

#### **B2** IMPROVING EFFICIENCY

#### Outline

In developing its final business plan the company should decide on the scope for it to improve its efficiency in the next price limit period. Constraints on making the maximum use of this scope should be explained.

The company should:

- set out its views on the scope for improvements in efficiency and the evidence on which they are based;
- explain how they lead to its assumptions about cost reductions from current levels that it has included in its strategy; and
- describe how the assumed improvements have been incorporated in the business plan expenditure projections.

These judgements should be informed by the company's view of:

- its expectation for improvements in efficiency which the best company could achieve year by year;
- its relative efficiency or inefficiency to its peers within the regulated industry;
- the findings of any benchmarking studies it has carried out;
- the pace of improvements over the period; and
- the balance to be struck between customers and shareholders that provides the right incentives to improve its efficiency still further.

The company should refer to any benchmarking studies it has conducted and explain how these and other studies have informed the assessments.

We suggest that part B2 should be divided into two or three sections.

Efficiency improvements				
Section 1	Overall approach to assessing the scope for improvements in			
Section	efficiency during the SBP period (This section is not required)			
	Water service efficiency improvements			
Section 2	(1) Operating expenditure			
Section 2	(2) Capital maintenance expenditure			
	(3) Capital enhancement expenditure			
	Sewerage service efficiency improvements			
Section 3	(1) Operating expenditure			
	(2) Capital maintenance expenditure			
	(3) Capital enhancement expenditure			

The company should make any assessments of relative efficiency using 2007-08 as the base year for both output delivery and costs incurred.

The company should explain how it intends to meet its efficiency assumptions including where they will be made. The company should confirm that its efficiency



assumptions can be met, without increasing the risk of service or quality compliance failure.

The company may wish to provide details of studies undertaken both to arrive at its relative efficiency assessment and also the scope for general improvement in efficiency in the industry in part C2 (see separate cost base guidance).

### Out performance of SBP assumptions

The efficiency assumptions in the SBP were not set by NIAUR. As a consequence the Utility Regulator has decided that any out-performance of SBP targets will not be considered for future incentive revenue allowance in this Price Control. Outperformance during PC10 will likely be incorporated into future business plans and final determinations around PC12. As a consequence table B2-1 has been 'stripped out' of the business plan requirements for PC10.

### **Efficiency improvements**

The tables B2-2 and B2-3 ask for improvements in efficiency judgements to be set down for:

- Block A: Operating expenditure efficiency (base)
- Block B: Operating expenditure efficiency (enhancements).
- Block C: Capital maintenance expenditure efficiency for infrastructure assets.
- Block D: Capital maintenance expenditure efficiency for non-infrastructure assets.
- Blocks E & F: Capital enhancement expenditure efficiency for both infrastructure and non-infrastructure assets.
- Block G: Efficiency capex meters

Note: Improvements in efficiency should be entered as in the following example, 4.5% should be entered as 4.5, not 0.045.

### Approach - Minimum plus catch-up judgements

The approach is structured around five steps, each of which is set down in blocks A to F in tables B2-2 and B2-3. The five steps are:

1. The view the company takes of its efficiency relative to its peers within the regulated water industry. The company is asked to band its assessment on the scale A to E as set down in the Ofwat annual reports 'Water and sewerage service unit costs and relative efficiency'. This view will be informed by NIAUR's work on comparative efficiency as well as the company's own analysis.

Relative efficiency banding					
A Most efficient					
В	Above average efficiency				
С	Average efficiency				
D	Below average efficiency				
E	Least efficient				



- 2. Following this view the company would be in a position to reach a conclusion on the scope for it to catch-up with the best in the industry and the proportion of this catch-up that it is prepared to include in its expenditure forecasts.
- 3. The company then sets down its decisions on the rate of catch-up that it has assumed over the period.
- 4. An assessment of the minimum level of improvements in efficiency, year on year, that it is reasonable to assume in price setting for even the most efficient companies. The assessment would need to reflect judgements on the total scope for such companies as well as achieving the right balance in incentives. The judgements would be expected to reflect the underlying principles of the regulatory regime whereby real out-performance in a price limit period would likely be reflected in the starting position for costs in the following period. These judgements could be applied from the 2007-08 base year costs or from the first year of new price limits.
- 5. The final step calculates the aggregate improvement year by year from the separate judgements of minimum level of improvements (step 4) and the rate of catch-up (step 3). The particular percentage reductions in costs are compounded in the final line in each year.

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A worked example from Ofwat for base operating expenditure efficiency follows below:

				AM	P 3			AMP	4			AMP 5
Line description		Units	Assessment AMP 4	2003- 04	2004 -05	2005- 06	2006 -07	2007- 08	2008- 09	2009- 10	2	2010-11
A OPERATING EXPENDITURE EFFICIENCY (BASE)												
1	Assessment of relative efficiency	band	D									
2	Assessment of scope for catch-up(base)/ assumed Profile year on year	%	30	0	0	6.9	6.9	6.9	6.9	6.9		0
3	Assumed minimum level of efficiency improvements/assumed profile year on year(base)	%	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0		1.0
4	Opex – Overall compounded assumed profile (base)	%		1.0	2.0	9.7	16.7	23.2	29.2	34.8		35.4



Step 1 – The company reaches a judgement that its current performance is below average hence enters a D banding in line 1.

