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 efficiency during the SBP period (This section is not required)
Section 2	Water service efficiency improvements (1) Operating expenditure (2) Capital maintenance expenditure (3) Capital enhancement expenditure
Section 3	Sewerage service efficiency improvements (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
B	Above average efficiency
C	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.

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

	Line description	Units	Assessment AMP 4	AMP 3		AMP 4					AMP 5
				2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	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-up %	3 years p.a. %	5 years p.a. %	10 years p.a. %
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)

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

2	Assessment of scope for catch-up (base)/assumed profile year on year	% (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 and the company's assumption of the annual profile for 2008-09 to 2011-12 inclusive to achieve this catch-up.	
Processing rules	Input field.	
Responsibility	Comparative Efficiency & Performance	

3	Assumed minimum level of efficiency improvements/assumed profile year on year (base)	% (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 water base service operating expenditure. This is equivalent to "frontier shift".	
Processing rules	Input field	
Responsibility	Comparative Efficiency & Performance	

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

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 base opex catch-up to give the scope for enhancement opex catch-up. If a company believes that these are the same the factor should be entered as 1. If a company believes that the scope for enhancement opex catch-up is greater than that for base opex this should be entered as a number >1. For example if a company assesses the scope for base opex catch-up as 40%, and the scope for enhancement opex catch-up as 50%, then the factor is 1.25. If a company believes that the scope for enhancement opex catch-up is less than that for base opex this should be entered as a number <1. For example if a company assesses the scope for base opex catch-up as 50%, and the scope for enhancement opex catch-up as 40%, then the factor is 0.8.	
Processing rules	Input field	
Responsibility	Comparative Efficiency & Performance	

6	Assessment of scope for catch-up (enhancements)/assumed profile year on year	% (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 and the company's assumption of the annual profile for 2008-09 to 2011-12 inclusive to achieve this catch-up.	
Processing rules	Calculated field: Column 1 Assessment for NIAMP3. Factor for the scope for enhancement catch-up relative to that for base opex, line 5 multiplied by assessment of scope for catch-up base line 2. Other cells are input fields.	
Responsibility	Comparative Efficiency & Performance	

7	Factor to assume for minimum level of efficiency compared to base (enhancement)	nr (2dp)
Definition	Factor that should be applied to the base opex minimum level of efficiency to give the minimum level of efficiency for enhancement opex. If a company believes that these are the same the factor should be entered as 1. If a company believes that their share of the minimum level of efficiency for enhancement opex catch-up is greater than that for base opex this should be entered as a number >1. For example if a company assesses the scope for minimum efficiency for base opex as 1% p.a. and the minimum efficiency for enhancement opex as 1.5%p.a, then the factor is 1.5. If a company believes that the minimum level of efficiency for enhancement opex catch-up is less than that for base opex this should be entered as a number <1. For example if a company assesses the scope for minimum efficiency for base opex as 1% p.a. and the scope for enhancement opex catch-up as 0.75% p.a. then the factor is 0.75.	
Processing rules	Input field	
Responsibility	Comparative Efficiency & Performance	

8	Assumed minimum level of efficiency improvements, p.a. (enhancements)	% (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 water service enhancements operating expenditure. This is equivalent to "frontier shift".	
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.	
Responsibility	Comparative Efficiency & Performance	

9	Overall compounded assumed improvement profile (enhancements)	% (2dp)
Definition	The overall cumulative improvement in water service enhancements operating efficiency resulting from catch-up in relative efficiency plus minimum improvements achievable by band A companies.	
Processing rules	Calculated field: Compounded sum of lines 6 and 8 2008-09: (1– (1–line 6/100) multiplied by (1– line 8/100)) multiplied by 100 2009-10 and following years: (1–(1–line 9 previous year/100) multiplied by (1–line 6/100) multiplied by (1-line 8/100)) multiplied by 100	
Responsibility	Comparative Efficiency & Performance	

Block C - Capital maintenance expenditure efficiency (infra)

