Business Best Practice Panel - B²P²
cost forecasting & reporting identified as real area of concern

by Steve M Whalley

From recent research completed by British Water, a number of issues were identified by their members as important to the industry. Working Groups were established to investigate these issues and provide guidance. The Working Group's included representation from Water Companies, Contractors, suppliers and consultants at various levels of responsibility. The objective of each WG is:-

* To analyse the issues and establish what is best practice;
* To provide guidance;
* To deliver a tangible output.

Cost Forecasting and Reporting was identified as a real area of concern for the industry. The quality and reliability of cost forecasting and reporting has implications for all organisations throughout the supply chain of the industry from project level through to Client Board level and the Regulator.

The challenge
Cost forecasting and Reporting was seen as a significant problem area for the industry with Clients consistency identifying the need for improved performance. The Water Company efficiency targets in the current 5-year Regulatory period starting 1st April 2005 to 30th March 2010, are more challenging than in previous regulatory periods, and these will become tougher in the next period commencing 1st April 2010. Commercial processes and procedures need to be more reliable, accurate and timely if we are to achieve and outperform the Regulation targets.

The systems and processes used for cost forecasting and reporting in the industry have so far been developed individually and largely in isolation, and in the absence of any common "best practice" code or protocol. Procurement methodologies in the water industry have led to closer more collaborative ways of working over longer periods of time. Water companies have tendered for new framework agreements with their suppliers to commence with the start of the new Regulatory period.

The intention of water companies is to select the most appropriate Partners that can best deliver the Regulation targets in their capital investment and maintenance programmes. Many water companies are using performance measures such as Key Performance Indicators (KPI's) to measure the performance of their Partners and to encourage knowledge sharing and collaboration. Indeed, some water companies are linking performance with workload through a Performance Partnering arrangement, where good performance is rewarded with additional work and poor performance with less work and, ultimately the loss of any further work following continued poor performance.

In order to realise the maximum benefit from these new arrangements, it has been recognised that a substantial level of trust and cooperation is needed between the water companies and the supply chain. The resulting introduction of integrated teams and the allocation of responsibility to the party best placed to carry it, has highlighted the need for accurate, timely and efficient communication at all levels.

This is apparent in the area of cost forecasting and reporting - the Guide to Cost Forecasting & Reporting seeks to address the need for a set of clear "best practice" guidelines in order to remove the uncertainty throughout the supply chain.

The methodology
The investigation commenced with a study to capture the issues and problems that both water companies and contractors experience with cost forecasting and reporting.

The exercise was undertaken through the use of a questionnaire. This questionnaire was issued to the water companies and their contractors, and returned to EC Harris. The findings were reviewed and the issues were identified and confirmed.

The Working Group then sought to identify proposals to improve the current situation. This was done over a series of workshops and the draft proposals were circulated to the wider British Water membership for comment, including Ofwat. These comments were then included in the final document where appropriate.

The solution
Our solution is "The Guide to Cost Forecasting & Reporting" and was launched to the industry in November 2005, The Guide is divided into five sections.

1. Processes
Time spent in developing appropriate and adequate processes at outset will be rewarded by efficient, accurate and timely reporting throughout the project. Planning of the Cost, Forecasting & Reporting (CF&R) system is essential. All supporting Processes such as Risk Management, Schedule Management and Change Management need to support this system. The data requirements and how they link to the CF & R system should be clearly understood. This is a real area of uncertainty if many of the processes have been drafted in isolation.

2. People
An integrated team using effective communication techniques will produce robust forecasts and valuable data that will support the overall management of the project. Build an extended team with the right people in the right roles. A project team will have to work with people from other teams and from other stakeholders if they are to achieve success. Other people from outside the team may hold the necessary information that is required to achieve success. Identify the key players in the CF&R system and give them ownership of the results. Involve the right people at the right time. The right culture is required if team working, visibility and communication is to work.

