

Financial Statements

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Directors' Report

DIRECTORS

The directors of Melbourne Water Corporation in office at the date of this Report are:

G W Bowker (Chairman) B R Bayley (Managing Director) A A Browne
V M Mansour C J Schultz B Solnordal

Particulars of the directors' qualifications, experience and special responsibilities are set out on page 36 of this Annual Report.

DIRECTORS' MEETINGS

During the financial period the Corporation held 11 meetings of directors. Attendance at meetings of the Board and its committees were:

| | Principal Board | | Audit Committee | | Remuneration Committee | |
|---------------|-----------------|------------------|-----------------|------------------|------------------------|------------------|
| | Attended | Maximum Possible | Attended | Maximum Possible | Attended | Maximum Possible |
| G W Bowker * | 5 | 5 | – | – | – | – |
| C J Stewart # | 6 | 6 | – | – | 2 | 2 |
| B R Bayley | 11 | 11 | 4 | 4 | 2 | 2 |
| A A Browne | 10 | 11 | 4 | 4 | 1 | 2 |
| R V Gilbert # | 6 | 6 | – | – | 2 | 2 |
| V M Mansour * | 5 | 5 | 2 | 2 | – | – |
| C J Schultz * | 5 | 5 | – | – | – | – |
| B Solnordal | 10 | 11 | 4 | 4 | – | – |

* G W Bowker was appointed Chairman, V M Mansour and C J Schultz were appointed Directors on 1 January 2000.

C J Stewart and R V Gilbert retired with effect 31 December 1999.

PRINCIPAL ACTIVITIES

The principal activities of the Corporation during the course of the financial year were to provide water and sewerage services on a wholesale basis to three retail companies: Yarra Valley Water Ltd, South East Water Ltd and City West Water Ltd. The Corporation also manages the main drainage network and waterways, providing flood protection and waterways quality improvement services for the greater Melbourne area.

OPERATING RESULTS AND DIVIDEND

The net profit for the Corporation after providing for income tax amounted to \$196.9 million. Following negotiations with the Department of Treasury and Finance, a dividend of \$126.2 million has been proposed for the period. Of this amount \$64.8 million was paid as an interim dividend during 1999/2000.

REVIEW OF OPERATIONS

The directors' review of the operations of the Corporation during the financial period ended 30 June 2000 and the results of those operations are set out in the Chairman and Managing Director's Overview on pages 2-5 of this Annual Report.

Directors' Report

STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Corporation during the financial period ended 30 June 2000 not otherwise disclosed in this Report or the Financial Statements.

ENVIRONMENTAL REGULATION

Melbourne Water is subject to significant environmental regulation in respect of management of its sewage treatment plants and the maintenance of environmental flow requirements in the Yarra River. More detailed information is included in Melbourne Water's Annual Environment and Public Health Reports.

Sewage Treatment Plants

Melbourne Water achieved 100 per cent compliance at Eastern Treatment Plant and 100 per cent compliance at Western Treatment Plant with parameters detailed in their respective EPA discharge licences. General requirements of these licences were met during the year to the satisfaction of the EPA.

Ramsar Site at Western Treatment Plant

A joint Conservation Management Action Plan between Melbourne Water, Parks Victoria and the Department of Natural Resources and Environment was completed to protect the Ramsar values of the site. The Ramsar Camenlian is designed to protect wet areas of international significance. Lake Barrie at the Western Treatment Plant is covered by Ramsar. The plan will be implemented over the next three years.

Dandenong Treatment Plant

The disused Dandenong Treatment Plant is subject to a Pollution Abatement Notice issued by the EPA. During the year the requirements of the Notice were met. A provision has been made for remediation at this site and a Site Remediation Strategy was developed during the year. This Strategy will be implemented over the next five years.

Environmental Flow Requirement – Yarra River

Flow in the Yarra has to be managed so that, to the extent practicable, it does not drop below 245 megalitres a day at Warrandyte. During the year the flow fell below 245ML/d for 5 days in February and 20 days in March. This was due to the drought conditions in the Yarra catchment. During these times actions taken by Melbourne Water included not pumping from Yering Gorge, restricting diverters according to stage one and two of the Yarra Drought Response Plan and minimising harvesting from the Upper Yarra tributaries.

EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the financial year the directors are not aware of any matter or circumstance not otherwise dealt with in the Report or Financial Statements that, in the opinion of the directors has significantly affected or may significantly affect the operations of the Corporation, the results of those operations, or the state of affairs of the Corporation in subsequent future years.