10	Assessment of relative efficiency	Band (A to E)
Definition	The company's assessment of its capital maintenance (infrastructure) efficiency for the water service, relative to other regulated water service companies, in 2007-08, according to 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 10 and 20% from the benchmark company C: If the company is assessed as being between 20 and 30% D: If the company is assessed as being between 30 and 40% E: If the company is assessed as being between 40 and 50%	
Processing rules	Input field	
Responsibility	Comparative Efficiency & Performance	

11	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	

12	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 10 above.	
Processing rules	Input field	
Responsibility	Comparative Efficiency & Performance	

14	Overall compounded assumed improvement profile	% (2dp)
Definition	The overall year on year improvement in water service capital maintenance (infrastructure) efficiency from both catch-up 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	Input 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	
Responsibility	Comparative Efficiency & Performance	

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

13	Assumed minimum level of efficiency improvements p.a./ assumed profile year on year	% (2dp)
Definition	The company's assessment of the minimum level of efficiency improvements, year on year, that it is reasonable to assume in price setting for the most efficient (Band A) companies for water service capital maintenance (infrastructure) expenditure. This is equivalent to "frontier shift".	
Processing rules	Input field.	
Responsibility	Comparative Efficiency & Performance	

15	Assessment of relative efficiency	Band (A to E)
Definition	The company's assessment of its capital maintenance (non-infrastructure) efficiency for the water service, relative to other regulated water service companies, in 2007-08, according to 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 10 and 20% from the benchmark company C: If the company is assessed as being between 20 and 30% D: If the company is assessed as being between 30 and 40% E: If the company is assessed as being between 40 and 50%	
Processing rules	Input field	
Responsibility	Comparative Efficiency & Performance	

16	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	

17	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 16 above.	
Processing rules	Input field	
Responsibility	Comparative Efficiency & Performance	

18	Assumed minimum level of efficiency improvements p.a./assumed profile year on year	% (2dp)
Definition	The company's assessment of the minimum level of efficiency improvements, year on year, that it is reasonable to assume in price setting for the most efficient (Band A) companies for water service capital maintenance (non-infrastructure) expenditure. This is equivalent to "frontier shift".	
Processing rules	Input field	
Responsibility	Comparative Efficiency & Performance	

Block E - Capital enhancement expenditure efficiency (infra)

19	Overall compounded assumed improvement profile	% (2dp)
Definition	The overall cumulative improvement in water service capital maintenance (non-infrastructure) efficiency from both catch-up 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 B3-6 have been made.	
Processing rules	Calculated field: Compounded sum of lines 17 and 18 2008-09: (1– (1–line 17/100) multiplied by (1– line 18/100)) multiplied by 100 2009-10 and following years: (1–(1–line 19 previous year/100) multiplied by (1–line 17/100) multiplied by (1-line 18/100)) multiplied by 100	
Responsibility	Comparative Efficiency & Performance	

20	Assessment of relative efficiency	Band (A to E)
Definition	The company's assessment of its capital enhancement (infrastructure) efficiency for the water service, relative to other regulated water service companies, in 2007-08, according to 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 10 and 20% from the benchmark company C: If the company is assessed as being between 20 and 30% D: If the company is assessed as being between 30 and 40% E: If the company is assessed as being between 40 and 50%	
Processing rules	Input field	
Responsibility	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	

22	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 21 above.	
Processing rules	Input field	
Responsibility	Comparative Efficiency & Performance	

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

Block F Capital enhancement expenditure efficiency (non-infra)

24	Assumed minimum level of efficiency improvements p.a./assumed profile year on year.	% (2dp)
Definition	The company's assessment of the minimum level of efficiency improvements, year on year, that it is reasonable to assume in price setting for those companies with the lowest capital unit costs for water infrastructure. This is equivalent to "frontier shift".	
Processing rules	NIAMP 3 Assessment calculated field: Factor for the minimum level of efficiency relative to that for base enhancement line 23 multiplied by Assessment of minimum efficiency base capital maintenance infra line 13. All other fields are input fields.	
Responsibility	Comparative Efficiency & Performance	

