

Cost efficiency strategy

Sydney
WATER

Delivering efficiently for our customers

Sydney Water today

Water is an essential part of daily life. For 136 years, Sydney Water has been at the heart of a growing city, delivering essential water services to Sydney, the Illawarra and the Blue Mountains. How we use water helps our city thrive and supports the productivity and prosperity of our economy.

However, the core elements of Greater Sydney's water and wastewater systems were constructed in the late 1880s and have been expanded over time to sustain our growing city. While at the time, this centralised design was the most cost-effective and efficient method to service growth, today the landscape has changed.

We are now at a critical juncture. Continuing to transfer water from dams in Western Sydney to coastal wastewater outfalls in the East will put increasing pressure on our systems, with this arrangement less resilient to shocks and stresses over time, impacting our ability to support growth, housing supply and service standards.

In addition to a growing city, we are responding a changing climate, to alternate demands across the network caused by the pandemic, to ageing infrastructure and a cost-of-living crisis. Responding efficiently will ensure we make the necessary investments for safe and reliable services while keeping bills among the most affordable among Australian capital cities.

Our vision is to create a better life with world-class water services. Operating responsibly and efficiently is important to deliver the outcomes our customers value at the lowest sustainable cost. To achieve this, we are reshaping our approach to better manage today's needs and future challenges.

Our Cost Efficiency Strategy outlines our approach to realising this objective and demonstrates our commitment to improving value for the customers and communities of Greater Sydney we serve.

From 1 July 2025, we will move into our next regulatory period with the Independent Pricing and Regulatory Tribunal (IPART).

Our future

We are proposing to invest in a way that aligns with the long-term interests and values our customers and communities place on our essential services. However, achieving this comes at a significant cost.

We recognise the impact that rising costs will have on customer bills. We aim to keep these costs to a minimum by delivering \$593 million of operating cost savings and \$1,456 million of avoided capital costs over the next five years.

This *Cost Efficiency Strategy* provides a tangible means for us to achieve this over the coming years.



Roch Cheroux
Managing Director



Niall Blair
Chair

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Our efficiency framework

Cost efficiency is not about achieving the lowest possible cost. It is synonymous with value for money.

It is how well we use the resources we have today to deliver the outcomes customers receive both now and well into the future.

However, our operating environment is characterised by cost pressures from growing cities and population, ageing assets, climate change, and other unpredictable events. We will need to invest more than ever before to maintain the high quality services our customers expect of us.

To ensure that these cost increases are minimised, our framework for delivering cost efficiency relies on five levers focussed on people, systems, and processes. We also seek to manage service, operational and financial risks in line with our risk management framework and our Board-agreed appetite for various risks which factor in our customers' priorities.



Our levers

As we invest in delivering essential services, these levers provide the means to holistically improve the way we deliver value to our customers and communities.

01

Digitalisation

Utilising technology to streamline processes, enable data-driven decision-making, and support more effective collaboration.

02

Continual improvement

Cultivating an organisational culture that fosters innovation and continuous improvement.

03

Service delivery

Enhancing the delivery of services to effectively meet customer demands.

04

Sustainability

Integrating sustainable practices to meet our environmental, financial, and social responsibilities and ensure long-term viability.

05

Suppliers and external stakeholders

Strengthening relationships with suppliers and external partners to enhance collaboration and effective delivery.

Our levers in practice

From capital planning to delivery

Our capital investment process aims to ensure efficiency over multiple horizons, from planning through to delivery. Organising formal review gates around these different horizons provides sufficient opportunities to consider the most cost-effective solutions to deliver our services.

Excellence in **service delivery**, embedding **sustainable practices** in capital solutions, and **leveraging supplier relations** features strongly throughout this capital process.

1

Regular update cycles (or when certain trigger events occur) ensure information being used in the next horizons is accurate.

System and service planning

Long-term and system configuration planning **ensures our infrastructure is suited to deliver key outcomes in the long-term**. Identification of opportunities such as purified recycled water to augment future water supplies avoids costly expansion to wastewater systems in Sydney's west. Operational service planning aims to deliver the most cost-effective approach for maintaining and renewing existing systems and infrastructure.

