



Eraring *energy*

Collaborative Budgeting & Forecasting At Eraring Energy

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All technology terms, software names and logos are accurate to year of production of this study.



Eraring energy

Electricity Production and Energy Trading are the core business activities of Eraring Energy. Eraring Energy manages a diverse set of electricity generating assets located throughout New South Wales. They not only needed to provide efficient energy sources, but also needed to run their business operations in a timely, accurate and efficient manner.

The Challenge

With a generation portfolio consisting of 10 power stations (86% of capacity being sourced from Eraring Power Station and the remainder consisting of smaller hydro and wind generation plants), Eraring Energy's employees range from shift workers, contractors, day workers, right through to executives. With such a wide range of employment levels and pay structures, labour budgeting and forecasting had become complicated due to manual processing with a substantial amount of cost averaging.

According to Adela An, Eraring Energy's Financial Systems Accountant, "The problem with running our labour budgeting manually meant that it was not only time consuming but inaccurate and unreliable. We had a lot of cost averaging and it was difficult to identify from where the variances were coming."

The Solution

The solution was to introduce IBM Cognos TM1 as a business performance management tool to remove inaccuracies and improve efficiencies within the labour budgeting and forecasting process. The primary requirement was to use IBM Cognos TM1 to identify real labour costs by sourcing the variances accurately, with plans to decentralise the financial reporting at a later stage using IBM Cognos TM1 Web. In 2004 Eraring Energy decided to implement IBM Cognos TM1 into their labour forecasting system with its partner Cubewise. With implementation complete after only one month, IBM Cognos TM1 saved the finance department at least 2 weeks in data entry and consolidation in quarterly labour forecasting. An commented,

"With IBM Cognos TM1 we can now pinpoint why the labour budget is out. Once we had streamlined the process it improved our labour budget variance analysis."

The next area of focus for Eraring Energy was to address the issue of accountability of the budgeting process. By deploying budget data entry and reporting via the web, Eraring Energy was able to decentralise their budget and forecasting system. Responsibility and accountability immediately shifted from the finance department to the cost centre managers.



Decentralisation with IBM Cognos TM1 Web

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An describes the IBM Cognos TM1-based budgeting and forecasting system as “a revolution.” Following IBM Cognos TM1’s initial success in the finance department, Eraring Energy took the necessary next steps of web enabling their budgeting, forecasting and reporting system with the deployment of IBM Cognos TM1 Web. By decentralising the budgeting, forecasting and reporting, both management and cost centres were given direct access to the monthly reporting. This gave cost centre line managers greater controlover their labour cost, and more importantly, it gave them total accountability for their own budgets. Managing the budget over the Web saved 2-3 weeks in just consolidating and reconciling – now it is instantaneous.

“Decentralisation and accountability of our budgeting and forecasting system was enabled by deploying IBM Cognos TM1 Web. Our cost centre managers can now access, view, and manage their respective cost centre reports. Budgeting time was substantially decreased and line managers now have the ability to retrieve their financial reports in an easy-to-use format and timely manner.”

The main elements of Eraring Energy’s budgeting and forecasting system involved labour costing and data analysis. Labour costing is a very large part of Eraring Energy’s expenses, so accuracy was crucial. Using this, Eraring Energy is able to readily identify variances down to individual levels and breakdown by rate and hours. They can also manage headcount and annual, long service and other leave.

Results

By implementing IBM Cognos TM1 and IBM Cognos TM1 Web, Eraring Energy transformed their complicated financial and labour reporting into a streamlined, web-enabled system providing accurate, timely analysis and accountability throughout the organisation. Labour information security was also an issue. So by moving this information into IBM Cognos TM1, it allowed control of security down to an element level. This was a substantial improvement to the existing system.

The variance analysis process was heavily time consuming. Once this reporting process was implemented, it eliminated discrepancy of figures giving management more time to spend on labour strategy. Minimising figure analysis was definitely a value added to the variance process.

Now having such easy-to-use financial reports that break down the information by employees, hours, labour rates etc, the finance department no longer has to do financial interpretation for the line managers. In the two years since the system was put in place,

Eraring Energy now run their labour budgeting and forecasting four times per year as opposed to only once per year. All cost centre line managers are monitoring their labour variances more closely now that the system is more accurate.

“We used to close off the account each month and then create, run and distribute the reports via email – all of which took 3-4 days. Now we can close off the month and reconcile, then notify the cost centres to log on and view their reports,” continued An.

Management now conducts monthly business review meetings with the financial reports being an integral part of these monthly reviews.

The Future

IBM Cognos TM1 and IBM Cognos TM1 Web enabled Eraring Energy to improve its labour planning. The new system allows them to see the financial impact of the ageing workforce thus assisting the organisation’s HR strategy and 10 year budgeting. The next step, according to An is to investigate using IBM Cognos TM1 to improve other areas of forecasting and planning. For example, automating/decentralizing variation and substitution process, improving plant overhaul and capital project budgeting and forecasting, and adding more meaning and value to financial reporting by introducing relevant production statistics.

Why & About Cubewise

Cubewise is a premium IBM Cognos partner with over 100 implementations of IBM Cognos across the globe. Cubewise has taken its years of combined IBM Cognos TM1 and Group Finance know-how and produced the IGFIS (Integrated Group Finance Information System) solution. IGFIS represents a powerful, high ROI finance tool to any mid-market company, especially those that thought such professional tools were only the domain of the largest organisations.

About IBM Business Analytics

IBM Business Analytics software delivers data-driven insights that help organisations work smarter and outperform their peers. This comprehensive portfolio includes solutions for business intelligence, predictive analytics and decision management, performance management, and risk management.

Business Analytics solutions enable companies to identify and visualise trends and patterns in areas, such as customer analytics, that can have a profound effect on business performance.

They can compare scenarios, anticipate potential threats and opportunities, better plan, budget and forecast resources, balance risks against expected returns and work to meet regulatory requirements. By making analytics widely available, organisations can align tactical and strategic decision-making to achieve business goals.

For further information please visit **ibm.com/business-analytics**

About IBM Cognos® TM1

IBM Cognos TM1 is a high performance, cube-based database and modeling solution that is unmatched in its flexibility, scalability and multi-user collaborative ability. It has become the cornerstone of IBM's Performance Management solution strategy.

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