The Board's Strategic Directions 2016-2020

May 2016

LEGISLATIVE ASSEMBLY OF THE NT
TABLED DOCUMENTS

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Signed: [signature]

PowerWater

The Power and Water Corporation (Power and Water) is a Government Owned Corporation under the Government Owned Corporations Act 2001 (NT) ('GOC Act').

The objective (section 2) of the GOC Act is to provide a basis:

> *"(a) for improved performance by Government owned businesses; and*
>
> *(b) for greater sustainable financial returns to the Territory on its investment in those businesses,*
>
> *by providing a framework of greater autonomy combined with appropriate accountability of government businesses."*

The accountabilities of directors' section (section 15) of the GOC Act states that:

> *"(1) The board of a Government owned corporation is responsible for the operation of the corporation.*
>
> *(2) The board of a Government owned corporation is accountable to the Government owned corporation's shareholding Minister for the financial performance of the corporation.*
>
> *(3) If the board of a Government owned corporation forms the opinion that matters have arisen:*
>
> *(a) that may prevent, or significantly affect, achievement of the objectives of the Government owned corporation and its subsidiaries in the corporation's statement of corporate intent; or*
>
> *(b) that may prevent, or significantly affect, achievement of the targets in the corporation's statement of corporate intent,*
>
> *the board must immediately notify the Government owned corporation's shareholding Minister of its opinion and the reasons for the opinion."*

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1. Preface

The Board of the Power and Water Corporation has completed a re-assessment of the corporate strategies required over the next three to five years.

This re-assessment has primarily been in response to the long-time planning, controls and accountability shortfalls increasingly evident within the Corporation since structural separation in mid-2014, including those highlighted by the external audit of the Corporation's 2014-15 annual financial statements.

As a result, the Board has committed both to tackling the weaknesses in the Corporation's business systems and processes and to building the foundations for sustainable improvements in the Corporation's financial and operating performance. The Board will do so in ways that ensure improved financial transparency and see greater benefits for the Corporation's customers, its shareholder and the people of the Northern Territory.

The views expressed in this paper are those of the Board, as they deal with matters of *corporate* strategy and goals. [Corporate strategy can be distinguished from business or functional strategies, with the latter more usually being recommended by management and endorsed by the Board.] The mandate of a board of directors is to develop a corporate strategy that translates its vision for the corporation into measurable high-level objectives and goals. Board responsibilities contrast with those of management. Management's role, within parameters set by the Board, is to determine and oversee implementation of the Board's corporate strategy to ensure the associated objectives and goals are achieved.

The Board therefore expects this Strategic Directions paper to be followed within three months by a corporate plan prepared by management. This will detail how the Corporation's management will implement the Board's corporate strategy to achieve the objectives and goals set by the Board.

The Board's role is also to communicate performance expectations to the Corporation's key stakeholders. Failure to effectively communicate can weaken stakeholder confidence levels, to the detriment of the Corporation.

To that end, this paper also provides more context to the business improvement targets incorporated by the Board into the Corporation's 2016-17 Statement of Corporate Intent.

This Strategic Directions paper therefore details the corporate strategies endorsed by the Board through to 2020, for the information of all stakeholders as well as for the guidance of management.

As such, the views expressed in this paper are those of the Board of Directors of the Power and Water Corporation, and not necessarily those of the NT Government or the Corporation's Shareholding Minister.

Alan Tregilgas
Chairman, Board of Directors
May 2016

2. Executive Summary

The Board of Directors ('the Board') of the Power and Water Corporation ('Power and Water') recognises that recent developments have revealed a number of areas of financial, governance and operating under-performance which predated structural separation.

Most immediately, as highlighted by the Auditor General's examination of the 2014-15 annual financial statements, Power and Water's contribution to the effective separation of financial reporting between the three government-owned (power) corporations fell short in a number of respects. Significant issues within the Corporation's business systems and processes are largely at fault. In particular, asset management and financial management information, processes and systems all require significant work to get to an acceptable level. The interfaces between the Corporation's various financial systems are also in need of significant rework.

More fundamentally, Power and Water's financial performance has lagged behind that of comparable utilities. The Board's analysis paints an overall picture of the Corporation having higher costs and generally lower performance results than industry peers. There are unique Northern Territory operating factors that undoubtedly contribute to higher input costs. However, these factors are not the sole reason for the Corporation's under-performance and higher cost base. Other causes inherent in the way the Corporation operates certainly also contribute to poor financial outcomes. The most obvious issues are the large corporate overhead, and problems in relation to information technology system effectiveness, general financial and core operating practices, and project initiation and delivery - all reflecting gaps in planning, controls and accountability.

Looking ahead, Power and Water is also facing a range of emerging external factors that will challenge the Corporation's ability to deliver on its objectives and fulfil operational and financial performance obligations.

Failure to respond to either set of issues increases the risk that consumer prices and/or the Corporation's reliance on taxpayer support will be higher than necessary.

Responsibility for addressing all these issues rests with the Corporation's Board and executive management team. The Board and management now in place have committed to addressing these issues systematically and sustainably. There is a need to act now.

The Corporation has already reviewed (and is resetting and simplifying) business processes and systems to address deficiencies, in order to build the foundations for improved transparency, accountability and performance.

In addition, the Board's strategic analysis has highlighted the need for an approach to business improvement that differs fundamentally from previous attempts.

Accordingly, the Board has initiated a Business Transformation Program to provide greater assurance that the Board's strategic goals will be delivered. The Program's initiatives will ensure the Corporation delivers performance improvements for its customers, the government and the Northern Territory community. The Program reflects the Board's vision for Power and Water as a customer-centric, multi-utility corporation that delivers services at benchmark costs.

The Business Transformation Program will involve a strategic, top-down approach that is planned and implemented in a formal, structured manner. Key to the Program's success is the establishment of an effective Project Management Office (PMO). The PMO will act as custodians for the Business Transformation Program reporting directly to the Chief Executive.

Many existing projects and initiatives, such as the Financial Management Improvement Program, the Asset Management Capability project and the IT Strategy will come under the Business Transformation Program, with PMO oversight. Some planned projects may be stopped as the PMO begins priority project identification to support achievement of the Board's objectives and goals. The Board has also requested that the Business Transformation Program be funded by re-directing funding from stopped projects to Business Transformation Program priority projects.

The PMO's first objective will be to facilitate priority projects, as identified in response to the external audit of the Corporation's annual financial statements for 2014-15, and to initiate additional business transformation solutions to meet the Board's medium term goals.

The PMO will be resourced primarily by Power and Water employees, the majority of whom should be from operating business units. The leaders and champions of business transformation must come from within the Corporation itself. The Board recognises also that external support and expertise is important to ensure Program success. External specialists will provide additional thought leadership, coach Power and Water employees during the PMO's establishment phase, and mentor (and challenge) the Executive Leadership Team to deliver successful outcomes. The Board has authorised external resourcing through to August 2016.

The Board's goals for Power and Water, by 2020, are that each business unit is fully accountable for its performance and that corporate functions are re-focused on essential whole-of-corporation support. The Corporation will have the people, processes and systems to be a best practice, commercially focused and customer centric multi-utility that is respected by the community.

The Board's Role

3. Strategic Overview

3.1 Vision

The Board has refined the Corporation's vision statement to strengthen the message and to improve alignment with the Board's strategic directions for the Corporation.

This renewed vision captures Power and Water's transformation journey, both for staff and external stakeholders, thereby strengthening the focus on achieving the Corporation's strategic goals.

Vision: To be a best practice, commercially focused and customer centric multi-utility respected by the community for its contribution to the NT economy and its pursuit of the long-term interests of consumers

3.2 Guiding principles

The Board has identified key business improvement themes, outlined in Table 3.1 below. These themes seek to address the current performance issues with a positive outlook.