Optimisation

Of the candidate investments identified in system and service plans, we prioritise projects and evaluate opportunities to package solutions together. For example, integrating wastewater systems in Sydney's north-west avoids costly augmentation of individual water resource recovery facilities.

3

Business cases

Thorough concept designs, options assessments, and cost-benefit analyses are undertaken for all programs initiated within Sydney Water, with **further governance** for significant projects:

- Treasury is notified for projects costing more than \$50 million, and
- Infrastructure NSW reviews all Major Projects; NSW Cabinet approves those costing more than \$100 million.

Our levers in practice

From capital planning to delivery

4

We have streamlined this process and our organisation to deliver almost double our infrastructure investment per employee.

Our Regional Delivery Partner model enables us to minimise repetitive planning and tendering work for smaller, high-volume projects that would otherwise cause significant organisational overhead costs. Recently, this initiative provided a **base delivery capability when Australia's supply chain and construction market was severely constrained**. We are continuously reviewing our approach to enhance the efficiencies it can generate. Better project controls and greater experience in contract management are key improvements we are now targeting. It showcases the benefits we have received from establishing a platform that effectively **leverages supplier relations**.

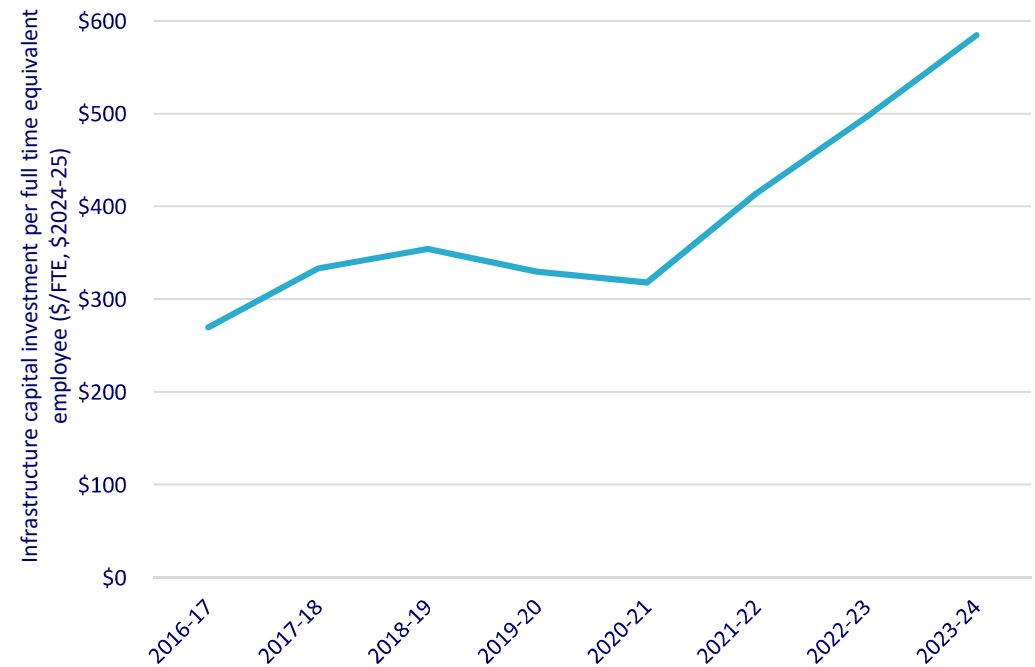
Delivering the infrastructure that allows us to provide the high-quality services our customers value will remain a priority for our organisation. We have reflected this through our updated Infrastructure Delivery group, highlighting the importance of prudent and efficient infrastructure investment.

Procurement and delivery

Our high-cost infrastructure projects are subject to a **competitive tender process**, allowing us to see the best the market has to offer. This ensures we receive the best value for the funding we receive from our customers.

Smaller infrastructure projects are delivered via our Regional Delivery Partner model.

