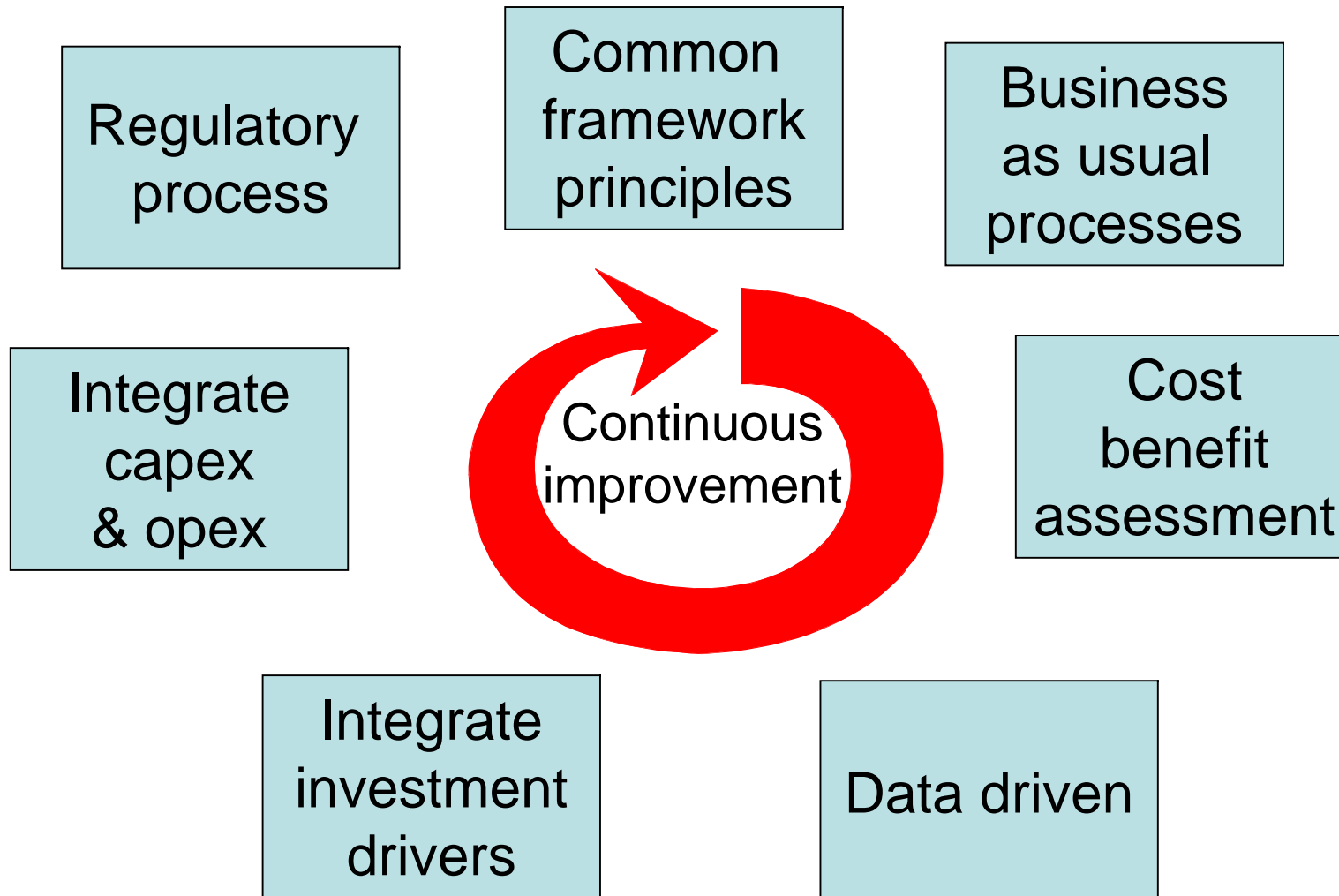
Sustainable – 25 years (long term)

