UTILITIES REGULATION ADVISORY

Urban Utilities Price Monitoring 2026-30

Consultants Expenditure Review – Phase 1

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Acknowledgment of country

We acknowledge that this report was authored on the traditional ancestral lands of the Wurundjeri and Bunurong peoples. We acknowledge the deep feelings of attachment and relationship of the Wurundjeri and Bunurong peoples to these lands and their ongoing custodianship.

We also acknowledge the traditional responsibility of the Aboriginal and Torres Strait Islander Peoples for the land and waters of South East Queensland and their contribution to the South East Queensland community.

Contents

Summary of Findings

The Queensland Competition Authority (QCA) has engaged Utilities Regulation Advisory (URA) to support its assessment of Urban Utilities (UU) and Unitywater expenditure submissions for Phase 1 of the South East Queensland Distributor-Retailer Price Monitoring Review 2026–30 (PM26). URA's engagement comprises a desktop review of the businesses' governance frameworks and productivity and efficiency arrangements, with the findings intended to inform the QCA's Interim Report to the Minister, due in late May 2026. A subsequent Phase 2 may consider expenditure prudency and efficiency in more detail.

S.1 Scope of the Phase 1 expenditure review

The Phase 1 review covers three separate, but interrelated workstreams:

- The governance workstream reviews policies, procedures and oversight arrangements guiding the planning, procurement and delivery of capital infrastructure, and asset management decisions. It assesses alignment with good industry practice, the effectiveness of oversight and expenditure control, and whether the frameworks support efficient investment decisions.
- The operating cost forecasting workstream assesses the structure, assumptions and governance supporting expenditure forecasts to determine whether methodologies are robust and consistent with industry practice.
- The productivity and efficiency workstream evaluates proposed initiatives and efficiency targets intended to reduce capital and operating costs from FY2026-27, including the credibility of delivery plans and consistency of application.

S.2 Assessment process to date

The work undertaken to date includes:

- Detailed review of UU submissions and their accompanying evidentiary base, to understand the outcomes the businesses are seeking to deliver, service levels and expenditure required to deliver these needs.
- The issuance of requests for information (RFIs):
  - RFI 1 (23 October 2025) - which focused primarily on capital planning, processes and governance.
  - RFI 2 (1 December 2025) - which focused on operating expenditure forecasting and efficiency and productivity initiatives.
  - RFI 3 (25 February 2026) – which focused on follow up queries resulting from the UU interviews.
- Method workshops – URA facilitated targeted workshops with UU that outlined our assessment approach. This included outlining the overarching approach and assessment criteria and identifying the potential internal participants from UU. The workshop was intended to allow UU to understand our information requirements and to effectively participate in the subsequent interviews.
- Interviews were conducted with UU (10 and 11 February). The interview workshops provided UU an opportunity to present its submission and important contextual information to the assessment team. The interviews were also an opportunity for URA to test its understanding of the submission with UU.

- The provision of a briefing memo on our Preliminary Findings to the QCA on 27 February. The briefing memo outlined our initial assessment positions on the criteria and evaluation questions outlined in our method workshops and interview packs.
- The provision of a draft report to the QCA on 28 March 2026.
- The provision of a final report to the QCA on 17 April 2026.

This summary provides an overview of our findings across the Phase 1 workstreams for the South East Queensland Distributor-Retailer Price Monitoring Review 2026–30 and highlights the key observations and assessment outcomes arising from the review completed to date.

The detailed scope of work, assessment approach and supporting analysis for each workstream are set out in the relevant chapters of this report:

- Chapter 2 addresses capital governance, policy and procedures.
- Chapter 3 addresses operating expenditure forecasting.
- Chapter 4 addresses productivity improvement and efficiency measures.

The broader context for the review, including the terms of URA's engagement, the scope of the assessment and the analytical framework applied across the report, is set out in Chapter 1.

S.3 Capital governance, policy and procedures findings

UU has a mature system in place for managing capital infrastructure with robust frameworks and processes covering the asset lifecycle. There is a robust system for governance across the lifecycle with clearly defined gateways and decision points. Some elements of the implementation of the systems and processes could not be fully examined, however these elements will be fully examined in Phase 2 of the overall review process.

Overall, UU's governance policy and procedures for capital infrastructure are consistent with good practice. The table below summarises URA's assessment of UU against each assessment criterion applied in this review. The detailed criteria are set out in section 2.2.3 and the detailed assessment against the criteria is set out in section 2.5.

Table 1: Capital governance, policy and procedure assessment against criteria

Criterion	Summary of criteria findings
System maturity and continuous improvement	No material gaps have been identified.
Monitoring and reporting on progress	No material gaps have been identified.
Stakeholder consultation and accountability	No material gaps have been identified.
Decision-making systems and integration	No material gaps have been identified.
Application of decision-making framework and prioritisation	No material gaps have been identified.
Investment decision-making	No material gaps have been identified.
Implementation and effectiveness in practice	No material gaps have been identified.

S.4 Operating expenditure forecasting findings

UU's proposed forecasting framework represents a transition from an annual budgeting process toward a multi-year BST method. The method is still under development, and our observations reflect the approach as presented to date. These findings and any subsequent findings in the final report will need to be revisited in phase 2 considering UU's final method. At a high level, the approach is directionally consistent with regulatory good practice; however, several elements may require refinement to ensure the forecasts are internally consistent, transparent and appropriate for review within a price monitoring framework.

No material gaps have been identified in UU forecasting governance. The forecasting governance framework is mature, integrated and operating in practice, providing a sound basis for the development, review and oversight of the opex forecast

The table below summarises URA's assessment of UU against each assessment criterion applied in this review. The detailed criteria are set out in section 3.2.3 and the detailed assessment against the criteria is set out in section 3.6. We note that UU's forecasting method is in development and our Phase 1 assessment has not been able to extend to independent verification of implementation examples.

Table 2: Opex forecasting assessment against criteria

Criterion	Summary of criteria findings
Method and structure	It is recommended that UU formalise its multi-year BST forecasting method, including clear treatment of how its annual pass-through mechanism will operate within a multi-year forecast framework.
Data integrity and assumptions	No material gaps have been identified.
Link to cost and service drivers	No material gaps have been identified.
Alignment with regulatory guidance	No material gaps have been identified.
Integration expenditure business planning and delivery	No material gaps have been identified.
Risk and uncertainty management	No material gaps have been identified.
Historical performance and trend analysis	No material gaps have been identified.
Benchmarking and validation	No material gaps have been identified.
Continuous improvement and learning	No material gaps have been identified.
Forecasting governance and accountability	No material gaps have been identified.

S.5 Productivity improvement and efficiency measures findings

Based on our review of UU's Submission and supporting documentation (provided to date), UU has presented an established process to support the identification and delivery of productivity and efficiency improvements. The framework described does not raise material concerns in relation to its processes or procedures. From these descriptions, it appears that productivity and efficiency have been robustly embedded within its broader strategic and operational planning frameworks, ensuring that improvements are measurable, linked to service outcomes and long-term sustainability.

The table below summarises URA's assessment of UU against each assessment criterion applied in this review. The detailed criteria are set out in section 4.2.3 and the detailed assessment against the criteria is set out in section 4.5.

Table 3: Productivity improvement and efficiency criteria assessment

Criterion	Summary of criteria findings
Strategic intent	No material gaps have been identified.
Governance and accountability	No material gaps have been identified.
Integration with expenditure planning	We note that the iterative BST approach adopted to identify the size of the efficiency savings envelope potentially distorts the level of efficiency achievable by UU as it is driven by a benchmarked efficiency target. We recommend that UU consider amending its approach such that the efficiencies identified in the bottom up efficiency forecasts reflect the full range of achievable efficiencies and are used to inform its BST efficiency factor rather than the other way around.
Measurement and tracking	No material gaps have been identified.
Demonstrated outcomes	No material gaps have been identified.

1. Introduction

1.1. Overview of the PM26 Phase 1 review

1.1.1. Terms of URA's engagement

On 24 September 2025, the Acting Minister for Finance, Trade, Employment and Training issued the QCA with a referral notice under section 23A of the *Queensland Competition Authority Act 1997*. The referral requires the QCA to undertake a price monitoring investigation into the declared monopoly business activities of UU.

The referral is structured in two parts:

- Phase 1 requires the QCA to provide an interim report on forecast total revenues for 2026–27 and related matters. This stage is focused on governance, policies, procedures and productivity and efficiency initiatives relevant to cost control. The interim report is due to the Minister by 29 May 2026.
- Phase 2 requires the QCA to undertake a more detailed review of forecast costs and revenues for the period 2027–28 to 2029–30. This stage includes assessment of the prudency and efficiency of operating and capital expenditure, demand forecasts, rates of return and other relevant matters. The QCA is required to provide draft findings by 24 December 2026 and final findings by 30 April 2027.

URA has been engaged by the QCA to support its Phase 1 review of UU. URA's role is to provide an independent assessment of the reasonableness and robustness of the business's governance frameworks, policies and procedures. URA is also engaged to review the business's proposed productivity initiatives and efficiency measures, and to comment on the reasonableness of their key cost forecasting approaches.

The Phase 1 engagement is a desktop review. It examines the governance arrangements, policies and procedures that support planning, procurement, delivery and oversight of expenditure and investment. This includes relevant corporate, asset management, risk management, procurement and project governance material.

As part of this work, URA has been asked to form a view on whether UU frameworks and practices are consistent with good industry practice. The review also considers whether they provide appropriate oversight, challenge and control over expenditure and decision making, and whether they are likely to support efficient expenditure outcomes if applied appropriately and consistently.

Where relevant, URA's engagement also includes identifying gaps, potential improvements and matters that may warrant further investigation in Phase 2. The detailed testing of whether these arrangements are applied consistently in practice is primarily a matter for the later stage of the QCA's review. The purpose of URA's advice is to assist the QCA in preparing its reports to the Minister within the timeframes set by the referral notice.

1.1.2. Qualifications on the findings

Matters identified as potential gaps or areas for improvement may warrant further examination in Phase 2 of the review which includes a detailed prudency and efficiency review.

1.2. Our analytical framework

1.2.1. Key evaluation questions

The following questions guide our assessment across governance arrangements, cost forecasting approaches, and productivity and efficiency frameworks within UU. The review is intended to evaluate whether existing policies, procedures and forecasting methods provide a sound and defensible basis for decision making, expenditure oversight and regulatory scrutiny, and whether the productivity and efficiency frameworks support the delivery of efficient investment outcomes consistent with recognised industry practice.

This assessment is based on information provided to date and remains subject to refinement as further material is reviewed and additional information is received. The evaluation criteria applied at this stage are consistent with the analytical structure of our report and focus on the extent to which current practices demonstrate robustness, coherence and alignment with recognised good practice, and provide a clear and credible foundation for delivering efficiency outcomes.

Our analysis has been guided by the following evaluation questions:

Capital governance, policies and procedures

1. *Are governance policies and procedures robust and consistent with good industry practice?*
2. *Do governance policies and procedures provide appropriate review of expenditures and decision making throughout the planning and delivery process?*
3. *Are governance policies and procedures likely to result in efficient expenditure and investment decisions if applied appropriately and consistently?*

Operating cost forecasting approaches

1. *Does the method demonstrate a reliable track record, producing forecasts that align with actual outcomes over time?*
2. *Is the method logically sound, with assumptions and reasoning that withstand scrutiny?*
3. *Does the method exhibit mathematical integrity?*
4. *Does the method align with recognised industry practice?*
5. *Is the method internally consistent, with inputs, assumptions and outputs working together coherently?*

Productivity improvement and efficiency measures

1. *What is the business's strategic intent for its productivity and efficiency frameworks, and how clearly is that intent articulated and understood?*
2. *How robust are the governance and accountability arrangements that support these frameworks?*
3. *How well are the frameworks integrated into opex and capex planning, decision-making and ongoing management?*
4. *How effective are the processes for monitoring, measuring and reporting productivity and efficiency?*
5. *To what extent does the business consider, verify and learn from demonstrated productivity and efficiency outcomes?*

1.2.2. Addressing the key evaluation questions

The analysis has been structured to address each of the key evaluation questions by testing the current arrangements against recognised good practice, assessing their robustness and defensibility, and identifying areas where improvement may be warranted.

The method we have adopted for this report aligns with our analytical structure and is based on the information provided to date. In undertaking this review, we recognise the practical challenges associated with evidencing forecasting accuracy and efficiency outcomes across multiple expenditure streams and have sought to develop a comprehensive understanding of current practices and supporting processes.

Capital governance policies and procedures

The assessment of governance arrangements focuses on whether existing policies and procedures provide a sound framework for decision making, support effective oversight of expenditure, and promote efficient investment outcomes. The assessment has been undertaken through the following steps:

- Critical review against the assessment criteria.
- Gap analysis to identify key gaps against good practice.
- Recommendations to address identified gaps.

Operating cost forecasting approaches

The review of cost forecasting approaches examines whether current methods provide a reliable and defensible basis for expenditure planning and regulatory scrutiny. The assessment recognises the challenges in developing evidentiary support for forecasts and focuses on the robustness, coherence and regulatory alignment of forecasting practices.

The assessment has been undertaken through the following elements:

- Developing a comprehensive understanding of current forecasting practices and supporting evidence.
- Critical review against the assessment criteria.
- Comparison of forecasting approaches against recognised good industry practice.
- Assessment of alignment between forecast methodologies and relevant QCA guidance.
- Gap analysis to identify key gaps relative to good practice.
- Recommendations to address identified gaps.

Productivity and efficiency frameworks

The efficiency workstream considers whether the business has a clear strategic intent for productivity and efficiency, and whether its governance, planning, monitoring and learning processes support the delivery of sustainable efficiency improvements over time.

This includes recognising the challenges in evidencing efficiency outcomes across diverse expenditure areas and ensuring a comprehensive understanding of current practices and performance measures. The assessment has been undertaken through the following elements:

- Developing an understanding of current efficiency frameworks, practices and performance measures.
- Critical review against the assessment criteria.
- Gap analysis to identify key gaps against recognised good practice.
- Recommendations to address identified gaps.

1.3. Structure of this Report

This Report is structured in four main parts. It begins with a summary section that outlines URA's approach and presents the findings across the three assessment streams: governance, policy and procedures; operating expenditure forecasting; and productivity improvement and efficiency measures.

- Summary. Provides an overview of URA's approach and a summary of the findings across the three assessment streams.
- Chapter 1: Introduction. Sets out the context for the PM26 Phase 1 review, the terms of URA's engagement, the scope of the assessment, the process undertaken to date and the analytical framework applied in the review.
- Chapter 2: Capital governance, policy and procedures. Presents URA's assessment of UU governance arrangements, policies and procedures relevant to expenditure planning, decision making and oversight.
- Chapter 3: Operating expenditure forecasting. Presents URA's assessment of UU expenditure forecasting approaches, including forecast method, governance and performance against good practice criteria.
- Chapter 4: Productivity improvement and efficiency measures. Presents URA's assessment of UU's productivity and efficiency framework, including strategic intent, governance, integration, measurement and improvement.

2. Capital governance, policy and procedures

2.1. Introduction

Assessing whether a business has strong capital governance arrangements, policies and procedures is fundamental to ensuring that business is able make investment, expenditure and asset management decisions that deliver prudent and efficient capital expenditure. These frameworks establish how decisions are made, challenged and approved, providing assurance that expenditure is justified by need, supported by evidence and aligned with long-term service objectives. They also ensure accountability by defining clear roles, responsibilities and escalation pathways within each organisation.

For the QCA, effective capital governance systems policies and procedures are central to assessing the credibility of expenditure proposals. They demonstrate that businesses have structured, repeatable processes in place to manage risk, apply sound judgement and ensure that capital and operating expenditure are directed toward prudent and efficient, customer-focused outcomes.

2.2. Our approach

URA's assessment of capital governance, policy and procedures considers whether the business's arrangements for developing, challenging and approving capital expenditure are robust and consistent with good practice. The review covers capital planning and asset management, risk management, procurement and governance policies and procedures.