Capital delivery per employee



Our levers in practice

Technology and digitalisation can make a difference in automating repetitive tasks, streamlining workflows to minimise errors and avoid costs associated with corrective actions and improve data analytics to enhance decision-making accuracy. Two examples in our wastewater networks include:

Early monitoring of sewer blockages

We have installed analogue monitoring devices in our wastewater network to provide early warning signs of sewer overflows. This enables us to identify issues in our networks before they pose risks to our customers and before they cause harm to waterways and bushlands.

The initiative successfully detects around 20 blockages each month, avoiding around \$400,000 per month that would otherwise be needed to respond to sewer overflow incidents.

Over the next five years, we are aiming to maintain the success of this program. Our focus will first be on renewing the oldest of these analogue devices as their five-year life runs out. We are also investigating whether digitalising these devices will yield further cost reductions.

Machine learning-supported condition assessments

We survey around 800km of wastewater pipes via CCTV annually, identifying structural defects (cracks, fractures, and breaks), blockages (silt and roots) and water ingress. Machine Learning (ML) can assist in filtering footage of networks that require immediate attention to prioritise our operational responses. Doing so minimises the risk of sewer overflows, avoids structural failures, and improves resource allocation.

Between 2020 and 2023, ML models helped identify 1,900 defects for review. Manual review to establish priority confirmed a high degree of accuracy.

We want to improve our ML models to recognise and prioritise more defect types, work with different materials, and link identified defects to corrective maintenance outcomes.





Our levers in practice

Modernising field maintenance and operations

Dependency on separate management platforms and manual processes for field operations hinders our ability to communicate accurate and timely information to our frontline crews. In turn, scheduling, dispatch, and execution of works can be inefficient.

Our Flow program overcomes these challenges by implementing an integrated field service management platform that:

- Avoids delays and re-work, reducing contractor costs.
- Minimises labour overheads required to fulfill manual processes.
- Reduces digital licence costs from using separate management platforms.

We seek to achieve an estimated \$43 million in cost savings through these benefits over the next five years. Furthermore, the program is expected to deliver non-monetary benefits for our customers, such as enhancing communication of impacts to water and wastewater services and reducing repair times.

Managing the cost of growth

Servicing growth in Greater Sydney

Across the Greater Sydney and the Illawarra, we are investing to support our growing cities and population.

Managing growth, particularly in new areas, presents challenges for cost efficiency. When growth occurs in greenfield areas at the periphery of established networks, this requires the development of brand new treatment facilities and distribution networks that are more expensive compared to expanding services in areas with existing infrastructure.

Our approach to funding growth

We are committed to supporting the NSW Government in its response to the National Housing Accord.

Our approach is that our customers should only fund us for delivering growth that we have strong confidence will occur between now and 2030. This **reduces the upfront recovery of growth funding from our customers** by around \$11 billion over the next 10 years.

This will not prevent us from investing in growth as needed. Once we are certain of the level of growth, this will be funded through a combination of infrastructure contributions and our customers' bills after 2030. This ensures that we supports the government's growth ambitions, but only recover the costs from our customers as it is realised – not before. **We are committed to working with government and the development industry to improve data capture and analysis on growth uptake. This will strengthen response times and improve our efficiency.**



FY2025-2035

- 1 Picton WRRF upgrades and renewals
- 2 Nepean WFP upgrades
- 3 Cascade WFP upgrade
- 4 Orchard Hills WFP upgrades
- 5 Prospect WFP upgrades
- 6 Prospect Pumping Station
- 7 West Hornsby WRRF upgrades
- 8 Malabar WRRF upgrade
- 9 Sydney Desalination Plant Stage 2 Expansion
- 10 Wet Weather Overflow Abatement Program (WWOA)
- 11 Bondi WRRF upgrades and renewals
- 12 Quakers Hill WRRF upgrade for purified recycled water treatment
- 13 New Upper Nepean WRRF with advanced treatment capacity and wastewater network
- 14 Macarthur WFP expansion and upgrade
- 15 North West Treatment Hub upgrades (Riverstone, Rouse Hill, Castle Hill)
- 16 Liverpool and Glenfield WRRF upgrades for purified recycled water treatment
- 17 Mamre Road and Aerotropolis Integrated Stormwater Scheme
- 18 Delivery of Upper South Creek WRRF
- 19 New Camelia WRRF
- 20 WSAGA/SWGA
- 21 GMAC

Our cost efficiency target

Over the next five years, we are committed to saving a total of \$593 million in operating costs, and avoiding \$1,456 million of capital investment.

