

Office of the PPP Arbiter

Managing Local Transport Infrastructure Assets

**Infrastructure asset management in the
privatised utilities**

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- Why is asset management important?
- Origins
- Application to the privatised utilities
 - at privatisation
 - subsequently
- Some examples:
 - water
 - gas
 - rail/underground
- Lessons for local authorities

Why is asset management important?

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- £30-50 bn a year capital investment in infrastructure for the next decade
- Over £200 bn in energy alone
- Need to :
 - prioritise
 - deliver efficiently
 - meet customer requirements
- Requires good understanding of current assets, future serviceability, and options for maintaining/renewing/enhancing
- IUK includes roads (strategic and local) within its scope of work

- Oil and gas – Piper Alpha
- Utilities
- Particular progress in Australia and New Zealand
- PAS 55
 - “Systematic & coordinated activities and practices through which an organization optimally manages its physical assets and their associated performance, risks and expenditures over their lifecycles for the purpose of achieving its organizational strategic plan.”

Water at privatisation

- Prospectus required assurance about adequate capex programme
- But prices already increasing 5% a year above inflation to meet higher quality standards
- Poor asset information required sampling approach
- Developed into 25 year horizon for optimised asset maintenance and renewal

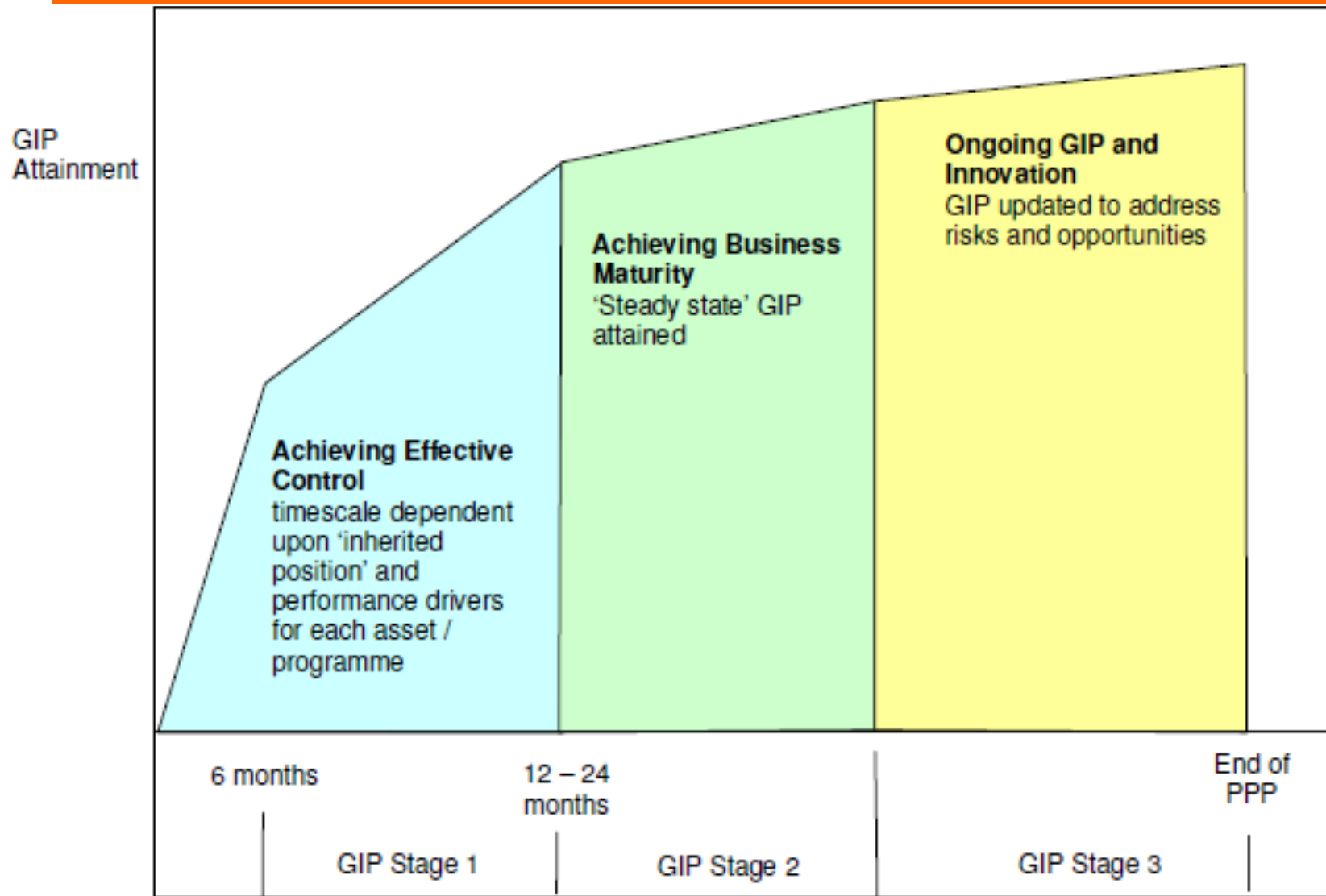
Gas mains replacement

- Major programme to replace all cast iron gas mains
- Ductile v cast iron
- Accounts had 30 year life – but not the physical life!
- No account taken of road congestion etc in costs
- same as for Thames Water mains replacement
- Inadequate asset information the root problem?