2.2.1. Desktop review and interviews

URA has undertaken a desktop review of the capital governance, policy and procedures documented by UU in its submission. This review has been supplemented by subsequent responses by UU to requests for information that have been issued by the QCA. Following this review, we undertook a series of targeted interviews with UU on its governance, policy and procedures. These interviews were carried out on the 10th and 11th of February with UU at its Brisbane office. The interviews covered UU capital infrastructure governance, policy and procedures, drawing on the PM26 submission and RFI1 responses. Discussion focused on:

- The capital planning and prioritisation framework
- The asset management framework (AMF)
- The risk management framework
- The procurement framework
- Program management and governance.

The interviews were aimed at confirming how the documented frameworks operate in practice and to understand the key steps in the decision-making systems, including how review and challenge is applied.

2.2.2. Requests for information

In addition to UU's submission, three separate rounds of RFIs have informed our review, two of which was relevant to this review task:

- RFI 1 – The first RFI issued by the QCA on 23 October 2025 focused on capital expenditure planning and governance systems and processes.
- RFI 3 – The third RFI was issued on 25 February 2026. It sought further detail on how UU's governance, forecasting, risk, procurement, asset management and efficiency frameworks operate in practice. In relation to governance, policy and procedures, the RFI sought documentary evidence demonstrating how the frameworks described in interviews are implemented in practice, including:
  - Portfolio reprioritisation in response to funding and affordability constraints
  - The influence of risk appetite settings on decision-making
  - Examples of executive challenge in relation to infrastructure proposals.

  The RFI also sought further information on updated systems and procedures, including:
  - The Risk Appetite Statement and Risk Management Procedure
  - Evidence of external audits of risk and procurement frameworks
  - Evidence of the checks and balances used to support consistent application of the frameworks.

On 18 March UU advised that a number of the documents requested could not be shared with URA due to obligations under the *Security of Critical Infrastructure Act 2018* (Cth). These documents relate to Strategic Business Cases across several UU's systems.

2.2.3. Assessment approach

Drawing on the desktop review and interview evidence, we assessed UU's governance, policies and procedures. The review focused on addressing each of the key evaluation questions set out in our analytical framework, detailed in section 1.2.1.

In addition to the assessment of the systems and processes we also assessed the governance and administrative framework supporting the systems and processes. Both of these assessments were undertaken based on a set of criteria outlined in Table 4. The criteria were established and confirmed with QCA staff. Consistent with our Phase 1 scope, the assessment focuses on whether appropriate governance, integration and monitoring frameworks are in place and operating effectively, rather than validating the quantum of efficiency outcomes.

Table 4: Assessment criteria for governance, policies and procedures

Criterion	Assessment focus and indicators of good practice
System maturity and continuous improvement	• The extent to which UU and Unitywater take a considered view on the maturity of their systems and processes against their industry peers and understand the desired state for their systems and processes. • Evidence that each business regularly benchmarks the maturity of its asset management and planning systems against industry peers using recognised processes (e.g. WSAA benchmarking). • Development of a clearly defined desired state supported by a documented maturity roadmap and implementation plan.
Monitoring and reporting on progress	• The extent to which UU and Unitywater track and report progress toward achieving their desired state and the effectiveness of implementation plans. • Consistent and complete updating of implementation plans as actions are completed. • Regular, transparent reporting on progress against the maturity plan, including milestones, performance indicators and actions to address gaps or delays.

Table 4: Assessment criteria for governance, policies and procedures, continued

Criterion	Assessment focus and indicators of good practice
Stakeholder consultation and accountability	• The extent to which each business engages customers and shareholders in shaping its desired state and understanding the benefits of improvement. • Evidence of consultation with customers, shareholders, or equivalent governance bodies to demonstrate alignment between process improvements and service or value outcomes
Decision-making systems and integration	• Effectiveness of systems and processes for managing expenditure and investment decisions, including integration across the asset lifecycle • Clearly defined end-to-end planning and decision-making frameworks that include gateway reviews, summary diagrams, policies and procedural guidance to ensure consistency across projects.
Application of decision-making framework and prioritisation	• How systems and processes are applied in practice to support, modify, or halt investment decisions. • Demonstrated examples of frameworks being actively used to assess investments, including documentation showing when projects have been progressed, deferred, or cancelled following gateway reviews.
Criteria for investment decision-making	• Incorporation of prudency, efficiency and stakeholder expectations into investment decision criteria. • Decision frameworks include explicit criteria addressing prudency, efficiency and customer value and these are applied consistently at key stages of the approval process.
Implementation and effectiveness in practice	• Frameworks are embedded and functioning effectively across business operations. • Evidence from case studies or internal reviews showing that governance and decision-making processes are implemented consistently. We will expect to see evidence of a whole of life (asset and project) planning process, a gateway style oversight and decision-making framework including summary diagrams, policies and procedures outlining the system and practical guidance to project managers on implementation.

2.3. Governance, policies & procedures good practice

2.3.1. Capital planning and asset management good practice

Good practice capital planning is characterised by a risk-based, service-driven and transparent approach which clearly documents how competing investment needs are assessed, prioritised and approved, including trade-offs and deferral decisions. Once decisions are made, a good practice program / project management framework should have enterprise-wide coverage and incorporate the full asset lifecycle setting out clear decision points and approvals gates, roles, delegations, escalation pathways and assurance requirements.

Good practice capital planning should also incorporate evidence-based reporting to demonstrate that it is applied in practice, including decision gate outcomes particularly where

they are recommendations for deferral or re-scoping, and which clearly defines expected benefits and how these will be tracked across the life of the asset.

Good practice asset management is characterised by a close alignment to ISO 55001 principles, supported by a coherent and overarching AMF, clear governance arrangements and continuous improvement mechanisms. The framework should support the collection of evidence demonstrating maturity assessments, benchmarking, the development and application of improvement actions, and clear oversight.

2.3.2. Risk management good practice

A good practice risk management framework is aligned with ISO 31000 and is supported by clearly defined policies, procedures and governance arrangements that set out how risks are identified, assessed, managed and monitored across the business. These arrangements should operate consistently across strategic, operational and financial activities, with supporting assurance processes in place to test whether they are being applied as intended.

Core risk management documents should also be clearly linked to related policies, procedures and guidance so that their role within the broader control framework is understood. Good practice also requires clear risk ownership, defined escalation and reporting pathways, documented risk appetite and assessment methodologies, regular control assurance, and integration of risk considerations into operational, financial and investment decision-making.

Risk policies and procedures need to be sufficiently flexible to respond to changing operating conditions, emerging risks and lessons from implementation. Periodic review is an important part of an effective risk management framework. Internal audit and independent assurance can be used to test whether risk management processes remain robust and whether governance arrangements are operating effectively. Where reviews identify gaps or improvement opportunities, the recommendations, management responses and implementation timeframes should be clearly documented.

Benchmarking against peers and relevant industry standards supports continuous improvement by providing an external point of reference. Its value lies in helping identify improvement opportunities and informing management challenge, rather than acting as a mechanical basis for target setting.

2.3.3. Procurement good practice

Many of the features that support good practice in procurement management are consistent with those that underpin good practice in risk management, particularly the need for clear documentation, consistent application, assurance and continuous improvement. The primary difference is that procurement processes are directed toward controlling, sourcing and contracting activity in a manner that is compliant, probity-based and capable of demonstrating value for money.

Good practice procurement management is characterised by clear systems and processes that collectively define procurement thresholds, probity controls, delegations, contract management, assurance and close-out requirements. These processes should be applied consistently across the whole organisation with appropriate assurance activities in place to ensure that the processes are being implemented accurately. Key documentation should also include references to any other related documentation that helps inform how it fits within the broader framework.

Regular reviews play a critical role in assessing performance of the procurement management system and demonstrating a commitment by the business towards continuous improvement. Internal audits or independent assurance reviews should be used periodically to test the

robustness of the procurement management processes and effectiveness of governance arrangements. The recommendations from each review, how the business is responding to those recommendations and an outline of activities and associated timelines should be clearly articulated.

To support this, benchmarking against peers and relevant industry standard provides external reference points for performance and ambition. Good practice involves using benchmarking not as a mechanical target-setting tool, but as an input to identify improvement opportunities and inform management challenge.

2.3.4. Governance good practice

Good practice governance is characterised by structured, well-defined frameworks that provide a clear and consistent basis for decision-making across the organisation. These frameworks should include documented policies, delegated authorities, defined roles and responsibilities, and formal committee and Board oversight arrangements. Collectively, they should establish how decisions are developed, reviewed, challenged and approved, ensuring alignment with strategic objectives, risk appetite and affordability constraints.

Governance systems should provide effective oversight, challenge and control of expenditure throughout the planning and delivery lifecycle. This includes clearly defined stage gates, business case requirements and approval thresholds that apply from concept development through to delivery and close-out. Decision-making frameworks should incorporate explicit criteria addressing prudency, efficiency and customer value, and should be supported by consistent documentation, standardised templates and transparent escalation pathways to enable appropriate scrutiny at project, program and portfolio levels.

Assurance and challenge are critical to demonstrating the robustness of governance arrangements. Good practice includes the use of independent review mechanisms such as investment assurance processes, cost challenge, audit functions and committee oversight to test the quality of decisions and underlying assumptions. These mechanisms should operate both prior to approval and during delivery, ensuring that expenditure remains justified, controlled and aligned with approved objectives.

Risk governance should be integrated into decision-making processes, with enterprise risk frameworks, risk appetite statements and compliance obligations informing planning and prioritisation. Good practice requires clear line of sight between strategic risks, operational risks and investment decisions, with risks consistently identified, assessed and managed across the organisation. Regular risk reporting and review forums should support escalation and enable informed decision-making at appropriate governance levels.

Effective governance also requires strong monitoring and reporting arrangements. Regular reporting on financial performance, delivery progress, risk exposure and key outcomes should provide visibility of performance against approved plans. Variances should be clearly identified and explained, with defined mechanisms for corrective action and escalation where required. This supports accountability and provides evidence that governance processes are operating as intended.

Importantly, governance frameworks should not only be well-designed but also consistently applied in practice. Evidence of application may include examples of projects being progressed, modified, deferred or halted through gateway reviews, as well as internal reviews or case studies demonstrating adherence to established processes. This provides assurance that governance systems are embedded and functioning effectively across the organisation.

Continuous improvement is a key component of governance maturity. Internal audits, independent reviews and assurance programs should be used to assess the effectiveness of

governance frameworks and identify areas for improvement. Organisations should demonstrate how recommendations are addressed through defined action plans, with clear ownership, timeframes and progress reporting. To support this, benchmarking against peers and recognised industry practices provides an external reference point for assessing governance maturity and performance. Benchmarking should be used to inform management challenge, identify gaps and support the development of maturity roadmaps, rather than as a standalone measure of performance.

2.4. Overview of governance policies & procedures

2.4.1. Capital planning and asset management

UU's overall approach to capital planning is defined within a capital planning and delivery process (Gateway Decision Process for Infrastructure Capital Works) which sets out the six stages through which projects must pass and the governance approach including approval pathways, escalation requirements and documentation expectations for each gate.

2.4.1.1 Capital planning

The capital planning and delivery process is supported by a Program Management Approach which covers the full project lifecycle (the six stages covering planning and business case development through to delivery, close-out and benefits realisation). The Approach document defines governance structures, roles and responsibilities, stage gates, assurance processes and reporting expectations for projects. Further support is provided within the AMF which includes an Integrated Planning Manual that sets out the planning process, governance and assurance steps, cost estimation, portfolio management and the adaptive pathways used by UU to manage uncertainty.

Key elements of the UU submission relevant to capital planning and asset management include:

- **Integrated planning.** New capital investments are guided by a suite of integrated planning documents including One Water Plans, Integrated Catchment Plans and Integrated Zone Plans, and Strategic Asset & Servicing Plans which provide a 5-to-30-year planning horizon. This integrated planning process is the first of the six stages and is managed by the Integrated Planning team. The following five stages are then managed by the Infrastructure Delivery team who have responsibility for solution optioneering all the way through the delivery, project closure and benefits realisation.
- **Planning and project pathways.** Capital planning and project pathways through the approvals process are defined for high, medium and low complexity projects and rolling programs of work, with variations on the documents required at each of the key decision gates based on these classifications. For each pathway the capital planning requirements are set out clearly.
- **Critical Few Strategy.** Long term strategic planning is set within the context of the corporate strategy and objectives as outlined in the FY25-29 Critical Few Strategy. For the wider operational perspective, UU have a quarterly engagement process with Seqwater to discuss strategic factors with specific issues identified at these quarterly engagements further discussed through additional focused sessions as required.
- **AMF.** Planning and management of existing capital infrastructure is managed through the AMF which is further outlined below.

UU state that previously their capital program was implemented under a rules-based planning framework focused on design prescription, but they are now transitioning to a principles based, outcomes focused approach to tailor solutions and encourage flexibility to identify the most cost-effective solutions and adopt innovative or lower cost alternatives to traditional designs.

A key component of the capital planning process is the Capital Project Challenge Process. This establishes a structured front-end challenge process to validate potential capital investment need prior to subsequent inclusion, if approved, in the Capital Investment Plan. The process tests benefit confirmation, scope, timing, risk, compliance and alternatives, with decisions to proceed, defer or revise scope made before inclusion in the Plan.

2.4.1.2 Asset Management Framework

UU's AMF represents the overarching framework for guiding capital planning, investment decisions, project delivery and the management of the assets created. The AMF is stated to be aligned with industry best practice and the principles of ISO 55001 and is an adaptation of the Institute of Asset Management's conceptual model.

The Framework consists of:

- **Asset Management Policy** – which establishes organisational commitments to lifecycle management, risk-based decision-making and continuous improvement.
- **Asset Management Standards** – covering the asset lifecycle and defining the minimum, and 'best in class' requirements and performance measures to assess how assets will be managed along with audit and assurance guidance.
- **Asset Management Manuals** – detailed guidance on what the business does and how it is done in order to meet the requirements in the Standards and the Policy and broader framework.

The key components within the Framework are a set of AMF Standards that cover the full lifecycle of assets. Key standards referenced included:

- AMF Standard: Integrated Planning – which sets requirements for planning activities supporting prudent investment and regulatory compliance.
- AMF Standard: Maintenance Integrity & Execution – which defines minimum requirements for maintenance planning, execution, performance monitoring and assurance.
- Additional standards cover the areas of Servicing Planning, Budget Planning & Financial Management, Capital Delivery, Asset Operations, Data & Information Management, and Resource & Technical Competency.

These AMF standards are supported by detailed manuals and references to interfacing management systems like the Risk Management Framework.

2.4.2. Risk management

The key components of UU's risk management approach are:

- **Risk Management Policy** – UU's approach to identifying assessing, mitigating and monitoring risks across strategic, operational and financial functions is defined within UU's Risk Management Policy. This includes adopting an enterprise-wide approach for dealing with the effect of uncertainty on its objectives using a consistent Risk Management Framework. The Policy is supported by the Board approved Risk Appetite Statement which sets out the amount and type of risk considered and acceptable by the organisation in delivering its operations.

- **Risk Management Framework** – The risk principles, governance, policies, procedures, systems and processes are established with the Risk Management Framework. It provides guidance for all executives, leaders, employees and delivery partners to ensure the management of risk is delivered in an efficient, effective and consistent manner.
- **Risk Management Procedure** – The Framework also refers to the Risk Management Procedure which provides guidance in the day-to-day management of UUs' risks in a manner consistent with the Framework. The Procedure includes a description of each of the consequence likelihood categories and the current risk matrix.
- **Risk Appetite Statement** – The Statement articulates, from the Board's perspective, how much risk is acceptable in pursuing UU's strategic direction and to promote a responsible approach to risk management. The overall objective is not to eliminate risk, but to ensure that risk is actively monitored and maintained at a level where they can be confident in achieving their critical outcomes.

2.4.2.1 Risk management processes

Portfolio optimisation where multiple projects have similar risk ratings or funding is constrained is achieved through scenario analysis which is used to test trade-offs across the portfolio. The analysis considers affordability and pricing impacts, delivery capacity constraints, regulatory compliance obligations and service performance outcome. This is overlayed with multiple governance structures (e.g. the Investment Committee, Strategic Asset Management Committee, Audit Finance Risk Committee and Board) that ensures that aims to ensure that risk based prioritisation decisions are transparent and aligned with Board-approved risk appetite settings.

