



Attachment 9

Efficiency program

30 September 2024

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Contents

1. Introduction	4
1.1 Summary	4
1.2 Operating Cost Savings - Approach	5
1.3 Operating Cost Savings - Outcomes to date	6
1.3.1 Labour.....	7
1.3.2 Property.....	8
1.3.3 Procurement.....	8
1.3.4 Process Reviews.....	9
1.4 Ongoing Program	9
1.4.1 Longer Term outlook.....	11
1.4.2 Tracking and monitoring	12
1.5 Capital Expenditure Program Efficiencies	13

List of figures

Figures 1 and 2 - Actual and forecast operating cost savings FY22 to FY30	5
Figure 3 - Progress towards target cost reduction (core business only)	6
Figure 4 - \$17.8m core business cost reduction since FY 23 by category.....	7
Figure 5 - Cost efficiency areas of focus	11

1. Introduction

1.1 Summary

A key outcome of our strategic priority "*Delivering Operating Excellence*" is to provide affordable water services through operational excellence. The business has and continues to address this through ongoing strategic initiatives. One of these was a revised operating model which brought together complementary areas of the business to streamline decision-making and provide clearer accountabilities. Another, is the cost transformation program. It has been particularly targeted at identifying and sustainably eliminating operating expenditure costs.

Over the past 2 years WaterNSW has permanently removed \$19.7 million of operational expenditure from the entire business. This reduction was against a baseline target set in 2022 of \$21.6 million.

Of the \$19.7 million of savings for the entire business, \$17.8 million was specifically against core (regulated opex) activities. That is, \$17.8 million is the component of the total WaterNSW efficiencies relating to our regulated Greater Sydney, Rural Valleys and WAMC activities. The remaining \$1.9 million in savings is due to non-core activities (including MDBA and non-regulated activities).

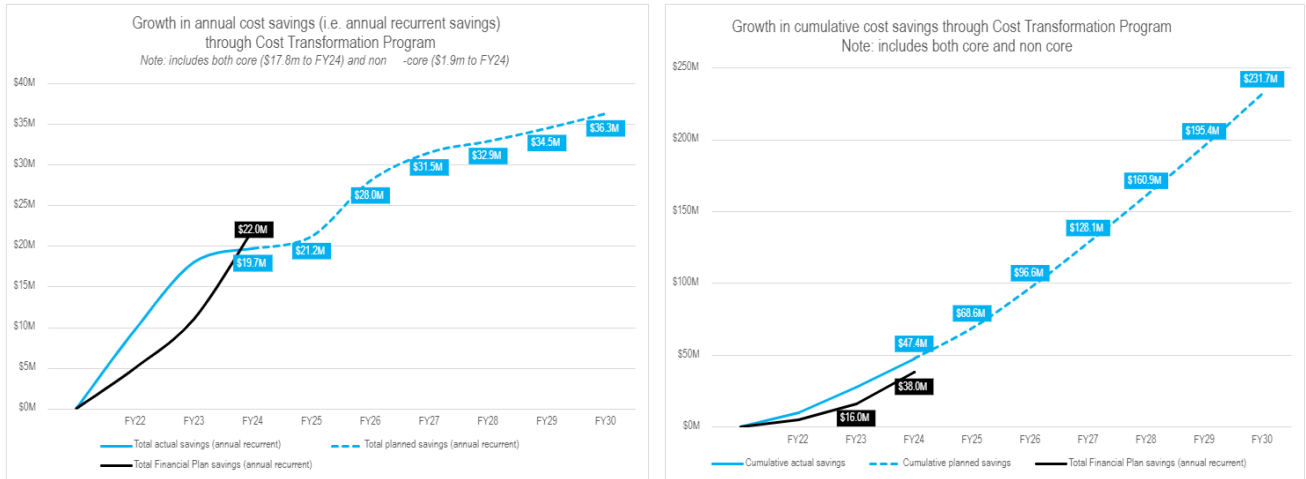
The largest contributors to these savings were the streamlining our organisational structure including senior management roles, reduced property leasing costs and reductions in contract labour.