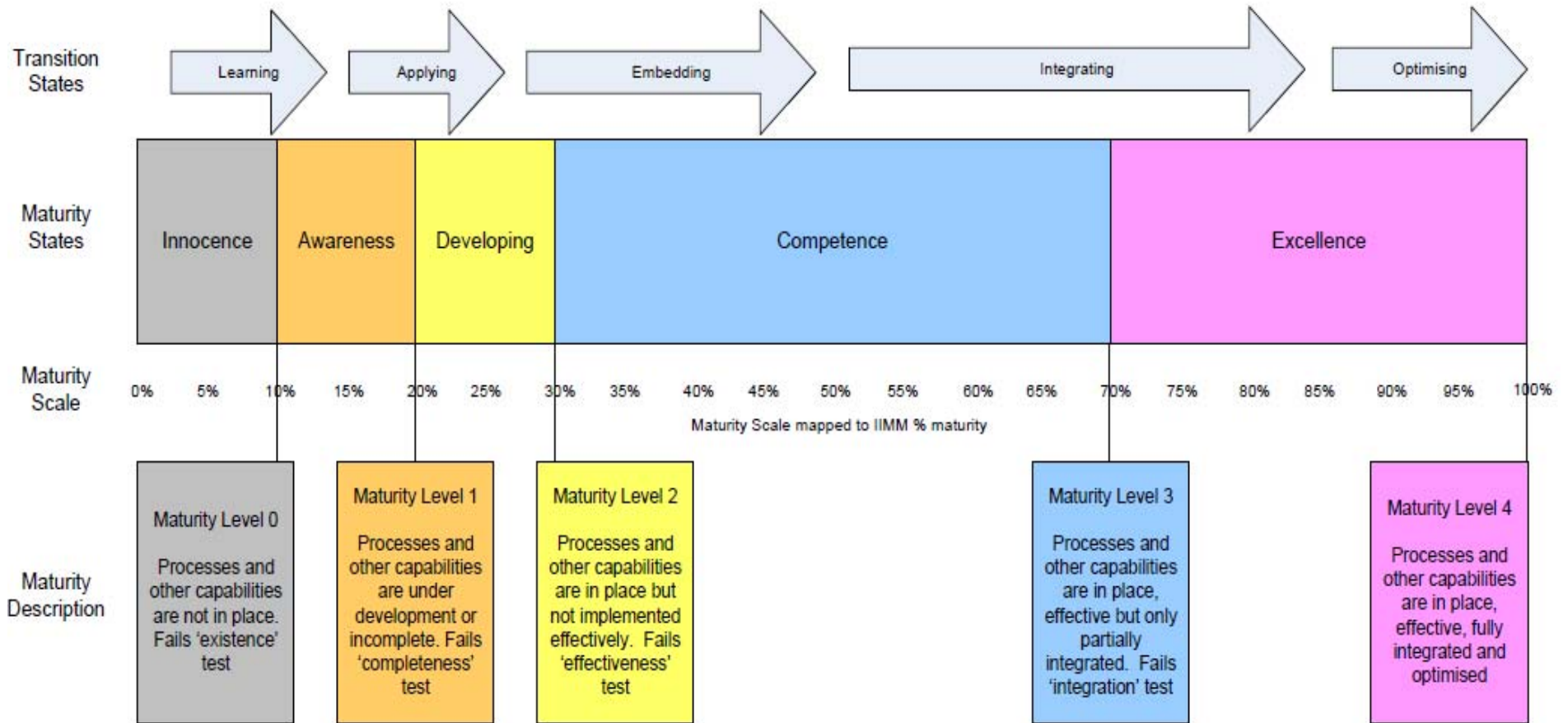
Rail/underground

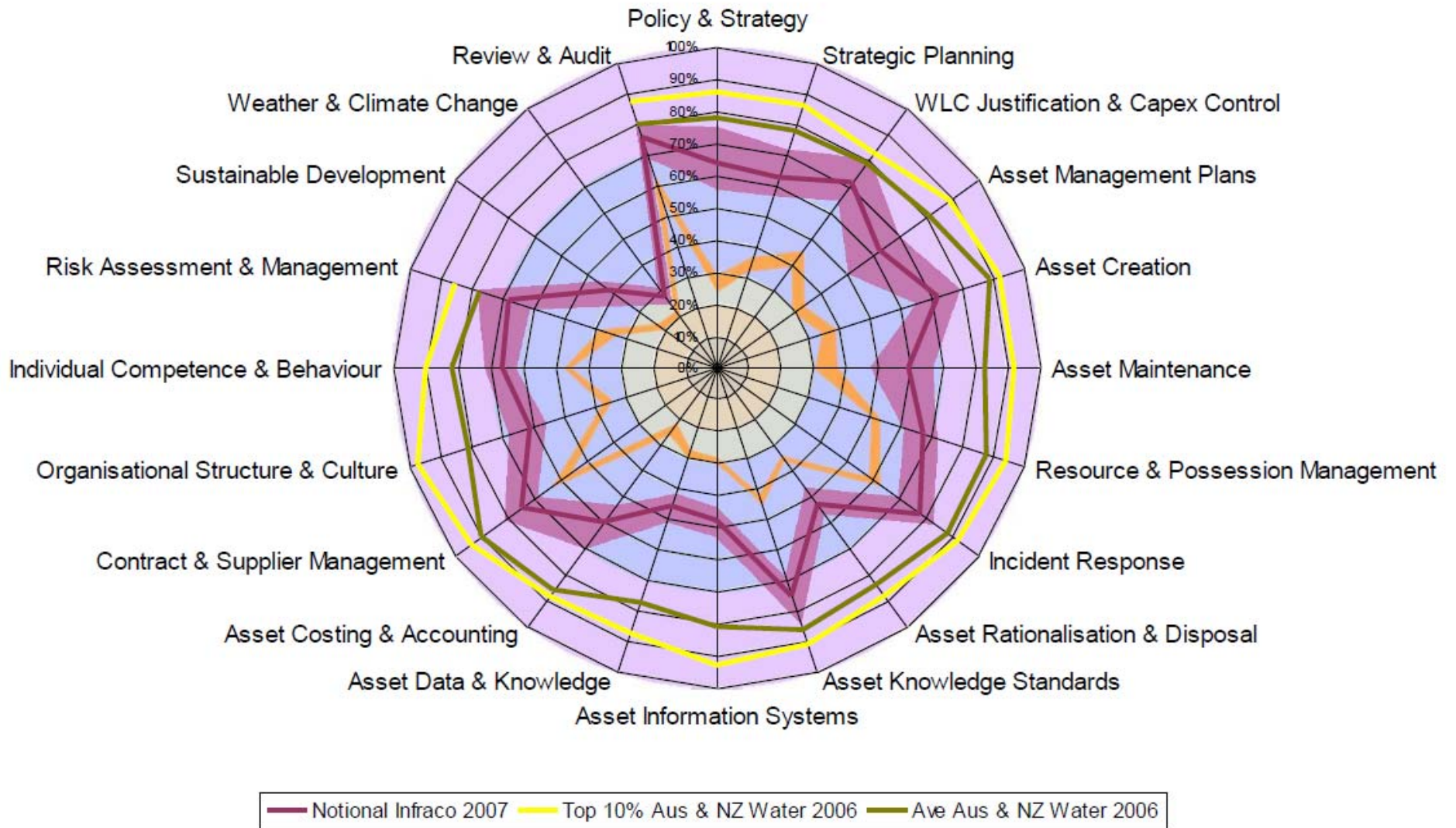
- Evidence that costs in UK 30-50% higher than in 'good practice' countries
- Requirement in Network Rail licence/Underground PPP contracts to deliver efficiently
 - “overall efficient and economic manner and in accordance with Good Industry Practice”
- Asset management a key element of good practice
- Glidepath to good practice
- Application of Asset Management Excellence Model to assess asset management maturity