Table 3.1: Key business improvement themes

Guiding principles of change	This means ...
a) We have a commercially sustainable business	We have financially sustainable, predictable and transparent outcomes which are supported by effective risk, compliance and project governance processes. We have confidence in the reporting of financial and operating performance.
b) We are as good as our peers	We have contemporary and reliable services with benchmark-driven targets, equitable pricing and a proactive commercial focus. Our approach is customer centric.
c) We embrace a 'no surprises' culture	We ensure that safety and risk management are an integral part of the way we operate.
d) We have the right people and the right culture	We emphasise the wellbeing of our people with a positive, proactive culture which embodies accountability, trust, leadership and delivering on promises.
e) We seek insight into external perspectives and respond positively	We are aware of our external footprint and consider future industry trends. We engage effectively with stakeholders and seek to understand customer needs – and respond accordingly.

3.3 Key strategies

Using the guiding principles as a base, along with its assessment of the current state of the Corporation, the Board has adopted six overarching strategies, outlined in Table 3.2 below.

Table 3.2: Key corporate strategies

	Strategy	This means ...
Core Strategies	1. Customer focus	Embedding a customer focus in the way we deliver all our services. Customer focus must include internal service delivery.
	2. Commercial sustainability	Instilling high-level financial discipline, so that benchmark cost-to-serve and key financial targets are progressively achieved over time.
	3. Whole-of-corporation governance and risk management	Embedding governance and risk management processes into our culture so that we are confident in the integrity of our operations. Ensuring our whole-of-corporation (corporate) functional capabilities are aligned to business needs. This includes our cost to serve, service quality and corporate input costs being comparable to our peers and our corporate capability helping the business adapt to future industry change.
	4. Line-of-business governance and operation	Embedding line-of-business accountabilities and multi-utility operations into our governance and management arrangements. Ensuring each line of business develops its own business strategy against which its efficiency and effectiveness can be measured, and compared with benchmarks from similar businesses.
Supporting Strategies	5. Safety	Aiming for zero harm. Ensuring our people go home safely at the end of each day.
	6. People and culture	Ensuring the capability of our people and the culture that we live contribute meaningfully to our success.

3.4 Strategic objectives and targets

The Board has identified the desired outcomes, key performance indicators (KPIs) and targets set for FY20 (2019-20) associated with each of the six strategies to ensure accountability. The KPIs and the targets for each will be confirmed during the initial stages of the Business Transformation Program.

The desired outcomes, KPIs and targets shown here are the top-level corporate goals. Management will take responsibility for these goals being broken down into sub goals and cascaded through the Corporation. This will provide the basis for establishing group targets and individual performance plans which will support the prioritisation, execution and ownership of change initiatives.

The goals set by the Board for the period through to FY20 are outlined in Table 3.3 overleaf.

Table 3.3: Key goals and targets

Strategy	Desired outcomes	Primary KPIs	Targets
1. Customer focus	Demonstrably improved external perception (reputation)	Customer satisfaction score	At least median performance
		Key service reliability indicators	At least median performance
2. Commercial sustainability	Sustainably cost efficient	Total opex as % of revenue (excluding gas purchases and gas sales respectively)	No more than 50%
		Corporate opex as % of total opex (excluding gas purchases)	No more than 15% after total opex improvement
		Externally-assessed stand-alone credit rating	Interest covers and liquidity ratios at least at levels qualifying for a minimum investment grade stand-alone credit rating
3. Whole-of-corporation governance and risk management	Corporate operations and oversight meet industry standards	Financial management operational and project indicators Asset management operational and project indicators Information technology operational and project indicators	Projects scoped and signed off before commencement Projects delivered on time and cost with benefits realised Systems integrated effectively Appropriate reporting tools
		Functional strategies for financial management, asset management and information technology	Fully documented, adopted and monitored
		Number of controllable residual risks in Very High and Severe categories	Zero
4. Line-of-business governance and operation	Multi-utility operations and oversight meet industry standards	Annual financial statements for each line of business	Externally audited (or equivalent) Business units accountable for performance Service level agreements for all shared services are in place
		Business strategies for each line of business	Fully documented, adopted and monitored
		Performance accountability for each line of business	General Managers are fully accountable for all aspects of their business unit's performance
5. Safety	Zero harm	Lost Time Injury Frequency Rate	At least median performance
6. People and culture	An engaged workforce aligned to the transformation program	Employee Engagement and Organisation Health Score	At least 75% (based on current methodology)

3.5 Business Transformation Program

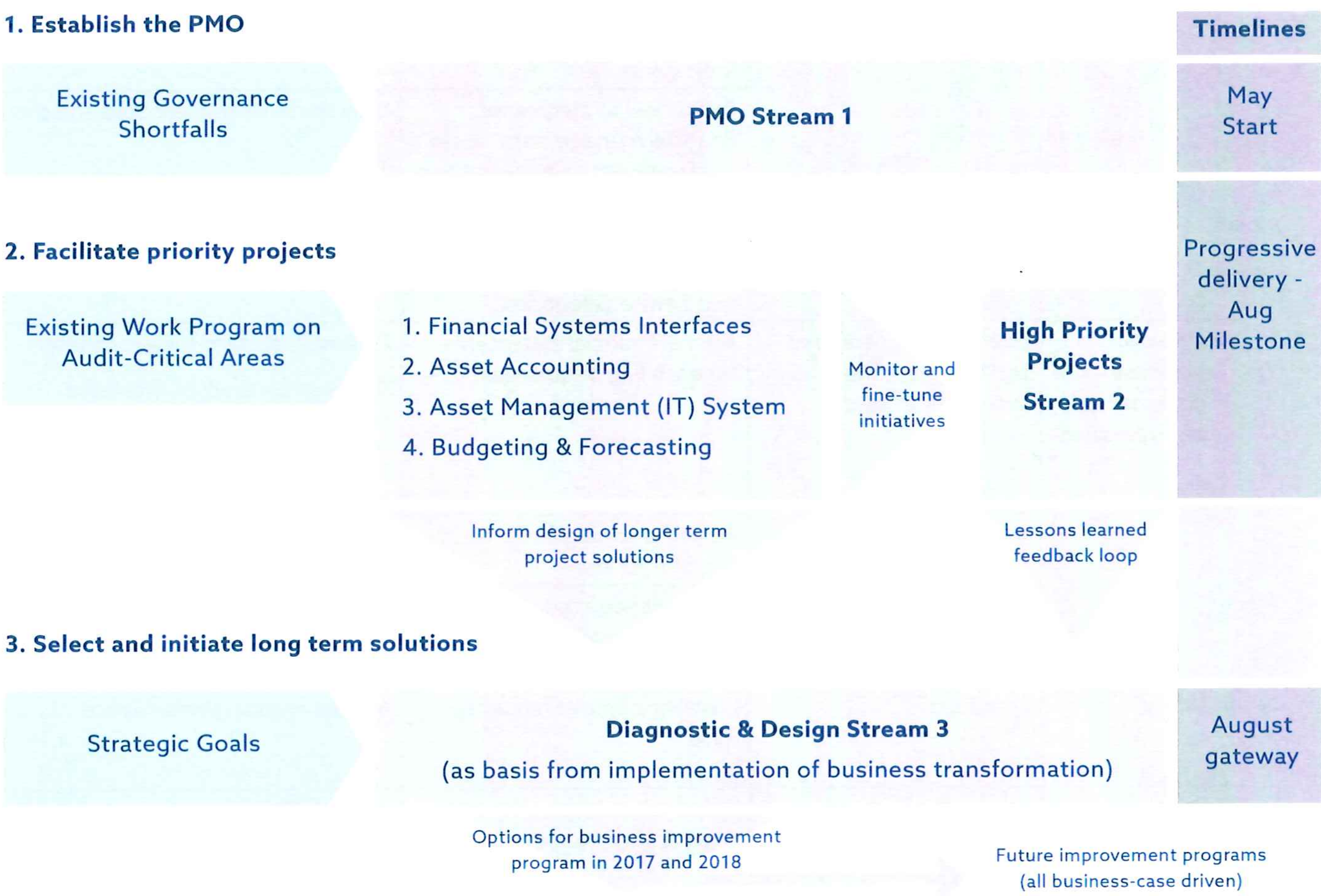
To ensure its targeted goals and outcomes are achieved, the Board has initiated a Business Transformation Program. This strategic, top-down approach, implemented in a formal, structured manner, offers the best chance for success - particularly given Power and Water's poor change implementation history.