As part of our operating model re-design, we established a transformation office function in 2022. A key focus of the function is to identify and track cost reduction opportunities. Most critically it is to assist teams across the business to drive delivery of efficiencies. Through the next determination period this function will continue to focus on driving cost efficiencies across the business. It will also monitor, validate and report on savings targeted and achieved.

The next tranche of cost savings will require some fundamental changes to business operations. Through FY25 our focus is on developing the work programs to realise these changes ready for implementation and ongoing benefit realisation in subsequent years.

We have set a 1% per annum efficiency target across the business driven largely on the back of three key initiatives focussing on operational transformation, digital transformation and implementation of a future land strategy. These are outlined in more detail in section 1.4. Figure 1 outlines the outcomes of the savings progression to date and the impact of the targeted savings over the next 5 years.

Figures 1 and 2 – Actual and forecast operating cost savings FY22 to FY30



1.2 Operating Cost Savings - Approach

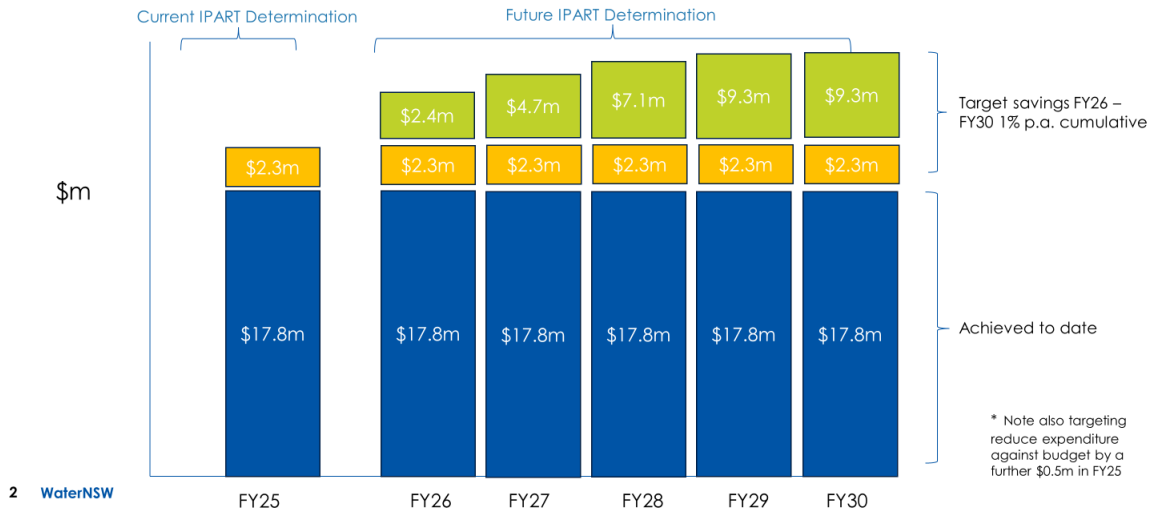
WaterNSW has continuous improvement programs embedded across our business. These programs have led to business efficiencies which have yielded tangible but modest cost savings in past years. In 2022 the business embarked on a more ambitious cost transformation program. The aim was to identify and deliver tangible cost savings, through transformational change to the organisation. This includes identifying potential cost saving opportunities together with our people across all areas of the business. Initially over fifty initiatives with estimated savings of \$21.6m were identified, with the support of external advisors.

The current stretch target goal is to remove \$20.2 million of operating costs, annualised, from the business by the end of FY25. This represents the equivalent of \$101 million of operating cost that is avoided over the life of the next determination period. In addition, WaterNSW is proposing a 1% per annum efficiency premium that has been incorporated into the operating expenditure proposed in the submission. This equates to \$32.8 million of savings over the duration of the submission. When combined with \$2.3 million in annual savings arising from efficiencies in \$2024-25, this results in **\$44.3 million** in additional savings over the 2025 Determination period. The chart below shows this graphically (adding the green and gold bars from FY26 to FY30):

Figure 3 – Progress towards target cost reduction (core business only)

Permanent cost out

We are committed to taking 1% per annum permanent cost out from FY25 through to FY30



The transformation office will remain in place with an ongoing remit to help identify, support and drive business efficiencies. It will also be responsible for tracking and reporting benefits realisation from these initiatives and other projects, so proactive or remedial action can be taken by organisational leaders to ensure we meet our targets.

