

Melbourne Water's planning processes are integrated, robust and provide for appropriate stakeholder engagement and consultation.

Melbourne Water's capital planning and delivery processes have been strengthened to take account of the results of recent benchmarking studies.

Melbourne Water's asset management practices have been independently benchmarked as close to best industry practice.

This chapter provides an overview of how Melbourne Water undertakes planning in order to meet its obligations and future demands for its services discussed in the previous chapters.

The principal planning processes are outlined, together with the key planning documents and outcomes from each process:

- Strategic and corporate planning
- Capital planning
- Asset management
- Project planning approvals and delivery
- Operating planning.

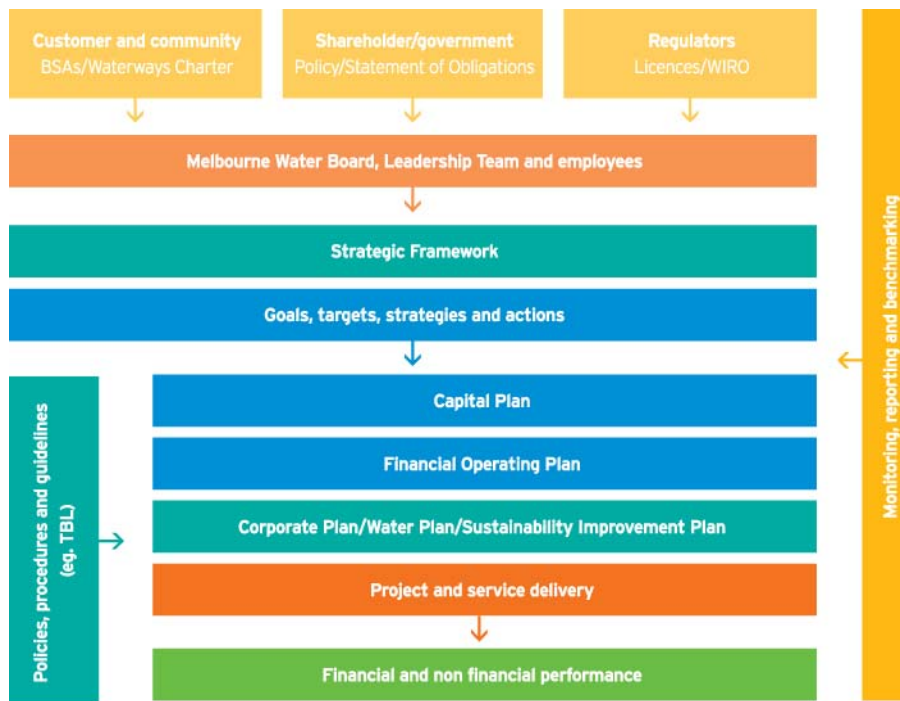
7.1 Strategic and corporate planning

Melbourne Water's planning processes are integrated, robust and take explicit account of customer and stakeholder interests.

Melbourne Water's proposed outcomes and expenditure for the 2008 regulatory period have been developed through Melbourne Water's Planning Framework (Figure 7.1) which:

- Ensures alignment with government policy priorities, customer needs, regulator requirements and prudent risk management
- Ensures alignment between long term planning and day to day operational considerations
- Factors in broader economic, social and environmental considerations
- Achieves continuous improvement through regular benchmarking and review of planning processes and outcomes.

Figure 7.1: Melbourne Water's planning framework



Melbourne Water's vision, sustainability principles, values and goals are outlined in Sustainable Water – A Strategic Framework. This framework was developed in consultation with internal and external stakeholders and formalises Melbourne Water's commitment to sustainability. It also links Melbourne Water's programs to a range of State Government policy platforms including Our Water Our Future, Our Environment Our Future and Melbourne 2030. The Strategic Framework provides the context for Melbourne Water's planning process, ensuring that social, environmental and economic aspects are all considered.

The Corporate Plan is consistent with the Strategic Framework, articulating strategies, actions and key performance indicators over a three year planning period. Corporate Plan activities and expenditures are set mindful of the Water Plan process, which sets prices and expected regulated revenues for a five year period.

