

To	Queensland Competition Authority (QCA)	From	Michael Grimley, Manager Regulatory and Investment Governance
Date	7 January 2015		
Subject	QCA draft report response: Other Consultancies		

QCA finding	<p>Costs related to undifferentiated consultancy services were \$2.4 million in 2013-14 and are forecast to increase by \$5.1 million in 2014-15. These costs were \$1.7 million in 2012-13. CH2M HILL noted that while Seqwater stated a need for additional consultancy services for a range of business and operational improvement initiatives, the initiatives identified either represent one-off expenditures that should not be continued beyond 2014-15 or ongoing expenditures that should already be captured in 2013-14 actual expenditure.</p> <p>On this basis, CH2M HILL recommended that the 2014-15 forecast for this cost category should be reduced to 2013-14 levels. The QCA accepts this recommendation.</p>
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Response

Seqwater previously addressed this point its response to CH2M HILL’s draft prudence and efficiency report in October 2014, however has now compiled a more thorough and holistic analysis and justification of forecast consultancy costs.

The main variances (by Team/responsibility area) in total consulting costs as per information submitted to the regulatory process are presented in the attached Table 1. Note undifferentiated consultancy services (Seqwater natural account 522207 – Consultancy - Others) is presented separately to align with the draft report findings and specifically address the draft recommendation.

Filtering to capture all natural accounts containing “consultancy” generates an overall forecast increase of \$4.82M, and specifically \$4.97M for natural account 522207 – Consultancy - Others.

In order to understand these variances and to demonstrate prudence and efficiency of the forecast “undifferentiated consultancy services” natural account, this line item has been assessed by Team (refer Tables 1 and 2) in context of the total consultancy spend, and importantly reconciled between historical actual and forecast values on a consistent, like-for-like basis. This has been performed specifically on a Team basis for natural account 522207, and for additional consultancy natural accounts where this serves to increase transparency and understanding. The main driver of these variances is changes in allocation between natural account codes, principally driven by consolidation of some line items/activities as the budgeting process has evolved post-merger.

Discussion

Attached are 12 individual reconciliations (with supporting documentation where applicable) for select Teams where there appears to have been a material forecast increase in expenditure for natural account 522207 – Consultancy – Others, or where there has been an increase in total consultancy spend. Note to focus the response on the specific review recommendations there is no discussion for Teams where total consultancy costs are forecast to reduce, or where the variance is around \$150,000 or less (approximately 0.5% of the forecast \$23.8M FY15 Q1 total consultancy spend).

Memorandum



Table 1: Comparative Analysis – Total and Other Consultancies FY14 actual vs FY15 Q1 forecast (\$ nominal)

