

CORPORATE GOVERNANCE AND RISK MANAGEMENT

Goals related to corporate governance and risk management:

- Maintain sound governance
- Increase business value through capital and operating efficiency and effective risk management

Ethics and values

Melbourne Water's directors and employees are committed to operating ethically and in the best interests of the Victorian Government, customers, employees, suppliers and other stakeholders. The Board has adopted a Director's *Code of Conduct*.

All directors, managers and employees are expected to perform their duties with integrity and honesty. This expectation extends to dealing with each other, customers, suppliers and the community. Melbourne Water employees and managers must comply with Melbourne Water's *Code of Conduct*.

Policies and procedures exist for directors and employees in relation to the identification of actual and potential conflicts of interest. The Corporate Secretary maintains a Register of Director's Interests and a register of gifts and invitations accepted by directors or employees.

In maintaining a safe and healthy working environment, the Board has approved various behavioural and workplace policies for specific purposes, such as occupational health and safety and discrimination. These policies are distributed and widely publicised to our employees for their information and assistance.

Our governance procedures

Melbourne Water's policy is to adopt appropriate corporate governance practices and regularly review them to ensure that we are up to date with best practice.

This year improvements made to Board processes included the development of a Communication and Engagement Plan for Directors that incorporated increased community and stakeholder engagement and training opportunities.

A number of new processes have been established in response to the Code of Practice for Water Authorities endorsed by the Minister for Water on 5 October 2010.

RISK MANAGEMENT

Melbourne Water adopts a balanced approach to risk management that considers our commercial, social and environmental responsibilities having regard to short-term and long-term goals.

Risk management is utilised to ensure Melbourne Water understands our business risks and that they are managed consistently. The effective and efficient management of risk is central to the achievement of our vision.

Melbourne Water adopts a 'whole of business' approach by considering risks on a group, team and project basis. Trends and commonalities are also identified across these areas.

To effectively manage risks across the organisation, risk assessments are conducted on a regular basis to identify the:

- Likelihood or probability of a risk occurring
- Consequence of a risk occurring
- Effectiveness of mitigating strategies in place to manage risks.

The capital prioritisation process uses risk assessment as a key tool for determining the need for and relative timing of investments. Operational risks are managed by the organisation daily and through specialised management systems.

Improving operational security

A \$10 million project was undertaken to increase Melbourne Water's operational security by replacing the communications network that connects all of its sites, the Common Wide Area Network (CWAN). This is the backbone network along which all internal Melbourne Water electronic data travels.

Melbourne Water operates an extensive Supervisory Control and Data Acquisition (SCADA) and PCS (Process Control System) integrated systems network as a critical part of the operation of its core business. The SCADA system remotely monitors and controls water, sewerage and drainage assets.

The project was initiated in response to a review of Melbourne Water's information technology (IT) security that identified and evaluated risks to key assets and recommended appropriate security measures to mitigate those risks.

The implementation of the CWAN project began in January 2010 and was completed in June 2011. It has replaced more than 125 network devices and managed more than 350 WAN production changes across 38 Melbourne Water sites.

The CWAN project has:

- Increased Melbourne Water's operational security particularly in relation to SCADA
- Refreshed Melbourne Water's ageing communications network infrastructure
- Positioned our communications network infrastructure with increased flexibility and agility to respond to current challenges such as Voice Over IP, video conferencing and CCTV.

Strategic risk

To assist in the strategic management of risks at an organisational level, Melbourne Water has identified key strategic risks and assessed each risk based on the current risk level.

Melbourne Water actively manages strategic risk with a strong focus on continuous improvement. Melbourne Water's risks will continue to be managed through a risk management framework comprising major elements such as certified management systems; appropriately skilled people and sound operational procedures; a robust capital works program and sound technological applications such as our SCADA, Asset Management and GIS systems; and close working relationships with the water industry, government departments, local government, customers, developers and the community.

Melbourne Water has identified the following key strategic risks:

- Health, safety and security of people, property and environment
- Environmental damage to Melbourne's waterways/bays
- Financial and governance framework
- Recycled water (quantity and quality)
- Engage, understand and manage key stakeholders and the community
- Water supply
- Water quality
- Asset lifecycle
- Capital delivery
- Impact of flood on the community
- 2018 greenhouse and renewable energy targets
- Recruit, develop and retain our people
- Deliver obligations in the Water Plan
- Biosolids and by-products (quantity and quality).

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Insurance and incident management framework

To further mitigate the commercial, social and environmental impact of risk events, Melbourne Water has an emergency and incident management framework coupled with a comprehensive insurance portfolio.

As part of this framework, Melbourne Water has developed emergency management and contingency plans, which are regularly tested and reviewed.

In addition to local emergency management arrangements, Melbourne Water has assisted in the development of industry response plans and protocols with the retail water businesses and government departments/agencies that prescribe roles and responsibilities in the event of a large-scale incident. These plans are also tested and reviewed with the retail water businesses.