A Sustainability Improvement Plan was developed for the first time in 2007 to implement Sustainable Water – A Strategic Framework. This plan has facilitated the identification and prioritisation of opportunities for improvement in sustainability performance across all areas of Melbourne Water's business. It also addresses a requirement in its Statement of Obligations to apply Sustainable Management Principles and develop programs for improving sustainability performance including:

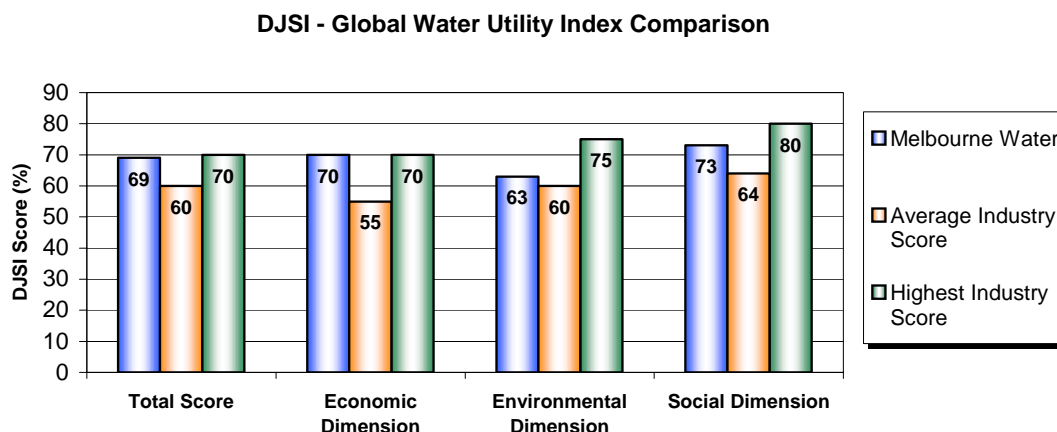
- Responding to climate change
- Maintaining and restoring natural resources
- Using resources more efficiently
- Managing everyday environmental impacts.

In 2006, Melbourne Water participated in a process to assess its sustainability performance against publicly listed companies considered to be world leaders in sustainability. The Sustainable Asset Management Group (SAM) which publishes and licenses the Dow Jones Sustainability World Indexes (DJSI), a series of global sustainability benchmarks, carried out the benchmarking survey. The indexes are based on SAM's corporate sustainability assessment, which identifies global sustainability leaders on the basis of economic, environmental and social criteria.

Overall, Melbourne Water performed well against global water utilities, being ranked at best practice for economic considerations. However, scope for improvement was identified in the social and environment dimensions, as Melbourne Water was above average but below the highest industry scores. This is illustrated in Figure 7.2 below.

Areas of improvement included waste and bi-products treatment, improved recording of water use, talent attraction and retention and corporate citizenship. Melbourne Water has considered the benchmarking results and improvement actions have been incorporated in a Sustainability Improvement Plan to be implemented over the 2008 regulatory period.

Figure 7.2: Dow Jones sustainability world indexes – Global Water Utility Comparison



The Board of Melbourne Water approves the Strategic Framework, the Corporate Plan and the Sustainability Improvement Plan. The Managing Director and Leadership Team are responsible for delivering the outcomes in accordance with these plans.

7.1.1 Strategic planning for waterways and drainage

In relation to waterways and drainage, strategic planning for these services encompasses flood management and drainage, waterways water quality, river health and planning to serve urban growth.

A regional Flood Management and Drainage Strategy has been prepared in consultation with the community and key stakeholders to improve the effectiveness of flood management in the Port Phillip and Westernport region. The strategy plans for future pressures on the drainage system and gives consideration to the effects of climate change and urban consolidation.

A Development Planning Strategy and Program has been prepared to identify the provision of drainage infrastructure needed to service urban development and improve the efficiency of information systems and processes to service the development industry and community. Individual development and redevelopment schemes are prepared, implemented and reviewed according to the Development Planning Strategy and Program.

A Waterways Water Quality Strategy has been prepared to improve the water quality of waterways in the context of a growing metropolis. This strategy forms part of the Better Bays and Waterways action plan being prepared by EPA Victoria and Melbourne Water, which will be released for public consultation in early 2008.

The Port Phillip and Westernport Regional River Health Strategy and Addendum has been prepared in consultation with the community and key stakeholders to improve the effectiveness of river health management in the region. The Minister for Water endorsed the strategy in 2006. Waterway Plans are prepared to help translate priorities in the Regional River Health Strategy into a program of works for individual rivers and creeks to improve their condition.

A Waterways Operating Charter has been developed in consultation with the Waterways Advisory Committee and sets out Melbourne Water's responsibilities, goals and initiatives for waterways and drainage management. The Charter includes initiatives from the new strategies referred to above.