\$ nominal	FY14A		FY15 Q1		Difference	
	Total	522207- Consultancy- Others	Total	522207- Consultancy- Others	Total	522207- Consultancy- Others
APDD	7,622,779	1,019,525	7,667,723	4,262,475	44,944	3,242,950
APDD - Asset Capability and Sustainability	1,075,384	53,415	1,640,000	1,640,000	564,616	1,586,585
APDD - Asset Planning	3,142,845	393,155	2,759,248	-	(383,597)	(393,155)
APDD - Engineering and Technical Support	113,402	42,400	604,460	334,460	491,058	292,060
APDD - GM	151,876	-	939,715	873,715	787,839	873,715
APDD - Program Delivery	2,372,205	447,640	-	-	(2,372,205)	(447,640)
APDD - Water Quality and Environment	767,066	82,916	1,724,300	1,414,300	957,234	1,331,384
CEO	12,025	10,561	109,000	85,000	96,975	74,439
CEO	(19,865)	10,561	-	-	19,865	(10,561)
CEO - External Relations	31,890	-	109,000	85,000	77,110	85,000
Finance	950,823	236,622	551,460	100,000	(399,363)	(136,622)
Finance - Finance	185,122	-	235,000	50,000	49,878	50,000
Finance - GM	66,006	-	45,000	-	(21,006)	-
Finance - Procurement	406,124	174,000	-	-	(406,124)	(174,000)
Finance - Property and Facilities	293,571	62,622	271,460	50,000	(22,111)	(12,622)
General Counsel	391,677	355,005	912,000	576,000	520,322	220,995
General Counsel - GM	137,455	137,455	40,000	40,000	(97,455)	(97,455)
General Counsel - Governance Risk and Compliance	254,223	217,551	736,000	400,000	481,777	182,449
General Counsel - Legal Services	-	-	136,000	136,000	136,000	136,000
OPS - Catchment	1,032,001	7,605	1,941,453	-	909,452	(7,605)
OPS Catch - Water Source Operations and management	743,015	1,625	1,631,000	-	887,985	(1,625)
OPS Catch - GM	15,370	5,980	160,453	-	145,083	(5,980)
OPS Catch - Recreation and catchment services	273,617	-	150,000	-	(123,617)	-
OPS - Treated	2,745,470	312,730	4,721,803	114,745	1,976,333	(197,985)
OPS Treated - Asset Maintenance	125,165	-	122,200	28,800	(2,965)	28,800
OPS Treated - Business Systems and Support	177,841	153,991	78,000	78,000	(99,841)	(75,991)
OPS Treated - GM	1,750	-	-	-	(1,750)	-
OPS Treated - Operational and Contractual Performance	2,318,770	158,739	3,968,603	7,945	1,649,833	(150,794)
OPS Treated - Supply (Treated Water) - North	16,596	-	10,000	-	(6,596)	-
OPS Treated - Supply (Treated Water) - South	(850)	-	-	-	850	-
OPS Treated - Supply (Treated Water) Central	106,197	-	543,000	-	436,802	-
SPT	4,112,527	57,623	5,221,350	75,000	1,108,823	17,377
SPT - Brand, Strategy and Community	503,462	-	115,000	-	(388,462)	-
SPT - GM	32,095	-	-	-	(32,095)	-
SPT - Information and Communications Technology	1,815,221	11,700	3,816,350	-	2,001,129	(11,700)
SPT - People and Culture	567,067	28,848	515,000	60,000	(52,067)	31,152
SPT - Workplace Health and Safety	1,194,682	17,075	775,000	15,000	(419,682)	(2,075)
WSSP	2,147,524	257,130	2,707,477	2,015,797	559,953	1,758,667
WSSP - Regulatory and Investment Governance	269,584	-	119,274	50,000	(150,310)	50,000
WSSP - Water Policy, Strategy, Research and Innovation	1,071,829	138,976	2,588,203	1,965,797	1,516,374	1,826,821
WSSP - Water Supply Planning	806,111	118,154	-	-	(806,111)	(118,154)
Total	19,014,827	2,256,801	23,832,265	7,229,017	4,817,439	4,972,215

Table 2: Comparative Analysis – Total and Other Consultancies FY14 actual vs FY15 Q1 forecast (\$ nominal)