Step 2 – After reviewing all the evidence the company concludes that it would need to improve its efficiency by 30% to catch-up with the best in the industry.

Step 3 – The company considers that they will achieve this catch-up evenly over the AMP 4 period. The entries in line 2 are 6.9% p.a. for years 3 to 7, such that the 30% is shared out geometrically.

Step 4 – The company reaches a judgement that 2% per annum improvement in efficiency is what an efficient company might reasonably be expected to achieve as a minimum. However the company considers it needs an incentive to drive through this level of improvements such that only part of this level of improvements should be assumed up front for customers in price limits set in 2004. The company decides to divide the scope 50/50 between customers and the company hence enters a 1% per annum improvement year on year. Of course any out-performance of this figure would be passed through to customers at the 2009 periodic review.

The company has based its forward projections of expenditure on the 2002-03 level so the 1% p.a. applies from that base

Step 5 – The per annum improvements from steps 1 and 4 are compounded to produce the overall assumed cumulative improvement profile in line 4.

Note positive figures are shown in the table as these represent improvements in efficiency. Costs would reduce by these figures to reflect the delivery of the improvements.

The following table illustrates how catch-up efficiencies would be shared on a geometric basis over 3, 5 or 10 years. The table gives the p. a catch-up figure for each of the 3, 5 or 10 years.

Total catch-	3 years p.a.	5 years p.a.	10 years p.a.
up	%	%	%
%			
3	1.0	0.6	0.3
4	1.4	0.8	0.4
6	2.0	1.2	0.6
8	2.7	1.7	0.8
9	3.1	1.9	0.9
12	4.2	2.5	1.3
16	5.6	3.4	1.7



# **TABLE B2-2**



### Table B2-2 – Water service – efficiency improvements line definitions

Block A – Operating expenditure efficiency (base)

	Block A - Operating expenditure enficiency (base)					
1	Assessment of	of relative efficiency	Band (A to E)			
Definition  The company's assessment of its operating exercise companies, in 2007-08, according to the banding scheme:  A: If the company is assessed within 5% of the benchmark company  B: If the company is assessed as being between and 15% from the benchmark company  C: If the company is assessed as being between and 25% from the benchmark company  D: If the company is assessed as being between and 35% from the benchmark company  E: If the company is assessed as being between and 45% from the benchmark company  This assessment is based on total operating expending applies to both base and enhancement operating expending policy.  Processing rules  Responsibility  Comparative Efficiency & Performance			ated water following  15 15 125 135 diture and			
Proces	Processing rules Input field					
Respo	nsibility	Comparative Efficiency & Performance				

2	Assessment of scope for catch-up (base)/assumed profile year on year % (2dp)					
Definit	ion	Percentage reduction of the relative efficiency gap be company and leading companies that the company can be achieved between 2007-08 and 2011-12 company's assumption of the annual profile for 20 2011-12 inclusive to achieve this catch-up.	assesses and the			
Proces	ssing rules	Input field.				
Respo	nsibility	Comparative Efficiency & Performance				

3		Assumed minimum level of efficiency improvements/assumed profile % year on year (base) (2dp)					
Defii	nition	Company's assessment of the minimum level of improvements, year on year, that it is reasonable to a price setting for even the most efficient (band A) co for water base service operating expenditure. equivalent to "frontier shift".	ssume in mpanies,				
Proc	essing rules	Input field					
Resp	oonsibility	Comparative Efficiency & Performance					

4	Overall compo	unded assumed improvement profile (base)	% (2dp)
Definition		The overall cumulative improvement in water serv operating efficiency resulting from catch-up in efficiency plus minimum improvements achievable by companies.	relative
Proce	essing rules	Calculated field: Compounded sum of lines 2 and 3 2008-09: (1– (1–line 2/100) multiplied by (1–line multiplied by 100 2009-10 and following years: (1–(1–line 4 previous year/100) multiplied by (1–line multiplied by (1-line 3/100)) multiplied by 100	.,
Resp	onsibility	Comparative Efficiency & Performance	·





Responsibility

Block B – Operating expenditure efficiency (enhancement)							
5	1	Factor for the scope for enhancement catch up relative to that for base opex (2dp)					
Definit	tion	Factor that should be applied to the scope for bas catch-up to give the scope for enhancement opex catcle of a company believes that these are the same the should be entered as 1.  If a company believes that the scope for enhancement catch-up is greater than that for base opex this she entered as a number >1. For example if a company at the scope for base opex catch-up as 40%, and the seenhancement opex catch-up as 50%, then the factor is less than that for base opex this she entered as a number <1. For example if a company at the scope for base opex catch-up as 50%, and the seenhancement opex catch-up as 50%, then the factor is enhancement opex catch-up as 40%, then the factor is	ent opex ould be ssesses cope for s 1.25.				
Proces	ssing rules	Input field					

6	Assessment of year on year	of scope for catch-up (enhancements)/assumed profile	% (2dp)
Definit	tion	Percentage reduction of the relative efficiency gap be company and leading companies that the company can be achieved between 2007-08 and 2011-12 company's assumption of the annual profile for 20 2011-12 inclusive to achieve this catch-up.	assesses and the
Proces	ssing rules	Calculated field: Column 1 Assessment for NIAMP3. the scope for enhancement catch-up relative to that opex, line 5 multiplied by assessment of scope for base line 2.  Other cells are input fields.	for base
Respo	nsibility	Comparative Efficiency & Performance	