Financial, environment, service, supply chain

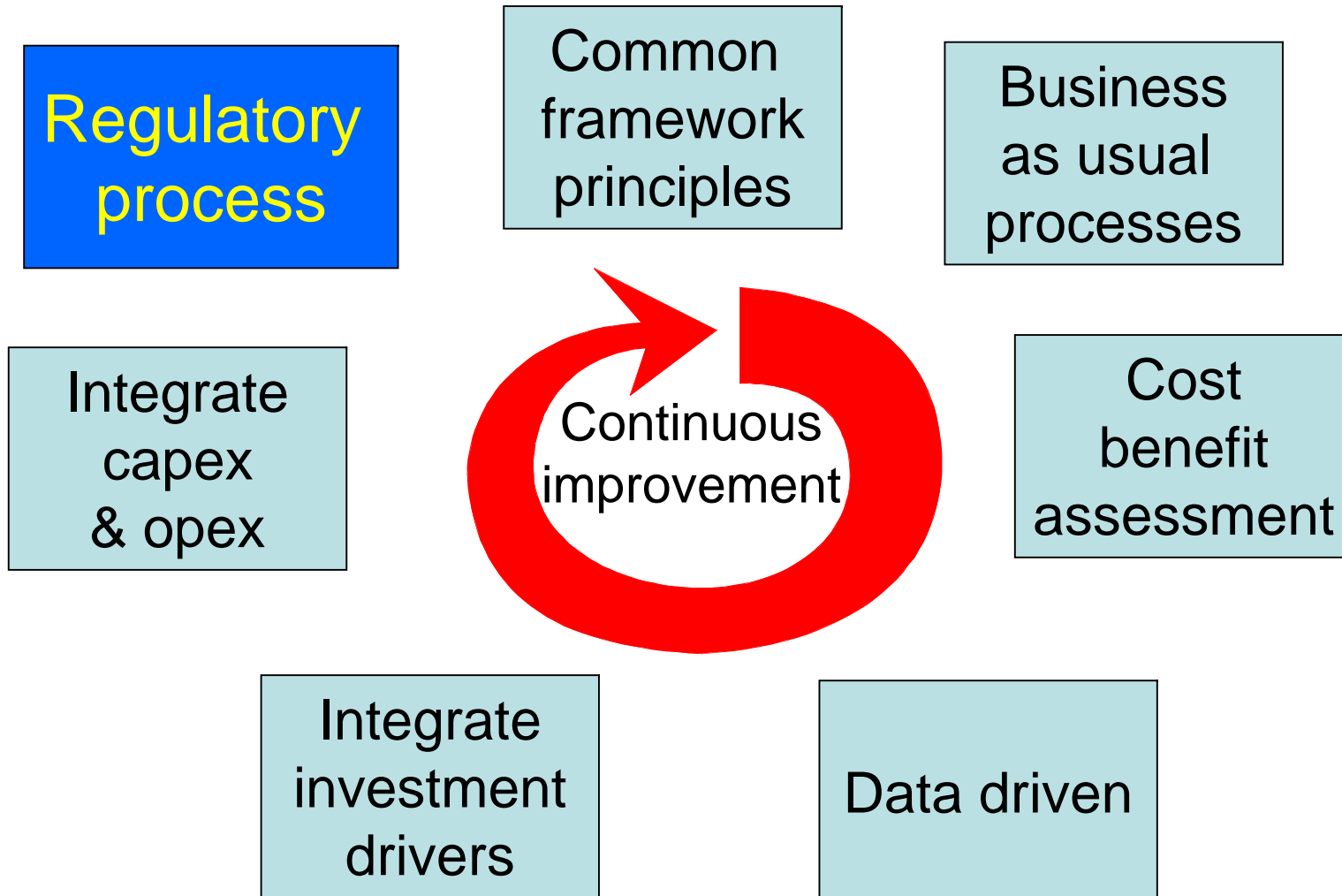


Evolution
not
revolution

The Challenge - How



The Challenge - How

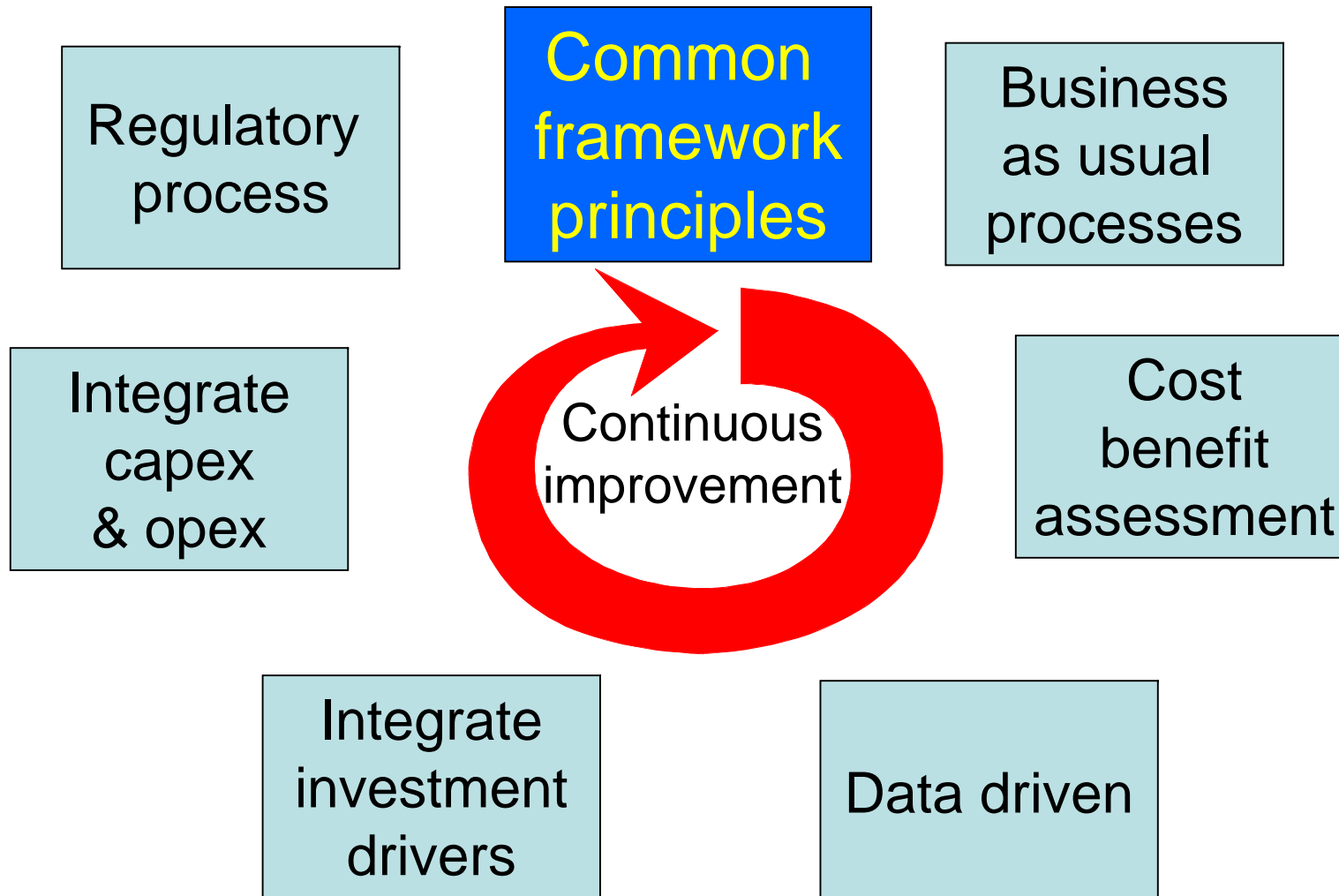


Smooth The Process

- Earlier agreement on Q programme – Ministerial Guidance
- Introduce new Quality requirements on an ‘as required’ basis
