

Delivery model

Key takeaways

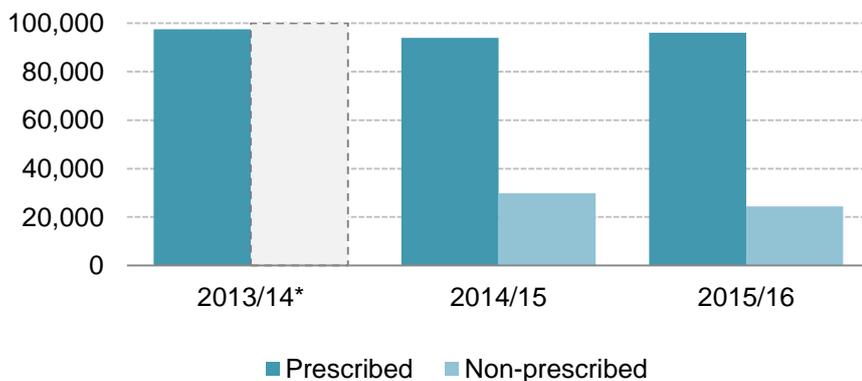
- A review in 2013 established an operating expenditure savings target of \$20 million per year by 2018
- Annual savings of \$12.9 million have been achieved, leaving \$7.1 million remaining
- Opportunities may exist in reconsidering our approach to use of contractors and the locations of our offices

Context

From 2009 through to 2011, GMW's expenditure was exceeding revenue. It was recognised that this was not sustainable and increasing prices to cover the spending was not an option. While significant inroads have been made to reduce operating costs, meeting the service needs of our customers at the lowest possible cost will remain a challenge for GMW in the long term.

Facts and figures

Operating costs (\$000s)

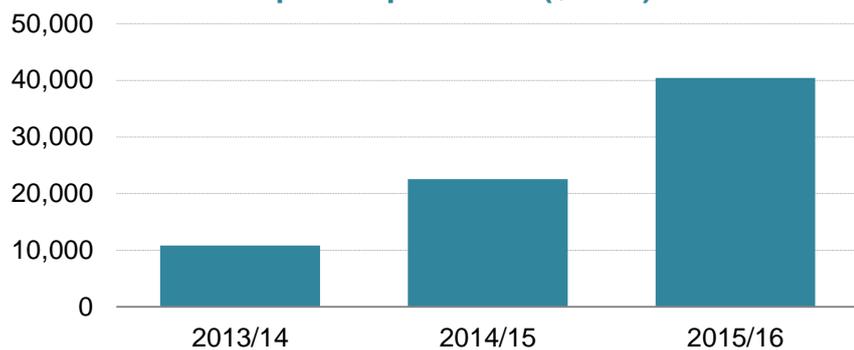


Takeaways

- Operating, maintenance and administration costs are down by about \$9 million since 2013/14
- Costs for non-prescribed services decreased by about \$5 million from 2014/15 to 2015/16

* Data not available
 Prescribed costs reflect direct costs only and do not include allocations for corporate overheads, depreciation and interest.
 Source: GMW regulatory reporting, GMW internal reporting

Capital expenditure (\$'000s)

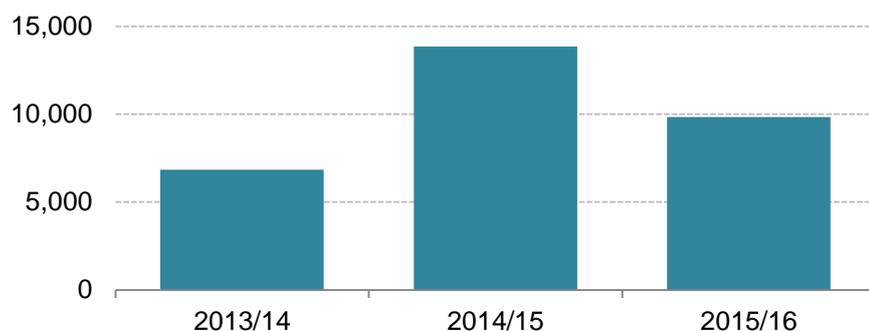


Source: GMW regulatory reporting

Takeaways

- Capital investment in water supply and delivery growing rapidly at 77 per cent per annum
- Figures are heavily influenced by modernisation and the impact of the Connections Project

Operating expenditure variances against water plan (\$'000s)



Source: GMW regulatory reporting

Takeaways

- Underspent on operating expenditure in all three years to a cumulative value of greater than \$30 million
- Savings have been re-invested in our system (see increases in capital investment above)

Staff location distribution (As at 2017 February)

Location	Customer Operations	Corporate Services	Finance	Connections Project	Other	Location type
Buffalo	1					Storage
Cairn Curran	6					Storage
Cobram	31			2		Regional office & depot
Cohuna	5					Depot
Dartmouth	8					Storage
Eildon	11					Storage
Eppalock	5					Storage
Goulburn Weir	3					Storage
Hume	5					Storage
Kerang	37			6		Regional office & depot
Kyabram	32			2		Regional office & depot
Mildura	4					Storage
Pyramid Hill	21			4		Regional office & depot
Rochester	32			4		Regional office & depot
Shepparton	34	1		2		Regional office & depot
Swan Hill	8					Depot

Tatura	239	100	37	96	44	Regional office & depot
Torrumbarry Weir	3					Storage
Wangaratta	12	2				Regional office
Waranga Basin	3					Storage
Yarrawonga Weir	4					Storage

Source: GMW internal data

How we're already responding

In 2013 an annual savings target of \$20 million by 30 June 2018 was established. As at December 2016, annual savings of \$12.9 million had been reached, leaving \$7.1 million remaining to reach the \$20 million target. However, forecast expenditure for 2016/17 is about \$1.4 million higher than budgeted, meaning more than \$7 million in savings are needed to meet the 30 June 2018 target.

When reviewing GMW's 2016-2020 pricing submission, the Essential Services Commission (ESC) recognised the cost reductions made to date and noted GMW's planned \$20 million in savings. The ESC built the planned savings into revenue forecasts, giving the benefit to customers through lower up-front prices. GMW must now meet these savings over the current pricing period (2016 – 2020).

GMW has been targeting costs in a number of areas, including:

- Labour
- Contracts and services
- Vehicles
- Operations

Labour

GMW turns over about 60 to 70 jobs annually through retirements, family relocations, career opportunities or other normal events. The total value of this turnover is about \$5 million. When a position becomes vacant, managers must determine the criticality of the position from a customer service and delivery perspective and then consider the following before refilling:

- Defer temporarily or remove
- Redeploy staff from other areas
- Replace at a lower band (pay rate)
- Replace with a part time resource
- Replace with assistance of new external funding support

Contracts and services

GMW spends about \$40 million each year on materials, contracts and services. GMW has been pursuing savings through improved procurement practices. Some of this work will occur during the longer term; in the short term, GMW is focused on ensuring contract specifications do not exceed the minimum requirements and are subject to competitive tendering.

Fleet

Following a recent review of GMW fleet, about \$500,000 of vehicle costs were removed in 2016/17. Additional savings are being targeted through measures such as:

- Minimising travel
- Maximising fuel tax credits for off road use
- Optimising the use of shared vehicles