APDD - Engineering and Technical Support	FY14A	FY15 Q1	Change	OPS Treated - Ops and Contractual Performance	FY14A	FY15 Q1	Change
522200 - Consultants	55,155	-	(55,155)	522207 - Consultancy - Others	158,739	7,945	(150,794)
522207 - Consultancy - Others	42,400	334,460	292,060	522209 - Consultancy - Information Tech	39,180	-	(39,180)
522213 - Consultancy - Engineering	15,847	270,000	254,153	522213 - Consultancy - Engineering	144,962	347,506	202,544
Grand Total	113,402	604,460	491,058	522214 - Consultancy – Process Improvement	-	50,000	50,000
				522217 - Consultancy – Natural Assets	144,349	-	(144,349)
APDD - Asset Capability and Sustainability	FY14A	FY15 Q1	Change	522219 - Consultancy – Asset Management Planning	-	192,615	192,615
522207 - Consultancy - Others	53,415	1,640,000	1,586,585	522220 - Consultancy - Project Management	983,824	1,283,385	299,561
522213 - Consultancy - Engineering	66,125	-	(66,125)	522222 - Consult-Eng - AM - Special Services	-	50,000	50,000
522219 - Consultancy – Asset Management Planning	746,996	-	(746,996)	522234 - Consult-Eng - AM - Special Services	23,122	-	(23,122)
522220 - Consultancy - Project Management	17,445	-	(17,445)	522236 - Consultancy - Communication	-	13,001	13,001
522230 - Consult-Eng - Asset Management	148,796	-	(148,796)	522237 - Consultancy - Procurement	4,988	15,000	10,013
522251 - Consult-Env - Specialist research	(9,091)	-	9,091	522238 - Consultancy - Strategy Planning	166,272	416,457	250,185
522257 - Consult-Env - Aquatic ecology	6,925	-	(6,925)	522240 - Consultancy - Economic & Regulatory	1,098	273,759	272,661
522269 - Consultancy - Fire Management	37,575	-	(37,575)	522241 - Consult-Economic and Financial Modelling	-	-	-
522270 - Consultancy - Environ Serv - Enviro Offset	7,200	-	(7,200)	522242 - Consult-Financial Advisory	173,991	71,014	(102,977)
Grand Total	1,075,384	1,640,000	564,616	522243 - Consult-Economic Services	81,732	-	(81,732)
				522251 - Consult-Env - Specialist research	-	51,281	51,281
APDD - GM	FY14A	FY15 Q1	Change	522365 - Consultancy - Legal Advice	61,746	1,571	(60,175)
522207 - Consultancy - Others	-	873,715	873,715	622311 - VC-Consultants - Engineering	184,682	120,632	(64,050)
522220 - Consultancy - Project Management	(270)	-	270	622312 - VC-Consultants - Operational	33,818	5,720	(28,098)
522236 - Consultancy - Communication	1,750	-	(1,750)	622313 - VC-Consultants - Management Systems	1,799	-	(1,799)
522238 - Consultancy - Strategy Planning	-	16,000	16,000	622314 - VC-Consultants - Safety	831	-	(831)
522240 - Consultancy - Economic & Regulatory	150,396	50,000	(100,396)	622317 - VC-Consultants - Auditors	15,461	-	(15,461)
Grand Total	151,876	939,715	787,839	622320 - VC-Consultants - Financial	59,528	(15,363)	(74,891)
				622321 - VC-Consultants - Admin	-	1,084,080	1,084,080
APDD - Water Quality and Environment	FY14A	FY15 Q1	Change	622331 - VC-IT Consultants	38,650	-	(38,650)
522207 - Consultancy - Others	82,916	1,414,300	1,331,384	Grand Total	2,318,770	3,968,603	1,649,833
522209 - Consultancy - Information Tech	28,235	-	(28,235)				
522210 - Consultancy - Water Quality	566,705	310,000	(256,705)	OPS Treated - Supply (Treated Water) Central	FY14A	FY15 Q1	Change
522258 - Consult-Env - Monitoring technologies	39,511	-	(39,511)	522209 - Consultancy - Information Tech	18,000	160,000	142,000
522270 - Consultancy - Environ Serv - Enviro Offset	49,700	-	(49,700)	522213 - Consultancy - Engineering	38,531	285,000	246,468
Grand Total	767,066	1,724,300	957,234	522214 - Consultancy – Process Improvement	11,500	15,000	3,500
				522219 - Consultancy – Asset Management Planning	-	23,000	23,000