Directors' Report

STATUTORY INFORMATION – REPORT OF OPERATIONS

The following statutory information is provided elsewhere within the Annual Report:

| | Page |
|---|-------|
| Objectives, functions, powers and duties | 39 |
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| Directors, Audit Committee and Remuneration Committee members | 36-37 |
| Names of senior office holders and brief description of each office | 39 |
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DIRECTORS' BENEFITS

No director has received or become entitled to receive a benefit (other than a benefit included in Notes 22 and 28 to the Financial Statements) because of a contract that the director, a firm of which the director is a member, or an entity in which the director has a substantial financial interest, has made (during the period ended 30 June 2000 or at any other time) with:

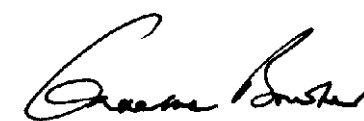
- (a) the Corporation; or
- (b) an entity that the Corporation controlled, or a body corporate that was related to the Corporation, when the contract was made or when the director received, or became entitled to receive, the benefit.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

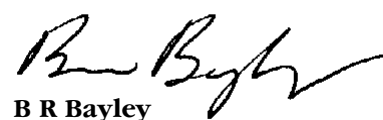
During the financial year the Corporation paid insurance premiums in respect of directors' and officers' liability insurance. The policies do not specify the premium for individual directors and officers. The directors' and officers' liability insurance provides cover against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the Corporation) incurred in their position as director or officer unless the conduct involves a wilful breach of duty or an improper use of information or position to gain advantage.

INTEREST IN CONTRACTS

No contracts involving directors' interests were entered into since the end of the previous financial year or existed at the end of the financial year other than the transactions detailed in Note 28 to the Financial Statements.



G W Bowker
Chairman



B R Bayley
Managing Director

Profit and Loss Statement

FOR YEAR ENDED 30 JUNE 2000

| | Note | 2000 \$000 | 1999 \$000 |
|--|------|----------------|---------------|
| Operating revenue | 2 | 477,843 | 449,580 |
| Operating profit before income tax | 3 | 204,234 | 166,915 |
| Income tax attributable to operating profit | 4 | 7,348 | 54,090 |
| Operating profit after income tax | | 196,886 | 112,825 |
| Retained profits at the beginning of the financial year | | 460,389 | 453,739 |
| Total available for appropriation | | 657,275 | 566,564 |
| Dividend provided for or paid | 5 | 126,246 | 106,175 |
| Retained profits at the end of the financial year | | 531,029 | 460,389 |

The above Profit and Loss Statement should be read in conjunction with the accompanying notes

Balance Sheet

AS AT 30 JUNE 2000

| | Note | 2000 \$000 | 1999 \$000 |
|--------------------------------------|------|------------------|---------------|
| CURRENT ASSETS | | | |
| Cash | 6 | 1,757 | 2,961 |
| Receivables | 7 | 14,966 | 15,867 |
| Investments | 8 | 8,900 | – |
| Stores and livestock | 9 | 8,572 | 7,496 |
| Other | 10 | 1,520 | 1,237 |
| Total Current Assets | | 35,715 | 27,561 |
| NON CURRENT ASSETS | | | |
| Property, plant and equipment | 11 | 2,805,434 | 2,715,441 |
| Other | 12 | 10,936 | 12,626 |
| Total Non Current Assets | | 2,816,370 | 2,728,067 |
| Total Assets | | 2,852,085 | 2,755,628 |
| CURRENT LIABILITIES | | | |
| Accounts payable | 13 | 74,136 | 72,212 |
| Borrowings | 14 | 193,121 | 196,511 |
| Provisions | 15 | 80,932 | 57,508 |
| Total Current Liabilities | | 348,189 | 326,231 |
| NON CURRENT LIABILITIES | | | |
| Accounts payable | 16 | 857 | 1,311 |
| Borrowings | 17 | 1,049,651 | 1,070,872 |
| Provisions | 18 | 286,419 | 290,913 |
| Total Non Current Liabilities | | 1,336,927 | 1,363,096 |
| Total Liabilities | | 1,685,116 | 1,689,327 |
| NET ASSETS | | 1,166,969 | 1,066,301 |
| EQUITY | | | |
| Contributed capital | 19 | 603,574 | 601,085 |
| Asset revaluation reserve | 20 | 32,366 | 4,827 |
| Retained profits | | 531,029 | 460,389 |
| TOTAL EQUITY | | 1,166,969 | 1,066,301 |

The above Balance Sheet should be read in conjunction with the accompanying notes