Comparative Efficiency & Performance

7	Factor to assume for minimum level of efficiency compared to base (enhancement)					
Defin	ition	Factor that should be applied to the base opex m level of efficiency to give the minimum level of efficiench enhancement opex.  If a company believes that these are the same the should be entered as 1.  If a company believes that their share of the minimum of efficiency for enhancement opex catch-up is great that for base opex this should be entered as a num For example if a company assesses the scope for m efficiency for base opex as 1% p.a. and the m efficiency for enhancement opex as 1.5%p.a, then the is 1.5.  If a company believes that the minimum level of effor enhancement opex catch-up is less than that for opex this should be entered as a number <1. For example, a company assesses the scope for minimum efficiency open as 1% p.a. and the scope for enhancement catch-up as 0.75% p.a. then the factor is 0.75.	ency for e factor m level ter than ber >1. inimum inimum e factor ficiency or base ample if ency for			
Proc	essing rules	Input field				
Resp	onsibility	Comparative Efficiency & Performance				

8	Assumed mir (enhancements	nimum level of efficiency improvements, p.a. s)	% (2dp)		
Defini	tion	Company's assessment of the minimum level of eimprovements, year on year, that it is reasonable to as price setting for even the most efficient (band A) confor water service enhancements operating expenditure equivalent to "frontier shift".	ssume in mpanies,		
Proce	Processing rules  Assessment NIAMP3 is a calculation: Calculated as (Factor for the minimum level of efficiency relative to that for base opex line 7) times (Assessment of minimum efficiency base line 3).  Other cells are input fields.				
Respo	onsibility	Comparative Efficiency & Performance			



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9	Overall compo	ounded assumed improvement profile (enhancements)	% (2dp)
Definition		The overall cumulative improvement in water enhancements operating efficiency resulting from carelative efficiency plus minimum improvements achievand A companies.	atch-up in
Processing rules		Calculated field: Compounded sum of lines 6 and 8 2008-09: (1- (1-line 6/100) multiplied by (1- lin multiplied by 100 2009-10 and following years: (1-(1-line 9 previous year/100) multiplied by (1-lin multiplied by (1-line 8/100)) multiplied by 100	,,
Respo	nsibility	Comparative Efficiency & Performance	

11	Assessment of scope for catch-up		% (2dp)
Definition		Percentage reduction of the relative efficiency gap the company and leading companies that the assesses can be achieved between 2007-08 and 201	company
Processing rules		Input field	
Responsibility		Comparative Efficiency & Performance	

Block C - Capital maintenance expenditure efficiency (infra)

10	Assessment o	f relative efficiency	Band (A to E)
10 Assessment of Definition  Processing rules		The company's assessment of its capital m (infrastructure) efficiency for the water service, relat regulated water service companies, in 2007-08, a the following banding scheme:  A: If the company is assessed within 10% of the benchmark company B: If the company is assessed as being between and 20% from the benchmark company C: If the company is assessed as being between and 30% D: If the company is assessed as being between and 40% E: If the company is assessed as being between and 50%	ive to other ccording to the seen 10 ten 20 ten 30
Proces	ssing rules	Input field	
Responsibility		Comparative Efficiency & Performance	·



12	Assumed prof	Assumed profile of "catch-up" year on year	
Definit	tion	Company's assumption of the annual profile for 20 2011-12 inclusive to achieve the catch-up defined i above.	
Processing rules		Input field	
Respo	nsibility	Comparative Efficiency & Performance	

14	Overall compounded assumed improvement profile		% (2dp)
Definition		The overall year on year improvement in water service maintenance (infrastructure) efficiency from both carelative efficiency and minimum improvements achieved the most efficient firms, relative to recent historical expenditure. Assume that no stepped changes to levels as projected in table B3-5 have been made.	tch-up in evable by levels of
Processing rules		Input field: compounded sum of lines 12 and 13 2008-09: (1– (1–line 12/100) multiplied by (1– line multiplied by 100 2009-10 and following years: (1–(1–line 14 previous year/100) multiplied by (1–line multiplied by (1-line 13/100)) multiplied by 100	,,
Responsibility Comparative Efficiency & Performance			

Block D - Capital enhancement expenditure efficiency (non-infra)

13	Assumed minimorprofile year on year	um level of efficiency improvements p.a./ assumed ear	% (2dp)
Definit	ion	The company's assessment of the minimum efficiency improvements, year on year, that it is r to assume in price setting for the most efficient companies for water service capital ma (infrastructure) expenditure. This is equivalent t shift".	easonable (Band A) aintenance
Proces	ssing rules	Input field.	
Respo	nsibility	Comparative Efficiency & Performance	

15	Assessment of rel	,	Band (A to E)
Defini	Definition  The company's assessment of its capital maintenance infrastructure) efficiency for the water service, relievation of the regulated water service companies, in 2 according to the following banding scheme:  A: If the company is assessed within 10% benchmark company  B: If the company is assessed as being between and 20% from the benchmark company  C: If the company is assessed as being between and 30%  D: If the company is assessed as being between and 40%  E: If the company is assessed as being being and 40%  E: If the company is assessed as being being and 50%		of the veen 10 veen 20 veetween
Proce	essing rules	Input field	
Respo	onsibility	Comparative Efficiency & Performance	