3. Client requirements

Understanding and satisfying Client requirements is paramount to the success of the project. The outputs of the Cost Forecasting & Reporting System determine the inputs. Only too often, inputs are designed first without proper consideration of what the business requires from its CF& R system. Client requirements should define the work that needs to be done and allocate responsible people and/or organisations to deliver it. E.g Need to manage Client internal costs as well as external construction costs; accurate & timely data facilitates PM decision-making, early warning of change; need to collect data for the Regulator. The business must also clearly understand all of their supply chain/stakeholders and their expectations of the CF&R system. The more onerous that the Client requirements become, the more costly it becomes to provide the information. The Client must be expected to pay for the information they require.

4. Systems

Robust and capable systems are necessary to enable the processes to operate effectively and efficiently. Links should be forged between systems. Review what is required to populate the Client reporting system. Seek electronic solutions that provide only the data really necessary for your efforts and let the supporting details remain in the feeder systems. Remember that the focus of a CF&R system is analysis and conclusions - not data collection and entry. The only value of information is the story that it tells.

5. Performance measures

KPI's are vital to monitor and measure the effectiveness and accuracy of systems and processes together with the Project Team's performance in order to drive continuous improvement. They should be a mix of hard and soft measures. We need to know whether the CF&R process is working. Are stakeholder objectives being met. Is it living up to expectations or is it just an administrative burden. People's perception of performance has a real impact on the overall success of the project.

KPI's should be communicated and agreed with all stakeholders whose performance is to be managed. We need to know how KPI's are linked to performance improvement. Are they really influencing performance? KPI's should be tied into the incentivisation of stakeholders - lead to more work/less work decisions.

In summary, the Guide:
* defines what is required to establish an effective cost forecasting and reporting system;

* describes what information is necessary and why it is required to meet the Client reporting requirements;

* defines how this can be achieved through theimplementation of people, processes and systems;

* recommends that organisations measure theperformance of their cost forecasting and reporting processes through the use of KPl's.

The Guide is directed at management level for adoption through the supply chain. There is a small amount of jargon, but where used, this has been defined. The Guide is not prescriptive and does not promote one system above another. It provides specific guidance on the issues and enables all organisations to review their current cost reporting systems.

The Benefits

The Guidelines enables all participants in the cost reporting and forecasting regime to understand the Client, Stakeholders and Regulator requirements. It enables the supply chain to understand why they are being asked to provide specific data.

Team working is essential if project teams are to produce an effective cost forecasting and reporting system. This encourages more collaborative ways of working and greater integration. Greater integration and team working promotes commonality in systems and methodologies.

Risks are identified and understood so that uncertainty is managed out of the process.

The Guide, therefore, facilitates the adoption of best practice through the supply chain that leads to increased efficiency and improved performance.

Good project control leads to good project management and this is never more evident that in cost forecasting and reporting.

What next?

Steve Whalley, EC Harris, and leader of the drafting team comments; "The aim of the new guide is to increase awareness of costing forecasting and reporting throughout the supply chain. Use of the Guide facilitates all organisations to thoroughly review and challenge their cost forecasting and reporting system. It will identify, as well as promote, best practice code and protocol".

Paul Mullord, UK Director of British Water, explains; "British Water members identify issues and areas of concern in the water industry. Focused working groups have been established to investigate issues, answer questions and provide guidance. This guide follows-on from our Guide to Sustainable Procurement, and will be the first of a series that will include partnering framework agreements and KPI's"

As lead sponsors, EC Harris are working with British Water to roll-out a series of presentations and workshops to the water companies. Workshops have been held with Severn Trent Water, South West Water, Scottish Water and Northern Ireland Water Services. Presentations have been given to various organisations in the water industry including Ofwat and Water UK Other sponsors of the guide include Purac, Franklin & Andrews, Saint-Gobain Pipelines, Costain, SEAMS and United Utilities. Because of sponsorship, the Guide is available for free from the British Water website on:-**www.britishwater.co.uk or EC Harris web site www.echarris.com. ■**