Statement of Cash Flows

FOR YEAR ENDED 30 JUNE 2000

| | Note | 2000 \$000 | 1999 \$000 |
|---|------|------------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 449,262 | 437,017 |
| Payments to suppliers and employees | | (133,137) | (137,944) |
| Income Tax Equivalent Paid | | (745) | (3,926) |
| Interest received | | 34 | 167 |
| Interest and other costs of finance paid | | (77,328) | (78,291) |
| Net cash provided by operating activities | 27 | 238,086 | 217,023 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Payment for property, plant, equipment and works in progress | | (99,967) | (76,429) |
| Proceeds from sale of property, plant and equipment | | 8,663 | 16,101 |
| Net cash used in investing activities | | (91,304) | (60,328) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from borrowings | | 478,000 | 360,000 |
| Repayment of borrowings | | (502,611) | (397,697) |
| Dividend paid | | (114,475) | (121,449) |
| Net cash used in financing activities | | (139,086) | (159,146) |
| Net increase/(decrease) in cash held | | 7,696 | (2,451) |
| Cash at the beginning of the financial year | | 2,961 | 5,412 |
| Cash at end of the financial year | | 10,657 | 2,961 |
| RECONCILIATION OF CASH | | | |
| For the purposes of the statement of cash flows, cash represents cash on hand, at the bank and on short term deposit. | | | |
| Cash at bank and on hand | 6 | 1,757 | 2,961 |
| Deposits | 8 | 8,900 | – |
| | | 10,657 | 2,961 |

The above Statement of Cash Flows should be read in conjunction with the accompanying notes

Notes to the Accounts

YEAR ENDED 30 JUNE 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 General

These general purpose financial statements are prepared in accordance with the *Financial Management Act 1994*, Australian Accounting Standards, Urgent Issues Group Consensus Views and relevant statutory and other requirements.

The financial statements have been prepared on the basis of historical cost and do not take into account changing money values or current valuations of non-current assets, except where stated.

Unless otherwise stated, amounts in the financial statements have been rounded to the nearest thousand dollars.

1.2 Change in Accounting Treatment

There have been no changes in accounting treatment during 1999/2000.

1.3 Income Tax

Under Section 88(1) of the *State Owned Enterprises Act 1992*, Melbourne Water became subject to the Victorian Income Tax Equivalent System from 1 July 1993. The tax equivalent rules are based on the *Income Tax Assessment Act 1936* (as amended). The essential difference between the State Equivalent Rules and the Commonwealth legislation is that the tax liability is to be paid to the State Government and not the Commonwealth Government.

Melbourne Water has adopted the liability method of Tax Effect Accounting in accordance with the requirements of Australian Accounting Standard AAS3 'Accounting for Income Tax (Tax Effect Accounting)'.

1.4 Valuation of Non Current Assets

Property, Plant and Equipment excluding Crown Land are recorded at historical cost. Those assets acquired from external sources are valued either

at values shown in the balance sheet of the acquired entity or at an estimated cost.

Crown Land was revalued by the Office of the Valuer General at 30 June 2000 using the 'Deprival value concept' basis (refer to Note 11). Transfers to and from other Victorian State Government entities are adjusted against contributed capital in accordance with formal approval by the Minister of Finance. Crown land revaluations are adjusted against Asset Revaluation Reserve.

1.5 Recoverable Amount of Non Current Assets

To ensure compliance with the provisions of Australian Accounting Standard AAS10 'Accounting for the Revaluation of Non Current Assets' Melbourne Water undertook an internal analysis of asset values in June 2000. Expected net cash flows at major asset grouping level were discounted to their present value to calculate the recoverable amount as prescribed in AAS10.

As the recoverable amount for each major asset group was in excess of the written down carrying value, a write down of 'in service' assets was not required.

1.6 Depreciation

Non Current Assets are depreciated on a straight line basis over the estimated useful lives of the assets to the Corporation. Depreciation commences in the month subsequent to the date where service can be obtained.

The estimated useful lives are as follows:

| | |
|------------------------------------|--------------|
| Buildings & Leasehold Improvements | 5–80 years |
| Minor Plant & Equipment | 3–50 years |
| Infrastructure Assets | 20–100 years |

The useful lives of the assets are reviewed annually. During 1999/2000 no changes were made.

Notes to the Accounts

YEAR ENDED 30 JUNE 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.7 Leased Non Current Assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

The leased asset is amortised on a straight line basis over the term of the lease, or where it is likely that the Corporation will obtain ownership of the asset, over the life of the asset. The Corporation has one finance lease at 30 June 2000 (a water treatment plant at Yan Yean) which is being amortised over a 21 year period.

1.8 Receivables and Revenue Recognition

Trade Debtors

Drainage rate debtors – revenue is recognised on a monthly basis, derived from the total expected rates to be collected for the year. Rates are levied quarterly based on property valuations as at 30 June 1990. Settlement varies between 21 and 35 days (depending upon the billing cycle of the retail company). To secure the debtor, a lien is held over the property.

Water usage charges and sewage disposal charges – the charges comprise a variable metered component and a fixed fee. The metered usage revenue is recognised when the service has been used with settlement at 7 days. The fixed fee is recognised on a monthly basis with settlement at 14 days. Collateral is not obtained for this class of debtor.

Other Receivables and Revenue

Interest received/receivable – income receivable is accrued in accordance with the terms and conditions of the underlying financial instrument or other contract.