- Define the efficiency challenge earlier
- Define incentives through a self-assessment process
- Think about staggering business plan submissions

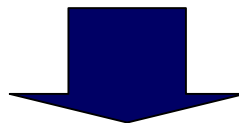


The Challenge - How



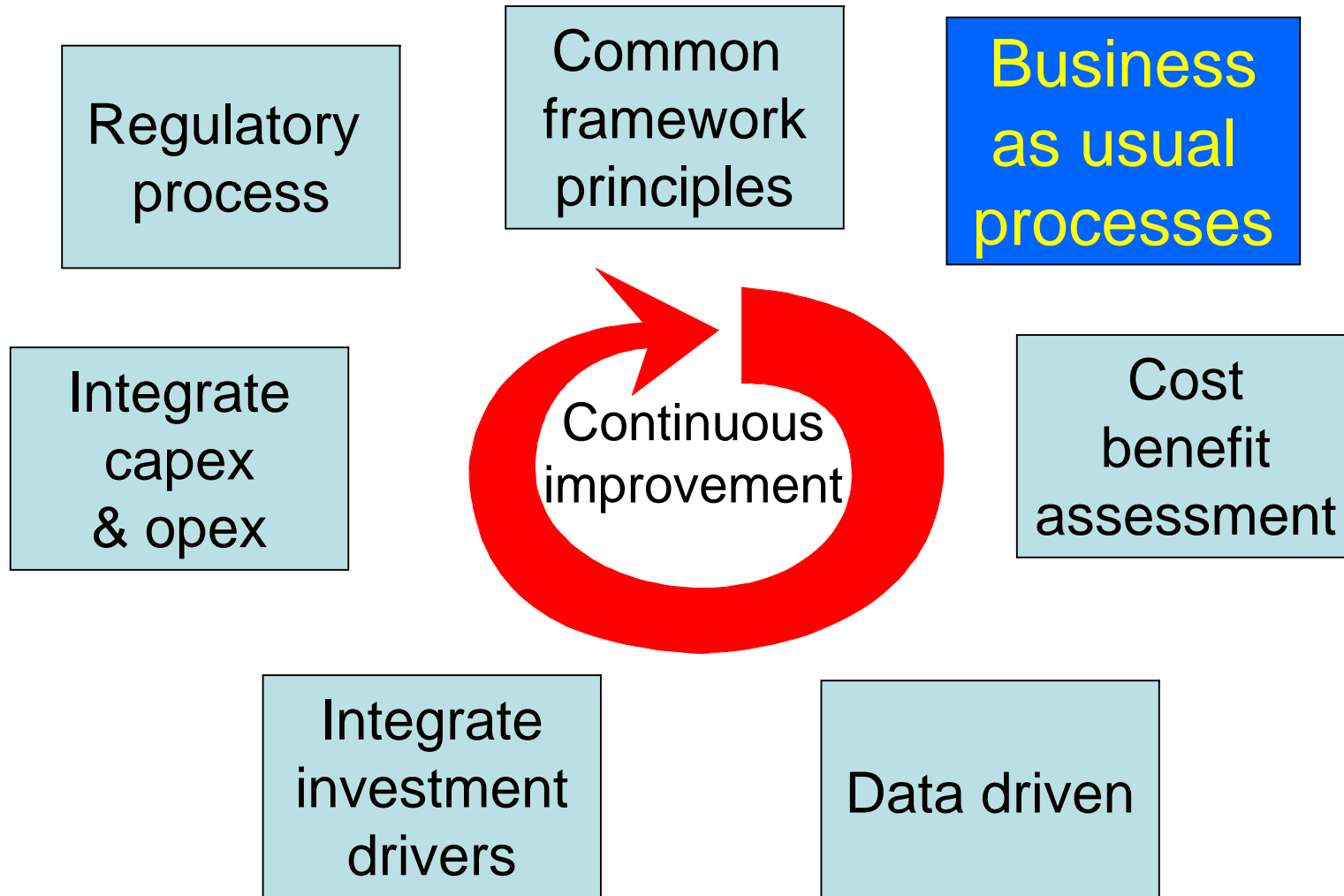
MD212 Asset Management Planning to Maintain Serviceability

