IT Plan Review Summary Report

8 August 2019
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FINAL
Important Notice

This report is delivered subject to the agreed written terms of KPMG’s engagement.

This report provides a summary of KPMG’s findings during the course of the work undertaken for SA Water under the terms your Letter of Acceptance dated 5 March 2019. The contents of this letter do not represent our conclusive findings, which will only be contained in our final detailed report.

This summary report is provided solely for the benefit of the parties identified in the engagement letter and is not to be copied, quoted or referred to in whole or in part without KPMG’s prior written consent. KPMG accepts no responsibility to anyone other than the parties identified in the engagement letter/contract for the information contained in this report.

KPMG consents to the provision of this summary report as a public document to ESCOSA as part of SA Water’s 2020 regulatory submission – Our Plan 2020.
Findings

SA Water’s IT plan is consistent with its criteria that defines prudence and efficiency.

Scope of work
SA Water engaged KPMG to assess the prudence and efficiency of expenditure related to its IT Plan for the 2020-24 regulatory period.

To support this assessment, SA Water defined a set of criteria that reflected its understanding of ESCOSA’s regulatory requirements, regulatory good practice and requirements identified in SA Water Regulatory Determination 2020: Guidance Paper 4 (prudent and efficient expenditure) (Guidance Paper).

Our approach
To support this review KPMG assessed:

• current capex over the period 1 July 2013 to 30 June 2020, and SA Water’s achievement of the deliverables it committed to;
• proposed capex and related opex for 2020-24 and ability to deliver the stated objectives;
• SA Water’s capital prioritisation methodology and decision making principles to determine the appropriateness of the plan and ability to deliver as proposed; and
• SA Water’s IT spend against other comparable Australian water utilities, in the context of its digital capability maturity.

To support our analysis and findings, KPMG has interviewed relevant SA Water stakeholders, gathered and reviewed its supporting business cases and cost estimates, and considered benchmarking analysis and anecdotal evidence on current trends regarding digital transformation in the utilities sector.

Key Findings
SA Water has provided adequate evidence to support the prudence and efficiency of its IT Plan. The basis for this is:

• Current expenditure is $6.6 million less than the allowance set by ESCOSA, with all variances appropriately evidenced;
• SA Water has established a capital planning and governance framework that is consistent with good practice;
• SA Water has demonstrated consistent and appropriate application of this framework to capital planning and delivery;
• SA Water’s IT Plan is considered prudent by the Customer Negotiation Committee;
• Drivers supporting the expenditure need (i.e. aging assets and maintaining current service levels) are clearly described;
• Cost estimates are supported by robust evidence;
• Evidence of an appropriate scope of work;
• Detailed supporting justification documentation; and
• Benchmarking analysis demonstrates that SA Water’s IT expenditure has historically been consistent with comparable benchmark entities.

SA Water’s increasing trend in IT expenditure aligns with anecdotal evidence of increasing IT expenditure to deliver better access to information, digitisation of services, ease of communication with customers and stakeholders, increasing need for better cyber security and better workforce mobility.

SA Water’s aspirations for improvement in its digital capability maturity aligns with that of a mature customer centric utility and its IT Plan supports these aspirations.

There is still a level of uncertainty regarding the timing of expenditure, and the projects that will be delivered towards the end of the regulatory period. This is not unusual, given the short lived nature of assets, the rapidly evolving environment for IT needs and the need to be flexible to the latest market movements. As such, it would often be inappropriate to commit to technology investment five years in advance.

We also note that SA Water is yet to complete options analysis for projects that are still early in the gateway process. Given evidence of the application of its good practice capital planning and governance framework, there is no reason to doubt that robust options analysis will not be completed, prior to committing to the technical solution and budget. We recommend that evidence of options analysis be provided to ESCOSA as part of its ex-post capex review, to support the 2024 price review.
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