Glidepath

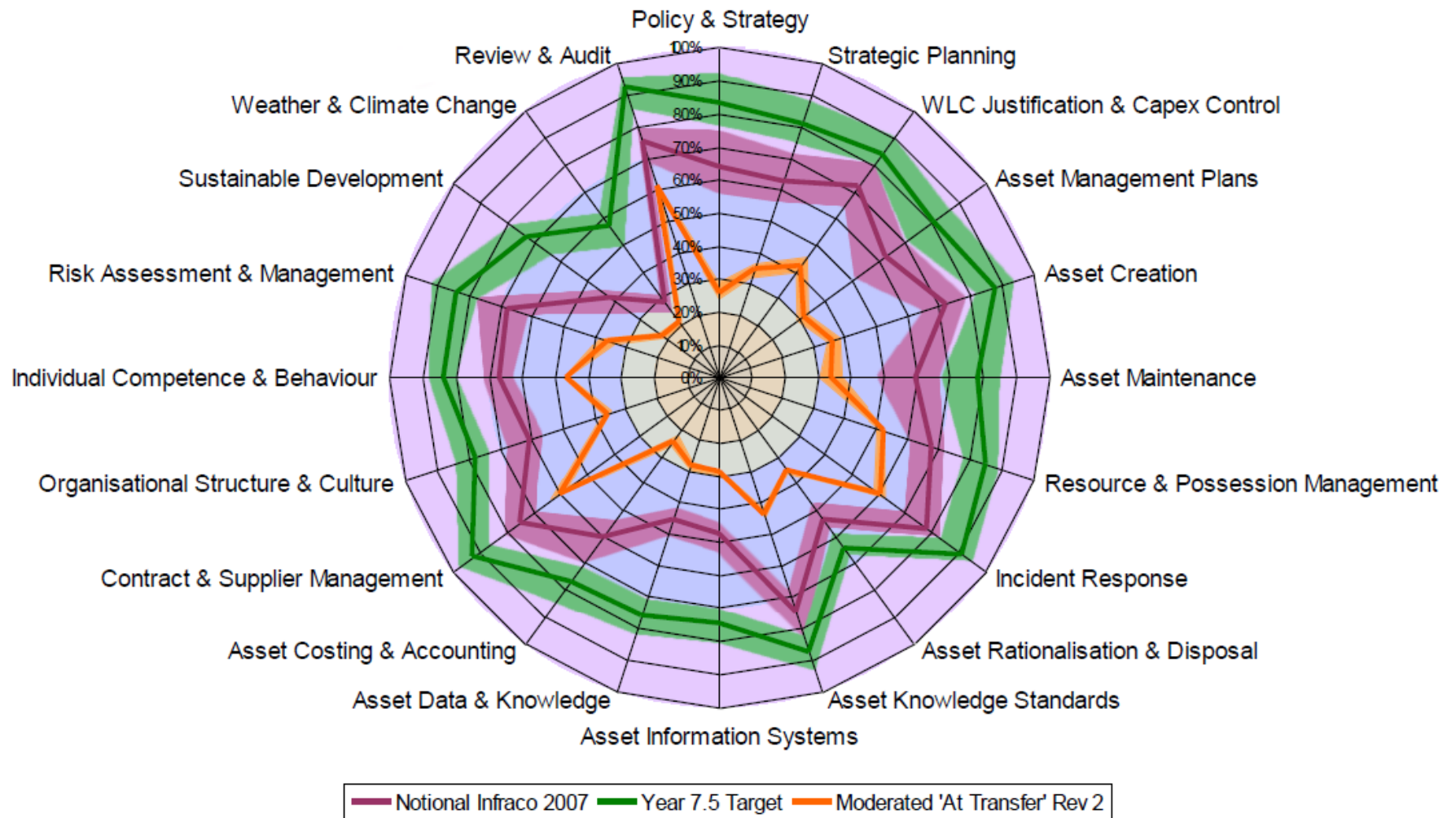


Asset management maturity





Improvement over time



- Managing assets effectively depends on good asset management!
- Culture as well as processes
- Provides basis for prioritising scarce funds and for projecting future requirements
- Improvements in asset management provide basis for improved service and efficiency