

## **Operations and Contractual Performance**

### **Consulting Spend Context**

Consulting spend in this team addresses a number of recurring and ongoing business needs. These are broadly categorised as provision of skills and expertise for which it is not economic for Seqwater to retain internally. Providers are selected based on scope of works, technical expertise required, and the extent to which the output of the service can be clearly defined. These comprise:

- Professional management service providers engaged through open or closed tender process based upon capability and market availability
- Engineering consultancy providers engaged through the Seqwater Engineering panel through competitive panel processes
- Individual consultants or contractors engaged through competitive recruitment style processes;

The nature of expenditure is summarised in table 1 below.

Expenditure Type	Purpose	Natural Account Codes	FY14A \$	FY15Q1 \$	Change	Frequency	Examples
Audit and compliance verification	To ensure Seqwater and supplier compliance with contractual (inc. legislated) requirements	522240	44,772	251,014	206,242	Annual, ongoing, steady	Commercial; audit of suppliers; WHS systems audit of suppliers
Process Improvement	To enable medium term efficiency improvements to business processes to be identified, planned and implemented leading to long term cost reductions	522220	298,236	486,456	188,220	Ongoing requirement \$ varies according to opportunities	Mobile computing business requirements definition; WTP unit costing methodology; Logistics and Asset Disposal initiatives
Contract management advice and issues resolution	To support resolution of arising issues in delivery of O&M services contracts	522220	1,231,110	696,741	-534,369	Ongoing requirement \$ varies according to issues arising	AMP reviews; WCRWS landslip and deferred works planning
Services sourcing strategy development and implementation	Support the planning and implementation of new services contract models including identifying comparative performance and developing business justifications. Services include O&M, chemicals, waste disposal and energy.	Various	276,967	799,380	522,413	Periodic; significant during contract change over periods	Industry Benchmarking; Sourcing Strategy development; Chemicals Sourcing Strategy Implementation; Energy sourcing strategy;
One off Projects	Delivery of major one off change projects which do not align with above category spend	622321	467,685	1,735,012	1,267,327	Ad hoc	WCRWS Decommissioning technical advice and project management
<b>TOTAL</b>			<b>2,318,770</b>	<b>3,968,603</b>	<b>1,649,833</b>		

## **FY14 and FY15 Reconciliation**

Expenditure from FY14 to FY15 increased from \$2.3m to \$3.97m (a change of \$1.65m). This change has been driven principally by an allocation of \$1.26m to the WCRWS shutdown project. This one off project comprises a range of activities including physical isolation and shutdown works, planning, and technical advice delivered both by the principal contractor, Veolia, and nominated and agreed subcontractors including engineering firms and individual specialist contractors. These costs have been coded as Consultancy costs for the purposes of managing the costs of the WCRWS shutdown. This is not expected to be required in future years.

Other commentary is provided below:

- 1) Audit and compliance verification
  - a. Actual delivery of audit and compliance activities in FY14 was below planned levels.
  - b. This activity expenditure has been increased for FY15 to reflect the full scope of audit and compliance obligations and requirements under the current suite of contracts.
- 2) Process Improvement
  - a. Process improvement activities continue at a consistent level responding to identified needs and opportunities for improvement.
  - b. FY15 includes allocation for an 18 month Asset Disposal Program and Mobile Computing Pilot Trial as well as ongoing process improvement initiatives.
- 3) Contract management advice and issues resolution
  - a. FY14 included funding for implementation, management and transition of the Supply System O&M contract with Trility JV and included development of management protocols and processes with new contractors, Thiess, as well as ongoing management support requirements;
  - b. FY15 includes ongoing management support requirements including non-owner consultancy and expert advisory support, asset management planning, and legal and technical operational and planning support and advice.
- 4) Services sourcing strategy development and implementation
  - a. FY14 included only costs associated with Energy and preliminary sourcing options analysis
  - b. FY15 includes significant additional expenditure relating to development of sourcing strategies for a number of important services including Chemicals, Sludge, Energy and Operations and Maintenance service – refer attached business cases.
- 5) One off Projects
  - a. FY14 included planning works in regards to the WCRWS shutdown project
  - b. FY15 includes a \$1.26m allocation for the remainder of contractor and consultancy expenditure associated with the WCRWS shutdown project.

## **FY15 Justification**

Expenditure in FY15 will address a range of specific project outcomes:

- 1) Audit and compliance verification

The audit and verification of service delivery by major contractors (Thiess, Veolia, Chemicals and Maintenance suppliers) will continue. These activities are covered by defined scopes of work, audit schedules and standing offer arrangements which relate where appropriate to contractual commitments and obligations.

## 2) Process Improvement

Activities in this category are progressed subject to business cases demonstrating long term service improvement and efficiency payback, specifically including:

- a. Process documentation and mapping to facilitate further efficiency
- b. Asset Disposal Trial – refer attached business case
- c. Mobile computing pilot trial – refer attached business case

## 3) Contract management advice and issues resolution

FY15 The budget includes ongoing management support requirements including non-owner consultancy and expert advisory support, asset management planning, and legal and technical operational and planning support and advice

## 4) O&M services sourcing strategy development and implementation

This major initiative is supported by a multiphase business case (attached) based on continuing service provision at least cost and covers sourcing strategies for major services including:

- a. Chemicals
- b. Waste disposal (sludge)
- c. Operations and maintenance
- d. Energy

## 5) One off Projects

- a. The WCRWS shutdown project in total is subject to an approved business case based on future least cost option to maintain the asset capability.

### **Post FY15 Forecast**

Post FY15 expenditure against the identified expenditure types is projected to continue at broadly historic levels, excluding one-off initiatives.

## 1) Audit and compliance verification

- a. Whilst the details of this activity will vary according to the contracts in force, the function and its compliance requirement is expected to remain at current levels

## 2) Process Improvement

- a. Ongoing process improvement is an investment required to achieve future efficiency and service improvement and is expected to be maintained at current levels. An average of FY14 and FY15 expenditure is considered appropriate

## 3) Contract management advice and issues resolution

- a. Whilst the details of this activity will vary according to the contracts in force, the function and its compliance requirement is expected to remain at current levels

## 4) O&M services sourcing strategy development and implementation

- a. This activity is cyclical based on the contract terms in force and their specified termination dates, with substantial investment being required in the two year period prior to contract renewal. It is expected that following the current round of sourcing strategy development Seqwater will enter into contracts which extend beyond 2 year fixed terms and therefore this cost item will be reduced in some future years. Expenditure at FY15 and FY16 levels is therefore above average future levels, with outer years maintaining FY14 actuals. resulting in a medium term average of \$0.45m.

## 5) One off Projects

- a. There are no currently anticipated major one off project requirements for future years. While Seqwater acknowledges these are likely to occur, costs have not been included in the forecast.

Forward consultancy expenditure projections are set out below

<b>Expenditure Type</b>	<b>FY14A \$</b>	<b>FY15Q1 \$</b>	<b>Forward projection \$ pa</b>
Audit and compliance verification	44,772	251,014	251,014
Process Improvement	298,236	486,456	392,346
Contract management advice and issues resolution	1,231,110	696,741	696,741
Services sourcing strategy development and implementation	276,967	799,380	448,104
One off Projects	467,685	1,735,012	-
<b>TOTAL</b>	<b>2,318,770</b>	<b>3,968,603</b>	<b>1,788,205</b>