

PERFORMANCE REPORTING

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PERFORMANCE REPORT

FINANCIAL PERFORMANCE INDICATORS

MRD 01 Reference	Performance Indicator	2009/2010		2010/2011			Target Met	Notes
[1]		Target	Result	Target	Result	Variance		
F1	Internal Financing Ratio % - (Net operating cash flow - dividends / Capital expenditure)	N/A	23.0%	32.7%	29.5%	-9.8%	N	[2]
F2	Gearing Ratio % - (Total Debt / Total Assets)	N/A	55.0%	37.9%	37.1%	-2.1%	Y	
F3	Interest Cover - EBIT (Earnings before net interest and tax expense / net interest expense) - times	≥2.2	2.4	≥1.8	2.0	11.1%	Y	[3]
F4	Interest Cover - Cash (Cash flow from operations before net interest and tax payments / net interest payments) - times	≥3.0	3.4	≥2.7	2.8	3.7%	Y	[4]
F5	Return on Assets % (Earnings before net interest and tax / Average total assets)	N/A	6.0%	4.5%	4.7%	4.4%	Y	
F6	Return on equity % - (NPAT / Average Total Equity)	N/A	6.0%	3.6%	3.8%	5.6%	Y	

SERVICE AND ENVIRONMENTAL AND OTHER PERFORMANCE INDICATORS

MRD 01 Reference	Performance Indicator	2009/2010		2010/2011			Target Met	Notes
		Target	Result	Target	Result	Variance		
[1]								
S1	Water Quality							
	<i>Compliance with BWSA water quality requirements:</i>							
S1.1	* Microbiological standards - E.coli %	100%	100%	100%	98.75%	-1.3%	N	[4],[5]
S1.2	* Disinfection by-products %	100%	100%	100%	100%	0.0%	Y	[4]
E1	Reliability of Sewerage Collection Services							
E1.1	Sewage spilt from emergency relief structures and pumping stations (% of volume transported)	N/A	N/A	N/A	N/A	N/A	N/A	[6]
E2	Sewerage Treatment and Disposal - WTP							
	<i>Compliance with EPA Victoria discharge licence requirements %</i>	100%	100%	100%	100%	0.0%	Y	[4]
E2.1	* Offensive odours beyond the boundary (number)	0	0	0	0	0.0%	Y	[4]
E2.2	* Raw sewage TDS (mg/L)	<1000	975	≤1000	1000 mg/l	0.0%	Y	[4]
E3	Sewerage Treatment and Disposal - ETP							
	<i>Compliance with EPA Victoria discharge licence requirements %</i>	100%	100%	100%	100%	0.0%	Y	[4]
E3.1	* Offensive odours beyond the boundary	0	0	0	0	0.0%	Y	[4]
E3.2	* Ammonia limit (mg/L)	≥5.0	2.5	≥5.0	3.3	34.0%	Y	[4]
E4	River Health							
E4.1	Currently known intolerable flood risks reduced by 10% by 2013	0	0	0	0	0.0%	Y	[4]
E4.2	Achieve Water Plan implementation targets assigned to Melbourne Water from the Regional River Health Strategy and Addendum	100%	100%	100%	100%	0.0%	Y	[4]
E5.1	Recycled Water							
E5.1	Capacity to supply recycled water of specified reliability and quality from ETP and WTP to enable retail water businesses to meet their targets for potable water substitution (volume)	>700ML	>700ML	736ML	1,338ML	0.0%	Y	[4]

Notes - to Performance Report:

- [1] Performance Indicators as mandated in Ministerial Reporting Direction 01 - Performance Reporting (MRD 01) have been marked with their MRD 01 reference numbers.
 - [2] The annual performance indicator target was not achieved as cashflows from operating activities were below plan by \$35M mainly due to delay in receipt of \$29.3M of Northern Victoria Irrigation Renewal Project (NVI RP) payments from retail water businesses.
 - [3] The % variance between the results achieved and targets set for these performance indicators are above the % thresholds mandated under MRD 01 defining significant variances requiring explanatory notes. Given that the targets were set at a range of "less than or equal to" rather than a specific number, and both results achieved were well within the less than or equal to range, these are not deemed as significant variances by Melbourne Water.
 - [4] These performance indicators are mandated and measured consistently by both MRD 01 and by the Melbourne Water Board of Directors. Therefore the results have not been repeated within the 'Melbourne Water's Key Performance Indicators' section of the Performance Reporting chapter.
 - [5] The annual performance indicator target was not achieved due to one site having *E.coli* detected in samples on two occasions during the year. An isolation valve was found to be leaking a small amount of untreated water through from the Yan Yean Reservoir. This flow was reversed to prevent water coming from the reservoir, the valve was overhauled and the tank cleaned and spot dosed. Operation of the tank has been altered to lower detention time and the tank spot dosed on a regular basis. The Department of Health was notified in accordance with the *Safe Drinking Water Act* on both occasions. There was no *E.coli* detected by the retail water business in zones supplied from this source at these times.
 - [6] This performance indicator is no longer collected or reported on by Melbourne Water and is deemed to be very minor and insignificant in comparison to spills from rainfall events, which are disclosed within the 'Other Melbourne Water Performance Indicators' section of the Performance Reporting chapter under 'Sewerage Transfer System'.
- Target Met Target has been assessed as met when actual result is greater than or equal to the target set for the performance indicator.