The program involves proactive measures to identify operations and governance improvement opportunities, and to attain financial sustainability. A considered approach will avoid 'knee-jerk' reactions which would bring considerable risk of limiting long-term sustainability and triggering erratic operational performance.

Key to this program is the establishment of an effective Project Management Office (PMO) to act as the Business Transformation Program custodian. The PMO's first objective will be to facilitate priority projects, as identified during the external audit of the Corporation's annual financial statements for 2014-15, and to initiate additional business transformation solutions to meet the Board's goals.

The PMO will be resourced primarily by Power and Water employees, the majority of whom ideally should be from operating business units. The leaders and champions of business transformation must come from within the Corporation itself. The Board recognises too that external support and expertise is important to ensure Program success. External specialists will provide additional thought leadership, coach Power and Water employees during the PMO's establishment phase, and mentor (and challenge) the Executive Leadership Team to drive successful outcomes. The Board has authorised external resourcing through to August 2016. The initial steps to be taken by the PMO are outlined below in Figure 3.1.

Figure 3.1: Business transformation program: initial phase



4. Strategic Analysis

This section documents the key operational and external factors driving the need to reset Power and Water's strategic direction. It includes a strengths-weaknesses-opportunities-threats (SWOT) analysis.

4.1 What role does the Board play?

Section 15 of the GOC Act states that the Board of Directors is specifically:

- *responsible* "for the operation of the Corporation", and
- *accountable* to the Shareholding Minister "for the financial performance of the Corporation".

As highlighted in Box 4.1, based on good governance principles, key features of the Board's role in relation to operation of the Corporation is driving the strategic direction of the Corporation, developing policies and ensuring corporate strategy translates the Board's vision for the Corporation into measurable objectives and goals. The Board must also regularly assess activities of the Corporation against that vision statement and those goals, to ensure the Corporation is meeting its original purposes.

These responsibilities cannot be delegated, and the Board must always reserve to itself all matters which can have a material impact on the Corporation's reputation and financial sustainability.

The Chief Executive (supported by the Executive Leadership Team) is responsible, within parameters set by the Board, for determining and overseeing implementation of the Board's strategic direction to ensure Corporation goals and objectives are achieved.

The Chief Executive is also responsible for ensuring that the workforce is aware of the strategic direction, goals and policies of the Corporation to ensure a unified direction. The role of the Executive Leadership Team focuses on implementation of the measurable objectives and goals developed by the Board.

The Board can only deliver results through the day-to-day activity of the Chief Executive and the Power and Water workforce. However, the Board must take responsibility for the overall performance of the Corporation. The Board appoints the Chief Executive and delegates accountabilities to the Chief Executive for delivery, but it cannot delegate accountability for success or failure.

...the Board...cannot delegate accountability for success or failure.

Box 4.1: The role of the Board of Directors

	Accountability (Conformance)	Leadership (Performance)
External Focus	External Accountability	External Focus
	Approve and work with CEO	
Internal Focus	Monitoring and supervising	Policy making
	Past and present oriented	Future oriented

Source: Robert I. Tricker, *International Corporate Governance: Text Readings and Cases*, New York: Prentice Hall: 1994, p.149

It is generally accepted that a Board of Directors must simultaneously ensure:

- Conformance – monitoring management in terms of how well it runs the Corporation in the interest of the community, government, other relevant stakeholders and in accordance with the law, and
- Performance – setting objectives and working with management to improve the Corporation's delivery against agreed objectives, in particular maximising the benefits delivered against the resources available.

Accountability (conformance)

The Board's conformance role is primarily concerned with establishing effective accountability. Accountability has a strong past and present orientation; it is the foundation upon which most other things are built.

Boards of government-owned corporations have an external accountability to the government as owner and funder, and to regulatory authorities in terms of how each business delivers its services.

Internal accountability requires that the Board has policies and processes in place to monitor and supervise the delivery of results by management (and others as required). The depth of this monitoring and supervision by a board will depend on the capability of management. However, going 'hands free' and depending solely on management to deliver what it thinks is required is a flawed governance practice.

Leadership (performance)

The Board's performance role means setting the strategic direction for the Corporation – deciding what it should and shouldn't do – and ensuring policies are in place to deliver on the strategy. This performance role is primarily about leadership. Boards should not passively rubber stamp management decisions – this would be to abrogate the performance role. In short, boards should actively provide leadership to management to achieve sustained, above-average performance.

Setting and approving strategy is an important role for the Board in driving performance of the Corporation. Strategy defines how the expectations of stakeholders will be met, especially community and the Government. Strategy defines the 'success model' for a corporation, because management's day to day decision making should be directed by corporate strategy. However, the planning process often associated with strategy is not strategy *per se*. What really matters is being clear about the direction the Corporation should take and the possibilities to make this happen; planning can then be undertaken by management within this framework.

The internal performance orientation is manifested in policies (and culture) that translate the strategy into an effectively operating corporation. Policies developed by management and approved by their board set up the ways in which a corporation enables its strategy and makes decisions. Policies can include responses to legislative provisions, as well as policies designed to enhance corporation performance. Strategy needs to be underpinned by a set of policies that are focussed on supporting superior performance for the Corporation; so too do the accountability roles outlined above.

4.2 Strengths (and opportunities)

4.2.1 Monopoly and regulated services

Since structural separation in 2014, Power and Water's remaining utility businesses operate in a monopoly environment, subject to varying degrees of regulation. This environment has the potential advantages of regulated sectors such as commercially attractive shareholder returns. While regulatory changes will continue, a regulated utility operated well should be able to deliver consistent returns with growing asset values.

However, leveraging the natural strengths of a regulated multi-utility requires a sustained focus on good governance and management, and so strong operational practice and performance. Power and Water's track record in this regard is discussed in section 4.4 below, recognising strategic weaknesses.

Power and Water needs to better understand its business and financial performance. This starts with sound foundations of integrated financial, asset and revenue systems and with accurate performance reporting. With a robust foundation, the Board and management can effectively monitor, benchmark and improve Corporation performance.

4.2.2 Government ownership

Power and Water's government ownership provides significant advantages. The Corporation has access to capital (whether debt or equity) at a lower cost than privately-owned utilities. While no government guarantee is involved, the Corporation's bankers and suppliers recognise the strong parent support of its owner-government.

Government ownership naturally supports a customer-centric and community-minded approach, and the adoption of more socially responsible objectives than privately-owned utilities. The Board regards these features as inherent strengths for Power and Water. Also, the owner-government does not require the same financial returns as those required by privately-owned utilities.

However, any additional Corporation capital, not funded from operating cash flows, must be borrowed through Treasury. This impacts Northern Territory public debt levels. By contrast, privately-owned utilities are finding it increasingly easier than government-owned corporations to access the capital necessary to grow a utility business's asset base. Governments generally are sensitive to debt levels and may prefer to limit debt levels or prioritise the use of debt levels across other government services such as health and education.

4.2.3 Economies of scale and scope

Power and Water is comprised of five distinct lines of business, namely: Power Networks, Water Services, Remote Operations, System Control and Gas Supply.

Advantages of Power and Water's multi-utility nature include scale and scope economies across corporate and operational capabilities, which in turn can deliver improved returns and reduce risk. When Power and Water was formed as a multi-utility 27 years ago, no doubt this was with a view to realising:

- back office synergies and savings
- field service synergies and savings
- service innovation and customer value-add.

The governance and management of these various businesses present unique challenges, and the complexities associated with Power and Water's multi-utility nature cannot be downplayed.