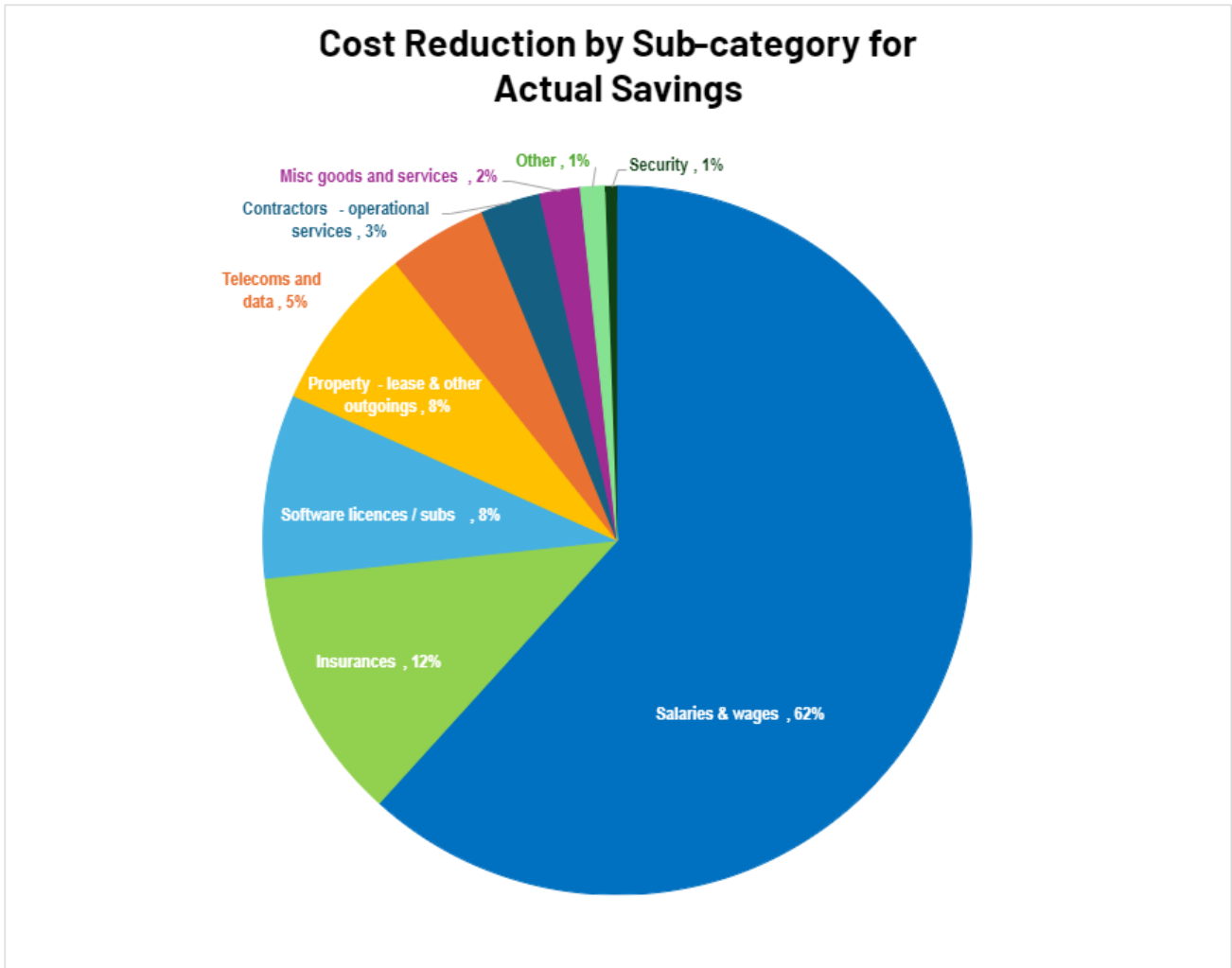
Future savings are focused on enterprise transformational activities, built on a stronger commercial focus across the business. These include improved systems and processes leading to productivity gains, stronger focus on procurement needs and sources of products and services. We have also established an innovation hub, which allows anyone in the business propose ideas for change that could result in operating efficiencies.