25	Overall compounded assumed improvement profile	% (2dp)
Definition	Projected cumulative 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 2008-09: (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	
Responsibility	Comparative Efficiency & Performance	

26	Assessment of relative efficiency	Band (A to E)
Definition	The company's assessment of its capital enhancement (infrastructure) efficiency for the water service, relative to other regulated water service companies, in 2007-08, according to 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 10 and 20% from the benchmark company C: If the company is assessed as being between 20 and 30% D: If the company is assessed as being between 30 and 40% E: If the company is assessed as being between 40 and 50%	
Processing rules	Input field	
Responsibility	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	nr (2dp)
Definition	Factor that should be applied to the scope for base capital maintenance catch-up non-infra to give the scope for capital enhancement catch-up non-infra. If a company believes that these are the same the factor should be entered as 1. If a company believes that the scope for capital enhancement catch-up non-infra is greater than that for base capital maintenance non-infra this should be entered as a number >1. For example if a company assesses the scope for base capital maintenance catch-up non-infra as 40%, and the scope for capital enhancement catch-up non-infra as 50%, then the factor is 1.25. If a company believes that the scope for capital enhancement catch-up non-infra is less than that for base capital maintenance non-infra this should be entered as a number <1. For example if a company assesses the scope for base capital maintenance catch-up non-infra as 50%, and the scope for capital enhancement catch-up non-infra as 40%, then the factor is 0.8.	
Processing rules	Input field	
Responsibility	Comparative Efficiency & Performance	

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

31	Overall compounded assumed improvement profile	% (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.	
Processing rules	Calculated field: Compounded sum of lines 28 and 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	
Responsibility	Comparative Efficiency & Performance	

32	Assumed profile of "catch-up" year on year	% (2dp)
Definition	Company's assumption of the annual profile for 2003-04 to 2009-10 inclusive to achieve the catch-up for meters.	
Processing rules	Input field.	
Responsibility	Comparative Efficiency & Performance	

33	Assumed minimum level of efficiency improvements p.a/. assumed profile year on year.	% (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 those companies with the lowest capital unit costs for water non-infrastructure. This is equivalent to "frontier shift".	
Processing rules	Copied field: Copied from table B2 line 30	
Responsibility	Comparative Efficiency & Performance	

34	Overall compounded assumed improvement profile	% (2dp)
Definition	Projected annual reductions in capital enhancement expenditure on non-infrastructure assets for meters compared to projected levels based on the companies' current unit cost database.	
Processing rules	Calculated field: Compounded sum of lines 32 and 33 2003-04: (1– (1–line 31/100) multiplied by (1– line 32/100)) multiplied by 100 2004-05 and following years: (1–(1–line 34 previous year/100) multiplied by (1–line 31/100) multiplied by (1-line 32/100)) multiplied by 100	
Responsibility	Comparative Efficiency & Performance	

Block G Operating expenditure efficiency PPP

35	Assumed Gainshare	£m (2dp)
Definition	The company's actual and/or forecast Gainshare related to PPP contracts	
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)

1	Assessment of relative efficiency	Band (A to E)
Definition	The company's assessment of its operating expenditure efficiency for the sewerage service, relative to other regulated sewerage service companies, in 2007-08, according to the following banding scheme: A:If the company is assessed within 5% of the benchmark company B:If the company is assessed as being between 5 and 15% from the benchmark company C: If the company is assessed as being between 15 and 25% D:If the company is assessed as being between 25 and 35% E:If the company is assessed as being between 35 and 45%	
Processing rules	Input field	
Responsibility	Comparative Efficiency & Performance	

2	Assessment of scope for catch-up (base)/assumed profile year on year	% (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 and the company's assumption of the annual profile for 2008-09 to 2011-12 inclusive to achieve this catch-up.	
Processing rules	Input field	
Responsibility	Comparative Efficiency & Performance	

3	Assumed minimum level of efficiency improvements/assumed profile year on year	% (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 base service operating expenditure. This is equivalent to "frontier shift".	
Processing rules	Input field	
Responsibility	Comparative Efficiency & Performance	