- Further development of economic, forward looking, risk based analysis
- Integrate into business as usual and cover all drivers
- Reduce emphasis on Stage A and increase on Stage B
- Maintain serviceability at least cost in terms of both capital maintenance and operating expenditure
- Promoting sound asset management



Risk based, forward looking, service driven, best value

The Challenge - How

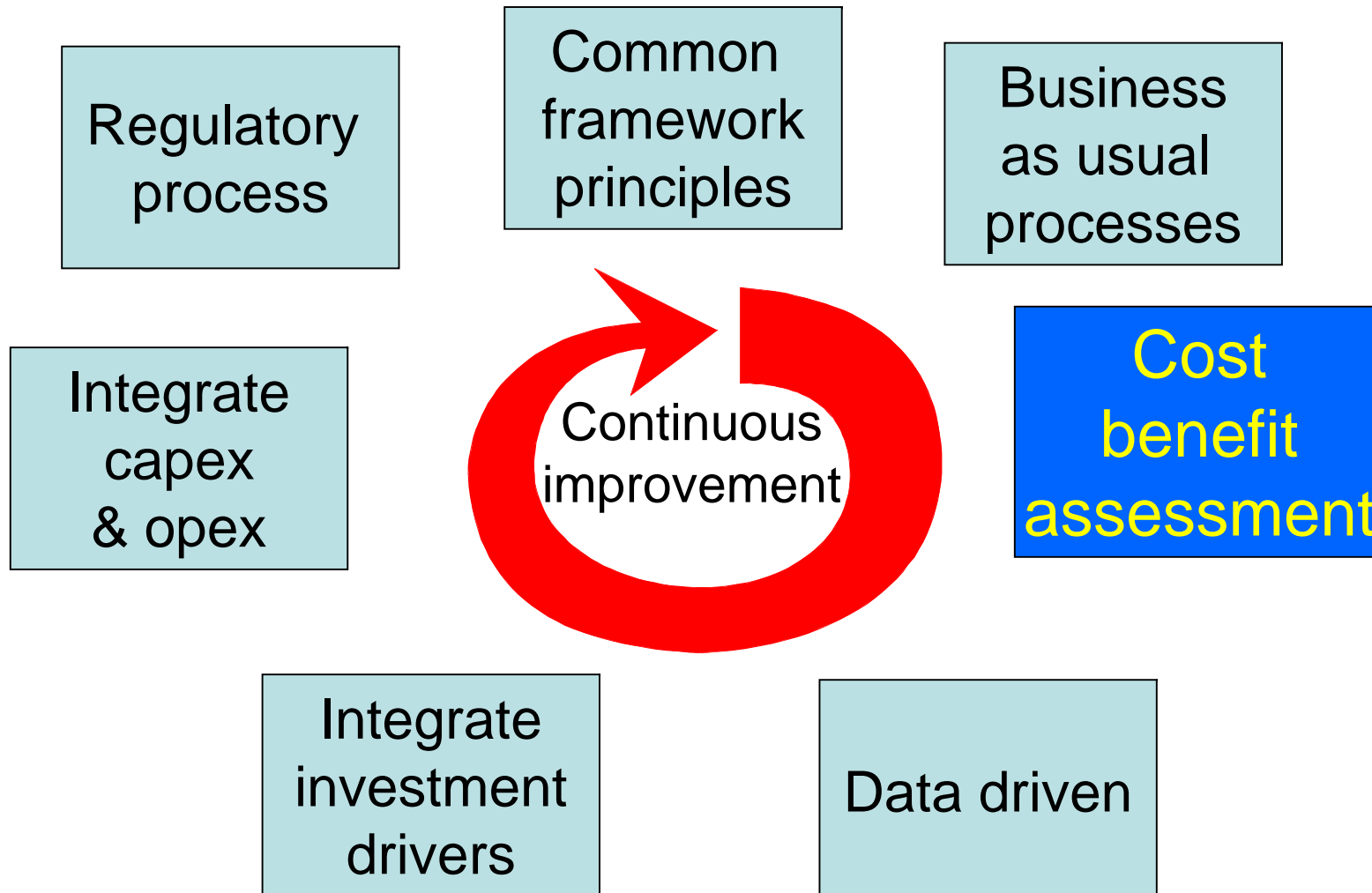


Is the Common Framework Embedded into 'Business as Usual'

- Is the common framework an off-line tool used once every 5 years or the heart of day-to-day asset management
- Tests:
 - Serviceability targets, asset strategies, customer value (AS/P)
 - Risk algorithms and deterioration models based on FMEA (AS/P)
 - Corporate systems hold data, models, outputs and programmes (KM/IT)
 - Maintenance underpinned by RCM and RBI techniques (O&M)
 - Investment 'needs' identified through risk techniques (O&M)
 - Standard interventions solutions & benefits defined (Eng)
 - Routine & unexpected maintenance programme implemented (O&M)
 - Rolling forward-looking plan (AS/P)
 - Process flow and progress management (AS/P)