CERTIFICATION OF PERFORMANCE REPORT FOR 2010/11

We certify that the accompanying Performance Report of Melbourne Water in respect of the 2010/11 financial year is presented fairly in accordance with the *Financial Management Act 1994*.

The statement includes the relevant performance indicators as determined by the responsible Minister, the actual results achieved for the financial year against predetermined performance targets and these indicators, and an explanation of any significant variance between the actual results and performance targets.

As at the date of signing, we are not aware of any circumstances which would render any particulars in the Performance Report to be misleading or inaccurate.

Dated this 19th day of August 2011.



Eleanor Underwood
Chairman



Shaun Cox
Managing Director



Malcolm Haynes
Chief Finance Officer



Victorian Auditor-General's Office

INDEPENDENT AUDITOR'S REPORT

To the Board Members, Melbourne Water Corporation

The Performance Report

The accompanying performance report for the year ended 30 June 2011 of the Melbourne Water Corporation comprises the performance indicators, the related notes and the statutory certification.

The Board Members' Responsibility for the Performance Report

The Board Members of the Melbourne Water Corporation are responsible for the preparation and the fair presentation of the performance report in accordance with the *Financial Management Act 1994* and for such internal control as the Board Members determine is necessary to enable the preparation of the performance report that is free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the performance report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the performance report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the performance report. The audit procedures selected depend on judgment, including the assessment of the risks of material misstatement of the performance report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the performance report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the overall presentation of the performance report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, the Auditor-General, his staff and delegates complied with all applicable independence requirements of the Australian accounting profession.

Level 24, 35 Collins Street, Melbourne Vic. 3000

Telephone 61 3 8601 7000 Facsimile 61 3 8601 7010 Email comments@audit.vic.gov.au Website www.audit.vic.gov.au

Auditing in the Public Interest

VAGO

Victorian Auditor-General's Office

Independent Auditor's Report (continued)

Opinion

In my opinion, the performance report of the Melbourne Water Corporation in respect of the 30 June 2011 financial year presents fairly, in all material respects, and in accordance with the *Financial Management Act 1994*.

Matters Relating to the Electronic Publication of the Audited Performance Report

This auditor's report relates to the performance report of the Melbourne Water Corporation for the year ended 30 June 2011 included both in the Melbourne Water Corporation's annual report and on the website. The Board Members of the Melbourne Water Corporation are responsible for the integrity of the Melbourne Water Corporation's website. I have not been engaged to report on the integrity of the Melbourne Water Corporation's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the performance report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited performance report to confirm the information contained in the website version of the performance report.

MELBOURNE
22 August 2011


For
D D R Pearson
Auditor-General

Level 24, 35 Collins Street, Melbourne Vic. 3000
Telephone 61 3 8601 7000 Facsimile 61 3 8601 7010 Email comments@audit.vic.gov.au Website www.audit.vic.gov.au

Auditing in the Public Interest

MELBOURNE WATER'S KEY PERFORMANCE INDICATORS

FINANCIAL PERFORMANCE INDICATORS

Performance Indicator	2009/2010		2010/2011			Target Met	Notes
	Target	Result	Target	Result	Variance		
Corporate							
Maintain Financial Viability							
Meet regulated Water Plan operating expenditure \$M	292.8	282.6	313.0	307.0	1.9%	Y	
Cash Returns to Government \$M	175.5	175.9	205.7	173.1	-15.8%	N	[2]
Gearing % - (Debt/Debt + Equity)	<59.7%	43.3%	51.2%	45.3%	-11.5%	Y	
Return on equity % - (NPAT/Total Equity)	≥6.7%	4.6%	4.0%	3.6%	-10.0%	N	[3]
Efficient and effective delivery of the capital program;							
* On time	N/A	N/A	80.0%	59.0%	-26.3%	N	[1],[4]
* On budget	N/A	N/A	95.0%	82.0%	-13.7%	N	[1],[5]

