PowerWater

CAPITAL INVESTMENT AND DELIVERY POLICY

1 Purpose

To ensure that Power Water Corporation's capital investments achieve value for money, through prudent decision making and efficient and effective delivery.

2 Scope

This policy applies to all capital expenditure (actual and proposed) on existing assets and the development of new assets, and outlines expectations in relation to the asset life cycle.

3 Background

3.1 Asset Development Lifecycle / Project Stages

There are five distinct phases in the development of an asset. This policy makes the distinction between each phase of the Asset Development Lifecycle and outlines the goals and expected outcomes of each phase.

The aim of the *investment planning* phase is to ensure prudent investment where a justified business need is established. During the *project development* phase, solutions are shaped (and best option chosen) to effectively respond to the established need. The goal of the *project commitment* phase is to fund the proposed solution and ensure efficient procurement to enable implementation. Efficient execution is the goal of the *project delivery* phase while performance, effectiveness and benefits delivered are examined in the *project review* phase.

Figure 1 – The Asset Development Lifecycle

3.2 Investment Logic – strategic alignment

The justification for an investment is demonstrated through the Investment Logic. The Investment Logic is the narrative that describes the alignment of a proposed investment with the achievement of corporate objectives and drivers. This is typically achieved through the establishment of projects, programs and portfolios that contribute directly to achieving corporate performance targets.

4 Policy

4.1 Governance Framework

The Corporation will ensure that a governance framework is in place to ensure the purpose of this policy is achieved. The governance framework will consist of (but is not limited to) approval gateways, monitoring and control mechanisms, performance metrics, authority delegations, policies, procedures, systems and audit programs.

In developing a governance framework, consideration shall be given to project's size and complexity, to ensure it is commensurate with the risk it represents to the Corporation.

4.1.1 Approval Gateways and Business Cases

As part of the Governance Framework, the Corporation will establish a series of Approval Gateways commensurate with a project's size and complexity. The Gateways will align with the 5 phases of the asset development lifecycle and act as investment decision points.

Submissions at each Gateway will be approved by the relevant delegated authority. Delegations will be approved by the Board.

4.1.2 Substitution and variances

The Corporation will monitor the capital program and track material cost and time variances. With the aim of achieving objectives within approved budget, substitution, deferral or acceleration of projects may be required from time to time. These adjustments to the program will be reported on a regular basis and decisions made in the context of priority (see 4.2.3) and the capital planning cycle.

4.1.3 Monitoring and Control

Central to the Governance Framework is monitoring and control of both the capital program and individual projects. All projects will be monitored against time, costs and outcomes through all phases of the asset development lifecycle.

4.2 Investment Planning

The objective of the Investment Planning Phase is to ensure proposed investments have robust investment logic and are prudent.

4.2.1 Investment Drivers

All proposed capital investments will respond to an investment driver or "need". Investment drivers are contained in Table 1:

Driver	Rationale	Example Project
Growth/Demand	Investment required to cater for additional demand caused by population growth or specific development	Augmentation of an existing water treatment plant to cater for a new development
Renewal/Replacement	Investment required to efficiently maintain levels of service as the asset has reached the end of its useful life or is obsolete	A like for like replacement of an asset that has reached its useful life
Compliance	Investment required to ensure compliance with regulations, licences and statutes	Upgrade of existing equipment to achieve current safety standards or update of sewerage treatment plant to meet discharge licence requirements
Service Improvement	Investment required to efficiently improve levels of service and reliability	A new feeder to provide addition redundancy to achieve a new prescribed service standard
Commercial/Efficiency	Investment in an asset that reduces lifecycle cost and improves financial performance	Installation of new efficient motors that will reduce fuel costs and pays for itself in a short period of time
Social/Environmental	Investment required to achieve specific social or environmental objectives or commitments that does not align above categories	A community service obligation project that would not otherwise be commercial or approved by the regulator

Table 1 – Investment Drivers

An investment may respond to multiple drivers. In such cases, a judgement shall be made as to which is the primary driver and which is the secondary driver.

4.2.2 Portfolios and Programs

Each Business Unit will establish a logical segmentation of their investment portfolio into programs of activity. Each program will have quantitative objectives that align and support the broader organisational targets and desired outcomes.

To justify proposed capital investment in each program, each Business Unit will produce strategic asset plans and operating strategies to outline how each program and its associated assets will be operated, maintained and developed to achieve agreed service levels and standards as efficiently as possible in the context of internal (e.g. asset condition) and external (e.g. demand) factors.

4.2.3 Prioritisation

As capital funds are finite, the investment program will be prioritised to ensure that what is most important is undertaken first. Each project or investment will have a score that represents its relative priority. Prioritisation is underpinned by the concept of maximising project benefits and outcomes against the available capital funding.

4.2.4 Capital Investment Program

The capital investment program will be updated on an annual basis. As a significant input into corporate planning processes, the timing of updates will align with corporate planning timeframes.