Developer charges and contributions – assets acquired at no cost to the Corporation are recognised as revenue upon completion of the works and their acceptance by the Corporation. Cash contributions are recognised when received.

Proceeds from sale of non current assets – property sales are recognised on signing of an unconditional contract of sale. Debtors are provided with commercial terms.

Other receivables are recognised at their carrying amount. Collateral is not normally obtained for other receivables.

Bad and Doubtful Debts

A provision for doubtful debts is based on a review of all amounts outstanding at balance date. Bad debts are written off in the period in which they are identified.

1.9 Accounts Payable

Creditors and accruals – represent liabilities for goods/services and accrued interest on borrowings which are unpaid at 30 June 2000. The accrued interest on borrowings are unsecured and the Trade Creditors are usually paid within 30 days from the receipt of invoices.

Advances – represent security deposits and other advances paid by developers/land owners for the construction of drainage works. The amounts are unsecured and refunded to the developer at the completion of the project.

1.10 Borrowings

All borrowings are required to be transacted through the Treasury Corporation of Victoria whose liabilities are guaranteed by the Government of Victoria.

Notes to the Accounts

YEAR ENDED 30 JUNE 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Since the debt restructure on 1 January 1998, all borrowings are carried at their principal amount. Interest is accrued based on the applicable interest rate for each loan.

1.11 Derivative Financial Instruments

As at 30 June 2000, Melbourne Water had no derivative positions and there were no additional positions in place to hedge future transactions.

1.12 Employee Entitlements

Wages, Salaries and Annual Leave

Liabilities for wages, salaries and annual leave are recognised and measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date. The liability for Annual Leave has been oncosted in accordance with the Australian Accounting Standard AAS30 'Accounting for Employee Entitlements'.

Sick Leave

Sick leave payments are made in accordance with relevant awards, determinations and Corporation policy. No provision is made in the financial statements for outstanding sick leave entitlements as these are not vested benefits.

Long Service Leave

A liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to reporting date. As prescribed by AAS30, expected future payments are discounted using interest rates attaching, as at reporting date, to Australian Government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The current component of the liability is calculated based on the assumption that 10 per cent of the total liability is taken within 12 months.

Superannuation

The superannuation fund position in respect of defined benefit superannuation is recognised and measured as the difference between employees' vested benefits at the reporting date and the net market value of the superannuation funds' assets at that date, after allowing for the impact of the 15 per cent tax on contributions.

Refer to Note 26 for further details on the superannuation fund.

WorkCover

Melbourne Water is registered as a self-insurer for workers compensation and is liable to the workers or workers' dependants to pay compensation under the *Accident Compensation Act 1985*.

Based upon actuarial assessment, a provision of \$4.3 million (\$3.9 million in 1998/99) is made for outstanding claims incurred and not settled and for claims incurred but not reported. Other claims incurred and settled during the period are charged to the Profit and Loss Statement.

Workers Compensation

Melbourne Water continues to be liable for workers compensation claims incurred prior to the introduction of WorkCare (now WorkCover). Based upon actuarial assessment, a provision of \$0.2 million is made for all outstanding workers compensation claims at 30 June 2000 (\$0.2 million in 1998/99).

1.13 Stores and Livestock

Stores consist mainly of materials and supplies for asset construction, systems operation and general administration and are valued at cost.

Livestock includes cattle, sheep and horses held in connection with the operation of Werribee Agriculture. They are revalued at market value annually.

Notes to the Accounts

YEAR ENDED 30 JUNE 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.14 Year 2000 Expenditure

Costs relating to preparation for year 2000 readiness are charged as expenses when incurred. Refer Note 3.

1.15 Provision for Property Decommissioning

Melbourne Water is required by the *Occupational Health and Safety Act* and the *Occupiers Liability Act* to exercise 'duty of care' for the safety of employees, contractors and members of the public entering its workplaces, including any surplus sites held for disposal. In line with the Corporation's risk management strategy and

commercial practice, Melbourne Water conducts regular reviews of its surplus sites and provides for any necessary decommissioning costs that may be incurred prior to disposal. This is in line with the guidelines adopted by the Environment Protection Authority.

During 1999/2000, an additional \$0.3 million has been provided for.