UU maintains staff compliance with its risk management processes through a range of checks and embedded practices including:

- Incorporation of risk review/assessment into standard Committee and management meeting agendas.
- Incorporation of risk assessment in standard business case approach, mandatory application of enterprise risk processes.
- Leadership support, training and second line oversight by the Enterprise Risk Team.
- Quarterly reviews of Strategic and Board-focussed operational risk.
- Integration with supporting management frameworks (e.g. AMF, WHS, Safety in Design, Compliance).

UU is in the process of updating its existing framework, strengthening connections between strategic, enterprise and operational risks to ensure effective information flows throughout the organisation in response to external advice. The transformation program focuses on redeveloping the Enterprise Risk Structure, revising the Risk Appetite Statement and Consequence and Likelihood ratings, which aims to enable UU to make more informed decisions about risk-trade off, prioritisation and investment in cost-effective solutions.

2.4.3. Procurement

UU's procurement approach is comprehensive and well documented, with scalable controls aligned to value and risk. A number of documents collectively define procurement thresholds, probity controls, delegations, contract management, assurance and close-out requirements.

The key elements of the procurement framework are:

- **Procurement Policy –** The policy sets out the principles that govern the procurement of all goods and services by UU.
- **Purchasing Procedure (Low Risk, Low Value)** – The procedure provides guidance and clarity about the purchasing practices, requirements and processes for all purchases of goods, products and services up to the value of [redacted].
- **Purchasing Procedure (High Value, High Indirect Risk)** – The procedure provides guidance and clarity about the purchasing practices, requirements and processes for all indirect procurement activities that are under [redacted] but high risk and all procurements over [redacted] that are not of a capital works and infrastructure nature.
- **Purchasing Procedure (Capital and Infrastructure Procurement)** – The procedure applies to the sourcing of all direct good and services except for real property transactions, a contract for purchase at public auction, all legal services and medical services.
- **Contract Management Procedure** – The procedure ensures commitments and obligations from buyers and suppliers are effectively met, by delivering value for money outcomes and managing inherent risk. It also included details on the contract management lifecycle, including contract set up, contract performance management and contract close out.

2.4.3.1 Procurement processes

The Procurement and Supply Chain Team also have an active governance and assurance program in place to ensure that staff are complying with the procurement management approach. Assessments are completed on a monthly basis, findings are reported and endorsed by the General Manager Procurement and Supply Chain and actions are assigned and monitored.

UU regularly monitors the Procurement and Supply Chain functions and benchmarks its practices against leading professional, industry and government standards to ensure alignment, efficiency and performance. In 2024 an internal review and benchmarking exercise was undertaken to assess functional maturity and inform the development of the Procurement and Supply Chain Strategy to uplift capability across procurement policy, procedures, processes, systems and people. UU is also an active member of WSAA, with the Procurement and Supply Chain Team participating in WSAA-facilitated procurement forums.

More recently in 2025, Ernst and Young completed a detailed internal audit of the procurement source to contract process. The findings and recommendations supported the observations previously made by management in the development of the Procurement and Supply Chain Strategy.

2.4.4. Governance

UU operates a structured, enterprise-wide governance framework that integrates strategic planning, capital investment decision-making, asset management, enterprise risk management and procurement oversight. Governance processes are formalized through documented policies, defined stage gates, committee oversight arrangements and delegated authorities extending to Executive Leadership Team and Board levels. The framework is designed to support investment planning, risk-informed prioritisation and controlled program delivery across the capital portfolio.

The key components of the approach are:

- **Enterprise-Level Governance Framework:** UU's governance architecture is embedded within its statutory authority structure and supported by documented delegations of authority and formal escalation pathways. Investment Assurance, Investment Committee

and Board oversight mechanisms provide structured challenge and control prior to major funding approvals. Governance forums are clearly defined, with reporting channels linking project, program and portfolio oversight.

Standardised Board and committee paper templates require consistent articulation of financial, risk, customer and strategic considerations, including explicit linkages to enterprise risks and corporate strategy. This supports transparency and consistency in decision-making and a structured basis for executive and Board-level challenge.

- **Capital Planning and Asset Management Systems:** Long-term capital planning is supported by 30–50 year strategic asset plans under the AMF and Integrated Planning standards. Network modelling, lifecycle forecasting and risk-based renewal methodologies inform capital sequencing across growth, renewal, compliance and resilience drivers.

  The Gateway Decision Process and Capital Project Challenge Process embed structured review prior to funding release. Stage-gate controls, business case requirements and defined approval thresholds provide lifecycle integration from concept through to delivery and closure.

  These processes are supported by independent cost review and formal challenge mechanisms, strengthening assurance that investment decisions are subject to appropriate scrutiny prior to approval.

- **Risk Governance and Regulatory Integration:** Enterprise Risk Management is embedded through Board-approved risk appetite settings and structured reporting mechanisms. Strategic risks — including environmental compliance, climate resilience, growth funding exposure and delivery capacity constraints — are integrated into investment planning and sequencing decisions. Risk assessments form part of business case development and portfolio oversight processes.

  Independent review evidence indicates that elements of the risk framework are continuing to mature, including alignment between risk appetite, risk assessment processes and consistent application across the organisation. UU has initiated a structured uplift program to address these areas, including enhancements to control frameworks, systems and reporting. This indicates a clear trajectory toward improved risk integration, although full maturity has not yet been achieved.

- **Procurement and Delivery Governance:** Procurement governance is supported by formal procurement policies, purchasing procedures and contract management frameworks, complemented by an active governance and assurance program. This includes regular internal and external audits, as well as ongoing compliance monitoring activities to verify adherence to procurement processes and identify improvement opportunities.

Overall, UU demonstrates a well-structured governance framework with embedded assurance mechanisms; however, continued focus on consistency of application, risk integration and procurement maturity will be important to fully realise the intended benefits of the framework.

2.5. Assessment

2.5.1. Capital planning and asset management findings

Overall UU's capital planning and asset management systems are structurally robust, clearly documented and embedded across enterprise, portfolio and project levels. The key observations are:

- **Capital planning -** Capital planning processes are set within a mature AMF with a clearly tiered planning structure to guide the identification, development and delivery of projects.

The existence of long-, medium- and short-term capital plans provides confidence in structural adequacy and interfaces with key supporting business systems such as risk, health and wellbeing and environmental management help to demonstrate the coverage of the overall framework.

- **Integration -** There is a strong focus on integration, whole of lifecycle, long term planning and shorter-term needs which demonstrates a holistic view of capital planning and asset management. Further, adaptive pathway planning is used to ensure both a balance between defined interventions and a flexible approach that can adapt to changing circumstances over the time taken to develop and deliver a project.
- **Performance -** Planning is stated to be informed by performance measures or evidence streams including asset, system and service performance outcomes with planning initiated if performance trends indicate a potential service risk.
- **Prioritisation -** Capital plans are prioritised using a clear evidence base and a risk-based process which incorporates assessment of service performance, customer impacts, compliance, resilience, and asset condition and reliability. A common risk framework is used to quantify the service risk ensuring comparability of risk scores across asset classes, different services, and across the geographies that make up UU's service area. Prioritisation of infrastructure is done throughout the decision-making framework and is assessed at multiple gates.

2.5.2. Capital planning and asset management assessment criteria findings

Table 5: Capital planning and asset management assessment criteria

Criterion	Observation	Recommendations
System maturity and continuous improvement	• UU operates a structured, lifecycle-integrated capital planning and AMF embedded across enterprise, portfolio and project levels. The framework is supported by: - An AMF aligned to ISO 55001 principles - Integrated planning processes spanning long (30–50 year), medium and short-term horizons - Defined stage gates, business case requirements and approval pathways embedded within the Program Management Framework - Planning artefacts (including Integrated Catchment Plans and Strategic Asset Plans) demonstrate alignment between long-term service needs, growth, compliance and asset performance. • System oversight is clearly defined, with Investment Assurance, Investment Committee and Board oversight providing structured challenges and oversight across the lifecycle. • Documentation and supporting material indicate that: - Planning incorporates environmental, growth and service drivers - Capital planning is linked to asset condition, service performance and enterprise risk - Internal audit activity is used to review and refine elements of integrated planning and asset management - External benchmarking (e.g. WSAA) is undertaken - Capital delivery has evolved through NG4D, incorporating performance monitoring, KPIs and commercial controls within delivery arrangements. • Collectively, these elements are consistent with a mature framework for capital planning and asset management. • While continuous improvement activities are evident at a process and audit level, there is limited visibility of: - A consolidated, enterprise-wide continuous improvement approach - A consistent approach to baseline setting and aggregation of improvement outcomes across programs - A clear link between improvement activities and measurable efficiency outcomes at a portfolio level.	• No material gaps identified. • To strengthen evidentiary support and regulatory transparency, UU could consider demonstrating an enterprise-wide continuous improvement and efficiency approach, including how improvement outcomes are aggregated across programs and delivery models, including NG4D, and how those outcomes inform reporting and investment decision-making. This will be an important consideration in Phase 2 when assessing realised efficiency gains across the capital portfolio.

Table 5: Capital planning and asset management assessment criteria, continued

Criterion	Observation	Recommendations
Monitoring and reporting on progress	• Monitoring and reporting are embedded within governance processes and provide structured oversight across project delivery. This is supported by: - Investment Assurance, Investment Committee and Board reporting structures - Gateway Decision Process and Capital Project Challenge processes - Executive reporting cycles covering cost, scope, schedule and project justification - Defined stage gates acting as control points prior to funding release and lifecycle progression • Performance monitoring under the NG4D delivery model includes KPIs and performance measures for delivery partners, indicating that program-level performance metrics are established within delivery arrangements. • These arrangements are consistent with structured monitoring and reporting practices, particularly at a project level. • Material reviewed provides limited visibility of how monitoring is applied at a program or portfolio level in practice. This includes limited demonstration of how monitoring outcomes inform intervention, reprioritisation or resequencing decisions, or how insights are translated into forward investment planning and funding decisions.	• No material gaps identified. • UU could enhance transparency by demonstrating program and portfolio-level monitoring and intervention decisions, how monitoring informs prioritisation, sequencing and funding decisions, and how monitoring and reporting are integrated across delivery partners under NG4D. This will support Phase 2 assessment of the effectiveness of monitoring frameworks in influencing expenditure outcomes.
Stakeholder consultation and accountability	• Stakeholder consultation and accountability are embedded within enterprise-level governance and planning frameworks. • Customer engagement is supported by a structured Voice of the Customer program, incorporating segmentation across residential, commercial and developer customer groups, with further sub-categorisation to inform targeted engagement. Consultation processes are guided by a Community Engagement Manual aligned with recognised engagement principles (e.g. Inform, Consult, Involve), and include ongoing engagement with councils through formal and informal mechanisms. • Performance metrics, including trust, value for money, customer satisfaction, complaints and feedback, are monitored and reported, with engagement outputs intended to inform strategic planning, service delivery and investment considerations. • Material reviewed indicates that engagement outcomes are considered within corporate strategy, planning processes and customer data management practices. These arrangements are consistent with established stakeholder engagement practices. • There is opportunity for UU to provide visibility of: - Direct linkage between stakeholder input and specific investment or prioritisation decisions - How competing stakeholder preferences are assessed and balanced within decision-making processes.	• No material gaps identified. • The Phase 1 review indicates that consultation is well managed at a whole-of-business level across UU's range of customers and stakeholders. For Phase 2, UU should consider ensuring appropriate documentation is available to demonstrate the extent to which stakeholder and customer input is reflected in investment decisions, and how customer outcomes are considered in trade-offs between cost, risk and service levels.

Table 5: Capital planning and asset management assessment criteria, continued

Criterion	Observation	Recommendations
Decision-making systems and integration	• Capital planning decision-making is structured through defined stage gates, business case requirements and documented approval thresholds. Early decision gates assess potential projects for robust need and justification prior to progression through subsequent project development and delivery phases. These gateways provide structured control points aligned to increasing levels of scope definition, cost certainty and delivery readiness. • Investment governance integrates asset management, risk management and financial oversight criteria within decision-making processes. Documentation provided, including the AMF – Integrated Planning Manual, demonstrates a focus on adaptive and integrated planning, with clear linkages to enterprise business processes, portfolio management, business case development and the gated decision-making structure. • Material reviewed indicates that: - Business case templates require articulation of project need, service drivers, risk considerations and alignment to strategic and asset planning objectives - Investment Assurance and governance forums provide structured reviews and challenge prior to funding approval - Financial and planning processes incorporate affordability considerations and broader funding constraints within decision-making discussions - Stage gate processes align funding approvals with project maturity, supporting progressive commitment of capital. • Cross-functional engagement is embedded within decision-making processes. Discussions with management confirmed involvement of asset planning, asset management, finance and delivery functions in the development and assessment of investment proposals, particularly for material investments. • Delivery governance under the NG4D model introduces additional commercial and performance considerations into decision-making, including defined KPIs, partner performance expectations and structured reporting arrangements. • Collectively, these elements indicate that decision-making systems are defined, integrated and supported by governance processes consistent with established practice. • While decision-making frameworks and processes are clearly articulated and there is some evidence of application, there is limited visibility of: - A broader set of documented examples demonstrating the outcomes of challenge and review processes (e.g. scope refinement, cost optimisation or option selection) - The application of decision-making processes consistently across a wider portfolio of investments - How trade-offs between cost, risk and service outcomes are systematically evidenced within decision-making documentation.	• No material gaps identified. • Integration of capital planning and asset management across the gateway decision process is clearly defined in the systems and processes. The material provided is sufficient to demonstrate that structured and integrated decision-making processes are in place for the purposes of Phase 1. Phase 2 will consider: - Further evidence of how decision-making and challenge processes operate in practice across a sample of projects and programs - The extent to which trade-offs between cost, risk and service outcomes are demonstrated within investment decisions - Examples of how governance processes influence investment outcomes, including scope refinement, optimisation or non-progression of projects.

Table 5: Capital planning and asset management assessment criteria, continued

Criterion	Observation	Recommendations

Application of decision-making framework and prioritisation	• Application of capital planning systems and the AMF was demonstrated through case study examples discussed during interviews, including a number of major projects.
	• Supporting documentation provided includes Project Business Case templates and Strategic Asset Class Plans, which form key components of the capital planning and AMFs and establish the basis for prioritisation and investment decision-making.
	• Material reviewed indicates that:
	  - Prioritisation is informed by asset condition, service performance, compliance requirements, growth and risk considerations, as reflected in Strategic Asset Class Plans
	  - Business case processes support the assessment and comparison of investment options prior to progression through stage gates
	  - Governance processes, including Investment Assurance and gateway reviews, provide structured points for assessing and prioritising investments.
	• Examples discussed during interviews indicate that prioritisation and decision-making processes are applied in practice, including consideration of project need, risk and service outcomes.
	• NG4D governance further embeds performance oversight and structured commercial controls within delivery programs. Documentation provided outlines KPIs and performance measures for delivery partners, indicating that delivery performance and commercial considerations are incorporated into prioritisation and ongoing decision-making.
	• Collectively, this indicates that prioritisation frameworks are defined and there is evidence of their application through case study examples and supporting documentation.
	• While application was demonstrated through case study examples and supporting material, there is limited visibility of:
	  - A broader set of documented examples demonstrating prioritisation decisions across the portfolio
	  - Formal documentation of reprioritisation or deferral decisions
	  - How prioritisation outcomes are consistently reflected in capital program sequencing and funding allocation.
	• Access to detailed project-level documentation, including full business cases referenced in case studies, was constrained due to SOCI considerations.
		• No material gaps identified.
		• Evidence provided during interviews and RFIs demonstrates the application of prioritisation actions. However, specific documents, including referenced business cases, were not able to be freely provided due to SOCI restrictions. The material provided is sufficient for the purposes of Phase 1 to demonstrate that prioritisation frameworks are in place and are being applied. Phase 2 will consider evidence of prioritisation decisions and trade-offs across a broader sample of programs, how affordability and delivery constraints influence prioritisation outcomes, and linkages between prioritisation outputs and capital program sequencing and funding decisions.