CEO - External Relations	FY14A	FY15 Q1	Change	522220 - Consultancy - Project Management	28,035	60,000	31,965
522207 - Consultancy - Others	-	85,000	85,000	522236 - Consultancy - Communication	10,131	-	(10,131)
522208 - Consultancy - Human Resource	19,320	-	(19,320)	Grand Total	106,197	543,000	436,802
522236 - Consultancy - Communication	12,570	24,000	11,430				
Grand Total	31,890	109,000	77,110	SPT - Information and Communications Tech	FY14A	FY15 Q1	Change
				522207 - Consultancy - Others	11,700	-	(11,700)
Finance - Finance	FY14A	FY15 Q1	Change	522209 - Consultancy - Information Tech	1,651,327	3,796,350	2,145,023
522207 - Consultancy - Others	-	50,000	50,000	522214 - Consultancy – Process Improvement	38,429	20,000	(18,429)
522240 - Consultancy - Economic & Regulatory	87,223	-	(87,223)	522220 - Consultancy - Project Management	57,325	-	(57,325)
522242 - Consult-Financial Advisory	97,898	185,000	87,102	522238 - Consultancy - Strategy Planning	56,440	-	(56,440)
Grand Total	185,122	235,000	49,878	Grand Total	1,815,221	3,816,350	2,001,129
General Counsel - Governance Risk and Comp	FY14A	FY15 Q1	Change	WSSP - Water Policy, Strategy, Research and Inno	FY14A	FY15 Q1	Change
522207 - Consultancy - Others	217,551	400,000	182,449	522200 - Consultants	210,390	-	(210,390)
522238 - Consultancy - Strategy Planning	-	276,000	276,000	522207 - Consultancy - Others	138,976	1,965,797	1,826,821
522365 - Consultancy - Legal Advice	36,672	60,000	23,328	522210 - Consultancy - Water Quality	-	50,000	50,000
Grand Total	254,223	736,000	481,777	522213 - Consultancy - Engineering	15,429	109,602	94,173
				522217 - Consultancy – Natural Assets	-	27,804	27,804
General Counsel - Legal Services	FY14A	FY15 Q1	Change	522219 - Consultancy – Asset Management Planning	79,055	-	(79,055)
522207 - Consultancy - Others	-	136,000	136,000	522230 - Consult-Eng - Asset Management	-	55,000	55,000
Grand Total	-	136,000	136,000	522238 - Consultancy - Strategy Planning	119,122	-	(119,122)
				522240 - Consultancy - Economic & Regulatory	11,600	-	(11,600)
OPS Catch - Water Source Ops and Mgmt	FY14A	FY15 Q1	Change	522241 - Consult-Economic and Financial Modelling	-	85,000	85,000
522206 - Consultancy - Dam Safety Moni	86,036	790,000	703,964	522243 - Consult-Economic Services	9,120	-	(9,120)
522207 - Consultancy - Others	1,625	-	(1,625)	522244 - Consult-Benchmarking & Engineering Cost	-	40,000	40,000
522209 - Consultancy - Information Tech	-	75,000	75,000	522250 - Consult-Env-Integrated social, econ.	129,039	-	(129,039)
522211 - Consultancy - Safety	-	1,000	1,000	522251 - Consult-Env - Specialist research	77,000	-	(77,000)
522213 - Consultancy - Engineering	501,560	550,000	48,440	522253 - Consult-Env - Env. sustainability	-	30,000	30,000
522220 - Consultancy - Project Management	20,123	115,000	94,877	522254 - Consult-Env - Statistical advice	109,000	-	(109,000)
522255 - Consult-Env - Modelling and optimisation	-	100,000	100,000	522255 - Consult-Env - Modelling and optimisation	36,000	-	(36,000)
522256 - Consult-Env - Hazard Id. & risk ass	133,671	-	(133,671)	522257 - Consult-Env - Aquatic ecology	86,100	225,000	138,900
Grand Total	743,015	1,631,000	887,985	522259 - Consult-Env - Urban & regional planning	11,000	-	(11,000)
				522260 - Consult-Env - WTP technology	40,000	-	(40,000)
OPS Catch - GM	FY14A	FY15 Q1	Change	Grand Total	1,071,829	2,588,203	1,516,374
522207 - Consultancy - Others	5,980	-	(5,980)				
522211 - Consultancy - Safety	-	50,000	50,000				
522220 - Consultancy - Project Management	6,560	110,453	103,893				
522253 - Consult-Env - Env. sustainability	2,830	-	(2,830)				
Grand Total	15,370	160,453	145,083				