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16	Assessment of scope for catch-up		% (2dp)
Definition		Percentage reduction of the relative efficiency gap the company and leading companies that the assesses can be achieved between 2007-08 and 20	company
Processing rules		Input field	
Responsibility		Comparative Efficiency & Performance	

18	Assumed minin profile year on y	num level of efficiency improvements p.a./assumed year	% (2dp)
Definition Definition		The company's assessment of the minimum efficiency improvements, year on year, that it is re to assume in price setting for the most efficient companies for water service capital maintenar infrastructure) expenditure. This is equivalent to shift".	easonable (Band A) nce (non-
Proce	essing rules	Input field	
Resp	onsibility	Comparative Efficiency & Performance	•

17	Assumed profile of "catch-up" year on year		% (2dp)
Definition		Company's assumption of the annual profile for 2 2011-12 inclusive to achieve the catch-up defined above.	
Processing rules		Input field	
Responsibility		Comparative Efficiency & Performance	•



### Block E - Capital enhancement expenditure efficiency (infra)

19	Overall compour	Overall compounded assumed improvement profile	
Definit	ion	The overall cumulative improvement in water service maintenance (non-infrastructure) efficiency from both up in relative efficiency and minimum improvachievable by the most efficient firms relative to historical levels of expenditure. Assume that no changes to activity levels as projected in table B3 been made.	h catch- vements recent stepped
Proces	ssing rules	Calculated field: Compounded sum of lines 17 and 18 2008-09: (1-17/100) multiplied by (1-line 18/100)) multiplied by 1 2009-10 and following years: (1-(1-line 19 previous year/100) multiplied by	00
		17/100) multiplied by (1-line 18/100)) multiplied by 10	
Respo	nsibility	Comparative Efficiency & Performance	

21	Assessment of scope for catch-up		% (2dp)
Definition		Percentage reduction of the relative efficiency gap between the company and leading companies that the company assesses can be achieved between 2007-08 and 2011-12.	
Processing rules		Input field	
Responsibility		Comparative Efficiency & Performance	

20	Assessment of relative efficiency		Band (A to E)
Defin	ition	The company's assessment of its capital enhance (infrastructure) efficiency for the water service, relational regulated water service companies, in 2007-according to the following banding scheme:  A: If the company is assessed within 10% of benchmark company  B: If the company is assessed as being between 30%  C: If the company is assessed as being between 30 and 40%  E: If the company is assessed as being between 40 and 50%	ative to -08, f the ween 10
Processing rules		Input field	
Responsibility Comparative Efficiency & Performance			

22	Assumed profile of "catch-up" year on year		% (2dp)
Definition		Company's assumption of the annual profile for 200 2011-12 inclusive to achieve the catch-up defined in above.	
Processing rules		Input field	
Responsibility		Comparative Efficiency & Performance	



23	Factor to assume (enhancement)	e for minimum level of efficiency compared to base	nr (2dp)
Defini	Pefinition  Factor that should be applied to the scope for base of maintenance catch-up infra to give the scope for cenhancement catch-up infra.  If a company believes that these are the same the should be entered as 1.  If a company believes that the scope for cenhancement catch-up infra is greater than that for capital maintenance infra this should be entered number >1. For example if a company assesses the store base capital maintenance catch-up infra as 40%, are scope for capital enhancement catch-up infra as 50% the factor is 1.25.  If a company believes that the scope for cenhancement catch-up infra is less than that for capital maintenance infra this should be entered number <1. For example if a company assesses the store base capital maintenance catch-up infra as 50%, are scope for capital enhancement catch-up infra as 40% the factor is 0.8.		capital e factor capital or base d as a e scope and the %, then capital or base d as a e scope and the dr base d as a e scope and the
Proce	essing rules	Input field	
Respo	Responsibility Comparative Efficiency & Performance		





Block F Capital enhancement expenditure efficiency (non-infra)

DIUCKI	k F Capital ennancement expenditure efficiency (non-infra)				
24	Assumed minimorprofile year on year	um level of efficiency improvements p.a./assumed ear.	% (2dp)		
Definit	ion	The company's assessment of the minimum efficiency improvements, year on year, that it is not one assume in price setting for those companies lowest capital unit costs for water infrastructure equivalent to "frontier shift".	easonable with the		
Proces	ssing rules	NIAMP 3 Assessment calculated field: Facto minimum level of efficiency relative to that enhancement line 23 multiplied by Assessment of efficiency base capital maintenance infra line 13. All other fields are input fields.	for base		
Respo	nsibility	Comparative Efficiency & Performance			

26	Assessment of relative efficiency		Band (A to E)
Proce	ssing rules	The company's assessment of its capital er (infrastructure) efficiency for the water service, other regulated water service companies, it according to the following banding scheme:  A: If the company is assessed within a benchmark company  B: If the company is assessed as being I and 20% from the benchmark company  C: If the company is assessed as being I and 30%  D: If the company is assessed between 30 and 40%  E: If the company is assessed between 40 and 50%  Input field	relative to 2007-08, 10% of the petween 10
Respo	onsibility	Comparative Efficiency & Performance	

25	Overall compou	Overall compounded assumed improvement profile % (2dp)	
Definition		Projected cumulative reductions in capital enhexpenditure on infrastructure assets compared to levels based on the company's current unit cost data	projected
Processing rules  Calculated field: Compounded sum of lines 22 and 24 2008-09: (1– (1–line 22/100) multiplied by (1– line multiplied by 100 2009-10 and following years: (1–(1–line 25 previous year/100) multiplied by 22/100) multiplied by (1-line 24/100)) multiplied by 1		ov (1–line	
Responsibility Comparative Efficiency & Performance			