In addition to these sustained cost savings the business has also addressed one-off or short-term cost savings opportunities. These include reductions in annual leave balance, encouraging temporary contractor staff to take leave (i.e. only paying long term contract rates for 48 weeks, not 52 weeks). These have not been included in the cost transformation program as they are not re-occurring sustainable cost savings, rather just part of good business practice.

1.3 Operating Cost Savings – Outcomes to date

Of the \$17.8 million of ‘core regulated opex’ costs removed from the business in the past two years, over 60% resulted from reductions in labour-related costs. Most of the remaining reductions were driven by revisions in procurement of goods and services, either through reduced demand or need for some services or revised terms, and in property related costs. Figure 4 below shows the cost reductions by category achieved in the past 2 years.

Figure 4 – \$17.8m core business cost reduction since FY 23 by category



1.3.1 Labour

We implemented a new operating model in 2022. One of the outcomes of this revised operating model was the consolidation of complementary business functions that aligned to our core business processes, under fewer Executive Managers. These included:

- bringing together operational functions that had previously reported independently, including asset management, and maintenance activities, meter reading, water monitoring functions and system operations.
- bringing together the teams that had a 'corporate affairs' type function, but which were otherwise dispersed across the business; to come together under a dedicated Corporate Affairs Executive.
- merger of finance, legal and risk functions into a single portfolio, and
- consolidating a range of strategic and planning functions

The net result was a reduction in the number of portfolios from ten (10) to seven (7).

One of the key objectives of the operating model reform was to increase the span of responsibility of senior leaders. This resulted in a complete redesign of all senior leadership roles across the entire business. The

majority of the newly created roles had broader accountabilities than was previously the case. These changes also required the need to go to market for some key roles. As a result, new recruits filled over 30% of these new roles.

The net effect of these changes was an over 40% reduction in the number of executive and senior managers. The savings from this reduction amounted to \$9.6 million. In assessing cost reduction for the cost transformation program this figure was reduced down to \$9.2 million to account for those retained in non-senior manager roles.

Other labour savings were due to reduced contract labour hire. Historically the business has relied heavily on contract labour, especially in digital and other technical functions. As part of the cost transformation review and external benchmarking, we assessed the ongoing need for these capabilities and where the need was required, converted some contract roles to permanent ones, while eliminating others.

1.3.2 Property

A second area of focus on cost efficiency opportunities was on our accommodation needs. Post covid we have adopted a hybrid working model, where non field-based employees can split their work time between office and home-based working. One of the benefits of this new way of working is a reduction in the number of fixed or dedicated workstations and hence office size. This has allowed us to reduce the office footprint in our head office at Parramatta. We have relinquished one of three floors in the office and done away with fixed desk locations. Further property consolidations include amalgamation of the Dubbo office and depot into one site, and merger of Newcastle and Maitland offices into one site, and a reduction in our accommodation in our Sydney CBD office. In all cases this has led to a reduction in lease costs. To date this has resulted in reduced leasing costs of \$1.5m per annum.

We are investigating other similar options which we will pursue where they make both economic and operational sense. However, the scale of these will be much smaller than those already completed.

1.3.3 Procurement

The other key area of focus has been on procured goods and services. The emphasis being on both need and cost of goods and services.

To date we have reduced the number and scope of software licences and leases. In some cases, these have been because software systems are no longer required, in others it was based on utilisation or agreeing enterprise rather than seat-based licences. Review of licence use is now an on-going activity.

We have also negotiated reductions in rates or the scope of some contracted services as contract periods ended. These have included reduced rates on analytical laboratory services, for water quality monitoring and testing. Other procurement savings include reduction in cellular modem costs, mail-house services, and some certification processes.

In some cases, the volume of work has offset the reduction in rates. However, without those reductions future costs would be higher. An example is in the laboratory services where we have had an increase in the number of samples being analysed primarily due to increased rainfall and the need for more regular water quality monitoring that this has created.