1.16 Comparative Figures

Where applicable, comparative figures have been adjusted to conform with changes in the presentation in the current year.

| | 2000 \$000 | 1999 \$000 |
|--|----------------|---------------|
| 2. OPERATING REVENUE | | |
| Sales Revenue | | |
| Bulk water and sewerage charges | 311,939 | 305,420 |
| Drainage rates | 96,283 | 93,481 |
| | 408,222 | 398,901 |
| Other Revenue | | |
| Developer charges and contributions | 46,555 | 19,062 |
| Proceeds from sale of non-current assets | 8,211 | 16,587 |
| Miscellaneous | 14,855 | 15,030 |
| | 69,621 | 50,679 |
| Total operating revenue | 477,843 | 449,580 |

Notes to the Accounts

YEAR ENDED 30 JUNE 2000

| | 2000 | 1999 |
|---|--------|--------|
| | \$000 | \$000 |
| 3. OPERATING PROFIT | | |
| Operating profit before income tax is arrived at after crediting and charging the following specific items: | | |
| Credits | | |
| Interest received/receivable | 34 | 167 |
| Profit on sale of non current assets | 6,822 | 10,525 |
| Revaluation of livestock | | |
| – Cattle | 1,058 | 834 |
| – Sheep | (434) | (271) |
| Charges | | |
| Total interest paid/payable | 77,807 | 78,288 |
| Net bad and doubtful debts on other receivables | 47 | (38) |
| Loss on sale of non current assets | 184 | 975 |
| Rental expenses relating to operating leases | 1,244 | 1,364 |
| Depreciation | | |
| – buildings | 780 | 778 |
| – plant and equipment at cost | 62,973 | 56,408 |
| – plant and equipment under finance lease | 1,109 | 1,109 |
| Labour and associated charges | 34,408 | 33,812 |
| Operations | 38,046 | 37,646 |
| Repairs and maintenance | 22,363 | 19,767 |
| Year 2000 expenditure | 185 | 2,467 |
| Property decommissioning | 300 | 10,813 |
| Taxes and charges | 13,272 | 12,015 |
| Administration | 19,481 | 21,199 |

Notes to the Accounts

YEAR ENDED 30 JUNE 2000

| | 2000 | 1999 |
|---|----------------|----------------|
| | \$000 | \$000 |
| 4. INCOME TAX | | |
| The aggregate amount of income tax expense attributable to the financial year is reconciled to the prima facie tax payable on the operating profit as follows: | | |
| Operating profit before income tax | 204,234 | 166,915 |
| Prima facie income tax calculated at 36% | 73,524 | 60,089 |
| Adjustment for the tax effect of permanent differences: | | |
| – Non deductible expenses | 552 | 965 |
| – Net exempt income | (16,729) | (6,811) |
| – Research and development concession | (197) | (153) |
| Income tax adjusted for permanent differences | 57,150 | 54,090 |
| Net adjustment to deferred income tax liabilities and future income tax benefits to reflect the decrease in the tax rate to 34% and 30% | (49,802) | – |
| Income tax attributable to operating profit | 7,348 | 54,090 |
| Income tax attributable to operating profit comprises: | | |
| – Current taxation provision | 6,505 | 2,319 |
| – Deferred income tax provision | (593) | 53,074 |
| – Future income tax benefit | 1,436 | (1,303) |
| | 7,348 | 54,090 |
| Adjustment to deferred income tax balances | | |
| Legislation reducing the company tax rate from 36% to 34% in respect of the 2000-2001 income tax year and then to 30% from the 2001-2002 income tax year was announced on 21 September 1999 and received Royal Assent on 10 December 1999. As a consequence, deferred tax balances which are expected to reverse in the 2000-2001 or a later income tax year have been remeasured using the appropriate new rates, depending on the timing of their reversal. | | |
| 5. DIVIDENDS | | |
| Interim dividend paid during the year | 64,800 | 56,500 |
| Proposed final dividend paid/payable (refer to Note 15) | 61,446 | 49,675 |
| Total dividend proposed for the period | 126,246 | 106,175 |
| 6. CURRENT ASSETS – CASH | | |
| Cash at bank and on hand | 1,757 | 2,961 |

Notes to the Accounts

YEAR ENDED 30 JUNE 2000

| | 2000 | 1999 |
|---|------------------|-----------|
| | \$000 | \$000 |
| 7. CURRENT ASSETS – RECEIVABLES | | |
| Trade debtors | 10,175 | 9,940 |
| | 10,175 | 9,940 |
| Other receivables | 4,794 | 5,951 |
| Less: Provision for doubtful debts | 3 | 24 |
| | 4,791 | 5,927 |
| Total current assets – receivables | 14,966 | 15,867 |
| 8. CURRENT ASSETS – INVESTMENTS | | |
| Deposits | 8,900 | – |
| Total current assets – investments | 8,900 | – |
| 9. CURRENT ASSETS – STORES AND LIVESTOCK | | |
| Stock in stores – valued at cost | 1,963 | 1,779 |
| Livestock – stated at market value | 6,609 | 5,717 |
| Total current assets – stores and livestock | 8,572 | 7,496 |
| 10. CURRENT ASSETS – OTHER | | |
| Prepayments | 916 | 895 |
| Deferred expenses | 604 | 342 |
| Total current assets – other | 1,520 | 1,237 |
| 11. NON CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT | | |
| Land and Buildings | | |
| Crown land at valuation* | 48,583 | 18,555 |
| Freehold land and buildings at cost | 27,285 | 27,413 |
| Less: Accumulated depreciation – buildings | 11,796 | 11,090 |
| Total land and buildings | 64,072 | 34,878 |
| Plant and Equipment | | |
| Plant and equipment at cost | 3,382,691 | 3,292,502 |
| Less: Accumulated depreciation | 771,940 | 720,821 |
| | 2,610,751 | 2,571,681 |
| Plant and equipment under finance lease | 23,280 | 23,280 |
| Less: Accumulated amortisation | 2,217 | 1,109 |
| | 21,063 | 22,171 |
| Total plant and equipment | 2,631,814 | 2,593,852 |
| Capital Works in Progress | 109,548 | 86,711 |
| Total non current assets – property, plant and equipment | 2,805,434 | 2,715,441 |