27	Assessment of scope for catch-up % (2d		% (2dp)
Definition		Percentage reduction of the relative efficiency gap the company and leading companies that the assesses can be achieved between 2007-08 and 2	company
Processing rules		Input field	
Responsibility		Comparative Efficiency & Performance	



28	Assumed profile of "catch-up" year on year		% (2dp)
Definition		Company's assumption of the annual profile for 2008-09 to 2011-12 inclusive to achieve the catch-up defined in line 27 above.	
Processing rules		Input field.	
Responsibility		Comparative Efficiency & Performance	

29	Factor to assume	e for minimum level of efficiency compared to base	nr (2dp)
Definit	ion	Factor that should be applied to the scope for base maintenance catch-up non-infra to give the scope for enhancement catch-up non-infra.  If a company believes that these are the same the should be entered as 1.	r capital
		If a company believes that the scope for enhancement catch-up non-infra is greater than that to capital maintenance non-infra this should be entered number >1. For example if a company assesses the for base capital maintenance catch-up non-infra as 40 the scope for capital enhancement catch-up non-50%, then the factor is 1.25.	for base ed as a e scope 0%, and
		If a company believes that the scope for enhancement catch-up non-infra is less than that f capital maintenance non-infra this should be entere number <1. For example if a company assesses the for base capital maintenance catch-up non-infra as 50 the scope for capital enhancement catch-up non-40%, then the factor is 0.8.	or base ed as a e scope 0%, and
Proces	ssing rules	Input field	
Respo	nsibility	Comparative Efficiency & Performance	

30	Assumed minimu profile year on yea	m level of efficiency improvements p.a/. assumed ar.	% (2dp)
		The company's assessment of the minimum efficiency improvements, year on year, that it is reto assume in price setting for those companies lowest capital unit costs for water non-infrastructure equivalent to "frontier shift".	easonable with the
Proce	Processing rules Input field.		
Respo	Responsibility Comparative Efficiency & Performance		



31	Overall compour	nded assumed improvement profile	% (2dp)
expenditure on non-infrastructure		Projected annual reductions in capital enhexpenditure on non-infrastructure assets comprojected levels based on the company's current database.	pared to
Processing rules		Calculated field: Compounded sum of lines 28 and 30 2008-09: (1– (1–line 28/100) multiplied by (1– line multiplied by 100	e 30/100))
2009-10 and following years: (1–(1–line 31 pr year/100) multiplied by (1–line 28/100) multiplied by 30/100)) multiplied by 100			
Respo	nsibility	Comparative Efficiency & Performance	

33	Assumed minimu profile year on year	m level of efficiency improvements p.a/. assumed ar.	% (2dp)
Definition		Company's assessment of the minimum level of ef improvements, year on year, that it is reasonable to a in price setting for those companies with the lowest unit costs for water non-infrastructure. This is equiv "frontier shift".	assume capital
Processing rules		Copied field: Copied from table B2 line 30	
Resp	onsibility	Comparative Efficiency & Performance	

32	Assumed profile of "catch-up" year on year %		% (2dp)
Definition		Company's assumption of the annual profile for 2 2009-10 inclusive to achieve the catch-up for meter	
Processing rules		Input field.	
Responsibility Comparative Efficiency & Performance			

34	Overall compound	ded assumed improvement profile	% (2dp)
Definition  Projected annual reductions in capital enhancement of expenditure on non-infrastructure assets for compared to projected levels based on the com		meters	
Proce	essing rules	Calculated field: Compounded sum of lines 32 and 33 2003-04: (1– (1–line 31/100) multiplied by (1– line 3 multiplied by 100	32/100))
2004-05 and following years: (1–(1–line 34 pyear/100) multiplied by (1–line 31/100) multiplied by 32/100)) multiplied by 100			
Resp	sponsibility Comparative Efficiency & Performance		



**Block G Operating expenditure efficiency PPP** 

lock o operating expenditure emolency in i			
35	Assumed Gainshare	£m (2dp)	
Definition The company's actual and/or forecast Gainshare related PPP contracts		elated to	
Processing rules	Input		
Responsibility	Comparative Efficiency & Performance		



# **TABLE B2-3**



### Table B2-3 – Sewerage service – efficiency improvements line definitions

**Block A – Operating expenditure efficiency (base)** 

DIOUK /	Block A - Operating experiation emiciency (base)			
1	Assessment of relative efficiency		Band (A to E)	
Definit	ion	The company's assessment of its operating exefficiency for the sewerage service, relative to other sewerage service companies, in 2007-08, according following banding scheme:  A:If the company is assessed within 5% of the becompany  B:If the company is assessed as being between 5 from the benchmark company  C: If the company is assessed as being between 15 ard D:If the company is assessed as being between 25 and E:If the company is assessed as being between 35 ard E:If the company is assessed as being be	regulated ng to the enchmark and 15% and 25% d 35%	
Processing rules Input field				
Responsibility Comparative Efficiency & Performance				

