

9. Creating a more cost-curious culture (“Cost to Serve”/”FLOW”)



Situation

Our regulatory and funding regime requires us to continuously seek out and deliver operating cost efficiencies. To date this responsibility has been led by our Business Improvement teams. Going forward we need greater ownership in the line.

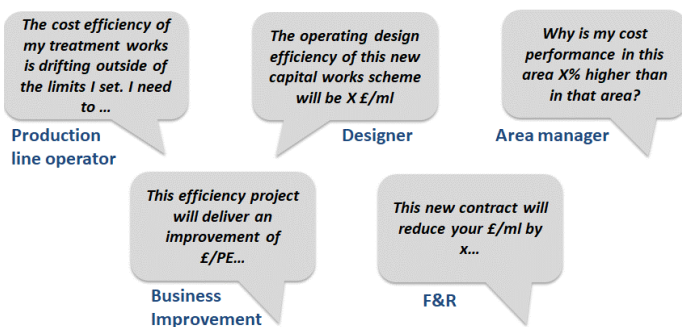
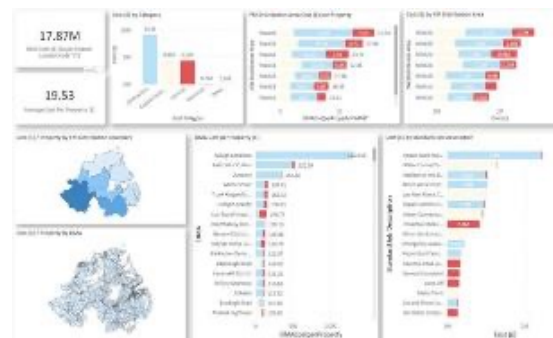
Our operational teams control costs against budgets. We need to go further, adopting a manufacturing type mindset where operators strive to remove cost at every step in the production line and drive down the cost of each component. The oil sector for example is driven by the cost of a barrel of oil. There is no equivalent mindset in our business.

Action

Our first innovation is to introduce two new cost-based metrics: £/ML of water delivered to customer and £/PE of wastewater recycled.

We have then developed a Cost to Serve tool that draws together the 250 million operational, financial and asset data points from our core systems (Oracle, Telemetry and CAR). This is then presented to users via MS PowerBI in easy-to-use dashboards. The dashboards automatically update every time our Oracle financial system is refreshed. They provide a single version of the truth.

The dashboards cover all main operating cost components: labour, electricity, chemicals / materials, contractors and operational capital. The data is presented in a self-service way. Costs can be compared on site-by-site and area-by-area. Users can drill down to understand more detail.



Results

This tool provides short to medium term insights into the cost of water production, including tactical 'short term marginal cost'. In the future water resource and supply resilience Plan we consider the longer term costs and carbon impacts on water supply.

With the cost to serve tool we now know that the average direct cost of producing and delivering one mega litre of water to our customers is £260.; equivalent to just 0.026 p/litre. And users now have a practical tool from which to drive improvements. This is major step to a culture where all our people are living and breathing cost efficiency. Everyone will be able to quote our water and wastewater cost. Our operational teams will understand the data and use it to drive performance. This will provide a catalyst for our support service teams to engage in understanding their own cost of service. We await the results with interest.

9. (continued) Understanding the financial logic of water (FLOW) costs



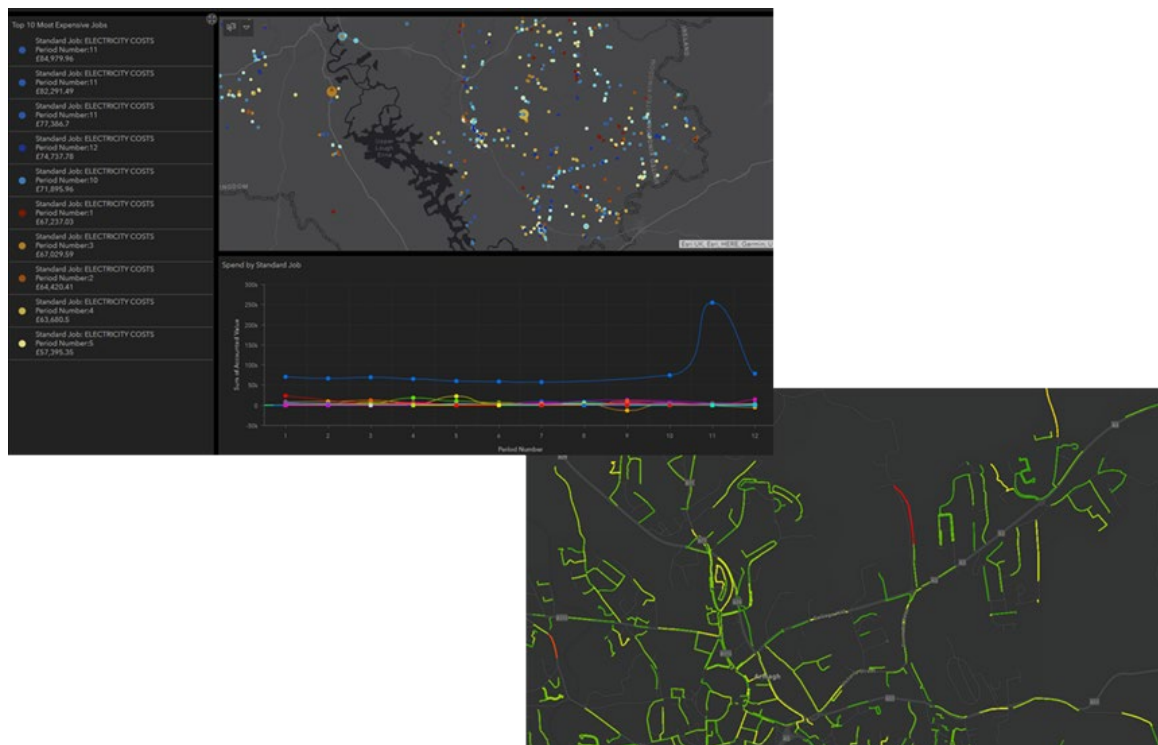
Situation

Costs were not previously allocated in enough granularity to allow in-depth analyses on individual sections of water mains or pressure managed areas. As a result, we did not understand where costs are accumulating on the network or where 'troublesome' sections of water mains are. We don't know which areas have a higher cost per property.

Action

FLOW has been developed inhouse. It allocates costs to facilities, PMAs and water mains to identify how costs propagate through the water network. This gives a much more granular view of costs which is not currently available via Cost to Serve.

A pilot has completed which has enabled Finance and Business Improvement analysts to commence work on potential insights to be determined from the cost-asset relationships



Results

Our water production line is now able to understand costs better at any point in the "Source to Customer" journey. It can identify areas where rehabilitation could potentially be focused.

It further provides a tool to enable more targeted use of capital investment.