Notes to the Accounts

YEAR ENDED 30 JUNE 2000

11. NON CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

* Crown Land

The Corporation controls 19,897 hectares of Crown land. A revaluation was undertaken by the Office of the Valuer General at 30 June 2000. The 'Deprival value concept' valuation basis was used consistent with the requirements of both the *Financial Management Act 1994* and the Recognition and Reporting of Crown Land by Government Entities publication (Public Sector Accounting Centre of Excellence 1995).

An additional 48 hectares of Crown land has been recognised in the Balance Sheet of Melbourne Water consistent with the revaluation undertaken at 30 June 2000. The increase in non current assets has been adjusted against contributed capital. Refer to Notes 1.4 and 19.

State Digital Map Base

The Corporation has an interest in the State digital map base controlled by Geographic Data Victoria. The value of Melbourne Water's interest in the State digital map base is not considered material in the context of the Corporation's accounts and it is not included as an asset. In 1999/2000 Melbourne Water did not receive any royalties from this interest (\$1,541 in 1998/99).

| | 2000 | 1999 |
|---|---------------|--------|
| | \$000 | \$000 |
| 12. NON CURRENT ASSETS – OTHER | | |
| Deferred expenses | – | 254 |
| Future income tax benefit | 10,936 | 12,372 |
| Total non current assets – other | 10,936 | 12,626 |

13. CURRENT LIABILITIES – ACCOUNTS PAYABLE

| | | |
|---|---------------|--------|
| Trade creditors | 9,785 | 20,359 |
| Interest payable | 22,415 | 22,517 |
| Accruals | 41,632 | 29,060 |
| Advances | 304 | 276 |
| Total current liabilities – accounts payable | 74,136 | 72,212 |

14. CURRENT LIABILITIES – BORROWINGS

| | | |
|---|----------------|---------|
| Lease liabilities (refer to Note 24) | 1,221 | 1,211 |
| Borrowings | 191,900 | 195,300 |
| Total current liabilities – borrowings | 193,121 | 196,511 |

Notes to the Accounts

YEAR ENDED 30 JUNE 2000

| | 2000 | 1999 |
|---|------------------|------------------|
| | \$000 | \$000 |
| 15. CURRENT LIABILITIES – PROVISIONS | | |
| Employee entitlements (refer to Note 26) | 4,184 | 4,008 |
| Dividend (refer to Note 5) | 61,446 | 49,675 |
| Income tax | 5,680 | – |
| Insurance claims | 1,278 | 264 |
| Property Decommissioning | 6,313 | 1,313 |
| Other provisions | 2,031 | 2,248 |
| Total current liabilities – provisions | 80,932 | 57,508 |
| 16. NON CURRENT LIABILITIES – ACCOUNTS PAYABLE | | |
| Trade creditors | 820 | 1,302 |
| Advances | 37 | 9 |
| Total non current liabilities – accounts payable | 857 | 1,311 |
| 17. NON CURRENT LIABILITIES – BORROWINGS | | |
| Lease liabilities (refer to Note 24) | 19,651 | 20,872 |
| Borrowings | 1,030,000 | 1,050,000 |
| Total non current liabilities – borrowings | 1,049,651 | 1,070,872 |
| 18. NON CURRENT LIABILITIES – PROVISIONS | | |
| Employee entitlements (refer to Note 26) | 11,644 | 11,021 |
| Deferred income tax | 259,947 | 260,541 |
| Insurance Claims | 276 | – |
| Property Decommissioning | 14,552 | 19,351 |
| Total non current liabilities – provisions | 286,419 | 290,913 |
| 19. CONTRIBUTED CAPITAL | | |
| Opening balance | 601,085 | 600,285 |
| Adjustment to Crown land # | 2,489 | 800 |
| Closing balance | 603,574 | 601,085 |
| * Refer to Notes 1.4 and 11 for explanation of adjustments to Crown land. | | |
| 20. ASSET REVALUATION RESERVE | | |
| Opening balance | 4,827 | 3,751 |
| Adjustment to Crown land * | 27,539 | 1,076 |
| Closing balance | 32,366 | 4,827 |
| * Refer to Note 1.4 and 11 for explanation of adjustments to Crown land. | | |