2	Assessment of scope for catch-up (base)/assumed profile year on year % (2dp)		% (2dp)
Definition		Percentage reduction of the relative efficiency gap be company and leading companies that the company can be achieved between 2007-08 and 2011-12 company's assumption of the annual profile for 20 2011-12 inclusive to achieve this catch-up.	assesses and the
Processing rules		Input field	
Responsibility		Comparative Efficiency & Performance	

3	Assumed minimum level of efficiency improvements/assumed profile year on year		% (2dp)
Defin	ition	Company's assessment of the minimum level of improvements, year on year, that it is reasonable to a price setting for even the most efficient (band A) co for sewerage base service operating expenditure equivalent to "frontier shift".	ssume in mpanies,
Processing rules		Input field	
Resp	onsibility	Comparative Efficiency & Performance	•

4	Overall compounded assumed improvement profile (base)		% (2dp)
Definition		The overall cumulative improvement in sewerage service operating efficiency resulting from catch-up in efficiency plus minimum improvements achievable by companies, equivalent to "frontier shift".	relative
Processing rules		Calculated field: Compounded sum of lines 2 and 3 2008-09: (1– (1–line 2/100) multiplied by (1– line multiplied by 100 2009-10 and following years: (1–(1–line 4 previous year/100) multiplied by (1–line multiplied by (1-line 3/100)) multiplied by 100	,,
Responsibility Comparative Efficiency & Performance			





Block B – Operating expenditure efficiency (enhancement)

Block B – Operating expenditure efficiency (enhancement)			
5	Factor for the scope for enhancement catch up relative to that for base opex		nr. (2dp)
Definition		Factor that should be applied to the scope for bas catch-up to give the scope for enhancement opex cat.  If a company believes that these are the same the should be entered as 1.  If a company believes that the scope for enhancement catch-up is greater than that for base opex this she entered as a number >1. For example if a company as	e factor ent opex ould be ssesses
		the scope for base opex catch-up as 40%, and the senhancement opex catch-up as 50%, then the factor of a company believes that the scope for enhancement catch-up is less than that for base opex this shentered as a number <1. For example if a company a the scope for base opex catch-up as 50%, and the senhancement opex catch-up as 40%, then the factor is	ent opex ould be ssesses cope for
Processing rules Input field			
Responsibility Comparative Efficiency & Performance			

6	Assessment of scope for catch-up (enhancements)/assumed profile year on year % (2dp)		% (2dp)
Definit	iion	Percentage reduction of the relative efficiency gap between the company and leading companies that the company assesses can be achieved between 2007-08 and 2011-12 and the company's assumption of the annual profile for 2008-09 to 2011-12 inclusive to achieve this catch-up.	
Processing rules		NIAMP3 assessment calculated field: Factor for the enhancement catch-up relative to that for base op multiplied by assessment of scope for catch-up in line. Other cells are input fields.	ex line 5
Responsibility		Comparative Efficiency & Performance	

7	Factor to assume for minimum level of efficiency compared to base (enhancement)		nr (2dp)
, ,		Factor that should be applied to the base opex m level of efficiency to give the minimum level of efficiench enhancement opex.  If a company believes that these are the same the should be entered as 1.  If a company believes that their share of the minimum of efficiency for enhancement opex catch-up is great that for base opex this should be entered as a num For example if a company assesses the scope for m efficiency for base opex as 1% p.a. and the m efficiency for enhancement opex as 1.5%p.a, then the is 1.5.  If a company believes that the minimum level of effor enhancement opex catch-up is less than that for opex this should be entered as a number <1. For example, a company assesses the scope for minimum efficience base opex as 1% p.a. and the scope for enhancement catch-up as 0.75% p.a. then the factor is 0.75.	ency for e factor m level eer than ber >1. inimum inimum e factor ficiency or base ample if ency for
Proce	essing rules	Input field	
Responsibility Comparative Efficiency & Performance			

8	Assumed minimum level of efficiency improvements, p.a.		% (2dp)
Definition		Company's assessment of the minimum level of efficiency improvements, year on year, that it is reasonable to assume in price setting for even the most efficient (band A) companies, for sewerage service enhancements operating expenditure. This is equivalent to "frontier shift".	
level of efficiency relation by Assessment of mini		NIAMP 3 assessment calculated field: Factor for the level of efficiency relative to that for base opex line 7 r by Assessment of minimum efficiency base line 3.  Other cells are input fields.	-
Responsibility Comparative Efficiency & Performance			





9	Overall (enhancemen	compounded assumed improvement profile ts)	% (2dp)
Definition		The overall cumulative improvement in sewerage enhancements operating efficiency resulting from carelative efficiency plus minimum improvements achievand A companies, equivalent to "frontier shift".	atch-up in
Processing rules		Calculated field: Compounded sum of lines 6 and 8 2008-09: (1– (1–line 6/100) multiplied by (1– line multiplied by 100 2009-10 and following years: (1–(1–line 9 previous year/100) multiplied by (1–line multiplied by (1-line 8/100)) multiplied by 100	,,
Respo	nsibility	Comparative Efficiency & Performance	

11	Assessment of scope for catch-up		% (2dp)
Definition		Percentage reduction of the relative efficiency gap the company and leading companies that the assesses can be achieved between 2007-08 and 201	company
Processing rules		Input field	
Respo	nsibility	Comparative Efficiency & Performance	

Block C - Capital maintenance expenditure efficiency (infra)