7.2 Capital planning and delivery

Melbourne Water's approach to capital planning is set out in its Planning Framework and Capital Investment Policy. This document defines the process, principles and accountabilities for developing the Capital Plan. The aim is for Melbourne Water to achieve its strategic objectives and manage risk through a policy and planning framework that optimises value for customers, the community and shareholders.

The Capital Plan represents the aggregated capital program, prioritised by the Capital Investment Steering Committee for subsequent approval by the Board. Program Plans represent a group of projects associated with a common system component (e.g. drainage and flood protection) or strategic objective and form the building blocks for the Capital Plan. Program Plans summarise the key strategic considerations, performance obligations, risk assessment, long term trends, prioritisation considerations and rationale for allocations to major programs.

The Planning Framework and Capital Investment Policy recognises the principal drivers of capital expenditures – growth, renewals, compliance and other (which include environmental/social, customer service, strategic intent/risk mitigation, business efficiency and business development). These are outlined below:

- The growth component is developed in line with requirements detailed in Development Service Schemes and are consistent with population growth projections provided by State government planning departments and policy objectives outlined in Melbourne 2030
- The renewals component is developed by adopting a risk based approach that optimises lifecycle costs through maintenance, refurbishment and replacement of assets
- The compliance component is consistent with agreed customer service standards and regulatory obligations set out in the Waterways Operating Charter.

Since submission of the 2005 Water Plan, Melbourne Water has undertaken reviews and benchmarking studies with a view to strengthening its capital planning and delivery processes:

- During 2005/06, a benchmarking study was undertaken with a leading UK water company with a specific focus on capital planning and delivery processes
- In June 2006, Melbourne Water engaged KPMG to review its capital planning and delivery process against industry 'best practice' to provide a basis for improving the process itself and the systems and other factors that support it.

The results of these reviews are progressively being implemented. Improvements to date include:

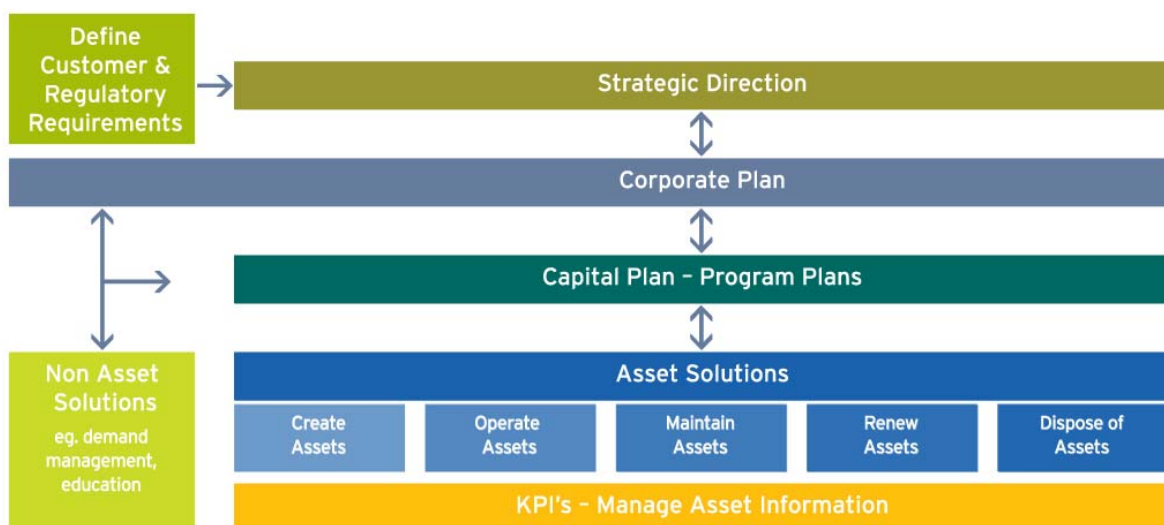
- Strengthened governance arrangements through the establishment of a Board committee on capital planning and delivery
- A more rigorous process of review/challenge of project proposals, including greater accountability for Program Champions to develop Program Plans
- A streamlined capital planning process which frees up resources for program/project review
- Improved forecasting of renewals capital expenditure on mechanical and electrical equipment
- Introduction of Triple Bottom Line guidelines for evaluating expenditure proposals
- An improved cost estimation methodology for high value/high risk projects.

Melbourne Water has also enhanced its Contract Strategy and developed a Capital Delivery Strategy to address the issue of delivering a much larger capital program in a highly competitive contracting market. See Chapter 8 for further detail in relation to the Capital Delivery Strategy.