Notes to the Accounts

YEAR ENDED 30 JUNE 2000

| | 2000 | 1999 |
|---|--------|--------|
| | \$000 | \$000 |
| 21. AUDITORS' REMUNERATION | | |
| Amounts received, or due and receivable, by the auditor for auditing the accounts of the Corporation | 86 | 88 |
| 22. DIRECTORS' REMUNERATION | | |
| Income received or due and receivable by directors | 534 | 517 |
| The number of directors of the Corporation included in these figures are shown below in their relevant income bands: | | |
| | 2000 | 1999 |
| Remuneration between | Number | Number |
| \$ 10,000 – \$ 19,999 | 3 | 1 |
| \$ 30,000 – \$ 39,999 | 4 | 3 |
| \$ 60,000 – \$ 69,999 | – | 1 |
| \$280,000 – \$289,999 | – | 1 |
| \$290,000 – \$299,999 | 1 | – |
| | 2000 | 1999 |
| | \$000 | \$000 |
| 23. EXECUTIVES' REMUNERATION | | |
| Income received or due and receivable by executive officers, not including directors, whose income is more than \$100,000 | 4,382 | 4,351 |
| The number of executive officers whose income is more than \$100,000 are shown below in their relevant income bands: | | |
| | 2000 | 1999 |
| Remuneration between | Number | Number |
| \$100,000 – \$109,999 | 7 | 8 |
| \$110,000 – \$119,999 | 9 | 7 |
| \$120,000 – \$129,999 | 5 | 5 |
| \$130,000 – \$139,999 | 1 | 1 |
| \$140,000 – \$149,999 | – | 2 |
| \$150,000 – \$159,999 | 5 | 5 |
| \$160,000 – \$169,999 | 3 | 1 |
| \$170,000 – \$179,999 | – | 2 |
| \$180,000 – \$189,999 | 2 | 2 |
| \$190,000 – \$199,999 | 1 | – |

Notes to the Accounts

YEAR ENDED 30 JUNE 2000

| | 2000 | 1999 |
|--|-------|-------|
| | \$000 | \$000 |

24. COMMITMENTS

Capital Commitments

Total capital expenditure contracted for the construction of water, sewerage and drainage infrastructure at balance date but not provided for in the accounts.

| | | |
|--|---------------|---------------|
| Not later than one year | 61,086 | 22,596 |
| Later than 1 year but not later than 5 years | 755 | 487 |
| Total capital commitments | 61,841 | 23,083 |

Operating Lease Commitments

Total lease expenditure contracted for at balance date but not provided for in the accounts.

| | | |
|--|--------------|--------------|
| Not later than one year | 2,548 | 2,036 |
| Later than 1 year but not later than 5 years | 2,213 | 1,863 |
| Later than 5 years | 20 | 29 |
| Total lease commitments | 4,780 | 3,928 |

Land and Property Lease Agreements

Land and Property Lease agreements are renewable upon completion of the lease term providing the terms and conditions identified in the lease agreement are met by Melbourne Water. The lease agreements contain restrictions imposed on Melbourne Water in regards to subletting, the use of and alterations to the premises as identified in the lease agreement.

Motor Vehicles and Photocopier Lease Agreements

Under these lease arrangements, the term of the lease is finite and there are no renewal clauses or purchases options. The lease terms do not contain any further restrictions.

Finance Lease Commitments

Commitments in relation to finance lease are payable as follows:

| | | |
|--|---------------|---------------|
| Not later than one year | 3,204 | 3,309 |
| Later than 1 year but not later than 5 years | 13,580 | 13,441 |
| Later than 5 years | 15,945 | 19,288 |
| Minimum lease payments | 32,729 | 36,038 |
| Less: Future finance charges | 11,857 | 13,955 |
| Total finance lease liability | 20,872 | 22,083 |

Notes to the Accounts

YEAR ENDED 30 JUNE 2000

| | 2000 | 1999 |
|--|-------|-------|
| | \$000 | \$000 |

24. COMMITMENTS

Representing lease liabilities:

| | | |
|--------------------------------|---------------|---------------|
| Current (refer to Note 14) | 1,221 | 1,211 |
| Non current (refer to Note 17) | 19,651 | 20,872 |
| | 20,872 | 22,083 |

Other Operating Commitments

Total operating expenditure (excluding lease) contracted for at balance date but not provided for in the accounts.

| | | |
|--|---------------|---------------|
| Not later than one year | 15,935 | 13,167 |
| Later than 1 year but not later than 5 years | 18,240 | 13,163 |
| Later than 5 years | 55 | 150 |
| Total other commitments | 34,230 | 26,480 |