10	Assessment of relative efficiency		Band (A to E)
Definit	Definition  The company's assessment of its capital macording to the following banding scheme:  A: If the company is assessed within 10 benchmark company  B: If the company is assessed as being between 20% from the benchmark company  C: If the company is assessed as being between 30%  D: If the company is assessed as being between 30%  E: If the company is assessed as being beand 40%  E: If the company is assessed as being beand 50%		relative to n 2007-08, 0% of the een 10 and een 20 and between 30
Processing rules Input field			
Responsibility Comparative Efficiency & Performance			



12	Assumed prof	file of "catch-up" year on year % (2dp)	
Definition		Company's assumption of the annual profile for 20 2011-12 inclusive to achieve the catch-up defined i above.	
Processing rules		Input field	
Responsibility		Comparative Efficiency & Performance	

14	Overall comp maintenance in	ounded assumed improvement profile (capital % (2dp)
Definition		The overall year on year improvement in sewerage service capital maintenance (infrastructure) efficiency from both catchup in relative efficiency and minimum improvements achievable by the most efficient firms, relative to recent historical levels of expenditure. Assume that no stepped changes to activity levels as projected in table B3-5 have been made.
Processing rules		Calculated field: compounded sum of lines 12 and 13 2008-09: (1– (1–line 12/100) multiplied by (1– line 13/100)) multiplied by 100 2009-10 and following years: (1–(1–line 14 previous year/100) multiplied by (1–line 12/100) multiplied by (1-line 13/100)) multiplied by 100
Respo	onsibility	Comparative Efficiency & Performance

Block D - Capital enhancement expenditure efficiency (non-infra)

13	Assumed minimorprofile year on year	um level of efficiency improvements p.a./ assumed ear	% (2dp)
Definit	ion	The company's assessment of the minimum efficiency improvements, year on year, that it is not to assume in price setting for the most efficient companies for sewerage service capital material (infrastructure) expenditure, equivalent to "frontier services".	easonable (Band A) aintenance
Processing rules		Input field.	
Respo	nsibility	Comparative Efficiency & Performance	

15	Assessment of relative efficiency		Band (A to E)
Defini	tion	The company's assessment of its capital mainten infrastructure) efficiency for the sewerage service to other regulated sewerage service companies, i according to the following banding scheme:  A: If the company is assessed within 16 benchmark company  B: If the company is assessed as being benchmark company is assessed as being 30 and 40%  E: If the company is assessed as being 40 and 50%	ce, relative n 2007-08, 0% of the netween 10 netween 20 g between
Proce	Processing rules Input field		
Respo	Responsibility Comparative Efficiency & Performance		



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16	Assessment of scope for catch-up		% (2dp)
Definit	tion	Percentage reduction of the relative efficiency gap the company and leading companies that the cassesses can be achieved between 2007-08 and 201	ompany
Processing rules		Input field	
Responsibility		Comparative Efficiency & Performance	

17	Assumed profile of "catch-up" year on year		% (2dp)
Definition		Company's assumption of the annual profile for 200 2011-12 inclusive to achieve the catch-up defined in above.	
Processing rules		Input field	
Responsibility		Comparative Efficiency & Performance	·

18	, , , , , , , , , , , , , , , , , , ,		% (2dp)
Definition		The company's assessment of the minimum leadificiency improvements, year on year, that it is reast to assume in price setting for the most efficient (Becompanies for sewerage service capital maintenance infrastructure) expenditure. This is equivalent to 'shift'.	sonable and A) e (non-
Processing rules		Input field	
Responsibility		Comparative Efficiency & Performance	



### Block E - Capital enhancement expenditure efficiency (infra)

19	Overall compo	unded assumed improvement profile (capital n-infra)	% (2dp)
Definit	ion	The overall year on year improvement in sewerage capital maintenance (non-infrastructure) efficiency frostich-up in relative efficiency and minimum improsective achievable by the most efficient firms relative to historical levels of expenditure. Assume that no changes to activity levels as projected in table B3 been made.	rom both vements o recent stepped
Proces	ssing rules	Calculated field: Compounded sum of lines 17 and 18 2008-09: (1– (1–line 17/100) multiplied by (1– line multiplied by 100 2009-10 and following years: (1–(1–line 19 previous year/100) multiplied by 17/100) multiplied by (1-line 18/100)) multiplied by 10	(1-line
Respo	nsibility	Comparative Efficiency & Performance	

20	Assessment of relative efficiency		Band (A to E)
Defin	between 30 and 40%		e, relative , in 2007- )% of the etween 10
Proce	essing rules	Input field	
Resp	onsibility	Comparative Efficiency & Performance	

21	Assessment of scope for catch-up		% (2dp)
Definit	tion	Percentage reduction of the relative efficiency gap between the company and leading companies that the company assesses can be achieved between 2007-08 and 2011-12.	
Processing rules		Input field	
Responsibility		Comparative Efficiency & Performance	

22	Assumed profile of "catch-up" year on year		% (2dp)
Definition		Company's assumption of the annual profile for 2 2011-12 inclusive to achieve the catch-up defined above.	
Processing rules		Input field	
Responsibility		Capital Maintenance Team	•