Of the \$593 million in operating cost savings, we are committed to delivering:

- a cost efficiency of 0.7% every year, or \$179 million in total over five years; and
- an additional step efficiency of \$413 million in total over five years.

Historically, the level of investment we have needed to deliver safe and reliable services has been relatively stable. However, growth in our cities and population, ageing infrastructure, climate change, and other **emerging challenges have led to a greater cost to deliver services to our customers.**

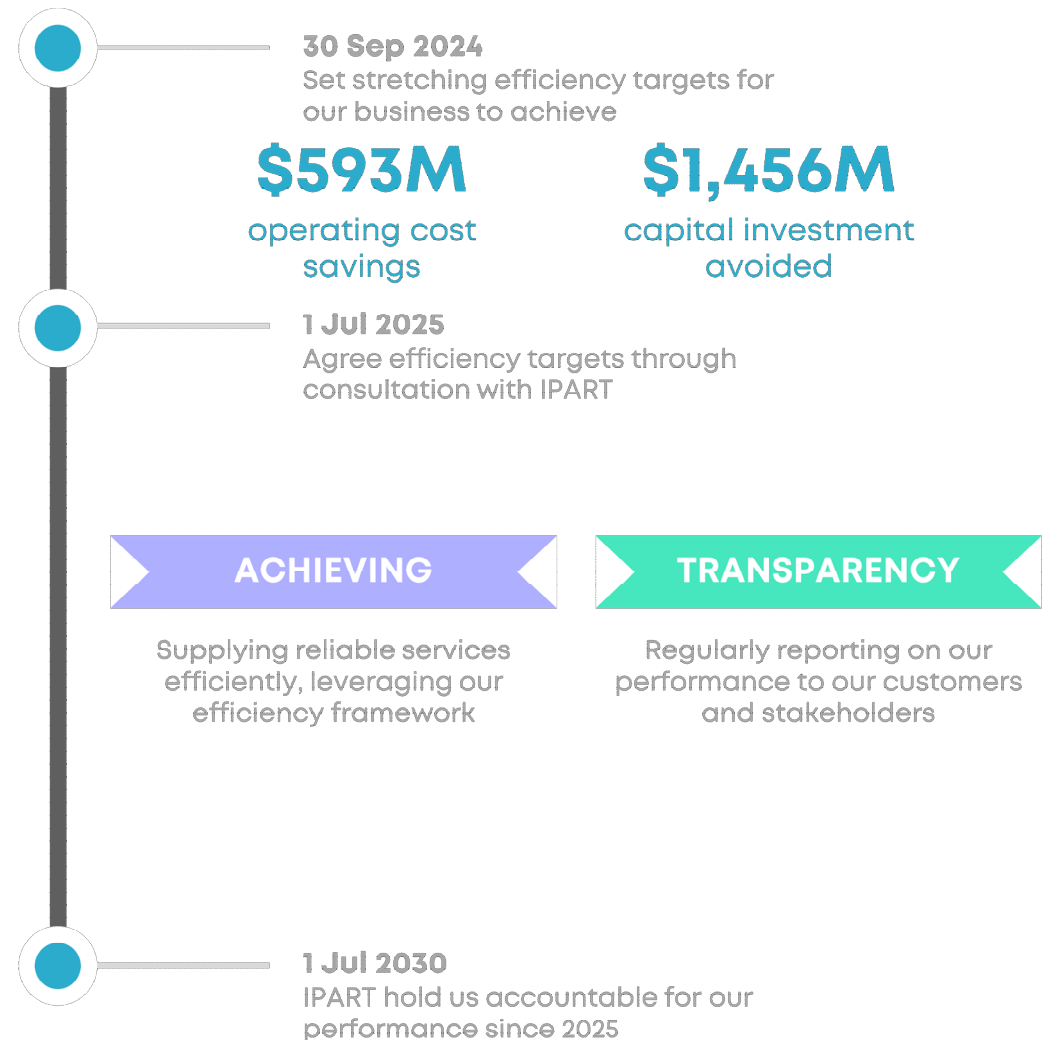
Our efficiency target will ensure that the impact of rising costs on customer bills is kept to a minimum.