Summary

In addressing the QCA review findings some Teams have identified likely savings both in FY15 and beyond. In the interests of driving towards increasing cost efficiency these have been recommended by Seqwater (refer attachments for justifications and detailed explanations). Table 3 below (same structure as Table 1) displays the consolidated consulting cost forecast (including natural account 522207 – Consultancy – Others) for FY15 to FY17.

Memorandum



Table 3: Total and Other Consultancies FY14 actual and FY15-17 forecasts (\$ nominal)

\$ nominal	FY14A		FY15 Q1		Difference		FY15 Q1 latest		FY16		FY17	
	Total	522207- Consultancy- Others	Total	522207- Consultancy- Others	Total	522207- Consultancy- Others	Total	522207- Consultancy- Others	Total	522207- Consultancy- Others	Total	522207- Consultancy- Others
APDD	7,622,779	1,019,525	7,667,723	4,262,475	44,944	3,242,950	7,667,723	4,262,475	6,396,988	2,965,796	6,711,047	2,878,888
APDD - Asset Capability and Sustainability	1,075,384	53,415	1,640,000	1,640,000	564,616	1,586,585	1,640,000	1,640,000	1,317,125	1,317,125	1,189,000	1,189,000
APDD - Asset Planning	3,142,845	393,155	2,759,248	-	(383,597)	(393,155)	2,759,248	-	2,828,229	-	2,898,935	-
APDD - Engineering and Technical Support	113,402	42,400	604,460	334,460	491,058	292,060	604,460	334,460	878,134	342,821	1,215,275	351,392
APDD - GM	151,876	-	939,715	873,715	787,839	873,715	939,715	873,715	67,650	-	69,341	-
APDD - Program Delivery	2,372,205	447,640	-	-	(2,372,205)	(447,640)	-	-	-	-	-	-
APDD - Water Quality and Environment	767,066	82,916	1,724,300	1,414,300	957,234	1,331,384	1,724,300	1,414,300	1,305,850	1,305,850	1,338,496	1,338,496
CEO	12,025	10,561	109,000	85,000	96,975	74,439	109,000	85,000	111,725	87,125	114,518	89,303
CEO	(19,865)	10,561	-	-	19,865	(10,561)	-	-	-	-	-	-
CEO - External Relations	31,890	-	109,000	85,000	77,110	85,000	109,000	85,000	111,725	87,125	114,518	89,303
Finance	950,823	236,622	551,460	100,000	(399,363)	(136,622)	551,460	100,000	565,247	102,500	579,378	105,063
Finance - Finance	185,122	-	235,000	50,000	49,878	50,000	235,000	50,000	240,875	51,250	246,897	52,531
Finance - GM	66,006	-	45,000	-	(21,006)	-	45,000	-	46,125	-	47,278	-
Finance - Procurement	406,124	174,000	-	-	(406,124)	(174,000)	-	-	-	-	-	-
Finance - Property and Facilities	293,571	62,622	271,460	50,000	(22,111)	(12,622)	271,460	50,000	278,247	51,250	285,203	52,531
General Counsel	391,677	355,005	912,000	576,000	520,322	220,995	852,000	576,000	592,000	316,000	606,800	323,900
General Counsel - GM	137,455	137,455	40,000	40,000	(97,455)	(97,455)	40,000	40,000	41,000	41,000	42,025	42,025
General Counsel - Governance Risk and Comp	254,223	217,551	736,000	400,000	481,777	182,449	676,000	400,000	476,000	200,000	487,900	205,000
General Counsel - Legal Services	-	-	136,000	136,000	136,000	136,000	136,000	136,000	75,000	75,000	76,875	76,875
OPS - Catchment	1,032,001	7,605	1,941,453	-	909,452	(7,605)	1,781,000	-	1,825,525	-	938,224	1,707
OPS Catch - Water Source Operations and mgmt	743,015	1,625	1,631,000	-	887,985	(1,625)	1,631,000	-	1,671,775	-	780,630	1,707
OPS Catch - GM	15,370	5,980	160,453	-	145,083	(5,980)	-	-	-	-	-	-
OPS Catch - Recreation and catchment services	273,617	-	150,000	-	(123,617)	-	150,000	-	153,750	-	157,594	-
OPS - Treated	2,745,470	312,730	4,721,803	114,745	1,976,333	(197,985)	4,721,803	114,745	2,157,410	263,220	2,263,876	265,957
OPS Treated - Asset Maintenance	125,165	-	122,200	28,800	(2,965)	28,800	122,200	28,800	125,255	29,520	128,386	30,258
OPS Treated - Business Systems and Support	177,841	153,991	78,000	78,000	(99,841)	(75,991)	78,000	78,000	79,950	79,950	81,949	81,949
OPS Treated - GM	1,750	-	-	-	(1,750)	-	-	-	-	-	-	-
OPS Treated - Operational and Contractual Perfm	2,318,770	158,739	3,968,603	7,945	1,649,833	(150,794)	3,968,603	7,945	1,788,205	-	1,832,910	-
OPS Treated - Supply (Treated Water) - North	16,596	-	10,000	-	(6,596)	-	10,000	-	10,250	-	10,506	-
OPS Treated - Supply (Treated Water) - South	(850)	-	-	-	850	-	-	-	-	-	-	-
OPS Treated - Supply (Treated Water) Central	106,197	-	543,000	-	436,802	-	543,000	-	153,750	153,750	210,125	153,750
SPT	4,112,527	57,623	5,221,350	75,000	1,108,823	17,377	5,221,350	75,000	7,188,305	76,875	6,059,508	78,797
SPT - Brand, Strategy and Community	503,462	-	115,000	-	(388,462)	-	115,000	-	117,875	-	120,822	-
SPT - GM	32,095	-	-	-	(32,095)	-	-	-	-	-	-	-
SPT - Information and Communications Technology	1,815,221	11,700	3,816,350	-	2,001,129	(11,700)	3,816,350	-	5,748,180	-	4,583,380	-
SPT - People and Culture	567,067	28,848	515,000	60,000	(52,067)	31,152	515,000	60,000	527,875	61,500	541,072	63,038
SPT - Workplace Health and Safety	1,194,682	17,075	775,000	15,000	(419,682)	(2,075)	775,000	15,000	794,375	15,375	814,234	15,759
WSSP	2,147,524	257,130	2,707,477	2,015,797	559,953	1,758,667	2,627,477	1,935,797	2,693,164	1,984,192	2,760,493	2,033,797
WSSP - Regulatory and Investment Governance	269,584	-	119,274	50,000	(150,310)	50,000	119,274	50,000	122,256	51,250	125,312	52,531
WSSP - Water Policy, Strategy, Research and Inv	1,071,829	138,976	2,588,203	1,965,797	1,516,374	1,826,821	2,508,203	1,885,797	2,570,908	1,932,942	2,635,181	1,981,265
WSSP - Water Supply Planning	806,111	118,154	-	-	(806,111)	(118,154)	-	-	-	-	-	-
Total	19,014,827	2,256,801	23,832,265	7,229,017	4,817,439	4,972,215	23,531,812	7,149,017	21,530,363	5,795,708	20,033,845	5,777,411

