

**From:** McGahan, Peter [mailto:Peter.Mcgahan@sunwater.com.au]  
**Sent:** Thursday, 22 March 2012 3:22 PM  
**To:** Les Godfrey  
**Cc:** Allan, Matthew  
**Subject:** RE: QCA - adjustment to overheads

Les,

We just applied the lower rate, and in hindsight this was our error. However the Authority cannot apply its adjustments without first offsetting against the under recovery, as to do so will establish costs targets that are well below the efficient level.

Regards  
Peter

**From:** Les Godfrey [mailto:les.godfrey@qca.org.au]  
**Sent:** Thursday, 22 March 2012 9:34 AM  
**To:** McGahan, Peter  
**Cc:** Angus MacDonald; Ralph Donnet  
**Subject:** RE: QCA - adjustment to overheads

Peter,

In your email on this dated 15 March last (attached), you advised that:

The explanation for running an under-recovery in Deloitte's report has an element of truth to it, but it is undermined by further investigation. Yes, SunWater acknowledges it performs feasibility studies for projects that may never proceed. However, these studies are performed by the Business Development group and these costs are quarantined from the Brisbane and Local Overhead allocation in the SFM. This is shown in the attached extract from the 610.07 SFM. The simple case is that SunWater had forecast non-direct costs with an under-recovery due to the applied rate being lower than the calculated rate.

If the estimated under-recovery is not based on the advice provided by Deloitte, could you please provide details of how the overhead loading rates actually applied are calculated. That is, on what basis is the applied rate lower than the calculated rate, and what is the nature of anticipated efficiencies included in the calculation of the applied rate. Without this information, it is difficult to assess your argument for offsetting the Authority's efficiency adjustments against the unrecovered portion of non-direct costs.

Regards,

Les

**From:** McGahan, Peter [mailto:Peter.Mcgahan@sunwater.com.au]  
**Sent:** Tuesday, 20 March 2012 1:40 PM  
**To:** Angus MacDonald; Les Godfrey  
**Cc:** Allan, Matthew; Wishart, Paul; Esson, Keith  
**Subject:** FW: QCA - adjustment to overheads

Angus and Les,

Keith has provided a very important example of how any non-direct efficiency adjustments need to be made. If adjustments are not made through the non-direct costs pools in the

manner shown by Keith, so as to reduce the under-recovery first, then the QCA will set SunWater up to fail by establishing cost targets that are below efficient cost.

For your consideration please.

Peter

**From:** Esson, Keith  
**Sent:** Tuesday, 20 March 2012 12:19 PM  
**To:** McGahan, Peter  
**Cc:** Wishart, Paul  
**Subject:** QCA - adjustment to overheads

Peter,

The QCA, on the basis of the Deloitte "*SunWater Admin cost Review Phase 2*" report have identified an adjustment to resource centre costs.

The breakdown of the non-direct cost adjustment adopted by the QCA is as follows:-

Finance	\$129,757
ICT	\$76,893
HR	\$144,175
HSEQ	\$144,175
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Total	\$495,000
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SunWater does not believe that it is correct to make the above adjustment:-

- Deloitte report page 16 – "...case study and benchmarking exercises highlight possible areas of efficiency improvement, however they are **indicative only**"
- Deloitte report page 19 – streamline MAE's have an accuracy of +- **10 to 20%**
- Deloitte report page 21 – potential FTE saving of 61.15 to 7.15 on a base of 178.4. This is a saving of between 3 and 4 % which should be considered in the light of the bullet points above.

Notwithstanding SunWater's view is that no adjustment is justified, the adjustment adopted by the QCA has been run through the SunWater Financial Model (SFM). This was done to establish the correct method of adjusting overheads in the hope that this correct method is applied by the QCA for any other adjustments adopted by the QCA.

The result of this is:-

- To reduce the amount of the under-recovery of local and Brisbane over heads.
- Zero change to service contracts because the calculated over head rates remain above the applied over head rates.

**SUNWATER LIMITED**  
**ANNUAL FINANCIAL MODEL**  
**OVERHEAD COST RECOVERY RATE**

			Version 610.07					Version 610.09				
			2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
<b>Overhead cost recovery rates - % of costed labour</b>												
<b>Calculated rates</b>												
Local overhead	%		63.76	63.61	64.24	63.96	65.02	63.56	63.40	64.03	63.75	64.80
Brisbane overhead	%		40.30	41.75	42.31	39.68	39.96	39.04	40.48	41.03	38.40	38.64
	%		104.06	105.36	106.55	103.64	104.98	102.60	103.88	105.06	102.15	103.44
<b>Rates applied in model</b>												
Local overhead	%		60.32	60.19	60.23	59.93	60.93	60.32	60.19	60.23	59.93	60.93
Brisbane overhead	%		37.65	39.00	39.19	36.79	36.98	37.65	39.00	39.19	36.79	36.98
	%		97.97	99.19	99.42	96.72	97.91	97.97	99.19	99.42	96.72	97.91
<b>Difference - Over (under) recovery</b>												
Local overhead	%		(3.44)	(3.42)	(4.01)	(4.03)	(4.09)	(3.24)	(3.21)	(3.80)	(3.82)	(3.87)
Brisbane overhead	%		(2.65)	(2.75)	(3.12)	(2.89)	(2.98)	(1.39)	(1.48)	(1.84)	(1.61)	(1.66)
	%		(6.09)	(6.17)	(7.13)	(6.92)	(7.07)	(4.63)	(4.69)	(5.64)	(5.43)	(5.53)
<b>Under (over) recovery</b>												
<b>Local overhead</b>												
Overhead cost pools total	Nominal \$	\$000	22,509	22,914	23,535	24,059	24,213	22,437	22,838	23,455	23,980	24,133
Recovered using applied labour based rate	Nominal \$	\$000	(21,294)	(21,681)	(22,064)	(22,542)	(22,691)	(21,294)	(21,681)	(22,064)	(22,542)	(22,691)
(Over) under recovery	Nominal \$	\$000	1,216	1,232	1,470	1,517	1,522	1,143	1,157	1,391	1,438	1,442
<b>Brisbane overhead</b>												
Overhead cost pools total	Nominal \$	\$000	17,596	18,333	18,849	18,417	18,688	17,149	17,876	18,382	17,935	18,194
Recovery - ICT desktop and Network charges	Nominal \$	\$000	(1,959)	(2,008)	(2,059)	(2,110)	(2,163)	(1,959)	(2,008)	(2,059)	(2,110)	(2,163)
Recovery - based on non labour costs excluding electricity	Nominal \$	\$000	(1,409)	(1,287)	(1,292)	(1,380)	(1,643)	(1,409)	(1,287)	(1,292)	(1,380)	(1,643)
Recovery - based on labour costs	Nominal \$	\$000	14,227	15,038	15,498	14,927	14,882	13,780	14,580	15,031	14,445	14,388
Recovered using applied labour based rate	Nominal \$	\$000	(13,291)	(14,048)	(14,357)	(13,838)	(13,772)	(13,291)	(14,048)	(14,357)	(13,838)	(13,772)
(Over) under recovery	Nominal \$	\$000	936	989	1,141	1,088	1,110	489	532	675	607	617
Total - (Over) under recovery	Nominal \$	\$000	2,152	2,222	2,612	2,605	2,633	1,632	1,689	2,065	2,045	2,059

The attached file provides more detail on the impact of the QCA adjustment.

Regards,

[Keith Esson](#)

Contractor - SunWater Financial Model

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