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

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 base opex catch-up to give the scope for enhancement opex catch-up. If a company believes that these are the same the factor should be entered as 1. If a company believes that the scope for enhancement opex catch-up is greater than that for base opex this should be entered as a number >1. For example if a company assesses the scope for base opex catch-up as 40%, and the scope for enhancement opex catch-up as 50%, then the factor is 1.25. If a company believes that the scope for enhancement opex catch-up is less than that for base opex this should be entered as a number <1. For example if a company assesses the scope for base opex catch-up as 50%, and the scope for enhancement opex catch-up as 40%, then the factor is 0.8.	
Processing rules	Input field	
Responsibility	Comparative Efficiency & Performance	

6	Assessment of scope for catch-up (enhancements)/assumed profile year on year	% (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 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 scope for enhancement catch-up relative to that for base opex line 5 multiplied by assessment of scope for catch-up in line 2. Other cells are input fields.	
Responsibility	Comparative Efficiency & Performance	

7	Factor to assume for minimum level of efficiency compared to base (enhancement)	nr (2dp)
Definition	Factor that should be applied to the base opex minimum level of efficiency to give the minimum level of efficiency for enhancement opex. If a company believes that these are the same the factor should be entered as 1. If a company believes that their share of the minimum level of efficiency for enhancement opex catch-up is greater than that for base opex this should be entered as a number >1. For example if a company assesses the scope for minimum efficiency for base opex as 1% p.a. and the minimum efficiency for enhancement opex as 1.5%p.a, then the factor is 1.5. If a company believes that the minimum level of efficiency for enhancement opex catch-up is less than that for base opex this should be entered as a number <1. For example if a company assesses the scope for minimum efficiency for base opex as 1% p.a. and the scope for enhancement opex catch-up as 0.75% p.a. then the factor is 0.75.	
Processing 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".	
Processing rules	NIAMP 3 assessment calculated field: Factor for the minimum level of efficiency relative to that for base opex line 7 multiplied by Assessment of minimum efficiency base line 3. Other cells are input fields.	
Responsibility	Comparative Efficiency & Performance	

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

Block C - Capital maintenance expenditure efficiency (infra)

10	Assessment of relative efficiency	Band (A to E)
Definition	The company's assessment of its capital maintenance (infrastructure) efficiency for the sewerage service, relative to other regulated sewerage service companies, in 2007-08, according to 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 10 and 20% from the benchmark company C: If the company is assessed as being between 20 and 30% D: If the company is assessed as being between 30 and 40% E: If the company is assessed as being between 40 and 50%	
Processing rules	Input field	
Responsibility	Comparative Efficiency & Performance	

11	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	

12	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 10 above.	
Processing rules	Input field	
Responsibility	Comparative Efficiency & Performance	

14	Overall compounded assumed improvement profile (capital maintenance infra)	% (2dp)
Definition	The overall year on year improvement in sewerage service capital maintenance (infrastructure) efficiency from both catch-up 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	
Responsibility	Comparative Efficiency & Performance	

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

13	Assumed minimum level of efficiency improvements p.a./ assumed profile year on year	% (2dp)
Definition	The company's assessment of the minimum level of efficiency improvements, year on year, that it is reasonable to assume in price setting for the most efficient (Band A) companies for sewerage service capital maintenance (infrastructure) expenditure, equivalent to "frontier shift".	
Processing rules	Input field.	
Responsibility	Comparative Efficiency & Performance	

15	Assessment of relative efficiency	Band (A to E)
Definition	The company's assessment of its capital maintenance (non-infrastructure) efficiency for the sewerage service, relative to other regulated sewerage service companies, in 2007-08, according to 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 10 and 20% from the benchmark company C: If the company is assessed as being between 20 and 30% D: If the company is assessed as being between 30 and 40% E: If the company is assessed as being between 40 and 50%	
Processing rules	Input field	
Responsibility	Comparative Efficiency & Performance	