SERVICE AND ENVIRONMENTAL AND OTHER PERFORMANCE INDICATORS

Performance Indicator	2009/2010		2010/2011			Target Met	Notes
	Target	Result	Target	Result	Variance		
Water							
Production and storage							
Operate water supply system within environmental requirements - % compliance	100%	100%	100%	100%	0.0%	Y	
Maintain system losses as a % of water supplied to retail water businesses %	≤1.0%	1.08%	≤1.0%	1.41%	41.0%	N	[6]
Water Transfer							
Compliance with retail water businesses' pressure requirements as set out in BWSAs %	≥99.6%	100%	≥99.6%	100%	0.4%	Y	
Water Quality							
Compliance with BWSA water quality requirements:							
* Aesthetics – turbidity %	≥91.5%	89.30%	≥91.5%	100%	8.5%	Y	
* Aesthetics – Aluminium %	100%	100%	100%	100%	0.0%	Y	

MELBOURNE WATER'S
KEY PERFORMANCE INDICATORS

SERVICE AND ENVIRONMENTAL AND OTHER PERFORMANCE INDICATORS (CONTINUED)

Performance Indicator	2009/2010		2010/2011				
	Target	Result	Target	Result	Variance	Target Met	Notes
Sewerage							
ETP							
<i>EPA Licence Compliance</i>							
Compliance with EPA Victoria discharge licence requirements %	100%	100%	100%	100%	0.0%	Y	
* Litter at beach [that results in a licence breach]	0	0	0	0	0.0%	Y	
Sewerage Transfer System							
<i>EPA Victoria SEPP System failure</i>							
* System failure – zero spills due to sewerage system failure	0	0	0	0	0.0%	Y	
* Hydraulic deficiency – progressively achieve zero spills due to storm events of a severity of up to 1-in-5 years	0	0	0	0	0.0%	Y	
Complaints relating to transfer system odour	<10	20	<10	16	60.0%	N	[7]
<i>Work with Water Retail businesses to improve sewage quality management</i>							
* Number of high risk non-compliant trade waste discharges to Melbourne Water's sewerage system	0	0	0	0	0.0%	Y	
Biosolids Management							
Maximise sustainable re-use of biosolids:							
* ETP- biosolids reuse of 90,000 cubic metres for construction fill by 2013	0	1,275m3	0	10,500m3	0.0%	Y	
* WTP- biosolids reuse	0	0	0	0	0.0%	Y	

Performance Indicator	2009/2010		2010/2011				
	Target	Result	Target	Result	Variance	Target Met	Notes
Waterways							
Achieve Waterways and Drainage Operating Charter performance targets	100%	94.9%	100%	100%	0.0%	Y	
Drainage & Flood Protection							
All new development complies with flood protection standards	100%	100%	100%	100%	0.0%	Y	
Stormwater Quality							
Contribute to reducing the waterway nitrogen load to Port Phillip Bay through targeted stormwater action (tonnes)	100	100	102	102	0.0%	Y	
Waterways Condition							
Achieve Water Plan implementation targets assigned to Melbourne Water from the Regional River Health Strategy and Addendum	100%	100%	100%	100%	0.0%	Y	
Land Development							
Development and redevelopment services schemes prepared, implemented and reviewed according to the development planning program	100%	66.7%	100%	100%	0.0%	Y	
Statutory and agreed industry response times to be achieved for all development referrals	100%	100%	100%	100%	0.0%	Y	
Streamflow Diversions							
<i>Diversions to be managed:</i>							
* In accordance with rules specified in streamflow management plans, local management rules or drought responses plans	100%	100%	100%	100%	0.0%	Y	
* To meet the service requirements in Melbourne Water's Customer Charter [Diversion Services]	100%	100%	100%	100%	0.0%	Y	
Community & Stakeholder Engagement							
Maintain at least 70% total community satisfaction with Waterways	70.0%	70.0%	70.0%	N/A	N/A	N/A	[8]

SERVICE AND ENVIRONMENTAL AND OTHER PERFORMANCE INDICATORS (CONTINUED)

Performance Indicator	2009/2010		2010/2011				
	Target	Result	Target	Result	Variance	Target Met	Notes
Recycled Water							
<i>Compliance with retail BRWAs requirements for reliability and water quality;</i>							
* ETP	N/A	N/A	100%	50.0%	-50.0%	N	[1], [9]
* WTP	N/A	N/A	100%	90.0%	-10.0%	N	[1], [10]