Through a recent centralised agreement for hiring of contract labour the business has much greater transparency on contractor costs than was historically the case. In the past hiring managers were able to use a range of potential sources of contract hire, this made it difficult to ensure that rates were competitive and whether the option of using contract labour was the right option. We cannot effectively quantify the benefit of this approach in part because of the historical approach's fragmented nature. However, with better control and oversight now this should yield longer-term benefits.

One of the largest savings we achieved was from the non-renewal of revenue volatility insurance. This increases potential revenue risk in periods of low water demand or availability but saves \$2.29 million per annum.

1.3.4 Process Reviews

We undertook an extensive review of assessments and approvals processes for licensing and approvals. The review included assessing the necessity and efficiency of key processes and the structure of the relevant team or business unit. This led to revisions of several processes and also resulted in workforce efficiencies. The overall saving from this activity amounted to \$900k.

We are currently reviewing other in-field processes which will potentially lead to further savings some of which we anticipate achieving in FY25. These have been considered in our base year position in which we have targeted a further cost reduction of \$2.3 million).

1.4 Ongoing Program

We continue to have a focus on cost efficiency across the business. Under the corporate strategy key priority of "Delivering Operational Excellence" our Cost Transformation Program remains a key strategic initiative supported by the Executive team and approved by the Board.

The current and immediate future focus is on collaborating with leaders across the business to identify and drive cost reduction initiatives. These include detailed analysis of current and proposed expenditure by type to determine necessity, scale, and alternative approaches. The drive is supported through a cost reduction target of 1% of operational expenditure each year for the 2025 fiscal year (against fiscal year 2024 actual spend).

Over the past two years we have stripped out costs that were relatively easy and quick to achieve, recently that has slowed so we have turned our attention to looking at the next tranche that will require greater effort and time to deliver. To that end we have identified 3 key business transformation initiatives with a focus on driving out cost, these are:

1. **Operational Transformation:** this initiative builds on some of the fundamental objectives of our revised operating model in which operational functions were brought together. Included in the scope of this initiative are:
 - a. Field work improvement program – to better work plan and the allocation of resources more efficiently to reduce cost to service assets
 - b. Remote operations – to reduce travel, safety risks and costs
 - c. Process design and knowledge management – through mapping of critical business processes and sharing of specialist knowledge identify opportunities for efficiency improvement and capability uplift
 - d. Asset planning – improve planning process through more robust processes to reduce number of unplanned asset investments and project pipeline visibility
 - e. Asset Delivery model – improve capital delivery model through focused partnering arrangements (predominantly capital efficiencies to be gained from this process)

2. **Digital Transformation:** this initiative is largely focussed on uplifting critical capability and the continued improvement and clarity of digital ways of operating and delivering our services. This will also enable greater sharing of digital and technology resources leading to the improved efficient management of digital systems and improved outcomes for digital delivery. Included in the scope of this program:

- a. Digital capability model – defines and provides clarity around the end-to-end capabilities required to deliver digital services, and enables efficient decision making, clarity of roles and responsibilities and supports good decision making for investment of appropriate capabilities for future needs
 - b. Development of a digital services catalogue – to define services, service levels to provide clear expectations for internal and external customers and stakeholders. and also enable the efficient recovery of costs where relevant
 - c. Improved cost and project structures to better align with and respond to core work, service enhancements and project work that will also enable improved benefits management and realisation
 - d. Development of a strategic vendor management framework to enable improved management of vendors to ensure maximum value is obtained and extracted.
 - e. Revised digital portfolio delivery model with enhanced assurance framework to improve the oversight, management and delivery of program and project objectives and outcomes are met
 - f. Uplifted strategy and architecture capability and function to improve the strategic alignment, clarity of initiative purpose, and improved alignment with prioritisation criteria and architectural principles, governance and guardrails.
3. **Land Strategy:** this initiative is focussed on identifying and delivering improved value from our land assets. There are three broad streams:
- a. Revenue Opportunities – increasing income from our land assets from a range of potential sources including leasing for agricultural use, telecommunication towers or similar infrastructure, renewable energy or carbon/biodiversity credit creation.
 - b. Cost Efficiencies – exploring and where possible implementing reduced cost of landholdings. This could be through more cost effective maintenance, opportunities to reduce land tax, etc.
 - c. Divestment – sale of land that has no operational value and where revenue opportunities are not financially viable.