16	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	

17	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 16 above.	
Processing rules	Input field	
Responsibility	Comparative Efficiency & Performance	

18	Assumed minimum level of efficiency improvements p.a./assumed profile year on year	% (2dp)
Definition	The company's assessment of the minimum level of efficiency improvements, year on year, that it is reasonable to assume in price setting for the most efficient (Band A) companies for sewerage service capital maintenance (non-infrastructure) expenditure. This is equivalent to "frontier shift".	
Processing rules	Input field	
Responsibility	Comparative Efficiency & Performance	

Block E - Capital enhancement expenditure efficiency (infra)

19	Overall compounded assumed improvement profile (capital maintenance non-infra)	% (2dp)
Definition	The overall year on year improvement in sewerage service capital maintenance (non-infrastructure) efficiency from both catch-up 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 B3-6 have been made.	
Processing rules	Calculated field: Compounded sum of lines 17 and 18 2008-09: (1– (1–line 17/100) multiplied by (1– line 18/100)) multiplied by 100 2009-10 and following years: (1–(1–line 19 previous year/100) multiplied by (1–line 17/100) multiplied by (1-line 18/100)) multiplied by 100	
Responsibility	Comparative Efficiency & Performance	

20	Assessment of relative efficiency	Band (A to E)
Definition	The company's assessment of its capital enhancement (infrastructure) efficiency for the sewerage service, relative to other regulated sewerage service companies, in 2007-08, according to 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 10 and 20% from the benchmark company C: If the company is assessed as being between 20 and 30% D: If the company is assessed as being between 30 and 40% E: If the company is assessed as being between 40 and 50%	
Processing rules	Input field	
Responsibility	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	

22	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 21 above.	
Processing rules	Input field	
Responsibility	Capital Maintenance Team	

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

Block F Capital enhancement expenditure efficiency (non-infra)

24	Assumed minimum level of efficiency improvements p.a./assumed profile year on year	% (2dp)
Definition	The company's assessment of the minimum level of efficiency improvements, year on year, that it is reasonable to assume in price setting for those companies with the lowest capital unit costs for sewerage infrastructure.	
Processing rules	Assessment NIAMP3 is a calculation: Calculated as (Factor for the minimum level of efficiency relative to that for base enhancement line 23) times (Assessment of minimum efficiency base capital maintenance infra line 13). Input field	
Responsibility	Comparative Efficiency & Performance	

25	Overall compounded assumed improvement profile (capital enhancement infra)	% (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	
Responsibility	Comparative Efficiency & Performance	

26	Assessment of relative efficiency	Band (A to E)
Definition	The company's assessment of its capital enhancement (infrastructure) efficiency for the sewerage service, relative to other regulated sewerage service companies, in 2007-08, according to 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 10 and 20% from the benchmark company C: If the company is assessed as being between 20 and 30% D: If the company is assessed as being between 30 and 40% E: If the company is assessed as being between 40 and 50%	
Processing rules	Input field	
Responsibility	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)
Definition	Factor that should be applied to the scope for base capital maintenance catch-up non-infra to give the scope for capital enhancement catch-up non-infra. If a company believes that these are the same the factor should be entered as 1. If a company believes that the scope for capital enhancement catch-up non-infra is greater than that for base capital maintenance non-infra this should be entered as a number >1. For example if a company assesses the scope for base capital maintenance catch-up non-infra as 40%, and the scope for capital enhancement catch-up non-infra as 50%, then the factor is 1.25. If a company believes that the scope for capital enhancement catch-up non-infra is less than that for base capital maintenance non-infra this should be entered as a number <1. For example if a company assesses the scope for base capital maintenance catch-up non-infra as 50%, and the scope for capital enhancement catch-up non-infra as 40%, then the factor is 0.8.	
Processing rules	Input field	
Responsibility	Comparative Efficiency & Performance	

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

31	Overall assumed improvement profile (capital enhancement non-infra)	% (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.	
Processing 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	
Responsibility	Comparative Efficiency & Performance	

Block G Operating expenditure efficiency PPP

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