Leveraging multi-utility strengths requires a continuous focus on good governance and effective management. While structural separation has played a clear role in separating contestable from monopoly businesses, it is notable that the goals of structural separation more generally were increased financial transparency, increased Board focus and improved accountability. These important goals are relevant also to Power and Water as the Corporation's ongoing integrated structure can limit incentives to operate efficiently. For example:

- the lack of financial transparency and scope for cross-business subsidisation can impact on financial performance accountability levels.
- the complexities of a varied range of businesses also present challenges for a single board and management.

The Board recognises the importance of improved financial transparency and business level accounting separation. Doing so will diminish pressures for further legal separation. The Board is determined to achieve the goals of increased financial transparency, increased Board focus and improved accountability to the maximum extent possible within a multi-utility business.

4.2.4 Committed workforce

Power and Water has performed well on staff engagement measures. This is an important foundation for the Corporation's aspirations of improved performance outcomes.

Power and Water has excellent people who are driven to tackle the changing utility industry, meet the needs of the Corporation's customers and face the demands of its unique environment.

Its operating business units too are committed to delivering well on tactical maintenance and engineering.

Our people make sure we keep the lights on and that our water is clean and safe.

People across the Corporation are motivated to make a difference for the benefit of Territorians, but they are overdue for leadership, direction and the changes necessary to be truly customer centric. Many staff feel disengaged and frustrated by their lack of empowerment and capacity to meet customer needs.

The Corporation has many inherent strengths not shared by businesses which are privately owned or non-integrated or subject to competition.

4.3 Threats (and opportunities)

The chart below (Figure 4.1) indicates the key external factors that will influence Power and Water over the next five years.

These external developments represent both threats and opportunities for the Corporation.

There is the real threat that entering the Australian Energy Regulator's (AER) revenue determination regime (due in FY20) will leave Power and Water exposed to material price reductions if the Corporation does not proactively reduce costs and improve capital expenditure efficiency. It is assumed that the AER will be able to identify Power and Water's relative inefficiency and act accordingly. Capital expenditure will also be reviewed for appropriateness by the AER and, if authorised projects exceed budget, there is a risk that the increased costs could be unrecoverable through revenue (becoming a direct financial cost).

Entering the AER regulatory regime therefore poses financial risks to the Corporation. The negative impact could be as high as $20Mpa based on current Corporation financials. This estimate allows for the unique operating conditions for the Corporation including scale and geographic disadvantages.

Over the medium to longer term, the power industry is subject to external pressures associated with emerging technologies, including power storage and alternate generation capacity. This will have implications for the levels, timing and flows of power across networks. This will also challenge power companies' ability to recover fixed costs, technically maintain the network, and work with its customers to maintain optimal financial and operating performance. While the impact may occur with different timing and impacts in the Northern Territory, it is inevitable that change will occur and that Power and Water will need to respond.

Darwin region water supply is strongly influenced by climate, including the seasonal nature of rainfall in the wet/dry tropics and the forecast impacts of climate change. More rapid growth than first forecast means Power and Water must develop water sources on a greater scale than was previously planned. It is estimated that the Manton Dam upgrades will come at a cost of $150M, and the cost of planned future dam sites are estimated to be in the $200M-$500M range.

Figure 4.1: External threats (and opportunities)

	Power Networks	Water & Sewerage	Gas Supply	System Control	Remote Operations
FY16	Annual pricing Proposal (to FY19)	Annual Pricing Orders (thru FY20)			3 year initial DCLGS Agreement - Financial Performance Management; USO/ CSO minimisation. Decisions req'd on delivery & contract models & consolidation of all NFP services (incl. water/sewerage) to IES.
FY17	AER Framework & Approach Decision		Index - Ichthys JV Startup	Full Market Operations Commonwealth Carbon Scheme	
FY18	Regulatory Proposal to AER, AER Draft, Decision, Final Determination on revenue and network prices	Potential for National Regulatory regime	Jemena NEGI CAL2018 Q3 operations - NT gas market to wider east coast gas markets	Establishment of TEMO on 1 July 2017	
FY19				New entrants full retail contestability	2 x 1 Year extension
FY20	AER revenue allowance and network prices commence	Potential need for new water supplies e.g. dam		System operations to AEMO and AER?	

The corporate risk profile developed by Power and Water management, summarised in Figure 4.2 and included in the 2016 Statement of Corporate Intent, acknowledges the issues that exist with business performance and operating capability.

The Board acknowledges that the majority of these 'Very High' risks can be seen as 'business as usual' activities which should be under the control of the Board and management.

Figure 4.2: Corporate risk profile

Residual Risk

Likelihood	Insignificant 1	Minor 2	Moderate 3	Major 4	Severe 5
Almost certain E	Medium	Medium	2 Very High	Extreme	Extreme
Likely D	Low	Medium	High	1 9 11 12 Very High	Extreme
Possible C	Low	Low	Medium	7 14 High	3 4 5 Very High 6 10 13
Unlikely B	Low	Low	Medium	8 16 High	High
Rare A	Low	Low	Medium	Medium	High

Risk ID	Risk Description	Key risk mitigations
1	Crisis management	Established Crisis Management Plans and Committees
2	Public safety	Safety Management and Mitigation Plan
3	Staff and contractor health and safety	Safety Management System
4	Environmental management	Environmental Management System
5	Water quality/waste management	Drinking Water Quality Management System Recycled Water Management System Waste Discharge Licence program
6	Fuel supply management	Fuel Contracts for long term fuel supply agreements, backup fuel supply
7	Legal and regulatory compliance	Compliance Strategy and Programs
8	Information technology, SCADA and communications	ICT Strategy
9	Project and contract management	Project Management Framework
10	Terrorism, security and vandalism	Security Management Function, barriers at high risk sites
11	Capacity and capability	Workforce planning framework and training plans
12	Supply of core services	Asset management framework
13	Financial management	Financial processes and controls
14	Corporate image and reputation	Public relations and brand strategies
15	Competition	Under development into a new risk category post structural separation
16	Stakeholders	Stakeholder engagement strategy

Category 15 is under development post structural separation and is not included in the heat map.

Significant to the Board is the number of items that cluster in the 'Very High' corner in the 'likelihood and consequence' area of the matrix. Notably, this risk profile is *after risks* have been mitigated.

Further risk profile investigation may reveal that the risk assessments have some classification flaws and the underlying issues may not be as significant as reported.

Such a collective profile would normally be unacceptable in a well-run corporation. As the current risk rating suggests, the number of very high risks indicates that one or more risks are likely to materialise in the near future, unless further mitigating action is taken.

The Board considers that the risk rating profile and the low maturity level of the risk framework are calls to action for transformational change.

The Board acknowledges that the Corporation's current risk rating profile would normally be unacceptable in a well-run corporation ...

4.4 Weaknesses

4.4.1 High operating expenditure

A review of Power and Water's operating expenditure (opex) levels demonstrates that the Corporation's opex is relatively high.

Most obviously, Power and Water's corporate costs are high as shown in Figure 4.3.