Performance Indicator	2009/2010		2010/2011				
	Target	Result	Target	Result	Variance	Target Met	Notes
Corporate							
Sustainability							
Achieve sustainability performance score within 20% of the best score by global water utilities and Australian utilities, using the Dow Jones Sustainability World Indices (DJSI) - measured every two years	N/A	N/A	Within 20% of best score	Pass	0.0%	Y	[8]
Natural Environment							
<i>Renewable energy and greenhouse</i>							
* Renewable energy used or exported as % of total energy used	>58.0%	58%	>59.0%	59.0%	0.0%	Y	
* % reduction on 2000/01 greenhouse gas emissions	>42.0%	51.6%	>42.0%	46.5%	10.7%	Y	
Biodiversity							
For the 9 DSE designated sites of high biodiversity significance [BioSites], the number of BioSites that have:							
* Had management plans developed [cumulative]	4	4	8	9	12.5%	Y	
* Had management plans implemented [cumulative]	2	3	3	4	33.3%	Y	
Our People / Our Workplace							
Number of lost time injuries: * Melbourne Water people and contractors [injuries]	0	9	0	15	-100%	N	[11]
Maintain National Audit Tool accreditation	Yes	Yes	Yes	Yes	0.0%	Y	
Staff Turnover [%]	5-10%	6.2%	5-10%	8.1%	0.0%	Y	
Absenteeism - per person per year [days]	≤2.7	2.7	≤2.7	2.8	3.7%	N	[12]
Minimise everyday environmental impacts:							
* % reduction on 2006/07 office water consumption per FTE	≥3.5%	5.8%	3.50%	13.2%	277.1%	Y	
* % reduction on 2006/07 paper use per FTE	>10%	24.2%	12.0%	24.2%	101.7%	Y	
* % reduction on 2006/07 office waste to landfill per FTE	≥6%	27.3%	8.0%	41.6%	420.0%	Y	
* % reduction on 2006/07 office energy per FTE	>3.5%	15.2%	4.0%	14.5%	262.5%	Y	
* % offsetting greenhouse gas emissions from office energy use & travel	N/A	N/A	100%	100%	0.0%	Y	
Increase in constructive behaviours (measured every two years)	N/A	N/A	Achieved	N/A	N/A	N/A	[8]
Employee ranking of innovation in contribution to business performance	N/A	N/A	Improved	N/A	N/A	N/A	[13]
Relationships - Customer, Community, Stakeholder							
<i>Customers</i>							
* Complaints referred to EWOV responded to within EWOV established time	100%	100%	100%	100%	0.0%	Y	
<i>Community</i>							
* Effectiveness of community committee and community consultation processes	80.0%	N/A	85.0%	95.0%	11.8%	Y	[8]
* Effectiveness of community education programs	80.0%	N/A	85.0%	97.0%	14.1%	Y	[8]

SERVICE AND ENVIRONMENTAL AND OTHER PERFORMANCE INDICATORS (CONTINUED)

Notes - to Melbourne Water Key Performance Indicators:

- [1] New performance indicator for 2010/11
- [2] The annual performance indicator target was not achieved mainly due to deferral of the \$37.8M interim 2010/11 dividend (planned to be paid in April 2011) but deferred to October 2011 based on advice by the Department of Treasury and Finance.
- [3] The annual performance indicator target was not achieved mainly due to Equity being \$702.8M above our Corporate Plan target (primarily due to difference of \$537.6M to opening balances in the Plan compared to final 2009/10 actuals mainly as a result of the revaluation of infrastructure assets as at 30 June 2010 being above Plan). The remainder of the \$165.2M movement in Equity is mainly due to the 2010/11 land and buildings valuation increments being higher than planned.
- [4] The annual performance indicator target was not achieved. Further investigation and analysis will be undertaken to identify the underlying causes and initiatives implemented to improve performance.
- [5] The annual performance indicator target was not achieved. Investigations and analysis to identify the underlying causes will be completed and initiatives implemented to improve performance.
- [6] The annual performance indicator target was not achieved mainly due to an increase in losses from the aqueduct system. These losses are mainly due to the higher than average harvesting flows through these aqueduct systems. Further losses were recorded across Melbourne Water's water supply system due to flushing the Winneke-Preston Water Main and multiple major water main renewal works.
- [7] The annual performance indicator target was not achieved mainly due to ventilation associated with works being undertaken in the sewer network and sewer vents performing as designed. Other causes included sewer gases escaping around or through manhole covers damaged or unsealed by traffic or corrosion.
- [8] Performance indicator is measured every two years (if N/A performance indicator is not measured in 2010/11)
- [9] The annual performance indicator target was not achieved because we failed to meet recycled water turbidity and recycled water supply targets due to wet weather events and delay in completion of the aeration tanks project at Eastern Treatment Plant.
- [10] The annual performance indicator target was not achieved mainly due to wet weather affecting reliability.
- [11] The annual performance indicator target was not achieved as there were 15 lost time injuries incurred by staff and contractors. A safety culture survey has been undertaken to address leadership and behavioural issues that impact on our decision making. Results will be used to create an action plan to improve our safety culture and performance.
- [12] The annual performance indicator target was not achieved due to an increase in the average sick leave taken during August to October.
- [13] This annual performance indicator is now not able to be measured until the results of the innovation survey in October 2011 and accordingly will be reported on in the 2011/12 annual report.
- Target Met Target has been assessed as met when actual result is greater than or equal to the target set for the performance indicator.