Table 5: Capital planning and asset management assessment criteria, continued

Criterion	Observation	Recommendations
Criteria for investment decision-making	• Capital planning and asset management systems and processes are integrated within the gateway decision-making framework, with documentation provided outlining key investment criteria and supporting artefacts. Material reviewed, including the AMF, Strategic Asset Class Plans and associated planning documentation, indicates that investment criteria incorporate: - Service drivers and compliance requirements - Asset condition and risk considerations - Strategic alignment and long-term planning objectives - Whole-of-life asset considerations. • Business case development templates incorporate these criteria and require articulation of project need, drivers and expected outcomes as part of the investment justification process. Financial oversight and Investment Assurance processes apply structured review prior to funding approval, with governance forums providing challenge and validation of investment proposals. • These elements indicate that investment decision-making criteria are defined and embedded within governance processes. While investment criteria are clearly articulated within documentation and templates, the material reviewed provides limited visibility of: - Standardised approaches to baseline validation across investment proposals - Consistent application of benefit quantification methodologies - How efficiency considerations are reflected in forward expenditure forecasts.	• No material gaps identified. • The material reviewed indicates that investment decision-making criteria are defined within governance processes and incorporated into business case and stage gate requirements. Phase 2 will examine the consistency with which these criteria are applied across a range of investment proposals, how baseline assumptions and expected benefits are established and assessed, and the extent to which efficiency considerations are reflected in forward expenditure forecasts.
Implementation and effectiveness in practice	• Governance frameworks are supported by documented policies, procedures and defined reporting structures, with governance forums operating across lifecycle stages. Material reviewed, including Project Management Plans, Briefing Notes and NG4D documentation, indicates that: - Governance processes are applied across planning and delivery phases - Governance forums are active and integrated across lifecycle stages, as described in discussions with management - Delivery governance incorporates cost monitoring, change control and committee reporting aligned to approved tolerances - NG4D arrangements embed performance monitoring, escalation pathways and commercial oversight mechanisms, supported by documented KPIs and performance measures. • Examples discussed during interviews demonstrate implementation of governance processes in practice, with supporting documentation (including Briefing Notes) provided in some cases. However, detailed supporting documentation for some referenced case studies, including full business cases, was not available due to SOCI restrictions. Collectively, this indicates that governance processes are operational and applied in practice, supported by documentation and referenced examples. While there is evidence of implementation, the material reviewed provides limited visibility of: - Application across a representative sample of projects and programs - Demonstrated delivery outcomes (e.g. cost control, efficiency improvements) - How lessons learned from delivery are systematically incorporated into future planning and decision-making.	• No material gaps identified. • Evidence provided during interviews and from RFIs states effective implementation of the capital planning and asset management systems. Further assessment in Phase 2 will focus on the application of governance processes across a broader sample of projects and programs, the relationship between governance processes and delivery outcomes, including cost, scope and schedule performance, and how delivery experience, including lessons learned, is incorporated into future planning and decision-making.

2.5.3. Risk management findings

Based on our review of the Submission and discussions undertaken during interviews, UU has a mature risk management system aligned to AS/NZA ISO 31000 and embedded across various elements including the Risk Management Framework, Policies and Procedures, Risk Appetite Statement and governance structures. This ensures a standardised approach to how risk management is applied across the organisation.

The framework described does not raise material concerns in relation to processes or procedures. We note that UU is currently in the process of updating its risk management procedure. As part of the update, UU should ensure there is a consistent application of the procedure across all documentation. The key observations are:

- **Risk management** – UU has a mature risk management system aligned to AS/NZA ISO 31000 and embedded across various elements including the Framework, Policies and Procedures, Risk Appetite Statement and governance structure. This ensure a standardised approach to how risk management is applied across the organisation.
- **Risk assessment** – UU has stated that risks are applied consistently using a common risk framework that considers both likelihood and consequence. This ensures comparability across asset classes, services and geographies**.**
- **Process and procedures** – The risk management framework appears to be applied consistently across the whole organisation. UU also has well established processes to maintain staff compliance with the risk management framework.

2.5.4. Risk management assessment criteria findings

Table 6: Risk management assessment criteria

Criterion	Observation	Recommendations
System maturity and continuous improvement	• UU has a mature risk management system aligned to AS/NZA ISO 31000 and embedded across various elements including the Risk Management Framework, Policies and Procedures, Risk Appetite Statement and governance structures. This ensures a standardised approach to how risk management is applied across the organisation. • The Risk Management Framework clearly outlines UU's commitment to continuous improvement of its risk management framework. UU's Risk Services Team monitors the adequacy and effectiveness of risk processes and controls through internal audits. The business also engages an external auditor to undertake independent audit and assurance functions. • Through the interviews and in the Phase 1 submission UU has indicated that they are in the process of updating their risk management approach. UU provided documentation that outlined the recommendations provided by the external consultant and how UU are addressing those recommendations. • UU has benchmarked its revised risk appetite statement against peer organisations to evaluate alignment and differences across key risk areas and the results showed that they were aligned to their peers.	• No material gaps have been identified.
Monitoring and reporting on progress	• UU has integrated the findings from the 2024 external audit into its Risk Management Program (2025-27) which was endorsed by the ELT, AFRC and Board. The target improvement outcomes for each activity within the Program and the timeline of activities were outlined during the interviews.	• No material gaps have been identified. • UU should ensure that it continues to monitor and report on progress towards achieving their desired state for its risk management framework.
Stakeholder consultation and accountability	• Alignment to stakeholder feedback and outcomes appears to be indirectly achieved through ensuring consistency with the risk management approach and the strategic outcomes (safety, public health, environment, experience and value) and any customer engagement completed at a broader business level.	• No material gaps have been identified. • UU should continue to monitor the outcomes of the risk management process and ensure alignment with the outcomes of the stakeholder engagement process.
Decision-making systems and integration	• UU appears to have established processes to manage strategic, operational and financial risks across the organisation based on a review of the Risk Management Framework and Risk Management Policy. • During the interviews UU stated that risks are assessed consistently using a common risk framework that considers both likelihood and consequence, ensuring comparability across asset classes, services and geographies. Guidelines on the calculation of risk likelihood and consequence are evidenced within the Risk Management Procedure. • The risk-based process directs investments to the highest service and compliance risks, selects the most efficient intervention options and balances outcome across the portfolio through robust governance and assurance.	• No material gaps have been identified. • As part of the update to the risk management framework, ensure there is a consistent application of the risk management procedure across all documentation.

Table 6: Risk management assessment criteria, continued

Criterion	Observation	Recommendations
Application of decision-making framework and prioritisation	• The Risk Management Procedure guidelines, including the calculation of likelihood and consequence, are consistently applied as evidenced within the Water Mains Strategic Asset Class Plan. The plan demonstrates alignment of planning activities to strategic enterprise risks, renewal risk assessment and the connection of interventions to risk reduction in line with the risk appetite. • Documentation on how risk is considered in capital prioritisation decision making was not evidenced. UU has stated that they undertake scenario analysis which is used to test trade-offs across the portfolio. However, it is unclear how this is applied in practice particularly where there may be multiple extreme to high-risk projects (for example) that may be competing for funding over a limited budget.	• UU should consider providing evidentiary documentation that demonstrates how risk is considered in capital prioritisation decisions, particularly where there are multiple projects with similar risk ratings competing for funding within a limited budget. We would expect this to be evidenced in the Phase 2 submission review.
Criteria for investment decision-making	• Risks are assessed consistently using a common risk framework that considers both likelihood and consequence, ensuring comparability across asset classes, services and geographies. This is evidenced within the Risk Management Procedure.	• No material gaps identified.
Implementation and effectiveness in practice	• UU monitors the adequacy and effectiveness of risk processes and controls through internal audits. The business also engages an external auditor to undertake independent audit and assurance functions as evidenced by the 2024 external audit which informed the actions within the Risk Improvement Program. • UU also maintains staff compliance with its risk management processes through a range of appropriate checks and embedded practices. This ensures that the processes are applied consistently across the organisation.	• No material gaps identified. • As part of the update to the risk management framework, ensure there is a consistent application of the risk management procedure across all documentation.

2.5.5. Procurement findings

Based on our review of the Submission and discussions undertaken during interviews, UU's framework appears to be comprehensive and well-documented. There is a complete suite of policies and procedures covering:

- Low-value/low-risk purchases.
- High-value/high-risk indirect procurement.
- Capital and infrastructure procurement.

Each procedure sets out:

- Clear financial thresholds.
- Scales requirements (quotes, evaluations, probity, approvals) based on value and risk.
- Defines delegations, probity controls, conflict declaration and record-keeping.

The framework described does not raise material concerns in relation to processes or procedures. We note that UU is currently in the process of updating its procurement management approach. As part of the update, UU should ensure there is a consistent application of the approach across all documentation. The key observations are:

- **Procurement management** – UU has a mature procurement management approach embedded across various elements, including the Procurement Policy, Purchasing Procedures and Contract Management Procedure
- **Procurement assessment** – Procurement and commercial frameworks align investment decisions with delivery capability and cost discipline. The various purchasing procedures also provide guidance and clarity about the purchasing practices and processes to be applied. The contract management procedure also provides a clear and standardised approach to managing and administering contracts.
- **Process and procedures** – The procurement management framework appears to be applied consistently across the whole organisation. UU also has well established processes to maintain staff compliance with the procurement management framework.

2.5.6. Procurement management assessment criteria findings

Table 7: Procurement management assessment criteria

Criterion	Observation	Recommendations
System maturity and continuous improvement	• UU has a mature procurement management approach embedded across various elements including the Procurement Policy, Purchasing Procedures and Contract Management Procedure. • Each of the purchasing procedures includes a commitment to conduct annual external audits to review UU procurement processes to ensure compliance with the procedure. The Chief Procurement Officer is responsible for ensuring that all follow up actions identified through the audit process are completed as required. • UU has evidenced its commitment to continuous improvement through the 2024 review and internal benchmarking exercise which informed the development of the Procurement and Supply Chain Strategy and the 2025 Ernst and Young review which supported the observations previously made by management in the development of the Strategy.	• No material gaps have been identified. It is important that UU continues to make available documentation on any findings and recommendations from internal or external audits and how UU responds to them.
Monitoring and reporting on progress	• Through the interviews and the Phase 1 Submission UU clearly outlined its multi-year transformation program to uplift capability across procurement policy, procedures, processes, systems and people. It included clear objectives on what the business hoped to achieve and the key actions underpinning each year of the program. • UU also provided evidence of the findings from the Ernst and Young review and how each of the program initiatives addressed each of the findings.	• No material gaps have been identified. UU should ensure that it continues to monitor and report on progress towards achieving their desired state for its procurement framework.
Stakeholder consultation and accountability	• Alignment to stakeholder feedback and outcomes appears to be indirectly achieved through ensuring consistency with the procurement management approach and the strategic outcomes (safety, public health, environment, experience and value) and any customer engagement completed at a broader business level.	• UU should continue to monitor the outcomes of the procurement management process and ensure alignment with the outcomes of the stakeholder engagement process.
Decision-making systems and integration	• UU's procurement management framework appears to be comprehensive and well documented. • There is a complete suite of policies and procedures covering low value/low risk purchases, high value/high risk indirect procurement and capital and infrastructure procurement. • Each procedure sets clear financial thresholds, scales requirements and defines delegations, probity controls, conflict declarations and record-keeping.	• As part of the transformation program, UU should ensure there is a consistent application of the framework across all relevant documentation relating to the procurement framework.

Table 7: Procurement management assessment criteria, continued

Criterion	Observation	Recommendations
Application of decision-making framework and prioritisation	• UU provided two case studies (Water Meter Replacement Services valued at [redacted] and Field Mobility Solution Replacement Implementation Partner valued at [redacted]) of procurement activities over the past 12 months to demonstrate the consistent application of the procurement management systems and processes. The case studies showed that both projects have gone through the procurement planning, sourcing and contract formation and award stages. UU also provided an outline of the key tasks that were undertaken at each stage with the key tasks aligning to UU's Purchasing Procedure and Contract Management Procedure.	• No material gaps identified. UU should ensure there is a consistent application of the framework as part of the updates to its procurement management approach.
Criteria for investment decision-making	• Procurement and commercial frameworks align investment decisions with delivery capability and cost discipline. • The various purchasing procedures provides guidance and clarity about the purchasing practices and processes to be applied by all employees for purchases of varying values and types of goods and services. The contract management procedure also provides a clear and standardised approach to managing and administering contracts to ensure value for money. • As outlined above UU has demonstrated consistent application of the framework through a number of case studies of differing size, scope and complexity.	• No material gaps identified. UU should ensure there is a consistent application of the framework as part of the updates to its procurement management approach.
Implementation and effectiveness in practice	• UU has an appropriate governance and assurance program in place to ensure that staff are complying with the procurement management process. Assessments are completed on a monthly basis and findings are reported, endorsed by the General Manager Procurement & Supply Chain, and actions are assigned and monitored.	• No material gaps identified.

2.5.7. Governance findings

There are no structural governance deficiencies identified. The governance framework is mature, integrated and actively operating, with established committee oversight, assurance processes and performance monitoring arrangements capable of supporting sustained capital investment and operational delivery in a complex environment. The key observations are:

- **Governance design** - UU provided evidence that its governance architecture is structurally robust, clearly documented and embedded across enterprise, portfolio and project levels. Defined stage-gate processes, Investment Assurance and Capital Challenge processes, committee oversight and integration with asset planning and risk frameworks demonstrate a mature governance system capable of supporting capital and operating expenditure decision-making. No material gaps have been identified.
- **Planning governance** - Capital planning governance is supported by structured investment assurance processes. The existence of formal challenge mechanisms and Board-level oversight provides confidence in structural adequacy. Procurement and delivery governance arrangements, including NG4D delivery model and associated performance and commercial controls, demonstrate an evolved approach to cost control, delivery discipline and program oversight. No material gaps have been identified.
- **Risk governance -** Risk governance is embedded within planning and decision-making frameworks, with environmental compliance, climate resilience, growth pressures and funding constraints integrated into asset planning, enterprise risk management and governance reporting. Structured reporting to the Executive Leadership Team and Board supports oversight and accountability. No material gaps have been identified.
- **Application of governance in practice –** Governance frameworks are operating in practice and are supported by internal audit, procurement assurance and risk review processes. While the frameworks clearly support trade-off decision-making, evidence demonstrating how affordability constraints, risk trade-offs or delivery capacity considerations have materially influenced specific prioritisation decisions in practice was more limited. This represents an evidentiary limitation rather than a structural gap.

2.5.8. Governance management criteria assessment findings

Table 8: Governance management assessment criteria

Criterion	Observation	Recommendations
System maturity and continuous improvement	• UU demonstrates a mature and well-established governance framework, supported by documented lifecycle controls, an AMF and Integrated Planning standards. Material reviewed indicates that governance systems are subject to ongoing review and structured improvement, including: - Internal and external assurance activities, including risk framework reviews and independent assessments, identifying improvement actions and maturity uplift initiatives - Asset planning and governance assurance audits (including Asset Assurance Mapping and Integrated Zone Planning), demonstrating structured review of planning and governance processes - Procurement governance reviews and assurance programs, including internal audit summaries and ongoing compliance activities with tracked actions and formal review cycles - The introduction of the NG4D delivery model, supported by defined KPIs, ISP metrics and productivity tracking, reflecting an evolution in governance and delivery practices. • Collectively, these elements indicate that governance maturity is actively managed and refined over time, with structured mechanisms in place to identify and implement improvements. To support a more detailed understanding of how governance maturity translates into measurable outcomes, additional information that may be relevant in Phase 2 includes: - A consolidated, enterprise-wide view of governance-driven improvement initiatives - Aggregation of improvement outcomes and benefits across programs and delivery models. • Recent audit findings identified areas requiring strengthening, including consistency of documentation, conflict of interest management and application of procurement templates. UU has established a Procurement and Supply Chain Transformation and Improvement Program to address these findings, demonstrating a structured approach to continuous improvement. • The Next Generation for Delivery (NG4D) model is presented as UU's capital delivery model designed to modernise how major infrastructure programs are procured and delivered. It embeds early contractor involvement, commercial controls and performance-based oversight mechanisms. Delivery governance incorporates cost monitoring, structured change control processes, independent cost assurance and defined escalation thresholds, supported by committee reporting to maintain alignment with approved scope, cost and schedule parameters. • Program-level governance arrangements also include defined performance metrics, productivity tracking and formal processes for capturing and applying lessons learned, providing evidence of continuous improvement and increasing delivery maturity over time.	• No gaps identified. The material available is sufficient to demonstrate that governance frameworks are subject to ongoing review and refinement for the purposes of Phase 1. • Further consideration in Phase 2 may include how continuous improvement activities translate into measurable efficiency and productivity outcomes across the broader program.