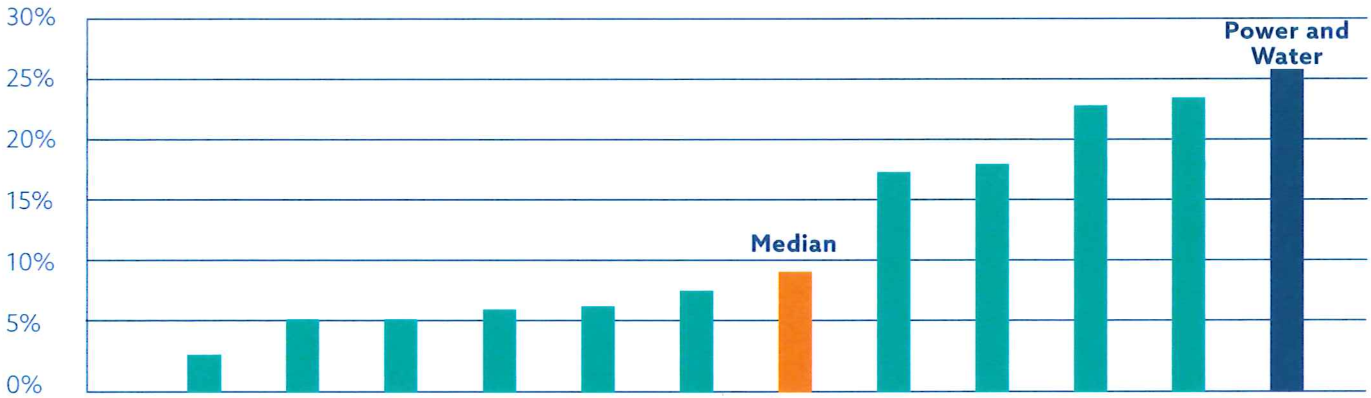
This chart compares Power and Water's corporate overheads by measuring corporate overheads as a percentage of total opex, with total opex being all expenses excluding interest, tax, depreciation and amortisation and the cost of gas purchases. The blue bar represents Power and Water (for 2015-16), the green bars represent a sample of Australian utility corporations, and the orange bar represents the median for the sample.

Power and Water's corporate overheads are considerably higher than all other businesses in the sample.

It is recognised that the rankings in the chart may be affected by the extent to which corporate costs are allocated to business units, but this is not expected to account for all of the above-average ratio exhibited by the Corporation. Efficiencies could be achieved were the Corporation to strive for median performance in this regard.

The Board's analysis paints an overall picture of the Corporation having higher costs...than industry peers.

Figure 4.3: Corporate overheads / Total OPEX (%) comparison



Note: Power and Water here excludes IES Pty Ltd; Comparative information sourced from latest available annual reports and restricted to Australian power, water and gas utilities that publish a breakdown of costs including corporate overheads. The sample is comprised of eight government-owned utilities and four privately-owned utilities, which in turn comprise five water utilities, four electricity distribution utilities, two multi-utilities and one gas distribution utility. Seven of the utilities have annual revenues larger than Power and Water's while four have annual revenues which are smaller.

Furthermore, the proportion of each dollar of revenue earned by Power and Water that is spent on total opex is relatively high compared with a sample of its peers, as shown in Figure 4.4.

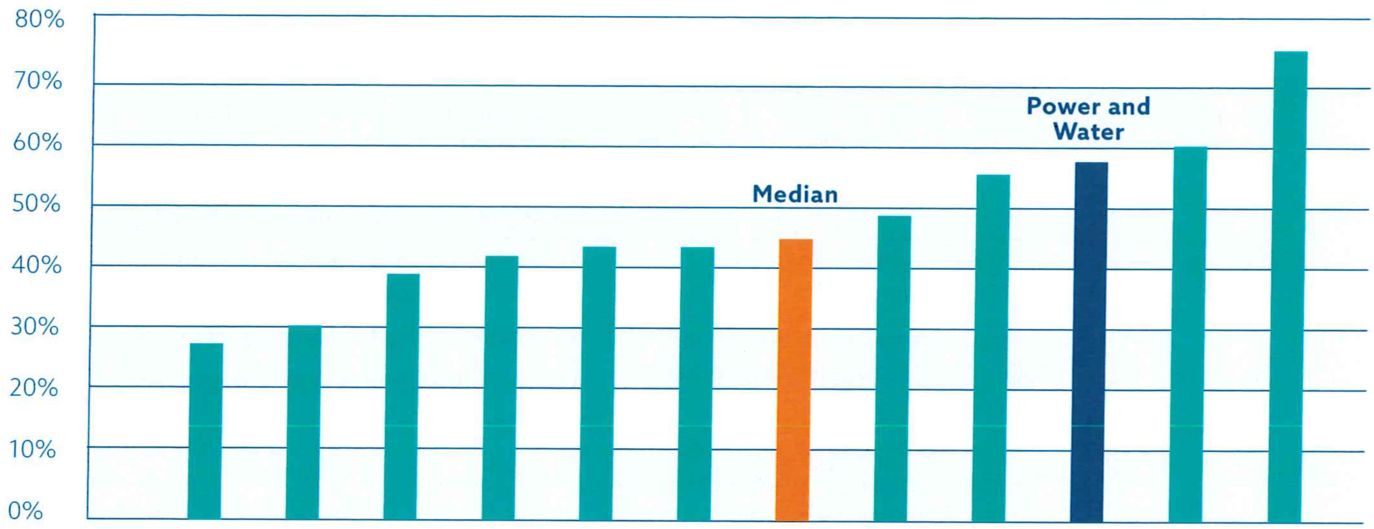
This chart compares Power and Water (blue bar) against the total opex/revenue ratios for the same sample of Australian utility corporations (green bars), and the median for the sample (the orange bar). Total opex is again measured excluding the cost of gas purchases and total revenue excludes revenue from gas sales.

It is recognised that the outcome may be affected not only by poor expenditure management but also by differences in revenue effort, asset intensities and/or capitalisation policies and practice. Nevertheless, these latter factors are not expected to account for all of the above-average ratio exhibited by the Corporation.

The comparison shows that Power and Water is in the upper range of the sample. This suggests that scope exists for lower costs were Power and Water to strive for median performance.

The Board accepts that Power and Water must be able to demonstrate that it has done all it can to lower its costs and ensure they are under control before regulators or its shareholder can contemplate lifting revenue through price increases. Power and Water accepts that it is some way from satisfying this requirement.

Figure 4.4: Total OPEX / Revenue (%) comparison



Note: Power and Water here excludes IES Pty Ltd; Comparative information sourced from latest available annual reports. The sample of Australian power, water and gas utilities is the same as described in the note to Figure 4.3.

4.4.2 Governance and management shortfalls

Undoubtedly there are factors unique to operating in the Northern Territory that distinguish it from others and arguably result in higher input costs.

However, the Board is not confident that these factors are the sole reason (or justification) for Power and Water's under-performance and higher cost base. The Board holds this view in large part because of long-time planning, controls and accountability shortfalls that have become increasingly apparent since structural separation. As revealed in the following discussion, these shortfalls are deep-seated problems inhibiting proper business operations and undermining performance outcomes significantly. It would be extraordinary if these shortfalls coexisted with efficient spending levels.

The items listed in Table 4.1 below are symptomatic of the issues identified.

Table 4.1: Current operating shortfalls

Item	Description	Example of gaps
Financial integrity	There is an inadequate level of integrity in the: • recording and processing of data • reporting of financial results • duplication and/or conflicting data sources • lack of follow-through on actioning key finance processes.	• Annual accounts for 2014-15 have taken at least 9 months for audit sign-off. • There is no single source of truth for all financial data across systems. • Financial systems do not have complete process controls on separation of duties. • Fixed asset data is not fully integrated/linked to asset management records. • A significant amount of capital expenditure remains un-capitalised. • Corporate financial modelling is insufficient to track and provide insight into future financial scenarios.
Planning	Limited top-down, integrated company planning. Measurable targets or benefits of planning initiatives are inadequately stated or tracked. Substantial activity is undertaken and resources consumed, but with limited focus on benefit realisation.	• Business unit plans are not fully integrated or linked to common Corporation strategy. • No over-arching prioritisation of resources and costs. • No review of promises in previous year.
Reporting	Too much focus on reporting detail and providing commentary describing 'input' activities in great volume. This approach hides key outcomes, trends and risks, and results in monitoring of business performance having an inputs and not a results focus.	• Board reporting often exceeds 500 pages per meeting. • Lack of top-down cascading KPIs with performance trends highlighted. • Lack of exceptions clearly highlighted. • Lack of timely and relevant information.
Accountability model	The Corporation structure diffuses accountability between Corporate and Business Units. Personal accountability at the senior management level is not clear. The lack of accountability impedes business improvement.	• Inadequacies in budgeting, planning and reporting (detailed above) inhibit measurement of group and personal outcomes. • There is significant activity undertaken that is not assessed for value added outcomes.