Maintaining accountability

We will be holding ourselves accountable to achieving our customer and service performance targets, and our efficiency goals. IPART's five-yearly review of our business will ensure this is the case, having financial rewards and ramifications depending on how successful we are from now until 2030. Our annual reporting processes and online communications will keep customers and stakeholders updated on a more regular basis.

For more detail on IPART's approach, refer to <https://www.ipart.nsw.gov.au/water-regulation-handbook>.

For more detail on our annual reporting, refer to <https://www.sydneywater.com.au/about-us/our-publications/annual-report.html>.



Keeping pace with our industry

We are committed to ensuring that our customers receive the full benefit of the cost efficiencies our organisation achieves.

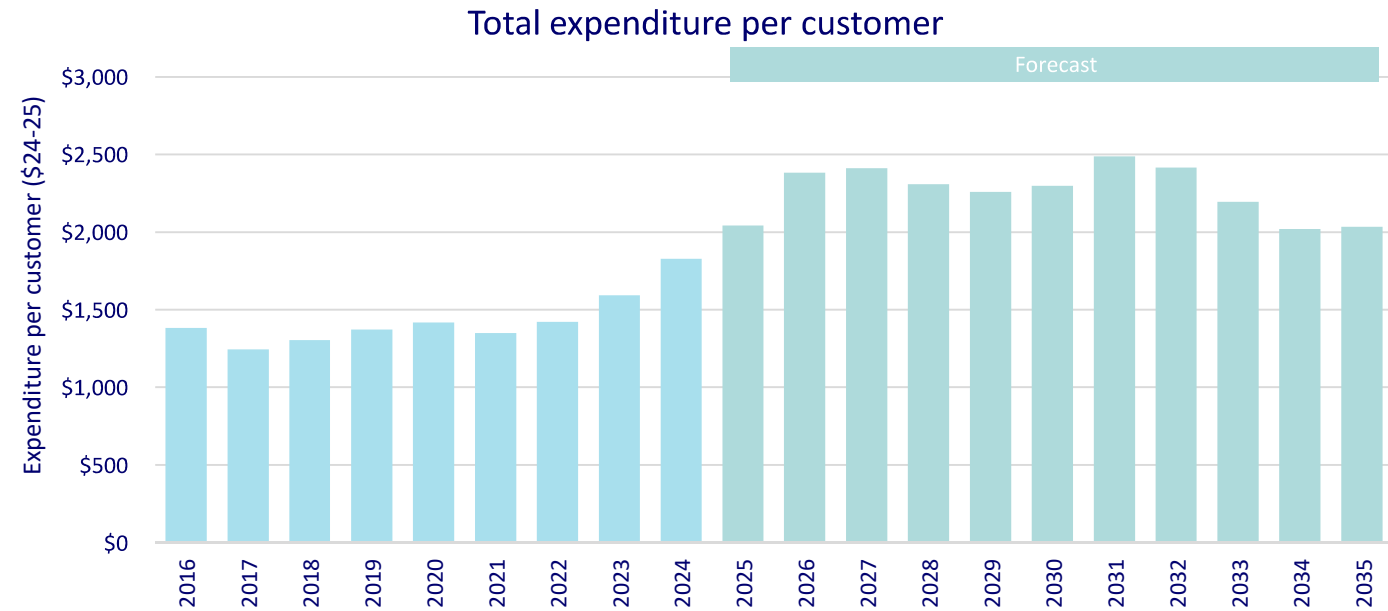
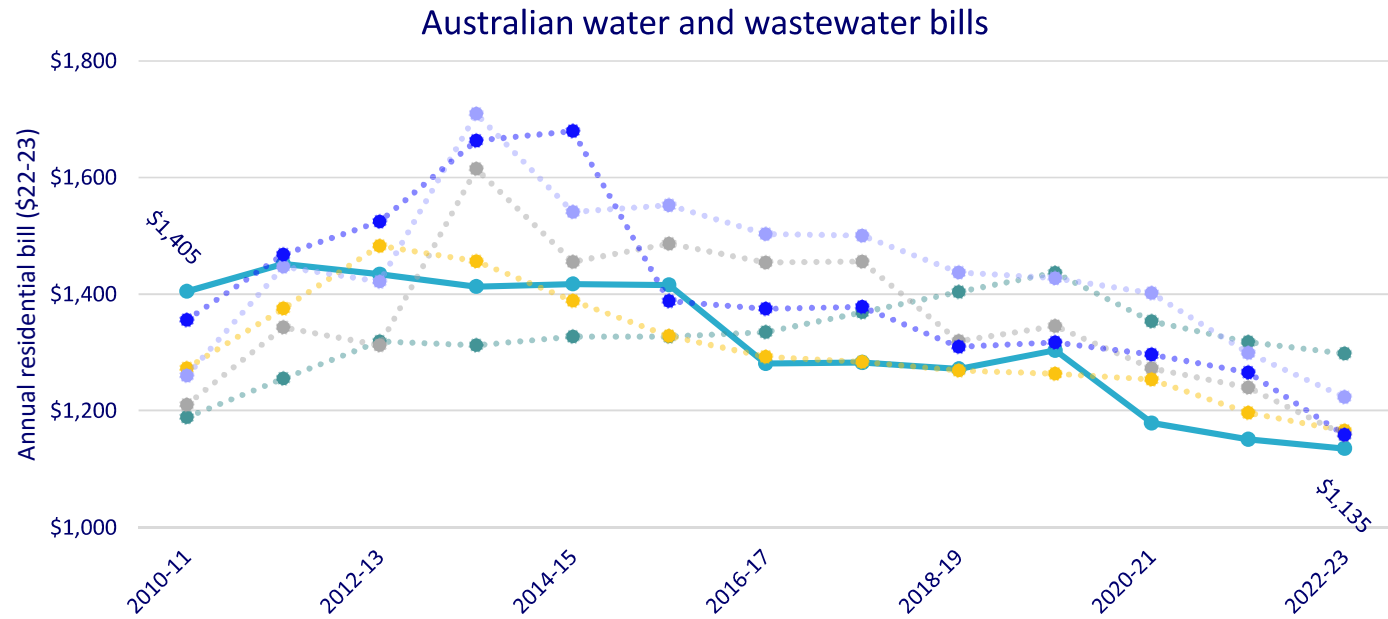
A combination of these efficiencies and our relatively stable investment needs have kept customer bills low over the past decade. This has allowed us to outperform other Australian water utilities and ensure that our customers now receive one of the lowest bills in the country.