For Business Units that are subject to regulatory review periods, the scope of updates will depend on timing in relation to these regulatory review periods. The following table outlines annual review requirements for these Business Units:

	Major Review	Minor Review/Update
Frequency	5 years or align regulatory pricing submission	Annual
Scope	Scope of Minor Review plus review of: • targets and objectives • strategic asset plans etc. • associated programs and portfolios • program prioritisation and optimisation • external factors and drivers	Update includes: • re-phasing of project with latest information • latest costs estimates • scrutiny of variances, substitutions, deferrals and accelerations • Review and control of costs beyond current investment cycle and maintain 5year look ahead for SCI

Table 2 – Capital Planning Cycle

4.3 Project Development

The objective of the Project Development Phase is to ensure that proposed solutions effectively respond to the investment need in the most efficient manner. Key elements to achieving this are clear project requirements and robust development and consideration of options.

4.3.1 Project Requirements

Proposed projects shall have a clear set of project requirements, which will ultimately form success criteria by which the performance of the project will be reviewed. Project requirements should be quantifiable and measurable and focus on project outcomes.

Once a preferred option has been identified, more detailed project requirements can be formulated focusing on operational, functional and design standards and requirements.

4.3.2 Options analysis

In determining the most efficient and effective solution to an investment need, extensive options analysis will be undertaken. Each option shall be compared to the base "do nothing" option and as a minimum consist of financial analysis, but for more complex projects may include other analytical tools using multiple decision criteria.

4.3.3 Risk Management

During the development of a project (and options if required), a detailed risk (and opportunity) register will be produced. The risk register will be used to inform option decisions, procurement

strategy, improve accuracy of cost estimates and ensure plans are in place to manage risks effectively during the implementation phase.

4.4 Project Commitment

The objective of the project commitment phase is to ultimately approve funding of the proposed project, ensure that the project is "ready" for delivery and that an efficient delivery methodology is in place.

4.4.1 Readiness for delivery

Prior to final commitment to a project, the Corporation will ensure that a project implementation plan and all the elements of the Project Development phase have been completed to sufficient quality to ensure the organisation is not exposed to intolerable implementation risk.

4.4.2 Delivery Strategy

The corporation will seek to deliver projects as efficiently and effectively as possible. To achieve this, a proposed project (or program) will have a delivery strategy outlined in its Business Case. The delivery strategy will consider the specific project characteristics (e.g. risks) and seek to exploit economies of scale and scope where possible.

4.5 Project Delivery

The objective of the Project Delivery Phase is to ensure solutions are delivered efficiently and effectively through proficient Project Management.

4.5.1 Project Management

The Corporation will ensure resources are available to efficiently and effectively manage the implementation of the project.

The Project Manager is accountable for planning, leading, organising, monitoring and controlling the delivery of a project. This may include (but is not limited to) liaising with stakeholders, project monitoring and control, scheduling, resourcing, quality control, cost management and contract administration.

The Project Manager will follow all policies, procedures and guidelines contained in the Capital Investment and Delivery Framework and the established governance framework for the project or program.

4.6 Project Review

The objectives of the project review phase are to examine the performance, effectiveness and benefits delivered by a project with the view to realising the expected benefits and transferring learnings to subsequent projects.

4.6.1 Validate benefits and project performance

At the completion of each project, a Post Implementation Review (PIR) will be completed. The review will include an assessment of the project's performance in terms of timeliness, budget and achieving the objectives and realisation of benefits, and will highlight any insights and opportunities for improvement.

4.6.2 Continual Improvement

To ensure ongoing improvement, outputs from the PIR process will form the basis for a continual improvement program that will include process improvements, knowledge sharing and ongoing training for practitioners.

5 References and Related Documents

5.1 Capitalisation

This policy should be considered in conjunction with the *Accounting and Policy Manual - Section 11* which relates to Fixed Assets and in particular capitalisation standards.

5.2 Risk Management Policy

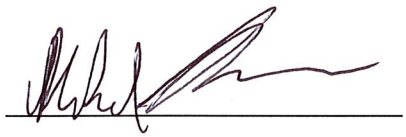
5.3 Capital Investment and Delivery Framework

The Capital Investment and Delivery Framework provides a link between this policy and its implementation. It provides a single point of reference for practitioners for all policies, guidelines, tools etc to ensure successful delivery of an investment.

6 Document Control

Document Reference/Date	31 August 2017
Next Review	August 2018

7 Approval



Michael Thomson

Chief Executive

31 August 2017

8 Appendices

a. Glossary (see attached)

Glossary

Effective – Achieves and meets all non-costs project objectives (e.g. desired functionality within timeframe required).

Efficient – The extent to which financial resources are well-utilised to deliver a project, demonstrated through low unit costs and minimising sunk cost.

Investment Portfolio – The overall conglomerate of projects and programs that if implemented collectively achieve specified corporate objectives.

Program – A group of projects that collectively achieve a specified outcome.

Project – An activity or vehicle to deliver a solution to a prudent investment need.

Prudent Investment – An investment that has been justified by meeting the following "tests":

- The driver for investment is clear and aligns with corporate objectives
- Timing of the project is optimal
- Has priority
- Demonstrable cost/benefit

Strategic Asset Plan (SAP) – A technical strategy that outline how each asset segment will be efficiently operated, maintained and developed in context of "internal" and "external" factors inherently linked to agreed standards of service. Internal factors may include operating constraints, asset condition and criticality. External factors could include growth and demand forecast, external regulation etc. Strategic Asset Plans provide the technical foundation to the investment logic behind a proposed investment program.

Value for Money - A measure of benefits balanced against the price and risk exposure of achieving those benefits. If an investment is prudent and is delivered efficiently and effectively, it will be deemed to have delivered value for money.