Table 4.1: Current operating shortfalls (continued)

Item	Description	Example of gaps
Project initiation, delivery and reporting	The governance process under which projects are prioritised, approved, tracked during implementation and reviewed for benefit realisation after implementation is neither complete nor robust. Project initiation and spending often occurs without proper oversight. This results in wasted or inefficient outcomes. Scale is difficult to measure due to poor reporting systems.	• A core project to separate accounts for the three GOCs was unsuccessful in a number of respects. • Some key projects have seen substantial budget over-runs. • There is not a complete inventory or portfolio view of projects being undertaken. • Total costs of initiatives are not easily identified.
IT Systems sustainability	Lack of clear business strategies has limited the scope of projects. IT Systems have not always been driven by business needs and priorities. Business needs are often narrowly defined. IT solutions in some cases are made to fit existing business processes rather than changing to fit system design. Project implementation and results have varied, with substantial budget overruns in some cases.	• The Asset Management Capability project has not fully delivered on its original goals. System architecture and integration with financials is flawed. Legacy architecture choices constrain business performance. • Maximo requires version upgrade and is approaching 'out of support' status. • Gentrack billing system in 'out of support' status. • Customer interface (e.g. web projects) are looked at in isolation to other projects.

These gaps are all ultimately the Board's responsibility. They reflect past failures by the Board to implement effective corporate governance. The general consensus of advisers is that:

> *"The organisation seems to lack a robust strategic direction that it is committed to. While there are documented plans in the form of a Statement of Corporate Intent and Corporate Plan, there was little evidence that these documents are guiding the Board's and management's deliberations. As a consequence, the organisation appeared to have little focus and is reacting to events as they arise. There is little or no strategic foresight to anticipate such events. There was also little evidence of integrated thinking and priority setting." (Inxure Strategy Group, September 2015)*

While the items identified above can be analysed individually, they are all inter-related in manifesting higher costs to the business. The extent of these issues as well as the fact that they are core business competencies supports the conclusion that transformational, rather than incremental, change is required.

...since structural separation, the cost of long-time breakdowns and gaps in governance and business processes has become increasingly apparent.

4.4.3 Capital expenditure deficiencies

The Board has received advice that improved scrutiny over the capital expenditure (capex) projects process could lead to a more efficient capex spend. A key outcome sought by the Board is the application of increased rigour around approval processes to assess and validate/scope options evaluated.

In turn:

- Improving the quality of asset performance data should enable Power and Water to make better asset management decisions (especially replacement versus refurbishment). Reduced capex work volumes through better asset management could result in immediate cash flow savings and capex cost reductions in the medium to long term.
- Improving procurement processes, establishing project controls and streamlining contractor management should also reduce costs. Establishing and operating a more disciplined and gated end-to-end capital delivery process should reduce capex costs.
- Greater certainty that actual incurred costs (project and recurrent) align with planned and budgeted expenditure also has a role to play. Power and Water has a number of examples of major capex projects where actual costs have exceeded budget, and there is likelihood that the levels of forecast expenditure are under-estimated on what actually will be incurred. Until financial management and expenditure controls are improved it is unlikely that the Corporation can realise further savings on its capex budgets.

The Board accepts that it must address the poor track record of major project implementation, and the likely failure to get value for money from the dollars invested.

4.4.4 Wider consequences of a poorly performing Power and Water

Failure to act and remediate Power and Water's finances brings with it the substantial risk that one or more of the following consequences result:

- Electricity and water prices are higher than necessary.
- Power and Water's impact on the budget (and taxpayers) is higher than necessary and continues to increase, through lack of dividends revenue to the budget, high and increasing community service obligation subsidies and the need for additional equity injections by Northern Territory Government.
- The Northern Territory Government's credit rating is negatively impacted by the Corporation's poor finances. Power and Water's over-reliance on borrowing causes Territory public debt levels to increase. Power and Water currently accounts for in excess of 20% of the Northern Territory non-financial public sector's total debt of just over $5 billion. As long as Power and Water's finances remain sub-investment grade, this is likely to reduce the Northern Territory Government's credit rating.

Together, these provide a clear rationale for change.

5. Business transformation program

This section outlines the Board's response to the strategic weaknesses and threats facing Power and Water, and the under-utilised strategic strengths and opportunities.

5.1 What is corporate strategy?

Identifying the strategic direction to be taken by the Corporation is the Board's responsibility.

By 'strategy', the Board's focus is on Power and Water's corporate strategy. Corporate strategy is the way a corporation creates value through the configuration and coordination of its multi-market activities. The focus of corporate strategy is on what businesses a corporation is in, and how the corporate centre manages those businesses. Done properly, establishing linkages between business units that lead to economies of scope and reducing costs through the elimination of duplication in functions or services will add value to these business units.

Box 5.1 expands on the difference between corporate strategy on the one hand and business and functional strategies on the other.

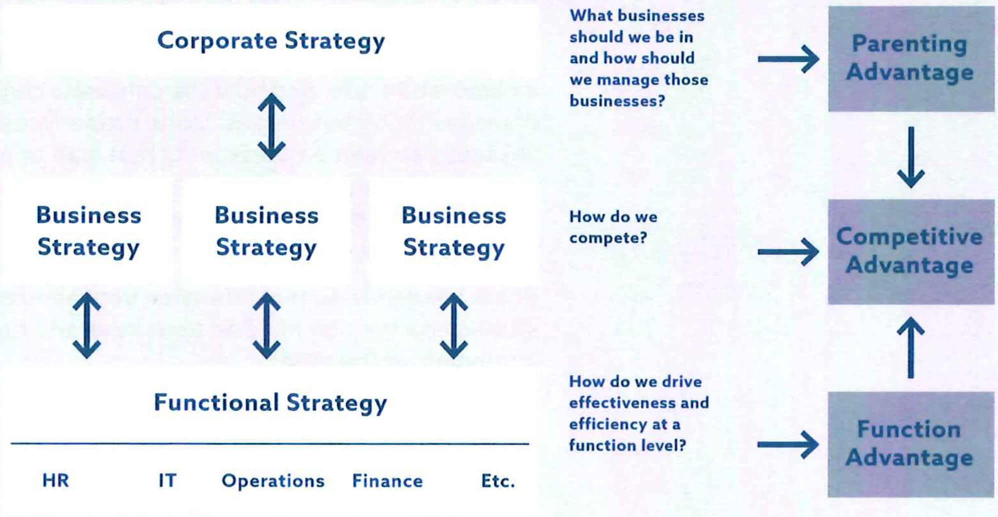
Box 5.1: Levels of corporation strategy

A fundamental responsibility of the Board of Directors is to ensure that strategies are in place between the internal and external environment as are necessary to produce the results required by the Corporation's shareholder and other stakeholders.

The term strategy is used at three levels of a corporation, namely:

- corporate level strategy;
- business level strategy; and
- functional level strategy.

The best way to introduce these concepts is by way of the following diagram:



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All businesses have a ***corporate level strategy***. This level of strategy is particularly important when a number of businesses are held under one corporate umbrella, as is the case for Power and Water. Corporate level strategy is the way a corporation creates value through the configuration and coordination of its multi-market activities. The focus of corporate level strategy is on where the Corporation will compete, on what businesses it is in, and how the corporate centre manages those businesses. Good corporate level strategy delivers a parenting advantage whereby the corporate parent is able to create more value from its business units than any alternative owner. Corporate parents add value to their business units by applying specific management skills, by establishing linkages between business units that lead to economies of scope and by reducing costs through the elimination of duplication in functions or services. Financial synergies between business units are an external sign of parenting advantage.