In addition to these key 'big rock' initiatives, we will also continue to focus on other opportunities. We have built a register of potential opportunities and will continue to monitor delivery of these.

As energy costs have risen in recent years, we are reviewing and renegotiating our energy contracts, to identify potential reduction in energy rates. We are also undertaking early feasibility studies to determine options for self-generated power through solar photovoltaic panels, although this is unlikely to result in cost reduction in the short-term.

A continued area of focus is on procurement of goods and services including contract labour. While we have achieved some reductions in this area there is further potential. This includes software and digital services, professional services contractors and contractors supporting operational activities such as land maintenance, security, and fire response services.

Whilst good progress has been made with rationalising digital software, we will continue to challenge and scrutinise procurement and renewal of software and hardware with the aim of continuing to rationalise and consolidate digital assets where possible, leading to a simplified technology landscape and therefore cost. This is particularly pertinent when cloud consumption costs and software as a service charges are increasing at a rate that outpaces the Consumer Price Index.

Figure 5 – Cost efficiency areas of focus



While putting a corporate focus on larger scale opportunities we will continue to encourage the identification and delivery of smaller scale savings. We have run a continuous improvement program with an established CI Framework since the early days of WaterNSW’s creation, which will continue into the future. Its focus is largely on process, data management and knowledge-based improvement opportunities in the operational areas of the business. It has also been very reliant on respective portfolios to identifying and deliver these initiatives. Under the new operating model there is a new function established with the Operations portfolio tasked with undertaking the analysis and process reviews to identify potential improvement opportunities. This function is also working on longer term efficiency and productivity improvements.

More recently, we have launched an “innovation hub” that allows anyone in the business to propose potential new ideas including both revenue raising and cost saving opportunities. While it is not anticipated that it will identify major savings opportunities at an enterprise scale, it encourages everyone in the business to adopt a more commercial mindset, think about cost saving and take some ownership for delivering these.

To support an ever-increasing commercial mindset within the business one of the strategic initiatives for FY25 is to develop a program to instil a stronger commercial acumen and culture across the business, especially amongst decisionmakers and people leaders. We want managers and others to challenge the need to rollover or renew contracts, we want to improve the negotiating skills of those involved in procuring goods and services across the business and we want to encourage people to think about different ways they can achieve outcomes for which they are responsible.

1.4.1 Longer Term outlook

One of the five core strategic principles of our corporate strategy is delivering operational excellence. To support that ambition the cost transformation program will continue to focus on identifying and driving delivery of cost reduction opportunities. This includes a more robust approach to assessing and capturing cost savings benefits arising from digital and other change projects where cost savings are identified as a benefit. A key tool to support this is maintaining a register of benefits to capture proposed and realised benefits as well as who is accountable for those benefits.

Progress on the cost transformation program, and all other strategic initiatives, are reported to the Board every quarter. It is also regularly discussed at Executive level to maintain momentum, agree targets and support specific activities to reduce expenditure.

Several other strategic initiatives will help support the cost transformation program. These include:

- Strategic workforce plan - we are embarking on a further revision of our strategic workforce plan. Which is focussed on determining the skills and capabilities that the business will need in the years to come and how best to secure these.
- Digitally enhanced services - improvements to the way digital initiatives are delivered, with greater collaboration across WaterNSW, improved focus on customer outcomes and an uplifted approach to benefits realisation.
- New sources of revenue- while not directly related to cost reduction, increasing revenue from non-core and/or unregulated services through partnering arrangements and optimal utilisation of resources and assets helps spread the cost burden. Through the development of our land strategy, we aim to determine optimal use of various landholdings. This will assist us in determining whether to dispose of, lease, or use land to generate income through activities such as carbon or biodiversity credit creation, renewables generation etc.

Through a combination of these and previously outlined activities we are committed to reducing our operational costs by 1% per annum cumulatively over the life of the price submission. This equates to \$44.3 million reduction which we have incorporated into our submission.

1.4.2 Tracking and monitoring

We have recently established a register to capture targeted, realised and verified cost savings.