Table 8: Governance management assessment criteria, continued

Criterion	Observation	Recommendations
Monitoring and reporting on progress	• Monitoring and reporting are embedded within governance processes and provide structured oversight across project and program delivery. This is supported by: - Investment Assurance, Investment Committee, Executive and Board reporting structures - Financial and delivery reporting (including budget-to-actuals and capital performance reporting) supporting visibility of expenditure and delivery outcomes - Structured processes for variance management, including unders and overs frameworks and cost tracking processes - Budget assurance processes demonstrating formal review and challenge of forecast performance - NG4D performance frameworks, including Delivery Group and ISP KPIs, supporting monitoring of delivery performance, productivity and accountability - Standardised Board reporting templates requiring consistent consideration of financial, risk, customer and strategic factors • These arrangements indicate that monitoring outputs are regularly reported through governance forums and support oversight of cost, scope, schedule and risk. Monitoring and reporting processes are clearly established. The material reviewed provides more limited visibility of: - How monitoring outputs are used within governance forums to inform reprioritisation or resequencing decisions - Linkages between monitoring outcomes and forward investment or planning adjustments	• No material gaps have been identified. • The material available demonstrates structured monitoring and reporting arrangements for the purposes of Phase 1. Phase 2 may consider how monitoring outputs inform investment decisions, prioritisation and expenditure outcomes.
Stakeholder consultation and accountability	• UU's governance framework incorporates stakeholder, customer and regulatory considerations within planning and decision-making processes. Evidence includes: - The Board Committee Paper Template, which explicitly requires consideration of customer, community, financial, risk and strategic factors, ensuring that stakeholder impacts are embedded in decision-making. - Governance and reporting pathways linking project, program and portfolio decisions through Executive and Board oversight structures, supported by documented committee processes. - Summary of Board Engagements – Portfolio Optimisation, demonstrating that strategic investment decisions are considered within a broader organisational, service and stakeholder context. This evidence demonstrates that stakeholder considerations and accountability are formally embedded within governance processes and consistently applied at key decision points. • These arrangements indicate that stakeholder considerations are incorporated into governance processes and reflected at key decision points. To provide greater visibility of how stakeholder considerations influence outcomes, additional information that may be relevant in Phase 2 includes: - Examples of how stakeholder inputs have informed specific investment or prioritisation decisions - How trade-offs between competing stakeholder outcomes are considered within governance processes	• No material gaps have been identified. • The material available is sufficient to demonstrate that stakeholder considerations are incorporated into governance processes. Further insight into how stakeholder inputs influence investment outcomes may be considered in Phase 2 where relevant to expenditure decisions.

Table 8: Governance management assessment criteria, continued

Criterion	Observation	Recommendations
Decision-making systems and integration	• UU operates well-defined and integrated decision-making systems, supported by structured lifecycle controls and assurance processes. Evidence includes: - The Gateway Decision Process and Summary of Capital Challenge Processes, demonstrating structured review and challenge prior to funding approval. - Business case documentation [redacted], evidencing application of governance requirements in practice. - Integration across asset planning, finance, risk and delivery functions, supported by Strategic Asset Class Plans, RAMP sections and integrated planning processes. - Standardised decision-making inputs through the Board Committee Paper Template, ensuring consistent articulation of financial, risk and strategic considerations . • These elements demonstrate that decision-making frameworks are coherent, integrated and consistently applied across the investment lifecycle. Overall, decision-making systems are aligned with good industry practice. To support a more detailed assessment of how governance processes influence outcomes, additional information that may be relevant in Phase 2 includes: - Examples demonstrating outcomes of governance challenge processes (e.g. scope refinement, cost optimisation) - Application of decision-making processes across a broader sample of projects and programs	• No material gaps have been identified. • The material available is sufficient to demonstrate structured governance of decision-making processes for the purposes of Phase 1. Phase 2 may consider how governance processes influence investment outcomes across a broader sample of projects and programs.
Application of decision-making framework and prioritisation	• The key elements demonstrating application of the decision making framework include: - Governance oversight of risk-based prioritisation through enterprise risk frameworks, including the Risk Appetite Statement and Executive Risk Committee processes - Integration of prioritisation considerations within governance forums and approval processes - Application of delivery governance under NG4D, including performance monitoring, commercial controls and program-level oversight - Supporting planning and audit materials indicating application of prioritisation approaches across asset classes and programs. • These elements indicate that prioritisation is embedded within governance processes and informed by risk, service and delivery considerations. To provide additional insight into how prioritisation is applied in practice, information that may be relevant in Phase 2 includes: - Examples of prioritisation decisions influenced by affordability, risk or delivery capacity considerations - How reprioritisation, deferral or sequencing decisions are reflected within governance processes.	• No material gaps have been identified. • The material available demonstrates that prioritisation is embedded within governance processes for the purposes of Phase 1. Phase 2 may consider how prioritisation decisions are influenced by affordability, risk and delivery constraints, and how these are reflected in investment sequencing and expenditure outcomes.

Table 8: Governance management assessment criteria, continued

Criterion	Observation	Recommendations
Criteria for investment decision-making	• UU's Investment decision-making criteria are embedded within governance processes and applied through business case development, assurance and approval pathways. Material reviewed indicates that: - Business case frameworks require consideration of service drivers, compliance requirements, risk and lifecycle impacts - Investment Assurance and Capital Challenge processes provide structured governance review prior to funding approval - Procurement governance processes demonstrate alignment between investment decisions and delivery capability - Board and committee reporting templates require explicit consideration of financial, risk and strategic factors • These arrangements indicate that investment criteria are incorporated into governance processes and subject to formal review and challenge prior to approval.	• No material gaps have been identified. • The material available is sufficient to demonstrate that investment criteria are embedded within governance processes for the purposes of Phase 1.
Implementation and effectiveness in practice	• Governance frameworks are supported by documented policies, procedures and defined reporting structures, with governance forums operating across lifecycle stages. Material reviewed, including Project Management Plans, Briefing Notes and NG4D documentation, indicates that: - Governance processes are applied across planning and delivery phases - Governance forums are active and integrated across lifecycle stages - Delivery governance incorporates cost monitoring, change control and committee reporting aligned to approved tolerances - NG4D arrangements embed performance monitoring, escalation pathways and commercial oversight mechanisms, supported by defined KPIs and performance measures. • Examples discussed demonstrate implementation of governance processes in practice, with supporting documentation provided in some instances. However, detailed documentation for some referenced case studies, including full business cases, was not available due to SOCI restrictions. • Collectively, this indicates that governance processes are operational and applied in practice. While implementation is evident, the material reviewed provides more limited visibility of: - Application across a representative sample of projects and programs - Demonstrated delivery outcomes (e.g. cost control, efficiency improvements) - How lessons learned are systematically incorporated into future planning and decision-making.	• No material gaps have been identified. • The material available demonstrates that governance processes are implemented and operating for the purposes of Phase 1. Phase 2 will consider: - Application of governance processes across a broader sample of projects and programs - Alignment between governance processes and delivery outcomes - How delivery performance and lessons learned inform future planning and investment decisions.

3. Operating expenditure forecasting

3.1. Introduction

Assessing the forecasting methods underpinning expenditure submissions is a core part of our review, because the method largely determines whether the resulting forecasts are credible, explainable and fit for regulatory scrutiny. Sound forecasting practice demonstrates that UU can identify key cost drivers, apply consistent assumptions over time, and clearly link proposed expenditure to service outcomes and delivery obligations.

Focusing on method also supports the QCA to distinguish forecasts that are evidence-based from those that rely on arbitrary adjustments, legacy trends or unexplained judgement. This review lens helps identify where practices could be strengthened to improve transparency, accountability and the quality of decision-making over the medium term. Ultimately, a clear and defensible forecasting method provides greater confidence that proposed expenditure reflects prudent and efficient costs and will be an important foundation for UU's Phase 2 submission.

3.1.1. Opex and Capex forecasting

Operating and capital expenditure forecasts are developed using different drivers and methods.

Opex forecasts used for regulatory purposes are commonly prepared using a Base Step Trend (BST) approach. BST starts with a base year of actual expenditure, adjusts for one off items, and then applies justified step changes and trend factors to reflect known cost movements, demand growth and productivity expectations. In practice, businesses may also use non-BST approaches, including bottom-up activity based budgeting or simple extrapolations. We also observe hybrid approaches that combine a top-down BST view with bottom-up activity-based inputs.

Capex forecasting is typically shaped by program and project planning cycles rather than recurrent cost patterns. Beyond discrete major projects, ongoing capex is largely renewal and replacement activity intended to maintain service levels and asset performance over time. These programs are informed by asset condition data, risk assessment and long-term planning models. These inputs are considered further under chapter 2. This chapter focuses primarily on UU's forecasting methods for operating expenditure and, where relevant, the relationship between operating expenditure forecasts and UU's capital program.

3.2. Our approach

URA's assessment of operating expenditure forecasting and governance considers whether UU's arrangements for developing, challenging and approving operating expenditure forecasts are robust and consistent with good practice. The review covers forecasting method, accountabilities, oversight, documentation, and the controls used to manage key assumptions and risks.

3.2.1. Desktop review and interviews

URA has undertaken a desktop assessment of the operating expenditure forecasting approach documented by UU in its submission. This review has been supplemented by subsequent responses by UU to requests for information that have been issued by the QCA.

Following this review, we undertook a series of targeted interviews with UU on its submission operating expenditure forecasting approach. These interviews were carried out on 10th and 11th of February with UU at its Brisbane office. The interviews covered UU's recent performance and its approach to managing the opex program and forecasting, drawing on the PM26 submission and RFI1 responses. Discussion focused on:

- The multiyear forecasting method,
- Governance and accountabilities,
- Data protocols,
- Forecasting performance monitoring,
- Quality assurance and any independent assurance,
- Management of forecasting risk and uncertainty (including contractor, market and key cost category risks such as energy and insurance),
- Processes for forecast adjustments (source registers, change control, escalation and indexation), and validation,
- How opex forecasts link to investment planning and outcome delivery frameworks.

The interviews were aimed at confirming how the documented framework operates in practice and to understand the key steps in the forecasting cycle, including how review and challenge is applied.

3.2.2. Requests for information (RFI)

In addition to UU's submission three separate rounds of RFIs have informed our review, two of which are relevant to this task:

- RFI 2 – The second RFI issued by the QCA on 1 December 2025 focused on both operating expenditure forecasting and efficiency and productivity. The RFI sought documentation that sets out UU's opex forecasting framework and method (including data sources and performance monitoring), governance and quality assurance arrangements, procedures for identifying and quantifying forecast adjustments (including risk, scenarios, change control and escalation/indexation), validation processes for testing forecast accuracy, and how opex forecasting outputs are linked and coordinated with investment planning systems.
- RFI 3 – The third RFI was issued on 25 February 2026. The requests for information sought further detail on how UU's governance, forecasting, risk, procurement, asset management and efficiency frameworks operated in practice. In relation to opex forecasting, the focus of RFI 3 was obtaining evidence of the implementation of the method and governance. URA sought clearer documentation of:
  - Non-controllable expenditure, the application of that definition in the current pricing period,
  - The BST and pass through models used in the Phase 1 submission,
  - The treatment of overheads, aggregation across forecast categories and the governance of pass-through decisions.

  RFI 3 focused on obtaining evidence of the implementation in practice of the method and governance outlined in its submission and interviews.

3.2.3. Assessment approach

Drawing on the desktop review and interview evidence, we assessed UU expenditure forecasting method by focusing on:

- Track record: whether historical forecasts have been broadly consistent with actual outcomes.
- Logic: whether the approach is internally coherent and fit for purpose.
- Mathematical integrity: whether the method is correctly specified and reliably implemented.
- Sector acceptance: whether the approach is consistent with commonly applied practice in the wider sector.
- Internal consistency: whether the method is applied consistently across cost categories, time periods and supporting inputs.

In addition to method, we also assessed the governance and administrative framework supporting the method. This assessment was undertaken based on a set of criteria outlined in table 9. The criteria were established and confirmed with the QCA through the Task 2 Method Workshop.

Table 9: Assessment criteria for expenditure forecasting

Criterion	Assessment focus and indicators of good practice
Method and structure	A clearly defined and understood process for forecasting opex, supported by a documented forecasting method covering key assumptions, escalation factors and modelling techniques; consistent application across cost categories; and alignment between top-down and bottom-up approaches.
Data integrity and assumptions	An established process for testing and verifying data inputs, including traceability, supported by verified source data; clear rationale for assumptions such as growth, inflation and productivity; sensitivity testing of key drivers; and an audit trail showing data lineage and validation.
Link to cost and service drivers	Clear linkages between cost drivers and the forecasting method, with a clear linkage between forecast inputs and measurable cost and service drivers, and an evident cause-and-effect relationship between expenditure trends and operational outcomes.
Alignment with regulatory guidance	Alignment with the QCA review processes and good practice regulation, with method, structure and formulation aligned with QCA expectations and those of comparable regulators.
Integration	Demonstrated integration with other planning processes, including forecasts aligned with approved investment programs; feedback loops between delivery outcomes and future forecasts; and consistency with long-term capital and asset management plans.
Risk and uncertainty	Consideration of uncertainty in forecasting, supported by documented risk assessment and scenario analysis; clear treatment of contingencies; and explicit escalation and sensitivity assumptions supported by evidence.

Table 9: Assessment criteria for expenditure forecasting, continued

Criterion	Assessment focus and indicators of good practice
Historical performance and trend analysis	Linkages between historical and forecast expenditure, including evidence of reconciliation between historical and forecast data; transparent explanation of variances; and demonstrated learning from past forecast accuracy reviews.
Benchmarking and validation	Consideration of appropriate benchmarks, including use of industry or peer comparisons; application of performance benchmarks and cost efficiency metrics; and evidence of challenge and review.
Continuous improvement and learning	Systems for reviewing forecasting accuracy and embedding lessons into future cycles, including regular post-implementation reviews; established improvement plans; and evidence of ongoing methodological refinement.
Forecasting governance and accountability	Oversight, ownership and documentation of forecasting responsibilities across business units, supported by a clearly documented and accessible governance framework applied consistently; clear roles and accountabilities; version control; documented forecasting policies and procedures; regular executive oversight; and integration with corporate planning and finance.

3.3. Opex forecasting good practice

3.3.1. Base step trend forecasting good practice

Good practice BST forecasting provides a structured and transparent method for developing and assessing operating expenditure forecasts. It is widely applied across Australian utility regulation, including by the AER for electricity and gas networks since 2013, the ESC including under PREMO, ESCOSA in its assessment of SA Water, and the QCA in its reviews of Seqwater (2018, 2022), Sunwater (2025) and Gladstone Area Water Board (2020), and IPART 2025 (Sydney Water, Hunter Water and WaterNSW).

BST forecasting starts with a normalised base year of efficient costs, projects those costs forward using clearly defined trend factors, and then applies discrete step changes where there is evidence of a sustained change in obligations, service requirements, or efficient operating impacts from new capital investment. It is widely used because it supports consistent assessment, reduces the risk of double counting, and avoids the regulatory burden associated with fully bottom-up forecasting.

A good practice BST method has the following features:

- Clear base year definition and normalisation. The base year is intended to represent a normal year of efficient opex. It is typically anchored in recent actuals and then adjusted to:
  - remove non-regulated expenditure
  - remove non recurrent or one-off items
  - include normally recurring costs that were absent in the base year.