Business level strategy focuses on how a corporation competes in the various markets in which it operates, and so how it establishes and maintains competitive advantage over rivals in those markets. The external sign of competitive advantage is superior financial performance relative to competitors over the longer term. A variation on the concept of competitive advantage that is relevant to government business enterprises is 'institutional advantage'. This exists when a corporation performs its tasks more effectively than other comparable corporations in the same or similar businesses. In defining its 'institutional advantage', a government owned corporation needs to 'operationalise' its mission in terms of key tasks or activities, measure its effectiveness in performing these tasks or activities, and then compare these measures against benchmarks from similar corporations.

The third level of strategy is ***functional strategy***. Functional strategy can be thought about as the various functions or disciplines that comprise any business. While there are several definitions of functions, the major functions for Power and Water are: finance and accounting; human resource management; and information technology. The challenge from both the corporate and business strategy perspective is to ensure strong integration between the functional level strategies and the business and corporate level strategies.

5.2 Strategic goals

In order to respond to identified weaknesses, and to prepare for addressing a range of threats at the line of business level, the Board has decided to adopt the high-level strategies detailed in the following sub-sections - and associated targets for FY20 - in order to provide clarity about the goals to be achieved by Power and Water's management.

The strategies are in addition to - and facilitated by - existing and ongoing strategies in relation to:

- **Safety**, aiming for zero harm, and targeting a substantially reduced Lost Time Injury Frequency Rate by FY20
- **People and Culture**, aiming at an engaged workforce who are aligned to the transformation program, and targeting an Employee Engagement and Organisation Health Score of at least 75% by FY20 (based on the current methodology).

The Board's desired outcomes, KPIs and targets...are the top-level corporate goals. Management is responsible for breaking down and cascading these goals through the Corporation.

5.2.1 Customer focus

The Board requires Power and Water to embed a customer focus into the way it delivers all its services. This must include internal service delivery.

Table 5.1: Customer focus goals

Desired outcome by FY20	Primary KPIs	Board's targets for FY20
Demonstrably improved external perception (reputation)	Customer satisfaction score	At least median performance
	Key service reliability indicators	At least median performance

The operating business units of Power Networks, Water Services and Remote Operations are currently operated as O&M/engineering arms rather than businesses in their own right. As a result, the Corporation appears inwardly focused without a strongly embedded customer culture.

There is a lack of accountability for customer and strategic stakeholder engagement across the Corporation, and a disconnect between customer and stakeholder activities on the one hand and 'operational' activities on the other. This contributes to the Corporation lagging behind other jurisdictions on customer innovation and value add.

The relationship with the customer and strategic stakeholder management are arguably the most important activities for Power and Water. A good reputation for any corporation provides the 'authority' to operate. In the case of government-owned businesses, this authority comes first from its customers and key stakeholders, who ultimately influence the owner-government's view of the corporation. This authority manifests itself in greater trust, willingness to support new initiatives and greater support through adversity. A sound reputation combines a customer-centric and stakeholder engagement culture with doing a corporation's core business well. The Board requires the Corporation to put in place the right mix to achieve a sound reputation.

5.2.2 Commercial sustainability

The Board requires the Corporation to instil a high level of financial discipline into all its operations, so that benchmark cost-to-serve and key financial targets are progressively achieved over the next five years.

Previously the Corporation has focused almost exclusively on revenue increases to achieve financial sustainability. The Board now recognises that the main financial improvement focus must first be on controlling and minimising costs.

To this end, the Board has set the initial target for the total opex/revenue ratio in the order of 50% which is slightly above the median value for Australian utilities in recognition of Power and Water's below-average scale and above-average geographic dispersion of operations. Nevertheless, this is a significant change on Power and Water's 2015-16 ratio of 56%. The Board expects some of this opex reduction to be achieved by adoption of capitalisation policies more consistent with those endorsed by the AER.

Table 5.2: Commercial sustainability goals

Desired outcome by FY20	Primary KPIs	Board's targets for FY20
Sustainably cost efficient	Total opex as % of revenue (excluding gas purchases and gas sales respectively)	No more than 50%
	Corporate opex as % of total opex (excluding gas purchases)	No more than 15% after total opex improvement
	Externally-assessed stand-alone credit rating	Interest covers and liquidity ratios at least at levels qualifying for a minimum investment grade stand-alone credit rating

The right-sizing of Power and Water's corporate services function will contribute to this objective. The Board has set the initial target for the corporate overheads / total opex ratio at 15%, which is just above the Australian utilities' median value. This is a significant change on Power and Water's 2015-16 ratio of 25%. The Board accepts that much of the corporate cost reductions will be achieved by current Corporate Services functions being devolved back, and associated costs re-allocated, to Power and Water's operating business units.

The Board recognises too that Power and Water's overall financial position impacts on the Northern Territory Government's credit rating. While the net earnings improvement resulting from meeting the efficiency targets set above will improve Power and Water's debt burden and liquidity metrics, this can also be expected to take pressure off the government credit rating. In support of that goal, the Board envisages periodically seeking an independent assessment of the Corporation's *stand-alone* credit rating. Such a credit rating assumes the (hypothetical) absence of a guarantee or other form of parent-government support government. Power and Water must work towards qualifying for a minimum investment grade credit rating on a stand-alone basis. Such a rating is the credit quality assumed by the AER in its independent regulation of electricity network service providers in Australia.

To help track progress towards these targets, the Board also requires that management demonstrably improve the Corporation's financial projections capability. The Board's confidence in financial projections made in the SCI has been eroded by its strategic review. Presently, such projections are derived by a process-driven activity rather than attention to quality of content and analysis of projections and their implications. The Board considers a robust, top-down budgeting cycle linked to business plans with regular re-forecasts to be essential to regaining confidence in the Corporation's financial projections.

...the Board...requires management to demonstrably improve the Corporation's financial projections capability.

5.2.3 Whole-of-corporation governance and risk management

The Board requires the Corporation to embed governance and risk management processes into its culture to build confidence in the integrity of its operations. This requires that corporate services' functional capabilities are aligned to business needs. This includes its cost to serve, service quality and corporate input costs being comparable to its peers and its corporate capability helping the business adapt to future industry change.

Table 5.3: Corporate operations goals

Desired outcome by FY20	Primary KPIs	Board's targets for FY20
Corporate operations and oversight meet industry standards	Financial management (FM) operational and project indicators	Projects scoped and signed off before commencement
	Asset management (AM) operational and project indicators	Projects delivered on time and cost with benefits realised
	Information technology (IT) operational and project indicators	Systems integrated effectively Appropriate reporting tools
	Functional strategies for FM, AM and IT	Fully documented, adopted and monitored
	Number of controllable residual risks in Very High and Severe categories	Zero

Recently the Board has expressed concerns that the Corporation's governance is 'upside down', in that it is seemingly governed through the corporate function to achieve outcomes for the community in respect of their power and water services. Some corporate service groups have taken on strategic business functions that are core to the operational businesses running in their own right. At the same time, the corporate services group has become disproportionally large in comparison to the operational business divisions that it supports.

Right-sizing of the corporate services function is key, as is distinguishing between 'governance' functions versus 'shared services' functions performed by the corporate service groups.

- *Governance services* are services in support of a holding company's 'ownership' and 'governance' roles, which by their nature are not appropriately located within the operating business units.
- *Shared services* are services which by their nature could be in-sourced to the operating business units themselves, but because of economies of scale or scope are internally provided at the whole-of-corporation level.

Once corporate service activities have been so categorised, management's first task must be to consider the appropriate extent of devolution and centralisation of shared services functions.

The second task must be to ensure that the centralised 'governance' role effectively serves the holding company or 'ownership' function (see Box 5.2). Owners are the providers of permanent capital to a business, and they are the ultimate bearers of risk. A holding company is a special form of owner, with its business units or subsidiaries being the enterprises in which the holding company has invested capital on behalf of its own shareholders. Fundamental to this are robust functioning business and reporting systems. Management must therefore develop functional strategies to ensure improvements in financial management, asset management and IT capabilities are appropriately planned and effectively achieved.

The final task for management is to implement appropriate operating business unit arrangements for corporate level functions. The different types of corporate service offerings will warrant different charging/cost allocation regimes.

