

## Organisation structures aligned to Strategic Asset Management principles can drive better outcomes for Water Utilities

Today's water utilities are facing a step change in the complexity of their asset bases. Diverse water sources such as desalinated water, recycled water, and harvested stormwater need to be integrated into the grid; new interconnections between regional and local systems need to be managed and operated; many jurisdictions are reforming their water sectors through consolidation on one hand and disaggregation on the other.

These issues, along with ageing infrastructure and capital rationalisation, have dramatically increased the risk profile around asset performance and cost. Furthermore, water utilities operate within highly regulated environments, and their responsibilities extend to satisfying the requirements of various industry stakeholders including private and government owners, regulators, and consumers.

Recent benchmarking of water utility asset management capability has identified that the increasing cost, complexity and vulnerability of asset systems, as well as the evolving regulatory environment, are driving many water utilities beyond their adopted fit-for-purpose asset management models. Historically these models have tended to support simpler asset systems with well understood risk profiles.

### **So what can water businesses learn from other asset-heavy utilities?**

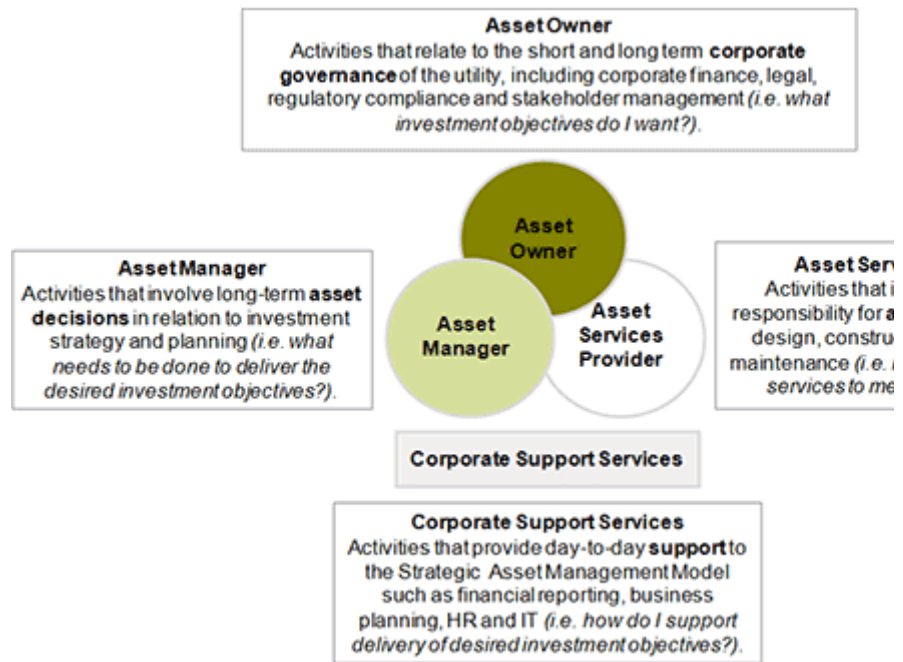
Many of the challenges confronting water utilities have been addressed in some form by other asset-heavy industries. Water businesses could do worse than to look at the energy industry, where network utilities have already embraced Strategic Asset Management (SAM) principles in their organisation design.

Energy distributors have been challenged to integrate diverse energy sources (e.g. solar, wind geothermal, embedded generation) into their current asset bases. They have had to report performance to multifarious owners (e.g. investment banks, superannuation funds, leveraged infrastructure owners), and operate within heavy-handed regulatory regimes.

*“SAM moves the focus from short-term operational and project delivery to a long-term, whole-of-life asset management cycle “*

For these businesses, a move to SAM has allowed them to navigate through the complexity these challenges present. SAM combines a range of principles and practices which move the focus from short-term operational and project delivery to a long-term, whole-of-life asset management cycle.

Some water businesses have likewise found material advantages in adopting the principles of SAM in their organisational design. Is there an opportunity for their peers to do the same?



**Figure 1: Marchment Hill Consulting's SAM Model calls for an appropriate internal organisation structure, with a clear separation of accountability for asset ownership, management, and operations and maintenance.**

Businesses that have successfully adopted SAM principles in their organisational models have reported the following benefits:

- By recognising the fundamental differences in focus of the Asset Owner, Asset Manager and Asset Service Provider, and aligning their corporate objectives accordingly, organisations using SAM can more clearly articulate, manage and meet their stakeholders' expectations.
- SAM enables better investment decisions across asset classes and technologies, and makes transparent the nature of the trade-off between operating and capital expenditure. This in turn yields better results from capital rationalisation.
- KPIs are made clearer and more appropriate to each role, through the SAM principle of separating accountability for asset ownership, management, and operations and maintenance. With these KPIs in place, managers can better manage the risk of internal business processes, and the workforce can be more motivated, satisfied and productive. The business can then more easily complete its committed programs of work, and more proactively maintain and replace its assets.

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The key benefit of SAM is to align senior roles and divisions to Asset Decisions and Asset Actions, and to rigorously clarify the interface between these roles. This presents a contrast to many utilities which have struggled to bring clarity to their executives' roles, and are organised along the lines of function (e.g. planning versus delivery), type of expenditure (e.g. operating versus capital expenditure), or asset class (e.g. water versus wastewater). Addressing this, and other underlying structural issues is a critical first step in moving towards SAM and represents a significant milestone for management, both in terms of realignment of the existing business and in sustaining the change to ensure that the benefits are realised.

Marchment Hill Consulting's Perspective Paper explores the range of different organisational models common in the water sector and their alignment to SAM principles. We have drawn on insights from other sectors to show how water utilities can better meet the objectives of their owners, regulators and customers.

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Marchment Hill Consulting has offices in three locations which serve Australia and New Zealand, Asia and the Middle East.

Melbourne  
Level 4  
530 Lonsdale Street  
Melbourne VIC 3000  
Ph: 03 9602 5604  
Fax: 03 9642 5626

Brisbane  
Level 5  
199 George Street  
Brisbane QLD 4000  
Ph: 07 3012 7242

Perth  
Unit 14  
123a Colin Street  
Perth WA 6005  
Ph: 08 9322 5422

[marchmenthill.com](http://marchmenthill.com)