These adjustments should be evidenced, documented and applied consistently across categories.

- Trend escalation that reflects scale, productivity and input prices. The base year is extrapolated forward using trend factors that are specified up front and applied consistently. Common elements include:
  - Growth (scale): an allowance for changes in output or customer numbers. Many water frameworks use customer connections as a practical growth proxy. Other frameworks apply a small set of output drivers by functional area, sometimes with an explicit economies of scale adjustment.
  - Productivity: a compounding efficiency factor applied to controllable opex to reflect ongoing productivity improvements. Where a frontier or total factor productivity study is not undertaken, a reasonable factor is set with reference to regulatory precedent and peer performance.
  - Real input price movements: where key inputs are expected to change in real terms relative to CPI, the method includes explicit real price escalators for relevant categories such as labour, energy, chemicals or insurance, supported by evidence and applied in real terms.
- Step changes that are discrete, material and evidence based. Step changes capture cost movements that are not explained by the trend factors. Good practice limits steps to changes that are clearly linked to:
  - new or changed external obligations that are binding
  - new or changed service requirements supported by customer engagement and willingness to pay evidence
  - efficient opex impacts from new capital investment, including demonstrated capex opex trade offs.
- Steps should be net of efficiencies, supported by clear costing, and subject to materiality thresholds so the forecast remains proportionate and does not drift into a de facto bottom-up build.
- Controls to avoid conflation and double counting. A core benefit of BST is that it separates what belongs in the base, the trends and the steps. Good practice requires checks to ensure:
  - growth is not counted both in the growth factor and in step changes
  - the same input price movement is not counted through both escalators and steps
  - discretionary changes in inputs are not treated as compensable steps unless they are required to meet an obligation or deliver a customer supported outcome.
- Transparent documentation and repeatability. The method should be traceable from inputs to outputs, with clear assumptions, consistent application across categories, and the ability to reconcile forecast movements back to base, trends and steps. This improves governance, supports assurance, and makes the forecast easier to test.
- Consistent treatment of inflation and presentation basis. Forecasts should be internally consistent in real versus nominal terms. Where forecasts are presented in nominal terms, inflation is applied transparently and consistently with the broader regulatory approach used for financial modelling.

Overall, a well specified BST approach provides a disciplined forecasting framework that is practical to implement, easier to review, and well suited to regulatory assessment because it supports a comparison between a business forecast and a reasonable alternative estimate using a common structure and clearly stated assumptions.

3.3.2. Forecasting governance good practice

Good governance for operating expenditure forecasting is characterised by clear ownership, defined accountabilities and structured oversight across the organisation. Good practice arrangements typically include:

- A single Executive level owner who is accountable for the integrity, coherence and overall quality of the expenditure forecast.
- Business unit leaders that retain accountability for the accuracy, completeness and deliverability of inputs within their areas of responsibility.
- Documentation of role descriptions, delegations, approval papers and performance objectives (reinforcing that forecasting is a core management responsibility and not solely a finance function).

Effective governance is supported by structured forums that enable challenge and decision making throughout the forecasting cycle. Dedicated review points are used to test key assumptions, including efficiency and productivity expectations, and to resolve trade offs between cost, risk and service outcomes before forecasts are finalised. Standing agendas and defined escalation thresholds support consistent treatment of material changes and emerging risks, including clear pathways for issues to be elevated to senior management and, where relevant, to the Board. Independent challenge from finance, strategy and assurance functions further strengthens confidence that forecasts are robust and defensible.

Robust documentation underpins both accountability and transparency. Forecasting methods, key assumptions and roles are typically set out in a central policy and supported by assumption registers and consistent templates. This improves internal consistency, supports independent review and replication, and reduces reliance on individual knowledge. Clear documentation also supports continuity over time and strengthens organisational resilience.

3.4. Overview of expenditure forecasting method

3.4.1. Forecasting approach

UU is in the process of developing and implementing a BST framework to support its multi-year operating expenditure forecasting.

While forecasting is currently anchored in an annual budgeting process, the business is transitioning to a multi-year BST approach for Phase 2, with the intent of aligning its multiyear method with established regulatory good practice. Key components of the proposal include:

- **Adoption of a classic BST framework –** The BST framework presented was largely consistent in terms of the underlying algorithm with a conventional BST structure, as commonly applied in the water sector. The proposed BST structure follows recognised good practice, clearly distinguishing the base year, trend drivers, efficiency adjustments and step changes to support transparency and review.
- **Application across cost categories -** One of the non-conventional aspects of the BST framework is that it is applied at a cost category level across 11 discrete operating cost categories as opposed to a service or all of business level. Each category is treated separately.
- **Base year foundation -** The base year for the multiyear forecast will be the most recent year of actual expenditure and will be subject to a full zero-based budget review to confirm efficiency and remove non-recurrent or inefficient costs. The base year in the Phase 1 submission is FY22.

- **Baseline extrapolation -** Baseline forecasts will be derived through extrapolation of efficient base costs, incorporating key trend factors:
  - Output growth: a composite growth factor reflecting the weighted average of forecast customer connections and water demand volumes.
  - Real input price changes: adjustments for input cost movements using CPI as the primary escalation measure.
  - Efficiency factor: an ongoing productivity adjustment, with a proposed glide path of approximately 0.5% to 1.5% per annum.
- **Step changes -** Material step changes (additional costs and savings) will be incorporated to reflect discrete cost impacts not captured in trend factors; these will be refined and updated in Phase 2. UU has indicated that step changes will relate to: compliance with new, or changed, obligation; capex-opex trade-offs, capex triggered opex increases or savings, reclassification of expenditure; material changes in external factors; to achieve an outcome or implement an initiative endorsed by customers.
- **Treatment of non-controllable costs -** non-controllable costs are added to the BST forecast for total opex revenue requirement. The definition and treatment of non-controllable costs have not yet been finalised and will require clarification to ensure consistent application. It is currently done on a case-by-case basis.
- **Pass-through mechanism –** UU is considering two pass-through mechanisms intended to manage over and under recovery of costs on an annual basis. Each of these is outlined below. UU proposes that any cost pass-through would need to demonstrate:
  - The trigger arose from an unforeseeable event.
  - Reasonable steps were taken to mitigate the event and its impacts
  - The costs are sufficiently material that they could not absorbed through budget management or reprioritisation
  - The costs were prudently and efficiently incurred.

3.4.1.1 True up pass-through mechanism

True ups are proposed to reconcile differences between forecast assumptions used to set prices and actual outcomes during the monitoring period. UU has identified three circumstances in which this would apply:

- Demand variation. An adjustment would be triggered where actual revenue from the relevant source differs materially from allowed revenue. A deadband would apply, such that no adjustment would be made where the variance falls within the specified threshold. Where the variance exceeds the threshold, the under or over recovery would be added to or subtracted from the relevant future revenue allowance, with UU to determine the timing of the adjustment.
- Tax allowance affected by developer cash contributions. UU notes that the level and timing of developer cash contributions are outside its control. Differences between forecast and actual contributions can therefore lead to a material over or under estimation of the tax allowance included in maximum allowed revenue. UU proposes to true-up the full difference between forecast and actual outcomes.
- Non-revenue water. Non-revenue water forms part of bulk water purchases and is recovered through water charges. Differences between forecast and actual non-revenue water volumes can reflect both controllable and uncontrollable factors, UU proposes a

sharing mechanism under which the over or under recovery would be shared 25:75 between UU and customers.

3.4.1.2 Cost pass-through mechanism

Cost pass-throughs are proposed to allow recovery of prudent and efficient costs where actual costs differ from forecast costs due to uncertainty or unforeseen events outside UU's control. UU has identified the following categories:

- Regulatory and legislative events. Costs arising from new or changed regulatory or legislative requirements, including reporting, environmental and safety obligations.
- Service standard events. Costs arising from externally mandated changes to service standards, including changes to how services are delivered, minimum service standards, or the nature and scope of services provided.
- Tax events. Changes in statutory taxes, levies or government charges, including changes in the method of calculation, applicable rates, interpretation or the introduction or removal of a relevant tax.
- Natural and human-caused disaster events. Extraordinary and uncontrollable costs arising from events such as droughts, floods, bushfires, terrorist acts, cyber security incidents, pandemics, public health events or other major disruptions.
- Insurance coverage event. Costs incurred above the limit of UU's insurance cover.
- Bulk water charge. Differences between forecast and actual bulk water charges set externally by Seqwater.
- QCA cost of regulation fee. Costs incurred by the QCA in undertaking the price monitoring investigation.

3.4.2. Forecasting governance

UU's forecasting governance is embedded within its Integrated Planning Framework, AMF and corporate financial management processes. Forecast development is not treated as a standalone technical exercise; rather, it is integrated across Finance, Asset Planning and Program Delivery functions, with Executive Leadership Team (ELT) and Board oversight exercised through formal budget approval and performance reporting cycles.

Interviews confirmed that forecast development involves iterative cross-functional engagement rather than sequential hand-offs. Finance leads consolidation and integrity control, while Asset Planning and operational teams provide bottom-up inputs derived from asset lifecycle modelling, demand projections and growth assumptions. Executive challenge is applied to material cost drivers prior to Board submission.

Key components of the submission are:

- **Governance Design -** Governance design is structured and documented. Forecasts are developed through structured annual budgeting and long-term financial planning processes. Asset lifecycle modelling and network planning outputs inform forward expenditure requirements, while financial parameters and funding constraints provide top-down discipline.
- **Internal challenge -** Material forecast movements are subject to structured internal challenge, particularly where escalators or growth assumptions deviate from historical trends. Gateway and Investment Assurance processes provide linkage between approved capital programs and forward operating cost forecasts. This integration supports alignment between service delivery obligations and financial settings.

- **Data Integrity and Assumptions -** Forecast assumptions are derived from documented asset management systems, demand modelling and strategic growth planning. Interviews confirmed that key assumptions are reviewed through executive forums prior to finalisation.
- **Cross-functional review -** Cross-functional review processes support validation of inputs. Financial reconciliation between prior-year forecasts and actual outcomes is embedded within reporting cycles, and variance explanations are required at management level. This reinforces accountability for forecast accuracy.
- **Integration with Planning and Delivery:** Forecasts are aligned with long-term asset plans and approved capital programs. Interview feedback highlighted active dialogue between Asset Planning and Finance when delivery timelines shift, ensuring operating forecasts are recalibrated to reflect revised commissioning dates and program sequencing. Delivery performance monitoring feeds back into forward forecast settings through structured financial reporting and mid-cycle adjustments, supporting adaptive governance during periods of capital scale-up.
- **Risk and Uncertainty Management:** Enterprise Risk Management and Board-approved risk appetite settings inform contingency treatment and scenario consideration within forecast development. Interviews indicated that growth volatility, infrastructure funding constraints and delivery capacity risks are considered during forecast formation and executive review. Contingency access and reallocation decisions are governed through defined approval thresholds. The governance framework is structurally capable of managing uncertainty.
- **Continuous Improvement and Validation:** Budget-to-actual reporting and variance analysis occur through formal corporate reporting cycles. Material variances are reviewed and inform subsequent budget adjustments. Benchmarking against peer utilities and regulatory comparators is referenced in planning documentation and supports executive challenge of cost trajectories.

3.5. Expenditure forecasting performance

3.5.1. Why forecasting performance matters

This section sets out URA's assessment of UU forecasting performance, focusing on historical performance and trend analysis. The assessment is directed to UU processes, methods and governance that support expenditure forecasting. It does not extend to findings on prudency or efficiency of the underlying expenditure.

The review considers two aspects. First, we assess the performance of the forecasting method by comparing forecasts to actual outcomes over time and identifying material variances and any recurring patterns of over or under forecasting. Second, we assess how the method and supporting governance arrangements respond to actual outcomes, including whether delivery experience is used to update assumptions, inputs, controls and forecasting practices.

Forecasting performance is relevant in a regulated setting because it provides evidence on how forecasts translate into delivery and outcomes. Reviewing forecast accuracy and the drivers of variance support clearer accountability, improves forecasting methods over time and strengthens the credibility of submissions to internal and external stakeholders. It also supports confidence that expenditure planning is targeted and that key risks are being managed.

From a governance perspective, review of forecasting performance provides an evidence base for assurance and continuous improvement. Without structured analysis of accuracy and variances, it is difficult to demonstrate that assumptions are being challenged appropriately and that lessons are being embedded over time.

3.5.2. Forecast performance

UU has established a basis for monitoring expenditure performance through the provision of historical budget and actual expenditure outcomes by major opex category from FY19 to FY25, expressed in real 2026 dollars. The categories provided comprise employee costs, contractors, materials and services, ICT costs, biosolid management, energy, internal allocations and other. This information provides a useful historical record of expenditure outcomes across the main cost components and supports assessment of how closely annual expenditure has aligned with budget over time.

At present, however, UU is still developing its multi-year BST forecasting method. As a result, there is not yet an established track record that would allow direct assessment of forecasting performance against a mature multi-year BST forecast. In this respect, the available information is more appropriately viewed as evidence of historical budget monitoring and expenditure oversight, rather than as a demonstrated record of BST forecast performance.

UU's annual budgeting processes nevertheless indicate that mechanisms are in place to monitor expenditure outcomes and respond to emerging variances. In particular, the use of annual contingency processes suggests that the business has established arrangements for identifying and managing over and under spending through the budget cycle. This provides a foundation for future monitoring of BST forecast performance once the multi-year method has been finalised and embedded.

3.6. Assessment

3.6.1. Expenditure forecasting findings

We found that UU's current approach to BST forecasting generally aligns with regulatory good practice. However, we noted that the current method has been designed to provide annual forecasts and not the multi-year forecasts required for Phase 2. It is recommended that UU formalise its multi-year BST forecasting method, including clear treatment of how the annual pass-through mechanism will operate within a multi-year forecast framework.

Other key observations are:

- **Zero-based budgeting (ZBB) and revealed cost principles –** UU's application of full zero-based budgeting to its base year is not typically expected within an economic regulatory framework and can sit uneasily with the principle of revealed cost, which relies on observed efficient expenditure as the starting point for forecasting. ZBB goes beyond regulatory expectations by requiring activities to be justified from first principles. However, where UU identifies clear inefficiencies in the base year, there is a sound basis for excluding those costs from the efficient baseline. However, were ZBB to inflate the base year this would potential lead directly to price increases.
- **BST framework subject to Phase 2 reset -** The BST methodology remains under development and is expected to be refined and reset in Phase 2. This may create uncertainty regarding the durability of current parameter settings. By extension, productivity and efficiency factors embedded in the current forecasts may also be subject to revision once the final method is confirmed.
- **Transition from annual budgeting to a multi-year framework -** The current approach retains features of an annual budgeting process and may require further development to fully support a multi-year forecasting framework. A multi-year approach relies on stable assumptions, clearly defined trend drivers and explicit treatment of step changes, rather than iterative year-to-year adjustments.

- **Appropriateness of the pass-through mechanism -** A pass-through mechanism designed for year-on-year management of expenditure variances may prove difficult to sustain within a forward-looking multi-year forecast. Multi-year forecasts assume UU achieves its forecast operating expenditure outcomes. The inclusion of a pass-through mechanism will weaken expenditure discipline and reduce forecast certainty. While UU can maintain its pass –through mechanism as part of its annual process it is not necessary for its Phase 2 multiyear forecasts.
- **Eligibility criteria and materiality thresholds for step changes -** The current approach does not include eligibility criteria for step changes. Criteria define when a cost change qualifies as a step, how materiality thresholds apply, and how steps interact with baseline escalators. For example, growth-related step changes should be net of any growth allowance embedded within baseline to avoid double counting. Establishing these rules would improve transparency and support consistent treatment across cost categories.

Taken together, these observations do not detract from the overall direction of the framework but identify areas where refinement, and confirmation against UU's final methodology in Phase 2, may strengthen the transparency, consistency and overall suitability of the forecasts for assessment within a price monitoring context.

3.6.2. Forecasting governance findings

No material gaps have been identified. The forecasting governance framework is mature, integrated and operating in practice, providing a sound basis for the development, review and oversight of the opex forecast. Key observations are:

- **Overall governance framework** – The forecasting governance framework is structured, integrated and supported by documented methodologies, defined roles and responsibilities and **established** committee oversight. Forecast development, review and approval processes are embedded across Finance, Asset Planning and Executive governance forums, providing a clear line of accountability and structured challenge.
- **Application in practice** – Evidence from RFIs and interviews demonstrates that cross-functional review and executive challenge are applied to key forecast assumptions, including material cost drivers, escalators and forecast movements. Established governance processes support validation, refinement and approval of forecasts prior to submission.
- **Integration with planning and risk** – Forecasting is integrated with expenditure planning, asset management processes and enterprise risk frameworks. This supports alignment between forecast assumptions, service requirements and delivery constraints, and enables consideration of financial, operational and risk impacts within decision-making.

3.6.3. Forecasting criteria assessment

Table 10: Forecasting assessment criteria

Criterion	Observation	Recommendations
Method and structure	• UU adopts a BST method that is integrated into its internal budgeting framework. The key features that distinguish the approach from common practice are: - Forecasts are undertaken on an annualised basis. - Application of an annual pass-through mechanism to account for unanticipated expenditure. • UU's price monitoring regulatory framework is materially different from that of other jurisdictions that apply deterministic pricing approaches. However, it is worth noting that general regulatory good practice often limits these mechanisms to a small number of material expenditures that are clearly outside of the businesses control. Examples include the Victorian framework where pass through mechanisms are mainly limited to bulk water and sewerage prices for metropolitan retailers, annual trailing average cost of debt adjustments and annual CPI (given the Victorian framework operates in real terms). • Pass through mechanisms are typically designed to be bespoke to a framework and are prosecuted through price review processes. We note that the QCA has approved pass-through mechanisms for Seqwater (2022) for drought response, emergency or extraordinary events, law or government policy events and specific events for Luggage Point Treatment Plant. • It is important to note that UU has not yet formalized its BST method for the multiyear forecasts expected to be included in its Phase 2 submission.	• It is recommended that UU formalise its multi-year BST forecasting method, including clear treatment of how the annual pass-through mechanism will operate within a multi-year forecast framework. URA has identified relevant good practice principles in the report to assist this process, and UU's current approach appears to be broadly consistent with that direction. This can be further developed in Phase 2 as the multi-year forecasting method is refined. • Our review is based on the documentation provided by UU through its proposal, interviews and RFI responses. This documentation does not include functioning versions of its BST and pass through models. Accordingly, URA has not been able to verify the application of the method descriptions provided by UU. We would anticipate that any assessment of prudency and efficiency undertaken in Phase 2 of the Price Monitoring Review will need to have access to these models.
Data integrity and assumptions	• UU have implemented a comprehensive set of data protocols that cover; ownership and accountability; Systems of record; standardisation; assumptions management; validation and version control.	• No gaps have been identified.
Link to cost and service drivers	• Forecast inputs are derived from asset management systems, network modelling and strategic planning artefacts. • Operating expenditure is driven by employee costs, contractors, materials and services, ICT, energy, biosolids management, internal allocations and compliance obligations. • Cost pressures reflect increased maintenance, asset capacity constraints, environmental requirements, extreme weather impacts and higher work volumes, while procurement efficiencies and operational optimisation have moderated growth and supported the deferral of capital investment.	• On the basis of the documentation provided by UU no material gaps have been identified. • We note that UU has not provided a functioning version of the underlying BST model and URA has not been able to verify UU's linking of costs to service drivers with a functioning model. We anticipate that this analytical task will be undertaken in the PM26 Phase 2 assessment of prudency and efficiency.
Alignment with regulatory guidance	• The QCA has indicated that it has not issued guidance under the Performance Monitoring framework for the development of opex forecasting methods. • In regard to alignment with regulatory practice in other jurisdictions (such as Victoria and NSW) we note that these frameworks are materially different from UU's price monitoring framework. They are deterministic in nature and do not contain comparable annual price setting processes. However, UU's BST approach is largely consistent with the key fundamentals of the methods adopted in these jurisdictions.	• No gaps have been identified.

Table 10: Forecasting assessment criteria, continued.

Criterion	Observation	Recommendations
Integration expenditure business planning and delivery	• UU applies an integrated asset management approach linking operating expenditure with capital planning, network performance and long-term service delivery. Opex supports asset life extension and compliance, while capital is sequenced to address capacity constraints and asset renewal. • Forward planning considers opex and capex trade-offs based on asset condition, risk, performance standards and growth. Preventative and predictive maintenance, supported by targeted reactive works and efficiency initiatives, enable opex to meet near-term service and compliance needs and inform the timing and prioritisation of future capital investment.	• No gaps have been identified.
Risk and uncertainty management	• Enterprise Risk Management settings and Board-approved risk appetite inform contingency and escalation treatment, with planning processes recognising growth funding uncertainty, delivery capacity constraints and environmental compliance risks, and executive forums considering volatility and scenario impacts when reviewing forecasts.	• No material gaps have been identified at this stage. However, we note that there are opportunities for improvement associated with documented contingency methods and escalation thresholds, and demonstrations of scenario modelling for material risks.
Historical performance and trend analysis	• Budget-to-actual monitoring and variance analysis are embedded in reporting cycles, with historical performance and trend analysis, including cost-to-serve insights, informing forecast adjustments and material variances subject to executive scrutiny.	• No gaps have been identified.
Benchmarking and validation	• Industry benchmarking and regulatory comparisons are referenced in planning and submission materials, with comparative performance metrics considered in executive forecast reviews and cost performance assessed within broader productivity and efficiency governance processes. UU has embedded benchmarking within its processes, particularly through its productivity and efficiency program. • UU have referenced a full ZBB review (including benchmarking of individual cost categories) of its base year will be undertaken for Phase 2.	• No gaps have been identified.
Continuous improvement and learning	• Forecasting processes evolve through annual budgeting cycles and regulatory periods, with variance analysis, Gateway reviews and executive monitoring supporting iterative refinement and reflection on prior forecast performance. UU is continuing to develop its BST methodology as part of Phase 2.	• No gaps have been identified.
Forecasting governance and accountability	• Material provided indicates that forecasting governance is supported by defined roles and oversight processes. This includes: - Defined responsibilities across Finance, Asset Planning and operational functions. - Executive review and Board-level oversight of forecasts through established governance pathways. - Documented delegations and approval processes within broader governance frameworks. • UU indicated through interviews that: - Cross-functional inputs are incorporated into forecast development. - Challenge and review occurs for material cost drivers and forecast movements. Collectively, this indicates that forecasting governance is structured and integrated within broader corporate governance arrangements.	• No gaps have been identified.

4. Productivity improvement and efficiency measures

4.1. Introduction

Assessing the rigour and credibility of productivity and efficiency initiatives is an equally important aspect of our review. The process of identification and quantification of efficiency gains directly shapes whether proposed expenditures which are to follow in the Phase 2 submission reflects a genuinely efficient cost base.

Good practice in this area would require UU to have an integrated approach between its productivity and efficiency initiatives, its corporate strategy and its annual budgeting processes. Other features which would be important include benchmarking performance against relevant comparators and demonstrating that identified opportunities are translated into concrete, time-bound commitments with measurable cost saving or productivity outcomes. Understanding UU's capabilities through these lenses helps identify where practices could be strengthened to improve transparency, accountability and the quality of decision-making by the utility.

4.2. Our approach

URA's assessment of productivity and efficiency measures considers whether UU's approach to managing costs and driving improvement over simply carrying forward past spending and performance is robust and consistent with good practice. The review covers whether UU has a clear strategic intent embedded in its business, the effectiveness of governance and reporting structures for initiatives and the integration with expenditure and outcome planning.

4.2.1. Desktop review and interviews

URA has undertaken a desktop review of the productivity and efficiency strategies and initiatives documented by UU in its submission. This review has been supplemented by responses by UU to requests for information that have been issued by the QCA.

Following this review, URA undertook a series of targeted interviews with UU on these productivity and efficiency strategies. These interviews were carried out on 10th and 11th of February with UU at its Brisbane offices. Discussion focused on:

- How the individual efficiency programs integrate into the overarching strategy for delivering productivity and efficiency improvement,
- How the annual strategies integrate with multiyear forecasting for expenditure and the key assumptions underpinning some of the efficiency programs,
- Expected benefit categories, delivery timeframes, and the governance processes used to identify, validate and monitor benefits from productivity and efficiency initiatives over time,
- Prioritisation between programs and prioritisation of costs where savings do not meet initiative-level expectations,
- Executive oversight and accountability for these initiatives and at a program-level, including frameworks for audits or reviews of these initiatives, and
- How efficiency targets are set, monitored and reported.

The interviews were aimed at confirming how the approach documented across the range of sources provided together with UU's PM26 submission operates in practice and to understand how review and continuous improvement features throughout the utility's business planning process.

4.2.2. Requests for information

In addition to UU's submission, three separate rounds of RFIs have informed our review, two of which are relevant to this review task:

- RFI 2 – The second RFI issued by the QCA on 1 December 2025 focused on both operating expenditure forecasting and efficiency and productivity. Relevant to the latter, the RFI sought documentation that sets out UU's corporate strategy and any antecedent strategy documents, project governance and benefits frameworks, annual budgeting framework, how productivity and efficiency is embedded in day-to-day operations, initiative monitoring and continuous improvement channels and information packs on key current productivity and efficiency programs.
- RFI 3 – The third RFI was issued on 25 February 2026. This RFI was structured to address any remaining gaps in information or further information identified through our desktop review of UU's submission and the subsequent interviews. The RFI included:
    - seeking documentation of the OEP and other documentation relating to how the business strategically plans for, implements at an operational level and oversees productivity and efficiency improvements for verification purposes. Similarly, the RFI sought documentation demonstrating how productivity initiatives are measured, monitored, and evaluated, including benefits-tracking frameworks, efficiency reporting to management or the board and post-implementation reviews.

  RFI 3 focused on obtaining evidence of the implementation of the approach and governance outlined in UU's submission and interviews.

4.2.3. Assessment approach

Drawing on the desktop review and interview evidence, we assessed UU approach to developing, implementing and reporting on its productivity and efficiency measures by focusing on:

- How productivity and efficiency targets are set, tracked, and reviewed.
- How productivity and efficiency considerations influence project selection, procurement and delivery.
- How lessons from previous cycles are embedded into new plans.
- Validation of governance and implementation processes.

This assessment was undertaken based on a set of criteria outlined in table 11. The criteria were established and confirmed with QCA staff.

Table 11: Assessment criteria for productivity and efficiency measures

Criterion	Assessment focus and indicators of good practice
Strategic intent	Existence of clear productivity and efficiency objectives linked to corporate strategy. Explicit targets, measurable goals, clear accountability.
Governance and accountability	Oversight, roles and responsibilities for delivering productivity outcomes. Dedicated governance forums, regular reporting, executive ownership.
Integration with expenditure planning	Evidence that productivity planning informs expenditure forecasts. Documented efficiency assumptions, scenario testing, cost challenge processes.
Measurement and tracking	Systems to monitor progress, quantify benefits, and report outcomes. Defined KPIs, annual reviews, internal audits, benchmarking and continuous improvement loops
Demonstrated outcomes	Evidence of realised efficiency gains or sustained performance improvement. Verified savings, trend analysis, external validation, reinvestment of savings.

4.3. Productivity and efficiency good practice

4.3.1. Efficiency framework and operational integration good practice

While productivity and efficiency frameworks can take a variety of forms, there are a range of features that underpin good practice.

A robust framework generally begins with well-defined strategic intent. This intent provides the foundation for what the organisation is seeking to achieve over the medium to long term, why these objectives are important, and how success will be measured. It acts as a reference point for decision-making and should be consistently referenced across expenditure-related strategies and plans. By providing a shared direction, it ensures that planning, budgeting and operational decisions remain aligned with broader corporate objectives.

In relation to how this success is measured, regulated businesses generally identify corporate cost savings targets, supported by identifiable short-term cost-saving initiatives. Longer-term forecasts may also include an overarching efficiency challenge designed to drive further productivity improvements. Although not all efficiency targets are tied to specific initiatives, they will still need to be quantified and embedded within budgets and forecasts.

This transparency supports accountability for delivery. It can be often formalised through a dedicated efficiency program that tracks and reports on initiatives as well as overall enterprise outcomes. These features are commonly seen across regulated submissions.

Integrating these targets into expenditure planning and budgeting, rather than treating them as separate or aspirational exercises, is important to realising the gains, iterating them with realistic outcomes in mind and ensuring benefits are eventually passed onto customers. Assumptions that are made throughout this process are discussed with business units when

undertaking bottom-up expenditure forecasting exercises, agreed with Executive leadership and explicitly documented.

Good practice approaches to measuring and tracking efficiency involve a consistent performance framework built around these performance targets. These targets should be aligned to key cost drivers and operational outcomes, such as unit costs, labour and asset productivity, costs per customer and delivery performance. These are applied consistently over time. These targets should also seek to distinguish between efficiency improvements and changes driven by external factors such as demand, weather, or regulatory requirements, supporting meaningful interpretation of results.

Regular review plays a critical role in assessing performance against these targets and maintaining ongoing accountability for delivery. These reviews typically combine quantitative and qualitative assessments of progress against targets and overall delivery of initiatives. Internal audits or independent assurance reviews are used periodically to test the robustness of efficiency measurement, the integrity of underlying data and the effectiveness of governance arrangements.

To support this, benchmarking against peers and relevant industry standards provides external reference points for performance and ambition. Good practice involves using benchmarking not as a mechanical target-setting tool, but as an input to identify improvement opportunities and inform management challenge.

4.3.2. Productivity and efficiency governance good practice

Good practice governance arrangements for productivity and efficiency do not necessarily require a standalone efficiency program. Rather, leading organisations embed productivity and efficiency within core governance, planning and decision-making frameworks, ensuring that efficiency is treated as an ongoing organisational discipline rather than a discrete initiative.

A key feature of good practice is the presence of clear governance structures and defined accountabilities. Responsibility for productivity and efficiency is typically distributed across relevant functions such as finance, asset planning, procurement and delivery while maintaining strong central oversight through executive and board-level governance forums. This ensures that efficiency considerations are consistently applied across the full investment lifecycle and that accountability for delivery is clearly understood.

Effective governance frameworks also incorporate structured challenge mechanisms. This includes formal investment assurance processes, gateway reviews and independent challenge functions that test assumptions, assess value-for-money and ensure that expenditure proposals are justified and aligned with organisational objectives. These mechanisms are critical in promoting disciplined decision-making and preventing cost escalation or scope expansion without appropriate scrutiny.

Integration is another defining characteristic of good practice. Productivity and efficiency should be embedded within expenditure planning, budgeting and portfolio sequencing processes, rather than treated as an overlay. This includes linking efficiency considerations to asset management planning, lifecycle modelling, procurement strategies and delivery models. Integration ensures that efficiency is considered at the point of decision-making and is reflected in both capital and operating expenditure forecasts.

Good practice governance also requires robust monitoring and reporting frameworks. This includes regular reporting to executive and board forums on financial performance, delivery outcomes and progress against efficiency initiatives. Performance frameworks should include clearly defined metrics aligned to key cost drivers and operational outcomes, such as unit costs, productivity measures and delivery performance indicators. Transparent reporting

supports accountability and enables timely intervention where performance deviates from expectations.

Another important feature is the ability to demonstrate application in practice. Strong governance frameworks are not only documented but are actively used to inform decisions, including the progression, deferral or modification of investments. Evidence of how governance processes influence outcomes such as reprioritisation decisions, cost adjustments or scope refinements provide assurance that frameworks are functioning effectively.

Continuous improvement is also central to good practice. Organisations typically implement internal audit, assurance reviews and benchmarking activities to assess the effectiveness of governance arrangements and identify areas for improvement. Lessons learned from delivery and performance outcomes should be fed back into planning and decision-making processes, supporting iterative improvement over time.