23	Factor to assume (enhancement)	e for minimum level of efficiency compared to base	nr (2dp)
Defin	Factor that should be applied to the scope for base maintenance catch-up infra to give the scope for enhancement catch-up infra.  If a company believes that these are the same the should be entered as 1.  If a company believes that the scope for enhancement catch-up infra is greater than that for capital maintenance infra this should be entered number >1. For example if a company assesses the for base capital maintenance catch-up infra as 40%, a scope for capital enhancement catch-up infra as 50% the factor is 1.25.  If a company believes that the scope for enhancement catch-up infra is less than that for capital maintenance infra this should be entered number <1. For example if a company assesses the for base capital maintenance catch-up infra as 50%, a scope for capital enhancement catch-up infra as 40% the factor is 0.8.		capital e factor capital or base d as a e scope and the %, then capital or base d as a e scope and the d as a e scope and the
Processing rules Input field			
Responsibility		Comparative Efficiency & Performance	





Block F Capital enhancement expenditure efficiency (non-infra)

DIOCK	ck F Capital ennancement expenditure efficiency (non-infra)			
24	Assumed minimum level of efficiency improvements p.a./assumed % (2dp) rofile year on year		% (2dp)	
Definition		The company's assessment of the minimum efficiency improvements, year on year, that it is not to assume in price setting for those companies lowest capital unit costs for sewerage infrastructure	easonable with the	
Processing rules		Assessment NIAMP3 is a calculation: Calculated a for the minimum level of efficiency relative to tha enhancement line 23) times (Assessment of efficiency base capital maintenance infra line 13). Input field	t for base	
Respo	nsibility	Comparative Efficiency & Performance		

25	Overall composenhancement inf	unded assumed improvement profile (capital % (2dp)
Definition		Projected annual reductions in capital enhancement expenditure on infrastructure assets compared to projected levels based on the company's current unit cost database.
Processing rules		Calculated field: Compounded sum of lines 22 and 24 2008-00: (1– (1–line 22/100) multiplied by (1– line 24/100)) multiplied by 100 2009-10 and following years: (1–(1–line 25 previous year/100) multiplied by (1–line 22/100) multiplied by (1–line 24/100)) multiplied by 100
Respo	nsibility	Comparative Efficiency & Performance

26	Assessment of relative efficiency		Band (A to E)
Defini	tion	The company's assessment of its capital en (infrastructure) efficiency for the sewerage servito other regulated sewerage service companies, according to the following banding scheme:  A: If the company is assessed within 1 benchmark company  B: If the company is assessed as being to and 20% from the benchmark company  C: If the company is assessed as being to and 30%  D: If the company is assessed between 30 and 40%  E: If the company is assessed between 40 and 50%	ce, relative in 2007-08, 0% of the petween 10
Proce	ssing rules	Input field	
Respo	onsibility	Comparative Efficiency & Performance	

27	Assessment of scope for catch-up		% (2dp)
Definition		Percentage reduction of the relative efficiency gap between the company and leading companies that the company assesses can be achieved between 2007-08 and 2011-12.	
Processing rules		Input field	
Responsibility		Comparative Efficiency & Performance	



28	Assumed profile of "catch-up" year on year		% (2dp)
Definition		Company's assumption of the annual profile for 2008-09 to 2011-12 inclusive to achieve the catch-up defined in line 27 above.	
Processing rules		Input field.	
Responsibility		Comparative Efficiency & Performance	

29	Factor to assume for minimum level of efficiency compared to base (enhancement)		nr (2dp)
Defini	ion	Factor that should be applied to the scope for base maintenance catch-up non-infra to give the scope fo enhancement catch-up non-infra.	•
		If a company believes that these are the same th should be entered as 1.	e factor
		If a company believes that the scope for enhancement catch-up non-infra is greater than that capital maintenance non-infra this should be enternumber >1. For example if a company assesses th for base capital maintenance catch-up non-infra as 4 the scope for capital enhancement catch-up non-50%, then the factor is 1.25.	for base ed as a e scope 0%, and
		If a company believes that the scope for enhancement catch-up non-infra is less than that f capital maintenance non-infra this should be enternumber <1. For example if a company assesses th for base capital maintenance catch-up non-infra as 5 the scope for capital enhancement catch-up non-40%, then the factor is 0.8.	or base ed as a e scope 0%, and
Proces	ssing rules	Input field	
Respo	nsibility	Comparative Efficiency & Performance	

30	Assumed minimu profile year on year	m level of efficiency improvements p.a. /assumed ar.	% (2dp)
Defini	ition	The company's assessment of the minimum efficiency improvements, year on year, that it is re to assume in price setting for those companies lowest capital unit costs for sewerage non-infra This is equivalent to "frontier shift".	easonable with the
Proce	essing rules	Input field.	
Responsibility		Comparative Efficiency & Performance	



31	Overall assume infra)	ed improvement profile (capital enhancement non- % (2dp)
Definition		Projected annual reductions in capital enhancement expenditure on non-infrastructure assets compared to projected levels based on the company's current unit cost database.
Proc	essing rules	Calculated field:
		Compounded sum of lines 28and 30
		2008-09: (1– (1–line 28/100) multiplied by (1– line 30/100)) multiplied by 100
		2009-10 and following years:
		(1–(1–line 31 previous year/100) multiplied by (1–line 28/100) multiplied by (1-line 30/100)) multiplied by 100
Resp	onsibility	Comparative Efficiency & Performance

**Block G Operating expenditure efficiency PPP** 

32	Assumed Gainshare	£m (2dp)
Definition	The company's actual and/or forecast Gainshare I PPP contracts	related to
Processing rules	Input	
Responsibility	Comparative Efficiency & Performance	