

Attachment G

WAMC overheads

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Natural Resources
Access Regulator



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Introduction

WAMC uses activity-based costing to account for direct and indirect costs of WAMC water management activities (using WAMC activity codes). Where costs are not directly attributable to a certain WAMC activity but rather enable WAMC work generally, for example, program management and financial services, they are allocated to overheads which are spread across WAMC water management activity codes. That is, the costs detailed in this attachment are included in the WAMC activity costs detailed in Attachment F (WAMC activities and costs), they are not additional.

The method for calculating overheads differs between agencies because each agency has its own portfolio of indirect costs that support their water management activities. Efforts have been made to ensure overhead services and costs are not duplicated between WAMC agencies.

Appendix A provides more information about the method that each WAMC agency uses to calculate its overheads.

Current period expenditure and performance

Table 1: Current period overhead allowance and expenditure by WAMC agency (\$000, \$2024-25)

WAMC Agency	Allowance ^a	Actual overhead expenditure			
		2021-22	2022-23	2023-24	2024-25 ^b
DCCEEW	4,458	4,920	12,572	16,776	16,776
NRAR	2,713	2,948	3,546	3,724	3,789
WaterNSW	8,726	9,386	8,231	8,117	6,894
Total WAMC	15,897	17,253	24,348	28,616	27,459

^a Annual average IPART allowances

^b 2024-25 'actual' figures are forecasts at the time of submission.

Overheads expenditure increased in 2022-23, when the department brought within the Water Group critical core delivery services. This was a deliberate initiative to address past under-delivery of the Water Group and to respond to government and customers' expectations that the Water Group would be more effective in the delivery, governance and reporting of its growing work program.

Previously, the Water Group had been reliant on the intermittent availability of the department corporate services, which had been negatively impacting on the continuity and effectiveness of services and business improvements due to competing priorities.

This initiative strengthened the Water Group's WAMC business service finance, program management and reporting functions. It also created a new internal data and technology support function, resulting in:

- documented, effective systems of program governance and more skilled project managers, and the integration of all external reporting, including WAMC reporting, to reduce duplication
- more accurate and more effective financial management of the Water Group, including strengthened monthly WAMC Work Breakdown Structure (WBS) activity-based costing (budgeting, reporting, linked to staff time-sheeting) and the capacity to report WAMC as entity in Prime financial system (Prime), as part of the NSW State Budget
- efficiencies by joining up WAMC agencies' efforts to develop and plan for the implementation of the digital business improvement strategies (the digital roadmap).

Proposed services and costs for the 2026–30 pricing period

Table 2: Proposed overhead costs 2026–30 (\$000, \$2024–25)

WAMC agency overheads	Current period, IPART allowed (FY22–25, annual average)			Current period, actual expenditure (FY22–25, annual average)			Future period, proposed (FY26–30, annual average)		
	IPART allowed overhead (\$)	NRR (\$)	Portion of NRR (%)	Actual overhead expend. (\$)	Actual WAMC expend. (\$)	Portion of actuals (%)	Proposed overhead (\$)	Proposed NRR (\$)	Portion of NRR (%)
DCCEEW	4,458	35,129	13%	12,761	86,210	15%	14,277	73,580	19%
NRAR	2,713	19,122	12%	3,501	36,353	12%	4,008	34,633	12%
WaterNSW	8,726	32,885	27%	8,157	35,220	23%	6,825	50,510	14%
Total	15,897	87,137	18%	24,419	157,783	15%	25,110	158,723	16%

^a: Annual average amounts for both current and future period

Proposed overheads as a proportion of the total WAMC Notional Revenue Requirement (NRR) are slightly lower than in the current 2021 WAMC determination (i.e. 16% of total NRR, versus 18%). This 16% level is consistent with actual levels of overhead expenditure (15% of total NRR). It is also relatively close to comparable efficiency benchmarks, noting the analysis conducted by IPART's expenditure consultant during the 2016 IPART WAMC price review. At that time, Synergies benchmarked WAMC's overheads, then around 20% of total costs (using a PwC report on federal and state government agencies) in comparison with 7% to 14% for its peer group.¹

Relative to 2021 allowances, the proposed WAMC overheads are increasing by an average \$9.2 million per year (58%) compared to the allowed 2021 WAMC determination, and \$0.7 million per year above 2021 actual expenditures.

The main driver for increasing WAMC overhead costs is the incorporation of the department's WAMC business services costs (an increase of \$8.5 million per year) to include the in-Water Group

¹Synergies (2016), 'DPI Water Expenditure Review', p114

<https://www.ipart.nsw.gov.au/sites/default/files/documents/consultants_report_-_synergies_-_dpi_water_expenditure_review.pdf>

finance, program management, reporting, data and technology support function to support WAMC activities.

For the 2025–30 period only, Water Group overheads also include:

- the accountability and direct costs to the Water Group of achieving savings targeted in the WAMC Efficiency Strategy
- the accountability and direct costs to the Water Group of implementing the business improvement strategies.

This increase is mitigated by some reduction of the department’s corporate overhead rates, where functions were internalised in the Water Group (reduced from 6.7% to 6% of total operating expenditure, transferring around \$400,000 p.a. to WAMC business services).

Appendix C provides more information on each WAMC agency’s forecast overheads. Appendix D provides more information about details of the forecast department’s WAMC business services costs.

Appendix A: Method for calculating WAMC overheads by WAMC agency

The department and NRAR’s method for allocating WAMC overheads

Overhead costs are expenses that are indirect costs (not directly tied to an activity). Full cost recovery requires that an appropriate overhead component be recovered in the WAMC prices. A single overhead rate is used for all the department’s WAMC staff. Similarly, for NRAR, a single overhead rate is used for all NRAR staff.

Overhead costs are calculated as a total cost and then applied as a monetary rate per hour per WAMC to apportion WAMC overhead costs across WAMC activities. The calculation method for the overhead rate is:

$$\frac{\text{Total net overhead costs}}{(\text{total proposed DCCEEW FTEs}) * (\text{average worked hours per FTE})} = \text{overhead rate (\$) per FTE hour}$$

A summary and description of the department and NRAR cost components, which make up the total net overheads, are summarised in Table 3, below.

Table 3: Summary of the department and NRAR's components of total overheads

Overheads component	Description	Calculation method
The department corporate services	<p>Corporate services are overhead services that are centralised at the department level and charged to groups such as Water at a rate variable to costs.</p> <p>The corporate services which enable WAMC activities include:</p> <ul style="list-style-type: none"> • Corporate Services • People & Culture • Digital Information Office • Legal* • Office of the Secretary 	6% of proposed opex costs (excl. overheads) imposed by the department
Accommodation (Accom.) cost	Cost for accommodating staff in offices as a workstation rate	\$ rate per FTE
The department and NRAR WAMC business services	<p>Enabling functions within the department and NRAR that support delivery of WAMC water management activities indirectly, rather than specifically delivering a certain project. These functions include:</p> <ul style="list-style-type: none"> • Economic Advisory • Finance • Performance Management Office. • WAMC Efficiency Strategy • Technology Support 	Bottom-up built costs

* NRAR excludes the legal component from this overhead charge, considering legal services a core compliance function. Instead, NRAR covers the department's costs directly as a more reflective line item for its dedicated legal resources.

WaterNSW

WaterNSW has adopted several principles in the development of its cost allocation process. These include the principles outlined in IPART's Cost Allocation Guide, and applicable accounting standards that reflect good practice and regulatory precedent.

Cost allocation is a step-by-step process that involves:

- identifying and defining the cost objects to which costs will be assigned
- identifying and classifying costs as direct or indirect
- tracing direct costs and attributing them to the cost objects
- applying a method of relating indirect costs to the cost objects – i.e. allocating these to cost objects using appropriate allocators or cost drivers.

Net overheads are calculated by deducting those costs that can be directly allocated to regulated service streams, costs for non-core projects, costs for Warragamba Dam raising and other special projects and those costs that are capitalised from total gross overhead.

Net overhead is allocated across all the operations projects covering our core regulatory activities based on the project’s share of direct operating expenditure. The allocation process is documented in Figure 1 and Table 4 below.