Audits and risk reviews

Melbourne Water seeks to continually reassess its risk profile through external reviews by subject matter specialists and a comprehensive risk-based internal audit program.

In addition to these reviews, Melbourne Water undertakes quarterly self-assessments on the current management of risks and the identification of new or emerging risks and opportunities. The results of these reviews are presented to the Board via the Audit and Corporate Risk Committee, which actively oversees risk management at Melbourne Water.

Attestation on Compliance with the Australian/New Zealand Risk Management Standard

I, Eleanor Underwood, certify that:

- Melbourne Water Corporation has risk management processes in place consistent with the Australian/New Zealand Risk Management Standard (AS/NZS ISO 31000:2009)
- An internal control system is in place that enables the executive to understand, manage and satisfactorily control risk exposures
- The Audit and Corporate Risk Committee verifies this assurance
- The risk profile of Melbourne Water Corporation has been critically reviewed within the last 12 months.



Eleanor Underwood
Chairman
Melbourne Water Corporation

Statements of Obligations

Two *Statements of Obligations*, issued by the Minister for Water pursuant to Section 41 of the *Water Industry Act 1994*, are applicable to Melbourne Water:

- 1) The *Statement of Obligations* applicable from July 2004 formalises Melbourne Water's obligations in relation to the performance of functions and exercise of powers including the areas of:
 - The Water Plan
 - Governance and risk management
 - Planning and service delivery
 - Environmental management
 - Waterways and drainage
 - Reporting
 - Compliance.
- 2) The *Statement of Obligations* applicable from 1 July 2009:
 - (a) Imposes obligations on Melbourne Water in relation to our water supply function established under section 171B of the *Water Act 1989*, and the exercise of our powers
 - (b) Clarifies Melbourne Water's role as manager of the Melbourne headworks system in relation to the obligations of the metropolitan retail water businesses as holders of certain water entitlements.

Melbourne Water's Board monitors compliance with these *Statements of Obligations* and reports any significant non-compliance to the Minister.

Board of Directors

The Minister for Water, in consultation with the Treasurer, appoints our directors for terms of up to four years and the Victorian Government sets their remuneration. Directors are eligible for reappointment for subsequent terms.

In making new appointments to the Board, the Government ensures the Board has the necessary combination of skills and experience. The Managing Director is appointed by the Board, subject to the approval of the Minister in consultation with the Treasurer, for a term of up to five years. Annual reviews are conducted of the performance of the Board as a whole and of individual members.

Pursuant to a *Statement of Obligations* issued by the Minister, the outcomes of the performance review are reported to the Treasurer and Minister. The Board of Directors currently comprises a non-executive Chairman, six non-executive directors and the Managing Director.

BOARD OF DIRECTORS



Eleanor Underwood
Chairman

Eleanor Underwood took up the position of Chairman in April 2010. Ms Underwood came to Melbourne Water after serving 10 years on the South East Water Board, including five years as its Chair. Before that, she was Deputy Chairman of South Gippsland Water and a Director of Audit Victoria and the Water Training Centre. Ms Underwood is a management consultant and has private sector experience in general management and accounting and marketing, and was a senior academic planner at RMIT University.



Mary Anne Hartley SC
BA (Hons), LLB (Hons)
Director

Mary Anne Hartley was appointed to the Board on 1 July 2002. A barrister, she was appointed as a Senior Counsel on 24 November 2009. Ms Hartley has been a director of several government corporations in the maritime and energy sectors. Before joining the Bar in 1997, Ms Hartley was a partner in a national law firm where she practised insurance and health law.



Terry Larkins
PSM
Director

Terry Larkins was appointed to the Board on 1 January 2004. Mr Larkins was appointed Chairman of Western Water in 2001. He has extensive experience in the water industry and local government including Secretary of the former Gisborne Water Board and Chief Executive of the Shire of Gisborne. He has been a member of the VicWater Board since 2005 and chair from 2007/08. He is active in a number of community groups in health services, conservation and education.



Maria Wilton
Director

Maria Wilton was appointed to the Board on 1 October 2009. Ms Wilton is a chartered financial analyst with 20 years experience in the investment management industry, and was Director of the Transport Accident Commission Board until 30 June 2009. Ms Wilton is also the Managing Director of Franklin Templeton Investments Australia Ltd.



Merran Kelsall
B.Com (Hons), FCA, MBA
Deputy Chairman

Merran Kelsall was appointed to the Board on 1 January 2001. Ms Kelsall, an independent company director and consultant, has considerable experience in financial services, health and utilities. She is a former partner of a chartered accounting firm.



Warren Hodgson
Director

Warren Hodgson was appointed to the Board on 1 July 2008. Mr Hodgson was previously Secretary, Department of Innovation, Industry and Regional Development, and before that, Under Secretary, Department of Treasury and Finance. Mr Hodgson has a background in the manufacturing industry, qualifications in science and engineering, and is a graduate of the Australian Institute of Company Directors.