25. CONTINGENT LIABILITIES

Details and estimates of maximum amounts of contingent liabilities for which no provision is included in the accounts, are as follows:

Outstanding Claims

Claims or possible claims against the Corporation arising out of various matters connected with the Corporation's business dealings

| | |
|-----|-----|
| 366 | 610 |
|-----|-----|

26. EMPLOYEE ENTITLEMENTS

Aggregate employee entitlements liability

| | | |
|---|---------------|---------------|
| Accrued wages and salaries (part of Note 13) | 182 | - |
| Provision for employee entitlements current (Note 15) | 4,184 | 4,008 |
| Provision for employee entitlements non current (Note 18) | 11,644 | 11,021 |
| Total employee entitlements liability | 16,010 | 15,029 |

The aggregate employee entitlement liability includes amounts for annual leave, shift leave, long service leave, salaries and wages, WorkCover and superannuation.

Notes to the Accounts

YEAR ENDED 30 JUNE 2000

| | 2000 | 1999 |
|--|-------|-------|
| | \$000 | \$000 |

26. EMPLOYEE ENTITLEMENTS

All employees of the Corporation are entitled to superannuation benefits upon retirement, disability or death through membership of the following funds:

Defined Benefits Fund

Equisuper Fund provides lump sum benefits based on length of service and final superannuable salary for employees engaged up until 31 December 1993. Employees contribute at rates between 0% to 7.5% of their salary. The Corporation contributed to the Equisuper Fund based upon an actuarial assessment rate of 11% of members' salaries. Actuarial assessment of the fund is made at yearly intervals. The last such assessment was made as at 30 June 2000 by William M Mercer Pty Ltd.

| | | |
|---|--------|--------|
| Net market value of assets held by the fund | 66,478 | 60,408 |
| Present value of employees' accrued benefits | 57,184 | 53,970 |
| Excess of net market value of assets over employees' accrued benefits to meet future benefit payments | 9,294 | 6,438 |
| Vested benefits | 60,999 | 57,594 |

The superannuation fund position (\$5.5 million surplus for 1999/2000) is measured as the difference between the Equisuper Fund assets and the employees' vested benefits, after allowing for the impact of the 15% tax on contributions.

| | | |
|---|--------|--------|
| Net market value of assets held by the fund | 66,478 | 60,408 |
| Vested benefits | 60,999 | 57,594 |
| | 5,479 | 2,814 |
| Impact of contributions tax | - | - |
| Excess/(Deficit) of net market value of assets over employees vested benefits | 5,479 | 2,814 |

Accumulation Funds

Employees engaged from 1 January 1994 are entitled to benefits under accumulation funds. The majority of these employees are covered by LASPLAN. Employees have the opportunity to contribute to the funds at a self-nominated rate or amount. The minimum employer contribution to the funds are pursuant to the Superannuation Guarantee Charge, which was 7.0% in 1999/2000 (and 1998/99).

Notes to the Accounts

YEAR ENDED 30 JUNE 2000

| | 2000 | 1999 |
|--|-------|-------|
| | \$000 | \$000 |

26. EMPLOYEE ENTITLEMENTS

Employer Contributions

| | | |
|-------------------------------------|-------|-------|
| Employer contributions to the funds | 2,623 | 7,699 |
|-------------------------------------|-------|-------|

The contributions in 1999/2000 include additional contributions of \$0.1 million (\$1.3 million in 1998/99) to ensure that the funding level of the schemes did not deteriorate as a result of redundancies.

Loans

There were no loans by the superannuation funds to Melbourne Water during 1999/2000.

27. RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO OPERATING PROFIT AFTER TAX

| | | |
|--|----------------|----------------|
| Operating profit after income tax | 196,886 | 112,825 |
| Depreciation | 64,862 | 58,295 |
| Provision for doubtful debts | (21) | (49) |
| Profit on sale of assets | (6,822) | (10,525) |
| Loss on sale of assets | 184 | 975 |
| Value of works taken over from developers | (19,562) | (1,545) |
| Changes in assets and liabilities: | | |
| (Increase)/decrease in trade debtors | (235) | 1,709 |
| (Increase)/decrease in other receivables | (537) | 4,023 |
| (Increase)/decrease in stores and livestock | (1,076) | 2,040 |
| (Increase) in prepayments | (21) | (474) |
| Decrease/(increase) in deferred expenses | 254 | (133) |
| Decrease/(increase) in future income tax benefit | 1,436 | (1,304) |
| (Decrease) in trade creditors | (4,979) | (3,962) |
| Increase/(decrease) in interest payable | 479 | (3) |
| (Decrease)/increase in deferred revenue | (2) | 4 |
| Increase in other provisions | 2,073 | 3,679 |
| