

Prodacapo leads the way at Sydney Water

Aubrey Joachim, financial manager of Sydney Water's asset management division is on a mission. Having overseen the transition to activity based costing and management (ABC/M) he has become a passionate advocate of Prodacapo and its role in the organization's transformation. How Aubrey Joachim and Sydney Water made it to where they are today makes for interesting reading.

Traditional budgeting process

Until about four years ago, the budgeting process within Joachim's division (responsible for two-thirds of the Sydney Water budget) was run along traditional lines. Starting in December of the previous year, managers followed the time-honoured approach of calculating their expected yearly costs. Asset Management then compiled the divisional budget, which was sent up the line to the corporate finance division. Says Joachim, "It was getting ridiculous. Our budget was being compiled from 1400 accounts. One line item was an amount of \$A6,198 for parking, and another for postage of \$A3,250 made 18 months in advance! Yet once the managers were given those dollars no one really monitored what happened afterwards."

Regulatory constraints

For a public utility such as Sydney Water there were also political sensitivities. Following corporatisation in 1996 of the pre-

“We went looking for efficiencies in our asset management, but needed to understand cost structures and their drivers, right down to the bottom level.”

vious entity, (Metropolitan Water and Sewage Board) the rules changed. From now on, Sydney Water would be fully exposed to market forces much like any other commercial enterprise. Yet, with pricing policy dictated by a government appointed regulatory body, its hands were tied. Any price increase to the customer would need to be justified on the basis that the utility was managing assets in the most efficient manner.

With a highly departmentalised organisational structure cutting across six operating divisions and three corporate divisions, finding the answer wasn't going to be easy.

Impetus for change

The impetus for the transition to ABC/M came in 2001 when funding from the State government was slashed. Corporate finance looked to the Asset Management team to make budget cuts. Unfortunately, the usual method of asking managers to identify where cuts could be made had little or no effect. Clearly, the traditional approach to budgeting (Joachim calls it 'command and control') wasn't going to work. A new, and constructive way of thinking was needed. Recalls Joachim, "My general manager came to me with the 'Asset Economic Model', a concept which stemmed from the belief that there is one optimum cost at which you can run a set of assets. ABC could help us to come to grips with finding what the optimum costs for running our set of assets." "OK," I said, "let's find it."

No stranger to ABC/M, Joachim was



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part of the team that introduced it to the state government's superannuation body in the early 90s. Sydney Water, however, was altogether different. Various spreadsheets and ABC-type packages were in

FACTS Sydney Water

Sydney Water is a State owned corporation, wholly owned by the people of New South Wales, Australia. Sydney Water provides drinking water, wastewater services, and some stormwater services to the communities of Sydney, the Blue Mountains and the Illawarra region.

Assets:	More than A\$13 billion
Staff:	Approx 3,700 employees
Revenue:	Approx A\$1.4 billion
Customers:	5 million

use, but the appropriate tools and software to handle new complexities were entirely lacking.

Prodacapo's management tools

Following a review of internal procedures and a detailed submission to the government's Independent Pricing and Regulatory Tribunal (IPART), Sydney Water announced a public tender in 2002. The proposed ABC solution would enable it to identify costs, validate them to the regulator, and find efficiencies. Says Joachim, "As a public utility, there were strict due diligence protocols. We searched far and wide for the best software and the best provider. Across every benchmark Prodacapo and ABM Systems – the Prodacapo distributor in Australia – came out in front." Prodacapo won out against some extremely tough competition.

Outcomes

Despite some initial reservations about moving away from traditional budgeting, deployment of Prodacapo's suite of management tools went ahead with the blessing of the entire management team.

WHY Sydney Water chose Prodacapo

- Satisfies complex requirements
- Intuitive user interface/web browser capabilities
- Easy access to all divisions and management levels of the organisation
- Allows for growth in modelling capacity
- Integrated balanced scorecard solution that enables broader performance management
- Cost effective
- Backed by quality services

The traditional budget mindset gave way to a new vision. Unlike before, Sydney Water now understands its activities instead of just its spending patterns, and can pinpoint the key activities that generate optimal savings and income. Specifically, Prodacapo has become an accepted part of day-to-day business management. "It's changing the way people think about their job and the way they do their job," remarks Joachim. "Managers can now ask and receive meaningful answers to such questions as: 'why are my operators spending 40 per cent of their hands-on time operating a plant, another 10 per cent on raising purchase orders, and so much on safety training and other administrative tasks?'"

In short, Prodacapo can identify product and service delivery costs, budget outputs, process costs, and capital and operating costs of infrastructure assets. And for any of its activities, Sydney Water can pose 'what-if' scenarios that can model costs. As a result, Joachim's division is now able to link ABC with asset management principles, and disseminate un-allocated cost pools as precisely as possible to their cost drivers.

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Leading edge practitioner

Joachim is proud of the fact that Sydney Water leads the way. Other divisions within the organization such as customer service are well down the same track pioneered by Asset Management. In fact,

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Joachim believes that at a global level, Sydney Water is well ahead of most other comparable utilities in using ABC to understand costs.

Traditional budgets may be a thing of the past, but that's not to say that budgeting has been dispensed with altogether. The fact is, Prodacapo ABC/M has enabled the utility to generate output budgets – and real time budgets that actually make sense. Prodacapo is now at the heart of Sydney Water's reporting and regulatory system. With the next pricing submission based solely on ABC due to go before the regulator there's a sense of real optimism.

Concludes Joachim, "the entire organization has recognised that managing processes across the entire organisation is critical. That's why Sydney Water has restructured its business around core processes, resulting in a greater focus on process analysis and costing. We have Prodacapo to thank for that."



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