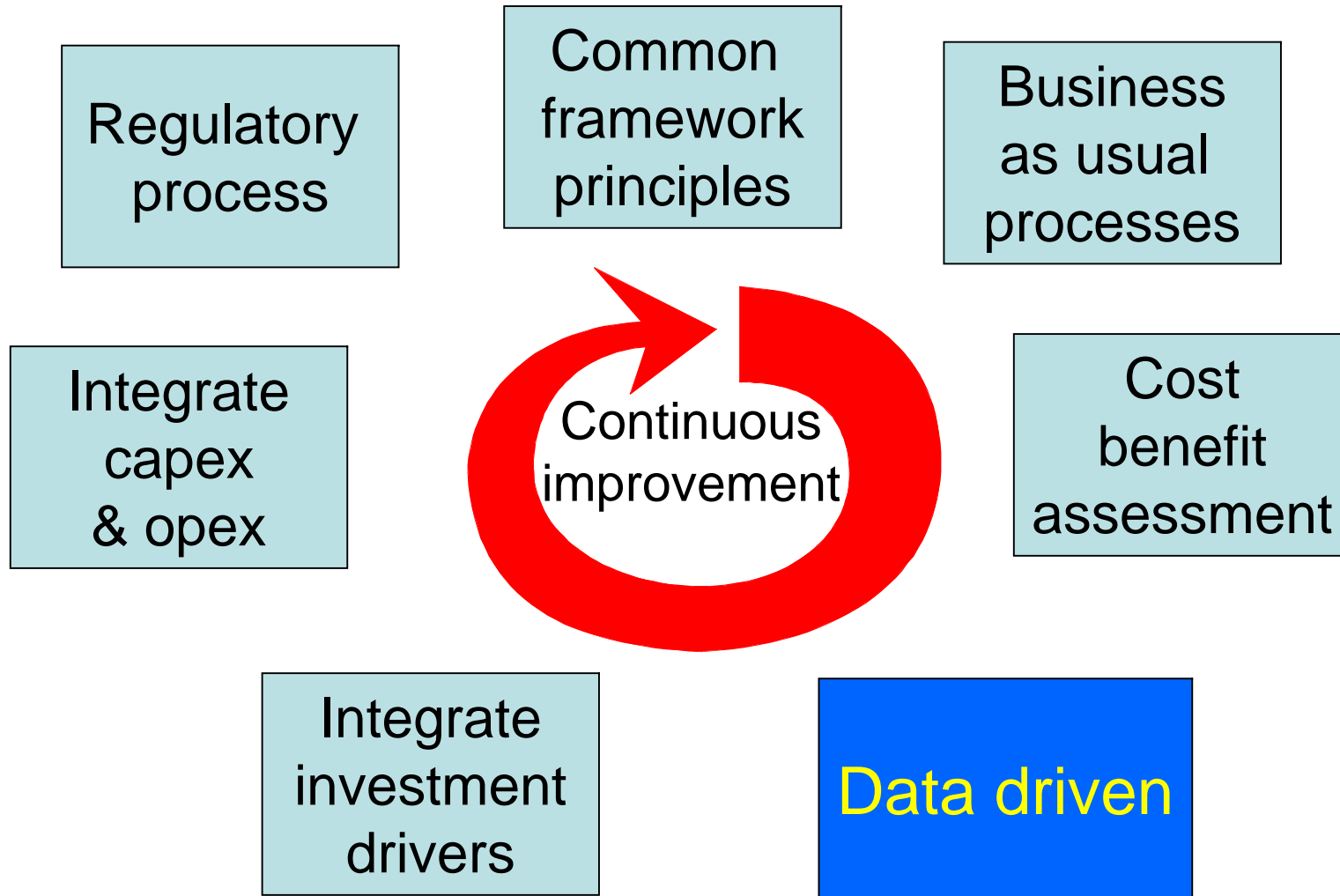
The Challenge - How



Cost benefit approach

- Consistent approach for all asset types and investment drivers
- Make sure that all benefits are included (direct and non-direct)
- Definition of “whole-life” costs
- Placing a value on benefits and cost
 - Willingness-to-pay or monetised risk

The Challenge - How



Data driven

- Developing risk assessments at:
 - Pipe
 - Equipment