7.3 Asset management

Melbourne Water has a comprehensive Asset Management System that involves appropriate planning throughout the asset lifecycle. As can be seen in Figure 7.3, the Asset Management System links to the Corporate Plan and Strategic Framework.

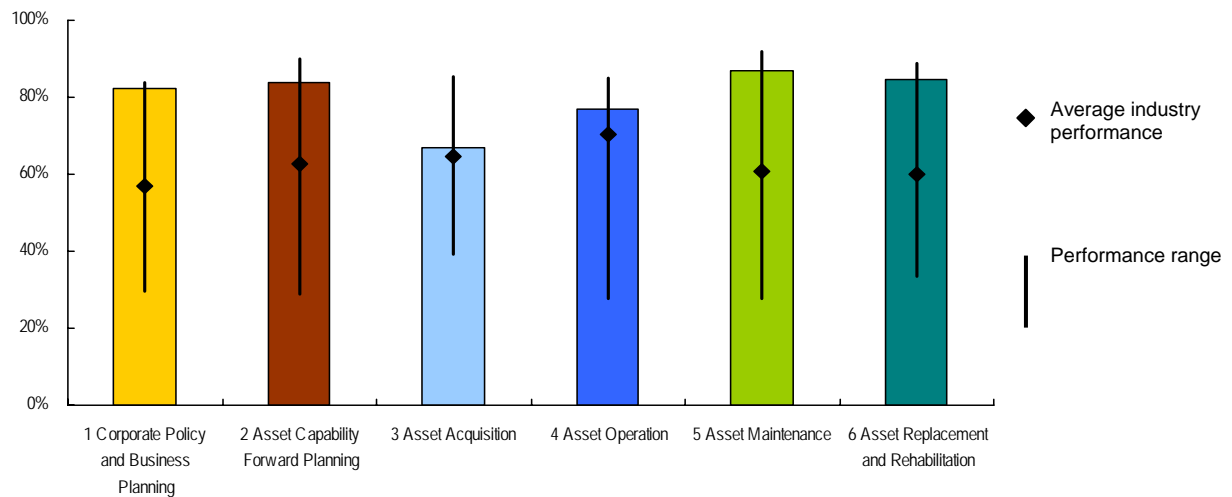
Figure 7.3: Asset management system



The Asset Management System achieves business performance targets for built and natural assets using sustainable management principles. The Asset Management System comprises guidelines, management plans, processes and procedures, instructions and forms and is guided at the strategic level by the Asset Management Policy and Asset Management Strategic Framework.

The Asset Management System is independently audited every four years to assess current performance against Australian and overseas utilities and to identify improvement opportunities. The results of the most recent audit (2004) are shown in Figure 7.4 below, which shows that Melbourne Water operates its asset management process at, or close to, best practice within the water industry.

Figure 7.4: WSAA Asset Management Benchmarking 2004, Melbourne results summary



An annual Condition Assessment Report ('State of the Assets') summarises the condition of assets at a point in time. This feeds into the renewals program, asset specific management plans, operating manuals and maintenance schedules. The State of the Assets Report informs renewal planning in the short term (one to two years) for civil, mechanical and electrical assets.

The State of the Assets Report is used to assess specific asset performance relative to levels of service as identified in the Strategic Asset Management Plans, including energy efficiency and maintenance frequency. Material deviations in levels of service (including average maintenance costs) will trigger a review of asset life cycle cost, which will then determine whether the asset should be repaired or renewed.

Longer term renewal planning (more than two years) varies in application depending on the asset class, but essentially uses historic asset performance and industry published data to model and predict asset life and therefore provide probabilistic replacement profiles for each asset class.

The State of the Assets Report is regularly updated and presented to the Board annually.

7.4 Project planning approvals and delivery

A project evolves through several approval stages with “gateways” established for preliminary project approval, business case approval and expenditure approval. Melbourne Water’s Capital Project Planning and Delivery Guidelines, Triple Bottom Line (TBL) Guidelines and Investment Evaluation Model User Guide specify in detail the process to follow for developing project approvals and the methodology to be applied in project evaluation. The Contract Strategy notes initiatives to streamline these processes to facilitate delivery of a larger capital program.

All projects use financial analysis to evaluate alternative solutions. Projects with capital expenditures greater than \$1 million and involving significant environmental and/or social effects are subject to a TBL evaluation to ensure broader environmental and social values are taken into account in decision making.