One of the challenges when assessing cost savings is establishing the baseline. Within the register we attempt to define the baseline against which any specific saving has been made, including:

- Reduction based on previous actual expenditure.
- Reduction against budget.
- Avoided cost
- Delayed or postponed cost

In all cases the cost reduction may be one-offs and provide short-term benefits. We have determined that the only ones that will be considered for achieving the 1% per annum target is permanent 'cost out'. That is a reduction in expenditure on previous year that is permanent and sustainable. Noting if a cost is transaction related and the volume of transactions change for reasons beyond our control, we may need to adjust for this.

However, there is benefit in managing other costs and exploring opportunities to incur savings against budget so we will support initiatives that enable this

Progress against targets will be reported regularly to the Executive and Board throughout the period of the determination. Where necessary the Board may choose to revise annual targets and supporting incentive schemes to meet proposed commitments.

1.5 Capital Expenditure Program Efficiencies

WaterNSW recognises the significant impact that our capital program can have on customer bills. We have a range of business processes and initiatives in place to deliver value to our customers, with a continuous improvement approach developed to improve the value we deliver over time. This includes several key elements:

- An Asset Planning process which prioritises projects based upon benefits, costs and bill impact to customers. WaterNSW's Asset Planning passes through a prioritisation process prior to a recommendation for expenditure on a new asset, or asset renewal. The prioritisation process, described further in Attachment 18, provides confidence that only projects that are absolutely necessary and provide adequate benefit are included in WaterNSW's pricing proposals.

Once projects are prioritised, investment programs are included within Asset Management Plans of each valley and discussed with customers. This approach ensures that the process of identifying projects and programs is rigorous, and there is transparency for customers regarding what/why certain actions are to be taken, and why some other actions will not be taken.

- An Options Assessment process which identifies prudent and efficient business options for projects, which is reflected in project forecasts. In developing projects, WaterNSW uses the Options Assessment Guideline as a standardised methodology for developing, analysing, and evaluating different options for WaterNSW capital works projects. The guideline seeks to drive the most cost effective solutions for generating the intended project benefits. The guideline requires projects to be classified as basic or complex, and for complex projects, multiple options need to be developed and compared via multi-criteria analysis, lifecycle cost analysis or cost benefit analysis.
- A capital procurement strategy which seeks to maximise value delivered through our capital program through fit for purpose contracting arrangements, and delivery pathways. Key procurement arrangements designed to drive capital program delivery efficiencies including:
 - Implementation of a new Asset Renewal and Replacement (ARR) Framework consisting of an engineering and design partner and two construction partners to streamline the delivery of asset renewal works.
 - The Procurement Framework serving as a strategic avenue for projects that fall outside the scope of the ARR Framework, particularly those requiring specialist skills, or regional initiatives that may not be cost-effective under the ARR Framework. This framework operates efficiently by streamlining procurement processes based on project value.
 - Newly formed Operations Professional Services Panel for projects requiring professional services other than design (which is primarily procured via the ARR Framework). It comprises of four streams: project management, communications, capability, dam safety and engineering.

The above business initiatives have been captured in our capital forecasts, as evidenced by the following outcomes:

- Our asset planning process has resulted in deferral of \$860m of capital works, of the proposed capital program.
- We have imposed capital efficiency targets tailored to valleys, with \$15.7m embedded in our capital forecasts. Capital expenditure efficiencies are expected to be delivered by:
 - Robust needs and options assessment, ensuring that non-capital solutions are considered;
 - Value engineering during design development;
 - Procurement efficiencies through intelligent project packaging that may enhance competition or generate economies of scale or geographic synergies for construction contractors; and
 - WaterNSW project management efficiencies via allocation of low complexity projects to Regional Delivery teams.

Efficiency targets were generated by reducing cost estimates for candidate projects and fishway projects by the following efficiency factors:

- 2.5% for small rural valleys, being those with FY26-30 capital expenditure <\$5m (Border, Lowbidgee, North Coast, Peel, South Coast).
- 3.0% for large rural valleys, being those with FY26-30 capital expenditure >\$5m (Fish River, Gwydir, Hunter, Lachlan, Macquarie, Murray, Murrumbidgee, Namoi).
- 4.0% for Greater Sydney.

This is further detailed in Attachment 18 Capital Expenditure Infrastructure Assets.