Our performance in the longer term

To respond to the challenges facing our industry, the investment we need to make over the next five years is expected to increase. We recognise the impact this will have on our customers' bills.

However, investing more now means our costs over time will be lower overall. As our costs stabilise and our customer base continues to grow, customer bills will also stabilise.

Source: Bureau of Meteorology (2023), *National performance report 2022–23: urban water utilities*; Sydney Water analysis.



Next steps

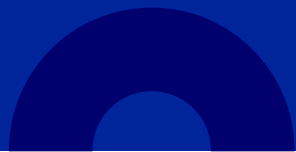
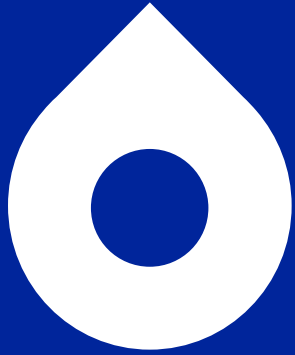
Sydney Water submitted its Price Proposal to IPART on 30 September 2024.

Over the coming months, IPART will be reviewing our Price Proposal, including the efficiencies we have committed to deliver, and determine whether it promotes value for money, is in the interests of customers, and delivers the outcomes customers need and want. IPART will then make a final determination, with new prices starting from 1 July 2025.

Throughout this review, IPART will be conducting independent public consultation to give the public an opportunity to share their views.

We encourage all our customers, our stakeholders and the broader community to participate in this process and have their say.





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