Authorisation levels and delegations for approval are documented in Melbourne Water’s Authorisation Levels Policy. The Board approves all projects greater than \$5 million. The Department of Treasury and Finance and the Department of Sustainability and Environment have to approve the business case for all projects greater than \$5 million. Melbourne Water has subjected several high risk projects to the Department of Treasury and Finance’s Gateway Review Process to identify key issues in project planning and delivery.

All projects satisfying Partnerships Victoria criteria (e.g. greater than \$10 million and having clearly specified outputs, including measurable performance standards) are also considered in terms of the form of private sector involvement.

7.5 Operating expenditure planning

Operating expenditure planning is undertaken within the context of the broader Melbourne Water strategic planning framework Sustainable Water – A Strategic Framework. The planning process expands the Strategic Framework into more detailed action plans (e.g. the waterways related planning documents detailed in Section 9.7).

This ensures that business structure, available resources and realistic timeframes are taken into account in operating expenditure planning. This planning process also draws on the Capital Plan for any associated operating expenditure impacts.

Planned operating expenditure is determined through a detailed submission and review process that draws upon:

- State Government policies including Our Water Our Future, Our Environment Our Future and Melbourne 2030, the CRSWS and the State Government’s Water Plan
- Statement of Obligations
- Regulatory obligations
- Customer requirements
- External environmental impacts (political, legal, economic, social and environmental).

As indicated above, this is drawn together through the Program Plans which summarise the key strategic considerations, performance obligations, risk assessment, long term trends, lifecycle costs, prioritisation considerations and rationale for allocations to major programs.

The principal document of the operating expenditure planning process is the Financial Operating Plan. This plan covers a six year expenditure period (currently 2007/08 to 2012/13) capturing operating expenditures. The planned operating expenditures are also reviewed for consistency with capital expenditures included in the Capital Plan. The Financial Operating Plan is reviewed by the Financial Management Steering Committee and approved by the Board.

Each business unit is responsible for development of future operational expenditure requirements. This approach ensures the business areas that spend the money are accountable for it through the budget and reporting process. Costs are classified against cost centres for specific expenditure types (e.g. civil maintenance costs) to ensure appropriate ongoing monitoring of performance against plan. In an asset intensive industry like the water industry, this approach has the advantage of aggregating the skills and expertise relating to specific asset classes enabling:

- Identification of best practice processes and systems
- Ensuring that service levels and quality outcomes are aligned with customer, stakeholder and regulatory outcomes
- Integration of capital and operating expenditure to ensure optimised overall expenditure levels.

Historical expenditure is an important consideration in determining future operating expenditure requirements. An understanding of historical trends and expenditure levels can significantly improve the understanding of likely future expenditures. The Melbourne Water operational expenditure planning process includes a system of checks and reporting frameworks that review historical expenditures against planned outcomes to ensure that variations are understood and justified. The process includes an escalating review requirement based on the magnitude of the variation.

Melbourne Water recognises the need for continual efficiency improvement and undertakes benchmarking and performance review programs on a regular basis to identify emerging best practice, identify opportunities for improvement and set targets for improved performance. Details of the benchmarking and performance improvement initiatives are discussed above, as well as in Chapters 8 and 9.

7.6 Planning documents

The key planning documents are summarised below.

Strategic and Corporate Planning	<ul style="list-style-type: none">– Strategic Framework – Sustainable Water– Corporate Plan– Sustainability Improvement Plan
Capital Planning and Delivery	<ul style="list-style-type: none">– Planning Framework and Capital Investment Policy– Capital Plan– Program Plans– Contract Strategy– Capital Delivery Strategy
Asset Management	<ul style="list-style-type: none">– Asset Management Policy– Asset Management System Framework– Independent audits of asset management processes– Condition Assessment Report
Project Planning Approvals	<ul style="list-style-type: none">– Capital Project Planning and Delivery Guidelines– Triple Bottom Line Guidelines– Investment Evaluation Model User Guide– Authorisation Levels Policy
Agreements and Schemes	<ul style="list-style-type: none">– Drainage Schemes
Operating Expenditure Planning	<ul style="list-style-type: none">– Financial Operating Plan
Waterways and Drainage Planning	<ul style="list-style-type: none">– Central Region Sustainable Water Strategy– Port Phillip Region Flood Management and Drainage Strategy– Regional River Health Strategy– Waterways Water Quality Strategy– Stream Flow Management Plans– Waterways Operating Charter– Climate Change and Variability Adaptation Study