Peter Vines
Director

Peter Vines was appointed to the Board in October 2005. Mr Vines has extensive experience in chief executive and executive management positions in the energy and infrastructure sector, including directorships in various utility companies in Australia and internationally.



Shaun Cox
Managing Director

Shaun Cox commenced as Managing Director of Melbourne Water on 8 March 2011. Shaun is currently a Board Member (and former Chair) of the Smart Water Fund and the Water Services Association of Australia. He holds a degree in Civil Engineering and a Masters of Engineering and Technology Management and is an Adjunct Professor at the University of Queensland. Before joining Melbourne Water, Mr Cox held the position of Managing Director of South East Water and Chief Executive Officer of Gold Coast Water.

Rob Skinner

Rob Skinner resigned as Managing Director effective as of 11 March 2011.

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Powers and accountability

Since 1 July 2007, Melbourne Water has operated under the *Water Act 1989*.

Melbourne Water has two current by-laws, *Water Supply Protection No 1 (2006)* and *Waterways, Land and Works Protection and Management (2009)*.

The Minister for Water has delegated powers of management under the *Water Act* relating to licensed private water diversions from waterways to Melbourne Water, effective as of 1 July 1999. The *Water Act* and by-laws can be purchased from the Information Victoria bookshop, 356 Collins Street, Melbourne (telephone 1300 366 356).

The Honourable Tim Holding, Minister for Water, was the Minister responsible for Melbourne Water from 1 July 2010 until 2 December 2010. The Honourable Peter Walsh, Minister for Water, was the responsible Minister from 2 December 2010 to 30 June 2011. Melbourne Water works with officers of the Department of Sustainability and Environment and the Department of Treasury and Finance. Statutory and other reports are provided covering Melbourne Water's performance against the objectives and performance indicators in the *Corporate Plan*.

Primary responsibilities

Melbourne Water's Board has adopted a charter that defines its role and responsibilities within the legislative framework provided by the *Water Act 1989* and other applicable legislation including the *Public Administration Act 2004*. The Board makes plans to achieve specific objectives, which include:

- Achievement of long-term outcomes based on a triple bottom line approach
- Approval of budgets together with key performance indicators linked to objectives
- Approval of annual financial statements and monitoring of performance against objectives and risks
- Monitoring of safety, health and environmental standards and management systems.

The Board has ratified a *Corporate Governance Policy*.

Key features of the Board's activities are that:

- It has formal Board meetings 11 times a year, undertakes site visits and participates in business strategy workshops with Melbourne Water's leadership team
- Monthly updates on Board activities are made available to all employees
- Regular strategy workshops are held with relevant stakeholder groups
- A structured induction program exists for new Board and committee members
- Development opportunities are made available for Board members on an ongoing basis
- Conflicts of interest are declared and a director does not participate in decisions where such a conflict exists
- Directors have the right to seek independent professional advice, at Melbourne Water's expense, in connection with their duties and responsibilities
- Declarations of pecuniary interest by directors are made annually, with procedures for updating that information between declarations
- There is an annual review of Board performance.

Committees

The Board has four sub-committees, each comprising at least three non-executive directors, who meet periodically to focus on audit and corporate risk, people and safety, environment and public health, and capital planning and delivery.

The Managing Director attends meetings of committees by invitation. The Board approves each committee's charter.

Audit and Corporate Risk Committee

Assists the Board of Directors in fulfilling its responsibilities relating to risk management, financial management and operational control practices, and compliance with relevant laws and regulations.

At 30 June 2011, the committee comprised Merran Kelsall (Chairman), Peter Vines, Warren Hodgson, Maria Wilton and Eleanor Underwood. A report about the activities of the committee in fulfilling its charter is prepared annually.

People and Safety Committee

Assists the Board in fulfilling its responsibilities relating to human resources issues, remuneration, and workplace health and safety. For details of directors' and executives' remuneration, refer to notes 35 and 36 of the Financial Statements.

At 30 June 2011, the committee comprised Warren Hodgson (Chairman), Terry Larkins, Merran Kelsall, Mary Anne Hartley and Eleanor Underwood. A report about the activities of the committee in fulfilling its charter is prepared biennially.

Environment and Public Health Committee

Assists the Board in fulfilling its responsibilities relating to environmental sustainability and public health.

At 30 June 2011, the committee comprised Mary Anne Hartley (Chairman), Eleanor Underwood and Rob Joy (independent member). A report about the activities of the committee in fulfilling its charter is prepared biennially.

Capital Planning and Delivery Committee

Assists the Board in fulfilling its governance responsibilities relating to the planning and delivery of capital projects. At 30 June 2011, the committee comprised Peter Vines (Chairman), Terry Larkins, Maria Wilton and Eleanor Underwood. A report about the activities of the committee in fulfilling its charter is prepared annually.

ORGANISATIONAL STRUCTURE

Melbourne Water's organisational structure aims to facilitate a renewed focus on innovation to provide financial and environmental sustainability. It is based on the idea that our people and contractors responsible for operating and managing assets should have responsibility for maintaining them.