Variance summary (\$ nominal)	FY15 Q1 latest		FY16		FY17	
	Total	522207- Consultancy- Others	Total	522207- Consultancy- Others	Total	522207- Consultancy- Others
FY15 latest vs FY15 Q1	(300,453)	(80,000)	-	-	-	-
Based on FY14 actual	4,516,986	4,892,215	2,515,537	3,538,907	1,019,018	3,520,610
Year on year	4,516,986	4,892,215	(2,001,449)	(1,353,309)	(1,496,519)	(18,296)

Memorandum

Seqwater has identified a \$300k reduction in total spend from the FY15 Q1 forecast, including \$80k for natural account 522207 – Consultancy – Others. Compared to FY14 actual expenditure there is a \$4.5M increase into FY15 (\$4.9M for natural account 522207 – Consultancy – Others), however this is forecast to decline by \$2.0M into FY16 (including \$1.4M for natural account 522207 – Consultancy – Others), to a level only slightly above FY14 actual expenditure. Total consultancy costs are forecast to reduce by a further \$1.5M in FY17, and are then in real terms on a comparable basis with the FY14 actual expenditure level. This is despite increased costs arising from Government’s directive to transition the ICT function to a SaaS delivery model and Government –initiated studies arising from the Floods Commission in Inquiry. Expenditure under natural account 522207 – Consultancy – Others mirrors this trend, however while forecast and actual expenditure under individual natural account codes will vary over time as the nature of spend evolves, the total consulting spend must be addressed to enable a rigorous prudence and efficiency assessment. Seqwater will as a part of ongoing efficiency drives continue to optimize consulting expenditure.