- Drawing data from corporate systems:
 - asset registers, GIS, job management, unit costs
- Expert judgement – validation
- Involve operators and maintenance staff
- Strong linkage between business plan and delivery plan

Asset stewardship assessment

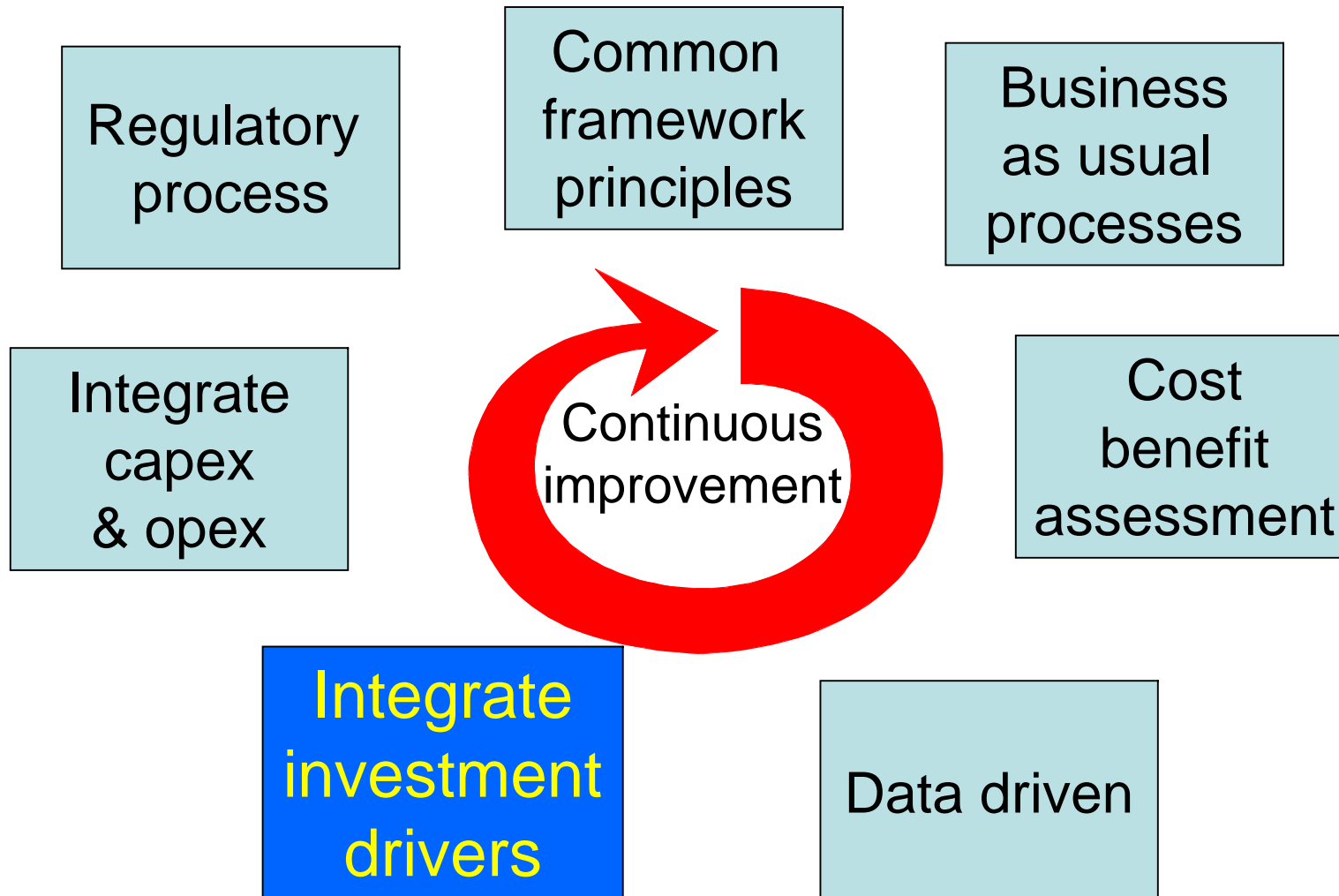
- Move from a company level assessment of serviceability to a 7-part assessment, of 'Asset Stewardship', which comprises;