Box 5.2: Ownership role within a corporation

The essential governance roles in a multi-utility context that are to be supported by an effective corporate services function are as follows:

- translating whole-of-corporation ownership goals into ownership objectives at the individual business unit level
- specifying the activities and operational limits of each business unit from a whole-of-corporation risk management perspective, including with respect to diversification, contractual undertakings, borrowings, etc
- making final decisions about the acceptable level of further capital injections into each business unit, given the capital requirements elsewhere in the holding company's portfolio of investments and the state of the holding company's consolidated balance sheet
- deciding on the appropriate governance oversight of each business unit
- specifying appropriate administrative control devices, including by tailoring them to a particular situation, and by continually reviewing their effectiveness
- negotiating specific performance targets with each business unit's management, including with regard to the required rate of return on funds employed
- setting out the reporting requirements expected of business units in support of ownership monitoring
- applying rewards and sanctions based upon the assessment of a business unit's performance against plans.

5.2.4 Line-of-business governance and operation

The Board requires the Corporation to embed line-of-business accountabilities and multi-utility operations into its governance and management arrangements for individual lines of business. This includes ensuring each line of business develops its own business strategy against which its operating and financial performance can be measured and compared with benchmarks from similar businesses.

Table 5.4: Line of business goals

Desired outcome by FY20	Primary KPIs	Board's targets for FY20
Multi-utility operations and oversight at acceptable industry standard	Annual financial statements for each line of business	Externally audited (or equivalent) Business Units accountable for performance SLAs are in place for all shared services
	Business strategies for each line of business	Fully documented, adopted and monitored
	Performance accountability for each line of business	GMs fully accountable for all aspects of their business's performance

The Board has taken initial steps to put the lines of business at the forefront of the way in which the Corporation is governed and managed (with corporate functions essentially having a supporting role). It sees the satisfactory completion of this reversal of roles as an important aspect of the Business Transformation Program.

Underpinning this strategy is appropriate adoption of the 'holding company-subsidiary' model of governance (see Box 5.3). Notable features of the holding company–subsidiary model in the private sector are:

- the annual negotiation between the holding company (parent) and subsidiary of objectives, performance targets and broad financial guidelines
- regular reporting from subsidiary to the holding company (parent) to indicate if targets are being met
- the ability of the holding company (parent) to question the actions of subsidiary directors and managers, reward good performance, impose sanctions and dismiss those who continue to perform poorly
- full delegation by the holding company of operational responsibility to its subsidiaries, with clear exceptions revolving around those corporate functions which are usually centralised in order to ensure close control by the parent over each subsidiary or where there has been a track record of poor performance.

In this context, accountability involves the monitoring and analysis of a business unit's actual performance against its planned or contracted undertakings. Such monitoring and analysis is undertaken by corporate management, based largely on information provided (reported) by the line of business itself.

Gains can be achieved by establishing accountability mechanisms which involve clarifying targets and monitoring their achievement.

Besides monitoring, an effective accountability regime involves two other important tasks: agreeing plans and targets, and effective rewards and sanctions. The nature and efficacy of monitoring therefore depends as much upon the appropriateness of these other elements of the governance regime as it does on the effectiveness of the monitoring process itself.

Box 5.3: 'Holding company-subsidiary' model of governance

Under this approach, the principal objectives for any individual business unit or subsidiary (utility business) from a holding company (ownership) point of view are that each line of business should:

- align its strategic goals with the whole-of-corporation's overall strategic priorities, and be congruent with the goals of related businesses (strategic alignment)
- maintain its capacity to deliver on expected future demands (future capability) – thereby making the right investments in physical and human capital to prepare for the tasks it can expect to face in the medium term and beyond
- bear the lowest possible risk in achieving its targeted returns (effectively manage risks) – the key risks from an ownership point of view are in the liabilities which a business unit or subsidiary accrues, and the operating and market risks in its business environment
- operate efficiently, by using the least amount of inputs of all kinds to produce a given quantum of goods and services and by divesting itself of under-utilised or negatively valued assets
- price efficiently, by setting prices for its outputs at levels which recover the full cost of all resources employed including the cost of capital
- invest efficiently, by acquiring or constructing only those new assets that generate net revenues to the subsidiary in excess of the cost of funds tied up in the assets, thereby generating returns at least equal to its cost of capital.

5.3 Transformation process, resourcing and priorities

In addition to reducing the number of strategic goals and clarifying the targets set for FY20, the Board has determined that the successful pursuit of those goals and targets requires a new and more effective way of implementing business improvement than has been relied on in the past within the Corporation.

The Board recognises that a successful Business Transformation Program requires clarity about the steps and processes necessary to deliver on the goals set by the Board. Such a program is a complex and time consuming process and it is essential to adopt a structured and tested approach in order to achieve the Board's strategic goals.

While it is management's responsibility to develop and implement appropriate initiatives to achieve the strategic goals and targets set by the Board, the Board has mandated the following features of the Business Transformation Program.

...successful pursuit of the Board's goals and targets requires a new and more effective way of implementing business improvement than has been relied on in the past...

5.3.1 Project Management Office (PMO)

First, the Board considers that key to the design and implementation of an effective transformational program is the establishment of a Project Management Office (PMO) to be attached to the Chief Executive's office. The PMO is to act as a custodian of the scope and progress of the Business Transformation Program.

The Board expects management to act quickly and appropriately in order to establish a fully functional PMO. This will include:

- adopting tools and processes, including governance structures, to create consistency in project evaluation and implementation across the Corporation
- delivering reporting and monitoring mechanisms
- monitoring and fine-tuning high-priority initiatives/ projects already underway in light of deficiencies highlighted by the 2014-15 external audit
- identifying other existing initiatives that can be either ceased or continued based on key priorities
- a diagnostic and design phase, identifying and initiating projects integral to achieving the Board's business transformation goals.

Generally, the Board expects project delivery to be the responsibility of relevant functional areas or business units, not the PMO itself.

5.3.2 Initial transformation activities

Second, the Board considers that the transformation program must initially focus on facilitating and monitoring priority projects identified in response to the external audit of Power and Water's 2014-15 annual financial statements. In parallel, there must also be a diagnostic and design phase to select and initiate additional (and longer-term) business transformation solutions.

Many existing projects and initiatives, such as the Financial Management Improvement Program, the Asset Management Capability project and the IT Strategy must be rolled in under the Business Transformation Program and oversight of the PMO. Existing or planned projects of uncertain value to the Corporation need to be stopped. The Board has requested a funding model be developed that captures the planned cost of these existing projects and initiatives and re-directs those amounts to fund the Business Transformation Program.

The Board's expectations of management's approach to the first phase of the Business Transformation Program are described at a high level in Figure 5.1 overleaf in terms of three streams of work.

Figure 5.1: Business transformation program: initial phase

5.3.3 Oversight and governance

Third, because of the PMO's strategic significance, along with the Board's role in establishing the Business Transformation Program, the Board wishes to play its part in the oversight of the PMO's effectiveness in successfully delivering the program.

The Board expects a high-level governance or steering committee to be established to perform this oversight role, with this committee to meet no less than monthly between Board meetings. The Board envisages this committee to comprise the Board's Chair, the Chief Executive and one other independent (non-executive) member.

5.3.4 External assistance

Finally, the Board expects the PMO to be resourced primarily by Power and Water employees, the majority of whom should be from operating business units. The leaders and champions of the Business Transformation Program must come mainly from within the Corporation.

The Board also recognises that external support and expertise are important to ensure the PMO and the associated business transformation program is given the best chance to succeed. External assistance is inevitable in order to:

- provide best-practice thought leadership
- undertake the coaching of Corporation employees during the PMO establishment phase
- work with Power and Water communications and people and culture staff to ensure effective change management
- provide mentoring (and challenging) to the Power and Water Executive Leadership Team to ensure delivery of successful outcomes.

The Board has authorised appropriate levels of external resourcing through to an August 2016 gateway.

PowerWater