Finally, good practice governance supports the measurement and validation of efficiency outcomes. This includes establishing mechanisms to track realised savings, distinguish efficiency gains from external cost drivers and validate performance improvements. Over time, this enables organisations to build a credible evidence base demonstrating the effectiveness of their efficiency initiatives and governance arrangements.

4.4. Overview of productivity and efficiency measures

4.4.1. UU approach

UU's submission presents a mature approach to productivity and efficiency that is embedded within its broader strategic and operational planning framework. Productivity initiatives are not treated as stand-alone cost reduction exercises; rather, they are integrated into strategic intent, operational planning and financial forecasting processes, ensuring both a top-down and bottom-up perspective. This alignment is intended to ensure that efficiency improvements are repeatable, measurable and linked to service outcomes and long-term sustainability.

URA understands that UU's approach contains the following key features:

- **Strategic planning framework** - Statement of Strategic Intent establishes long-term priorities and direction. This strategic intent is operationalised through the Annual Operating Plan (AOP), under which a suite of strategic programs is delivered and through which management is held accountable.
- **Core productivity and efficiency pillars** - The productivity and efficiency strategy embedded in the Statement of Strategic Intent is structured around three themes:
    - A capital optimisation program focused on improving capital efficiency and asset utilisation.
    - An operational efficiencies program aimed at improving service delivery productivity and reducing operating costs.
    - A digital core modernisation program designed to improve data capability, automation and decision support.
- **AOP initiatives** - The AOP includes a dedicated Operational Efficiencies Program (OEP), which incorporates value stream mapping, zero-based budgeting and targeted operating expenditure efficiency initiatives. In addition, the AOP includes other productivity and efficiency initiatives spanning workforce optimisation, digital enablement and capital delivery improvements.

- **Integration with budgeting and forecasting** - Initiatives developed through the AOP feed directly into UU's budget planning and forecasting processes.
- **Quantifying OEP efficiencies through BST comparison** - Efficiency targets within the OEP are derived through an iterative comparison between a bottom-up build of efficient annual opex and the BST opex forecast. The difference between these two measures represents the efficiency savings UU must deliver to achieve the BST forecast.
- **Consistent application through risk and capital frameworks** - UU has provided a risk framework and asset management plans that demonstrates the utility's objective to provide value for money to customers. Specifically, these documents provide examples of UU prioritising investment decisions.
- **Recognition of non-cost benefits** - UU has indicated that its OEP recognises that productivity improvements extend beyond cost reductions. Benefits are assessed across multiple dimensions, including asset performance, workforce capability, process improvement, policy and governance enhancements, revenue outcomes and safety performance.
- **Structured reporting against targets** - Delivery is tracked at the initiative and program-level, and the overall delivery and financial impact is centrally tracked at the enterprise level by Finance.

Taken together, this framework demonstrates that UU's productivity and efficiency approach is embedded within its strategic planning and financial management processes, providing a structured basis for identifying, delivering and tracking efficiency improvements over time.

4.4.2. UU productivity and efficiency governance

UU manages productivity and efficiency through an integrated enterprise governance framework, rather than a standalone efficiency program. Productivity and efficiency are embedded across enterprise planning, capital investment assurance, asset management and delivery governance structures, with oversight exercised through established governance pathways including Investment Assurance, Gateway processes, Executive Leadership Team and Board reporting.

Oversight of productivity and efficiency is embedded within formal budget, investment and performance reporting cycles. Efficiency is positioned as an organisational discipline linked to affordability, financial sustainability, infrastructure resilience and service reliability, ensuring that cost discipline and productivity outcomes are considered alongside service and risk objectives.

UU's approach contains the following key features:

- **Structured and operating governance design:** The governance framework is clearly structured, documented and operating in practice. Evidence provided, including the Gateway Decision Process and Summary of Capital Challenge Processes (RFI 19), demonstrates that structured challenge of cost, scope and risk is embedded within investment decision-making prior to funding approval, supported by defined approval thresholds, escalation pathways and standardised assurance practices.
  Internal audit programs across asset planning, procurement and risk further demonstrate that governance arrangements are actively monitored and subject to continuous improvement, consistent with good industry practice.
- **Strategic intent embedded in planning frameworks:** Productivity and efficiency objectives are embedded within strategic planning, financial sustainability settings and long-term asset planning frameworks. UU provided evidence that these objectives are positioned as a core

organisational discipline required to manage growth funding pressures, infrastructure charge exposure, compliance obligations and delivery capacity constraints. This alignment ensures that governance frameworks support delivery of both service outcomes and efficiency objectives.

- **Multi-dimensional efficiency approach:** UU adopts a multi-dimensional approach to productivity and efficiency, incorporating capital productivity, lifecycle optimisation, procurement discipline and operational improvement initiatives. The Next Generation for Delivery (NG4D) model forms a central component of delivery governance, supported by defined performance metrics and program-level KPIs (RFI 20). Procurement governance is supported by structured compliance and assurance mechanisms, including internal audit and case study evidence (RFIs 33–35), demonstrating embedded commercial discipline and cost control practices. This approach indicates that efficiency is governed as part of value-for-money and affordability objectives rather than through discrete cost-reduction initiatives.
- **Governance and accountability:** Governance and accountability for efficiency are distributed across key functions, including Finance, Asset Planning, Procurement and Program Delivery. Investment Assurance, Gateway and Capital Challenge processes provide structured cross-functional challenge, supported by procurement and contract management frameworks, NG4D commercial controls and established Executive and Board oversight mechanisms.

  Business case development processes require articulation of service need, risk drivers and cost justification, ensuring that efficiency considerations are embedded within lifecycle decision-making.
- **Integration with expenditure planning:** Efficiency considerations are integrated into expenditure planning and investment sequencing. Long-term capital planning is supported by Strategic Asset Plans, lifecycle modelling, risk-based renewal methodologies and formal Gateway challenge processes. Procurement strategies and delivery models are aligned with performance and cost control objectives, ensuring that efficiency is considered across planning, approval and delivery stages.
- **Decision constraints and prioritisation:** Decision-making frameworks incorporate affordability constraints, risk considerations and delivery capacity factors within portfolio planning and sequencing processes. Evidence demonstrates that these factors are formally embedded within governance frameworks and planning methodologies. However, while the frameworks clearly support trade-off decision-making, limited direct examples were provided demonstrating how affordability, risk or delivery constraints have materially influenced specific prioritisation decisions in practice (RFIs 17, 18 and 21).
- **Measurement and continuous improvement:** UU provided evidence that productivity and efficiency performance is monitored through structured financial, delivery and program reporting frameworks. This includes capital and operating performance reporting (RFI 23), NG4D delivery and program KPIs (RFI 20), budget assurance processes and Enterprise Risk Management integration of cost, growth and compliance risks.
  Internal audit and assurance activities further demonstrate that governance processes are actively reviewed and refined over time. These arrangements support ongoing monitoring, accountability and continuous improvement in productivity and efficiency performance.

Overall, the evidence demonstrates that UU's governance framework is mature, integrated and operating effectively**,** with productivity and efficiency embedded across planning, decision-making and delivery processes.

4.5. Assessment

4.5.1. Productivity improvement and efficiency measures findings

URA's review highlighted potential areas that may warrant further examination into the OEP and that may present risks to UU as the Phase 2 method and submission are being finalised. Our key observations are:

- **Interaction between BST and OEP targets –** There are potential issues with the BST iterative method used to identify efficiency initiatives. Noting that there is some uncertainty about how the BST efficiency factor will be set for multiyear forecasts, UU in its interviews stated that it is currently based on sector wide benchmarking. This may not align well with regulatory expectations, which are directed to the business's ability to achieve a least cost service outcome based on its own circumstances and capability.
- **Validating non-cost based benefits –** Economic oversight typically places primary emphasis on efficiency (rather than productivity) because of its direct link to lowering prices. Productivity improvements, while beneficial, do not always translate into lower costs. For example, improvements in water-use productivity may reduce demand but necessitate more expensive supply or network solutions and increase costs.

  Where productivity initiatives do not clearly reduce costs, regulators generally expect to see a demonstrable link to customer outcomes, service objectives, resilience, environmental performance, or safety improvements. Clear articulation of these outcome linkages will assist in demonstrating the customer value of productivity initiatives that do not directly reduce expenditure.

These observations do not indicate deficiencies in UU's framework but identify areas where further clarification and evidence may assist in demonstrating transparency, deliverability and alignment with good practice regulatory expectations.

4.5.2. Productivity and efficiency criteria assessment

Table 12: Productivity and efficiency criteria assessment

Criterion	Observation	Recommendations
Strategic intent	• Productivity and efficiency objectives are embedded within UU's strategic planning, financial sustainability settings and asset planning frameworks. Material reviewed indicates that efficiency is positioned as an ongoing organisational discipline linked to affordability, growth pressures, compliance obligations and delivery capacity. • Efficiency is not structured as a standalone program; rather, it is integrated within broader planning and investment processes, including asset management planning and financial frameworks. This approach is consistent with good practice, where efficiency is embedded within core decision-making rather than treated as a discrete initiative. • As a result, while strategic intent is clearly embedded across planning processes, documentation provided does not include a single, consolidated view of how efficiency initiatives, targets and outcomes are coordinated and tracked at an enterprise level.	• No material gaps identified. • UU provided evidence that productivity and efficiency objectives are clearly articulated within strategic planning and financial sustainability frameworks and are consistently reflected across planning and investment processes, consistent with good industry practice.
Governance and accountability	• Governance and accountability for productivity and efficiency are distributed across Finance, Asset Planning, Procurement and Program Delivery functions, with oversight provided through executive and Board governance forums. • Structured challenge mechanisms are embedded within Investment Assurance, Gateway and Capital Challenge processes, which apply a cross-functional review of cost, scope and value-for-money considerations prior to funding approval. • NG4D delivery arrangements further incorporate performance monitoring, commercial controls and defined accountabilities within delivery. • Collectively, these arrangements indicate that governance for productivity and efficiency is embedded within broader organisational governance structures and operating in practice.	• No material gaps identified. • Governance arrangements are consistent with good practice, with defined roles, structured challenge and executive oversight evident. Phase 2 may consider how governance frameworks support verification of efficiency outcomes and accountability for delivery across programs and functions.

Table 12: Productivity and efficiency criteria assessment, continued

Criterion	Observation	Recommendations
Integration with expenditure planning	• Efficiency considerations are integrated into expenditure planning and investment sequencing. UU provided evidence that long-term capital planning is supported by Strategic Asset Plans, lifecycle modelling and risk-based renewal methodologies, which inform cost optimisation and timing of investment decisions. Formal Gateway challenge processes and procurement strategies embed cost discipline and value-for-money considerations across planning, approval and delivery stages. • Risk-based renewal methodologies and affordability settings guide capital prioritisation, with cross-functional challenge and governance oversight applied during sequencing and funding release decisions. This demonstrates that efficiency is embedded within decision-making processes rather than applied as a standalone program. • However, while governance frameworks clearly support trade-off decision-making, limited direct examples were provided demonstrating how affordability, risk or delivery capacity constraints have materially influenced specific prioritisation decisions in practice (RFIs 17, 18 and 21). • There are potential issues with the BST iterative method used to identify efficiency initiatives. There is some uncertainty about how the BST efficiency factor will be set for multiyear forecasts. UU in its interviews stated that it is currently based on sector wide benchmarking. This raises the following potential methodological issues: - Linking the OEP funding envelope to external efficiency benchmarks creates a risk that the envelope reflects the BST efficiency assumption rather than the level of efficiency UU considers achievable in practice. This arises because the OEP envelope is defined as the gap between UU's bottom-up cost estimate and the BST forecast. As a result, the size of the envelope is determined by the benchmarked efficiency rate applied through the BST, rather than by UU's own assessment of the efficiencies it can realistically deliver. - This may not align well with regulatory expectations, which are directed to the business's ability to achieve a least cost service outcome based on its own circumstances and capability. If the BST efficiency assumption is too ambitious, the OEP may include savings that are unlikely to be achievable. If the assumption is too conservative, the OEP may exclude savings that UU could reasonably have delivered. • We are conscious that other water utilities may engage in benchmarking efficiency factors to inform their aspirational efficiency targets. This is distinctly different from setting the BST efficiency factor based on benchmarking. We are also conscious that UU is currently developing its multi-year BST approach and that the Phase 2 proposals may provide more information on the basis for its BST efficiency factor.	• The material provided is sufficient to demonstrate integration of efficiency within planning and decision-making processes. • We note that the iterative BST approach UU has adopted to identify the size of its efficiency program potentially distorts the level of efficiency achievable by UU as it is driven by an external benchmarked efficiency target. We recommend that UU consider amending its approach such that the efficiencies identified in the bottom-up efficiency forecasts are used to inform its BST efficiency factor rather than the other way around. • As part of Phase 2, further clarity on the relationship between BST assumptions and efficiency program targets may assist in supporting transparency and assessment of deliverability.

Table 12: Productivity and efficiency criteria assessment

Criterion	Observation	Recommendations
Measurement and tracking	• Material provided indicates that efficiency initiatives are tracked and reported through a combination of program-level governance and enterprise reporting processes. This includes: - Operational Efficiency Program (OEP) reporting and dashboards - Finance-led initiative tracking and benefits monitoring - NG4D performance frameworks and productivity metrics - Reporting to Executive and Board through established governance pathways • These arrangements demonstrate that mechanisms are in place to monitor efficiency initiatives, track benefits and support accountability. • However, as discussed above, documentation does not present a single, consolidated enterprise-level view of how efficiency initiatives, targets and outcomes are coordinated and tracked across the organisation. Tracking appears to occur across multiple programs and governance pathways.	• No material gaps identified. • As UU progresses to Phase 2, a more consolidated view of efficiency initiatives and outcomes may assist in demonstrating: - Linkages between efficiency assumptions and expenditure forecasts. - Aggregation of efficiency outcomes across programs and delivery models. - Consistency of benefit measurement approaches and reporting.
Demonstrated outcomes	• UU provided evidence that governance structures support productivity monitoring and cost discipline, with the NG4D delivery model strengthening commercial control and performance transparency and procurement governance providing cost visibility and escalation control. • Performance trends indicate that while operating expenditure has increased over time, opex per connection has remained relatively stable (and declined for water services). Subject to confirmation that service standards and asset performance have been maintained, this provides indicative evidence of improving efficiency outcomes, supported in part by the delivery of productivity and efficiency initiatives. • Consistent with the Phase 1 process monitoring scope, UU provided evidence that governance, monitoring and reporting frameworks are in place to support the identification and tracking of efficiency outcomes. A more detailed assessment of quantified efficiency gains, underlying cost drivers and the sustainability of these outcomes will be undertaken in Phase 2 to support evaluation of efficiency ambition and delivery.	• No material gaps identified. • The material provided is sufficient to demonstrate that frameworks are in place to support efficiency outcomes. Phase 2 will provide an opportunity to further assess: - Quantified efficiency gains and supporting evidence. - Attribution of outcomes to specific initiatives. - Sustainability of efficiency improvements over time.

Inherent Limitations

This report has been prepared as outlined in the Scope Section. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently, no opinions or conclusions intended to convey assurance have been expressed. No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, the Queensland Competition Authority, Unitywater, Urban Utilities and personnel consulted as part of the process. URA has indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report. URA is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

This assessment has been prepared specifically to address the requirements of Phase 1 of the South East Queensland Distributor Retailer Price Monitoring Review 2026. It is limited to a review of governance, processes, procedures, forecasting approaches and productivity and efficiency initiatives relevant to that stage of the review. It does not extend to an assessment of the prudency and efficiency of Unitywater's or Urban Utilities' submitted operating or capital expenditures, which is to be considered separately as part of the later stage of the review.

The findings in this report have been formed on the above basis.

Third Party Reliance

This report is solely for the purpose set out in the Scope Section and for the Queensland Competition Authority's information and is not to be used for any other purpose or distributed to any other party without URA's prior written consent. This report has been prepared at the request of the Queensland Competition Authority in accordance with the terms and conditions contained within the letter of engagement with the Queensland Competition Authority. Other than our responsibility to the Queensland Competition Authority, neither URA nor any member or employee of URA undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.

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