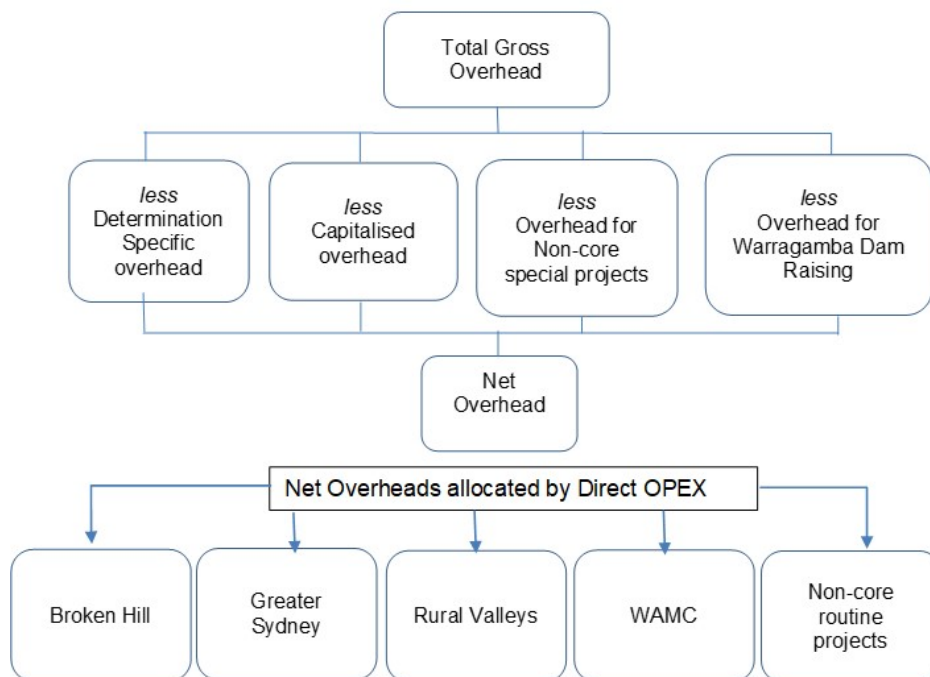


Figure 1: WaterNSW overhead allocation process

Table 4: WaterNSW overhead allocation process, procedural components and definitions

Procedural component	Definition
Gross overhead	Gross overhead comprises costs that are not directly attributed (coded) to a project or activity. This gross overhead comprises operational overhead and corporate service overhead. Operational overhead are costs not directly attributable to specific projects or activities, but which have a relationship with the operation and delivery of service streams.
Determination-specific overhead	Gross overhead is analysed, and those costs that can be specifically attributable to one of the pricing determinations are attributed directly to that pricing determination. For example, the work done on WAMC submission is attributable to WAMC services.
Capitalised overheads	According to accounting matching principles, there must be a direct connection between cost and the asset for the cost to be capitalised. We currently have two sources of overhead costs that are capitalised: <ul style="list-style-type: none"> • corporate costs • operational costs.

Procedural component	Definition
	A portion of these costs are added to the cost base of these fixed assets and depreciated over the life of these assets.
Capitalisation of corporate costs	<p>Based on industry benchmarking and accounting standards, we include a number of corporate overheads in the overhead pool for capitalisation, primarily based upon the nature of the business unit, being corporate, but excluding accounts that cannot be capitalised.</p> <p>Corporate overhead capitalisation is calculated using the formula: $\text{direct capex} / \text{totex} * \text{corporate overhead}$.</p> <p>Totex = direct capex + direct opex.</p> <p>Corporate overhead – overhead in corporate business units</p>
Corporate overhead allocation	Corporate overhead identified to be capitalised is applied to each of the capital projects based upon the proportional total capex spend in the period.
Capitalisation of operational business unit costs	<p>We capitalise overhead from the operational business units – operations, corporate affairs, strategy and performance (see operational overhead allocation).</p> <p>These costs cannot be directly associated to a single project but are incurred to support the delivery of projects. Where possible, people in other business units who spend time directly working on capex projects code their time to that project.</p>
Operational overhead allocation	Capitalised overhead from each operational business unit is charged to capex projects worked within each business unit, based on proportional total value of capex projects worked on by that business unit.
Overhead for non-core special projects	<p>These projects attract up to 10% of project direct operating expenditure as overhead, on the basis that they are incremental to current capacity. Examples of these projects are:</p> <ul style="list-style-type: none"> • ad hoc analyses and studies funded by DPI, e.g. Lachlan Valley water security option investigation, preliminary engineering investigation for Hunter Valley • National Water Infrastructure Development Fund (NWIDF), e.g. Mole River Valley and Dungowan Dam feasibility study.
Overhead for routine Core and non-core projects	<p>The remaining balance of overheads, after capitalisation and non-core special allocation, is applied against core and non-core projects based upon the direct operating expenditure methodology: completed alongside WaterNSW core (regulated) activities. Examples of non-core routine projects include:</p> <ul style="list-style-type: none"> • MDBA Constructing Authority • Border Rivers Commission • mining rectification • third-party hydropower.

Appendix B: Detailed breakdown of current period actual overhead expenditure

Table 5: The department's actual overheads by component (\$000, 2024-25)

Expenditure	Overheads component	Overheads subcomponent	Calculation method	Rate (annual)	2021-22	2022-23	2023-24	2024-25
Actual Operating Expenditure (using IPART endorsed method)	Corporate services	Corporate services, Places Performance & Culture, Legal, Strategy & Reform, Minister Liaison Office	% of proposed opex costs (excl. OH)	6.70%	2,623	2,623	3,248	3,248
	Accom. cost	Workstation rate	\$ rate per FTE	\$8k per FTE	1,525	1,985	1,649	1,649
	DCCEEW WAMC business services	Economic Advisory	Bottom-up costing		440	476	1,150	678
	Total WAMC actual costs				4,588	5,084	6,046	5,574
Additional externally funded WAMC overhead expenditure	DCCEEW WAMC business services	All WAMC business services	Bottom-up costing		332	7,487	10,730	11,202
Total department overheads expenditure					4,920	12,572	16,776	16,776

Table 6: NRAR actual overheads by component (\$000, 2024-25)

NRAR	Overheads component	Overheads subcomponent	Calculation method	Rate (annual)	2021-22	2022-23	2023-24	2024-25
Actual operating expenditure (using IPART-endorsed method)	Corporate services	Corporate services, Places Performance & Culture, Legal, Strategy & Reform, MLO	% of proposed opex costs (excl. OH)	6.70%	1,543	1,579	2,110	2,110
	Accom. cost	Workstation rate	\$ rate per FTE	\$8k per FTE	1,170	1,668	1,018	1,018
	DCCEEW WAMC business services	Economic Advisory	Bottom-up costing		235	299	595	660
	Total WAMC actual costs				2,948	3,546	3,724	3,789

Table 7: WaterNSW actual overheads by component

Segment	2020-21 (totex)	2021-22 (opex)	2022-23 (opex)	2023-24 (opex)	2024-25 (opex)	2026-30 (opex)
GS (%)	53%	46%	48%	46%	50%	48%
RV (%)	33%	37%	37%	35%	36%	37%
WAMC (%)	14%	17%	15%	19%	15%	16%
Total allocated costs (\$m 2024-25)	52.98	55.21	54.87	42.72	45.96	213.27

Appendix C: Detailed breakdown of forecast WAMC overheads

Table 8: The department forecast overheads by component FY2026–30 (\$000, 2024–25)

The department final draft overhead costs (\$000, \$2024–25)									
<i>Note: Excludes fee-for-service activity overheads (e.g. Water Licensing Improvement Program)</i>									
Overheads component	Overheads sub-component	Calc. method	Rate (annual)	2025–26	2026–27	2027–28	2028–29	2029–30	Ave. 2026–30
Corporate services	Corporate service	% of proposed opex costs (excl. OH)	1.50%	901	949	810	864	808	866
	Places Performance & Culture		0.75%	451	474	405	432	404	433
	Digital Information Office (DIO)		1.50%	901	949	810	864	808	866
	Legal		1.50%	901	949	810	864	808	866
	Office of the Secretary		0.75%	451	474	405	432	404	433
Accom. cost	Workstation rate	\$ rate per FTE	\$6,510 per FTE	1,813	2,015	1,655	1,782	1,639	1,781
The department WAMC business services	Finance	Bottom-up resource plans		600	598	598	598	691	617
	Program Mgmt. Office (PMO) & reporting			1,221	1,338	1,460	1,582	1,704	1,461
	Economics			455	454	1,506	1,318	966	940
	WAMC Efficiency Strategy			1,860	1,531	1,639	1,629	1,614	1,655
	Technology support			4,993	4,436	4,120	4,120	4,125	4,359
Total				14,547	14,166	14,217	14,484	13,972	14,277

NRAR

Similar to the department, NRAR has corporate services and accommodation costs set by the department. The cost drivers for the charges are the number of FTEs and the percentage of the revenue requirement.

Given its need for independence and the nature of sensitive work, NRAR has established internal business support services and justifies the contribution to efficiencies in compliance activities in the business case. Similarly, NRAR has dedicated legal resources, which are used solely for complaint-related activities and charged by the department as a service.

Consistent with IPART’s drive to find and remove duplication from the WAMC submission, NRAR has removed these components from the department’s charge. Essentially, NRAR pays the corporate services charge without the legal contribution and, like WaterNSW, NRAR does not contribute to the department WAMC business services charge.

NRAR uses the average annual operating budget, plus the attestation program before any deductions like compliance-based revenue take effect, as the basis for calculating the revenue requirement for the corporate service charge.

NRAR uses the workstation rate for the 181 FTE in the NRAR WAMC business case without the vacancy rate applied.

NRAR incorporates the full cost of the NRAR WAMC executive services as an overhead.

As seen in Table 9, the NRAR overhead cost has grown to around \$26,000 per FTE in the case, or \$16.87 per FTE hour.

Table 9: NRAR annual average forecast overheads by component FY26–30 (FY25)

NRAR overhead components	Rate	Amount
Average WAMC operational total*		\$36,893,837
The department corporate services charge	7.50%	\$2,767,038
Legal removed from the department’s corporate service charge (duplication, NRAR has an internal team)	1.50%	-\$553,408
The department workstation charge (FTE)	\$7,490	\$1,356,414
The department total charge		\$3,570,044
NRAR WAMC exec. services		\$ 438,400
NRAR WAMC total overhead		\$4,008,444
Proportion of WAMC revenue requirement		12.5%

*Operation total excludes deductions from compliance revue recovered and project line items

Appendix D: Detailed breakdown of forecast WAMC business services overhead costs

WAMC business services costs include the in-Water Group finance, program management, reporting, data and technology support function to support WAMC activities. This increase is mitigated by some reduction of the department's corporate overhead rates where functions were internalised in the Water Group (reduced from 6.7% to 6% of total operating expenditure, transferring around \$400,000 p.a. to WAMC business services).

For 2025–30 period only, the department WAMC business services also include:

- the accountability and direct costs to the department of achieving savings targeted in the WAMC Efficiency Strategy
- the accountability and the department's costs to WAMC of implementing the business improvement strategies.

Below is a summary of the proposed WAMC business services overhead costs and following a description of the services planned to be delivered.

Table 10: Summary of the department WAMC business services WAMC forecast overheads by component FY2026–30

The department's WAMC business services overhead costs (\$'000, \$2024-25)			2025	2026	2027	2028-	2029	Ave.
			-26	-27	-28	29	-30	2026
<i>Note: Excludes fee-for-service activity overheads (e.g. Water Licencing Improvement Program)</i>								-30
Overheads component	Overheads sub-component	Calc. method						
DCCEEW WAMC Business Services	Finance	Bottom-up resource plans	600	598	598	598	691	626
	PMO including reporting		1,221	1,338	1,460	1,582	1,704	1,489
	Economics		455	454	1,506	1,318	966	954
	WAMC Efficiency Strategy		1,860	1,531	1,639	1,629	1,614	1,665
	Technology support		4,993	4,436	4,120	4,120	4,125	4,425

Table 11: The department WAMC business services, forecast finance overheads

	Average annual proposed costs FY2026–30		Proposed outputs
	FTE	Total	
Water Finance	3.5	626	<ul style="list-style-type: none"> • Coordination of and systems for WAMC activity-based costing • WAMC activity code creation, review and management

			<ul style="list-style-type: none"> • WAMC financial reporting in Prime (monthly, quarterly, annual) • WAMC statutory account preparation and review • Financial governance and oversight • Audit of WAMC accounts (Audit Office) • Cash management • Treasury and Expenditure Review Committee coordination • WAMC asset planning coordination • Full asset revaluation for statutory accounts (every 5 years 2029-30) • Preparation for the full IPART determination process (every 5 years)
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The proposed Finance WAMC business service outputs are required by Government Sector Finance Act 2018 requirements, audit and reporting obligations and climate change disclosure requirements. The outputs of this work drive productivity savings by improving and optimising the business processes and output. This is done by:

- implementing the timesheet personnel distribution cost automation to improve the current process and the resource utilisation (estimated cost saving is \$1 million per annum)
- automation of IPART activity reporting in MyOutcomes by integrating the data from myWorkZone to MyOutcomes as part of overnight data refresh
- for the first time, annual audits of WAMC accounts, and WAMC established as entity in Prime.

Table 12: The department WAMC business services, forecast program management and reporting overheads

	Average annual proposed costs 2026-30		Proposed outputs
	FTE	Total	
Program Management Office	7.6	1,489	<ul style="list-style-type: none"> • Project and program management governance, framework implementation, maintenance and support • Project and program Monitoring, Evaluation and Reporting (MER) framework implementation, maintenance and support • Expertise in project delivery, scheduling and acceleration • Ongoing, efficient coordinated reporting <ul style="list-style-type: none"> — Annual IPART determination reporting to customers and IPART — Quarterly expenditure and performance reporting to the Water Executive and Roles and Responsibilities Agreement governance bodies — Other WAMC-related quarterly and annual reporting — Data analysis

Table 13: The department WAMC business services, economics advisory overheads

	Average annual proposed costs 2026-30		Proposed outputs
	FTE	Total	
Economics Advisory	3.7	954	<ul style="list-style-type: none"> • Development of the 2024 WAMC price proposal, management of the 2024 price review and implementation of the 2025 determination • Coordinating and developing the 2029 WAMC price proposal to justify and secure funding for water management activities delivered by the department • Stakeholder engagement on 2025–30 initiatives and in the development of the 2029 pricing proposal • ACCC reporting requirements • Ad hoc economic advice to inform WAMC activities • Ongoing advice to WAMC staff on reporting and development of the pricing proposal

Table 14: The department WAMC business services, WAMC Efficiency Strategy overheads

	Average annual proposed costs 2026-30		Proposed outputs
	FTE	Total	
WAMC Efficiency Strategy	3.6	645	<ul style="list-style-type: none"> • Scheduling and coordination of all necessary inputs to Water Sharing Plans (WSP), drive delivery of risk-based approach to WSP review and remake, and integrated quality assurance • Increased efficiency and coordination in engagement – reducing costs and duplication – including costs of greater Borealis CRM uptake • Continue efficiencies in joined up customer research and communications across WAMC activities • Process redesign, in line with digital investments, in order to ensure realisation of the benefits of digital business improvement strategies (technology roadmap) • Implement digital project management software system across all WAMC activities – to reduce project variation costs, increase delivery confidence and further reduce report costs
Upfront and ongoing investment	0	1,010	<ul style="list-style-type: none"> • Licences for single online program management system • Investment into the WAMC Efficiency Strategy

As set out in the WAMC Efficiency Strategy, the Water Group has an ambitious plan to realise productivity savings of circa \$15 million over the future determination period. In order to undertake these activities, staff and some upfront and ongoing investment is necessary to implement the plan.

The Water Group has made the decision to fast-track implementation of measures in the Efficiency Strategy in 2024/2025, starting with:

- the rollout of project management software system
- the rollout of project and program governance, risk and assurance frameworks
- streamlined, improved financial administration systems
- risk-based scheduling of WSP activities
- a coordinated MER framework.

These costs are included in the overheads as these initiatives are enablers, and a primary driver of business improvement within the Water Group.

Table 15: The department WAMC business services, technology support overheads

	Average annual proposed costs 2026-30		Proposed outputs
	FTE	Total	
Data improvement	6.3	1,345	<ul style="list-style-type: none"> • Embedding the ongoing capability to continue increasing transparency and public confidence in water resource management • A data quality capability tasked with elevating the quality of the department's data and making it fit for purpose • Data governance and access processes and procedures to improve speed of access to data • Heightened monitoring and performance to assure data is available as requested • Increased open data sets published and available on publicly available website data portals • Implemented document library for customers and community to access information
Technology uplift	13.6	3,016	<ul style="list-style-type: none"> • A planned, prioritised and delivered portfolio of the department's technology initiatives to meet WAMC requirements • Technical governance and coordination, so cross sector efficiency is achieved, and technology is connected and efficient • Heightened monitoring and performance to assure systems • Uplift of security systems and technology are resilient to emerging and future cyber threats • Systematise capability, so that the group retains knowledge and can implement programs and projects despite disruption • Implementation of a system, processes and procedures to appropriately handle, manage and store Aboriginal Indigenous, Culturally Intellectual Property, data and information

Average annual proposed costs 2026-30			
	FTE	Total	Proposed outputs
			<ul style="list-style-type: none"> • All systems and technology are performing to known and agreed service and performance levels • A team and capability responsible for the department's systems to be integrated and interoperable with sector and government systems