1. Customer Service Indicators
2. Environmental Performance Indicators
3. Asset Performance Indicators
4. Asset Data Management Indicators
5. OPEX Indicators
6. Level of capital maintenance expenditure
7. Value of asset base





The Challenge - How



Components of a Business Plan (PR04)

Executive overview & Company strategy (part A)

Key components (part B)

B1 - The post 2005 environment and the longer term

B2 - Improving efficiency

B3 - Maintaining service and serviceability to customers

B4 - Quality enhancements

B5 - Maintaining the supply/demand balance

B6 - Customer service strategy and service enhancements

B7 - Financial projections

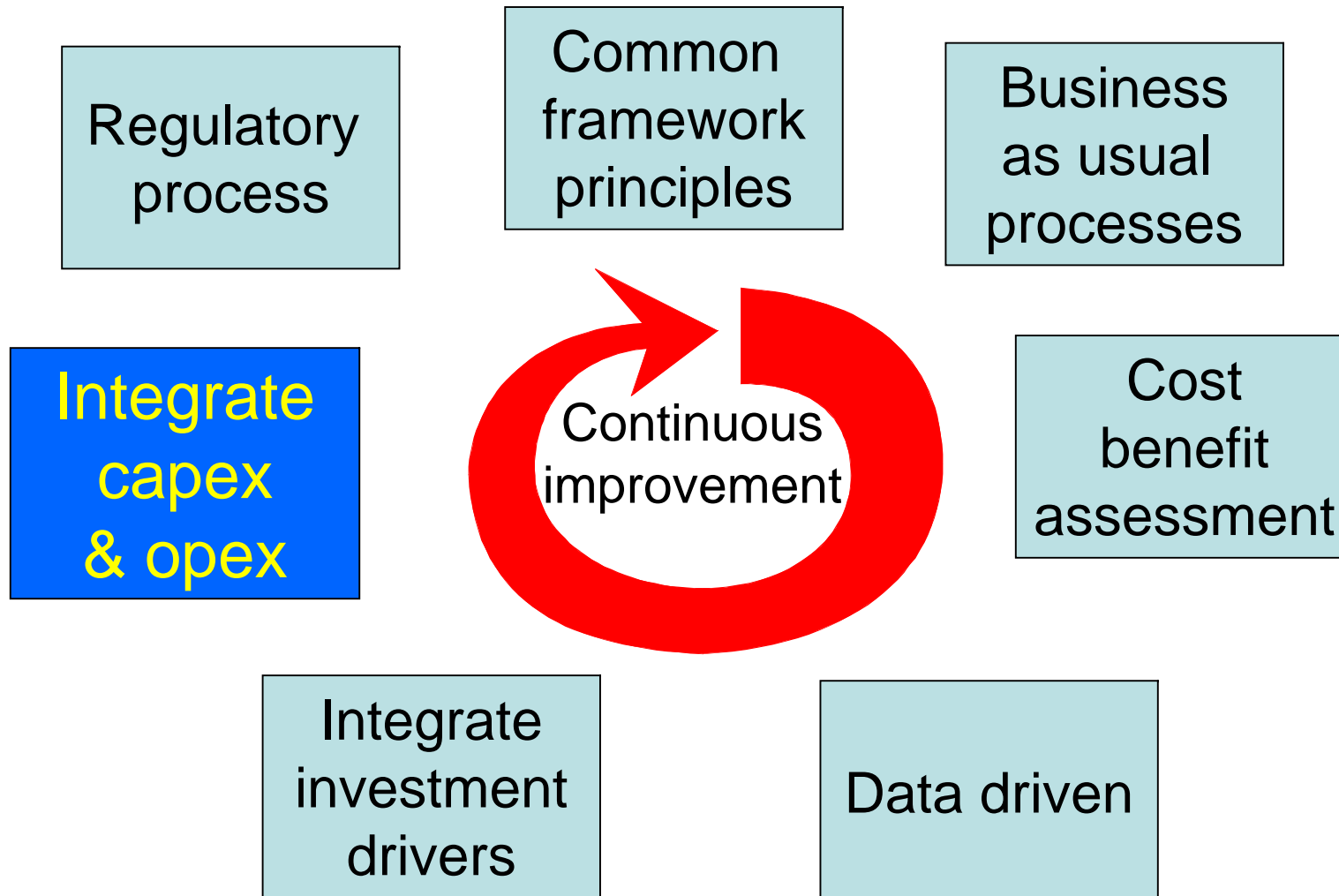
B8 - Customer bills/tariffs



Integrated approach

- Develop a business plan and a series of geographically based plans
- Locally based
- Meet local customer aspirations
- Requires a sound and transparent cost benefit methodology

The Challenge - How





Integrate capex and opex

- Current mechanism sets targets separately for capital maintenance and operations
- Therefore companies tend to manage capex and opex separately
- Does not lead to true consideration of best long-term value
- Need better understanding of impacts on Opex



George Day - Ofwat

- Pleased that Gap between Business plan and Final determination reducing
- Smoother process wrt Ministerial Guidance
- Aspiration for longer term plans
- Increased emphasis on sustainable development duty

Hilary Aldridge - EA

- Future looks messy
- Supply demand balance a key feature of PR09
- Concern over pollution incidents
 - No downward trend
 - From sewerage network
- Other issues - Climate change, Flooding, WQ & ecosystems
- Stressed need for long term planning



Milo Purcell - DWI

- End of command regulation?
- Lighter touch regulation
- Companies more exposed – need to justify funding
- Increasing focus to maintenance CFCMP & DOMS - Moving to a risk-based approach
- Harder to convince customers on willingness to pay rather than legal programme
- Supply chain concerns



Deryck Hall - CCWater

- Concern on understanding outcomes on Environment programme
- Concern over increasing consumer debt
- Want Govt to set a strategic overview – clear direction
- Place customers at the heart of the price review
- More time to assess final business plan
- Full disclosure of business plans
- ‘It’s people who matter’



Janet Wright – Water UK

- Diversity between companies
- Welcomed shift from Q to Cap M and SDB
- Companies take more responsibility - regulators become less intrusive
- Challenges:
 - Sustainability - long term planning, carbon footprint, supply chain and reduced R&D spend
 - Putting customers first
 - Constraints on investment - affordability
 - Pressure for investment – new proposed directives

Kieran Conlan – Cascade Consulting

- Catchment management should encompass all sectors – agriculture, recreation etc
- Need to be ‘fully’ integrated around massive policy envelope
- New directives are a bit of a mess
- How to integrate across different sectors
- First WFD output shows major concerns over gaps in knowledge
- Concern over funding routes & appropriate R&D

Jonathan Hillman – Scott Wilson

- Focus on where ICM should be applied
- Identify catchments where significant benefits can be made
- Water safety plans & WFD – need data and monitoring information
- Need to be able to integrate data
- Question – who pays – institutional blockage


Adrian Johnson – MWH

- Challenge - finding new innovative ways to deliver sustainable development
- Key issues to focus on for sustainability:
 - Efficient water use to conserve water resources
 - Move to low carbon operation (2010 – 20% reduction)
 - Adaptation to climate change – flooding
 - Deliver WFD outcomes - WQ trading?
- Will require new performance metrics

Paul Chadwick – Mott MacDonald

- Carrots – application of CFCMP, delivering best value to customers, OPA league table, reduce gap between plan & determination
- Sticks – serviceability shortfall procedure, efficiency targets
- OPA doesn't incentivise long term planning or reflect local issues
- Efficiency to be built into a CFCMP assessment
- Apply CFCMP in full will give the 'right' level of maintenance funding
 - but the stats don't support this yet!

PR09 What Should it Fund - Summary

- Water industry is an asset intensive industry
 - Implement best practice asset management in it's widest sense
 - Incorporate
 - Customer needs
 - Improving asset knowledge
 - Integrated approach
 - CBA to prioritise
 - Long term plans
 - Self assessment
- A large, solid blue downward-pointing arrow.
- Public confidence

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So would you want to be a Water Company business planning manager?



- Public confidence



PR09 – A Business Plan for all Stakeholders

Thank you

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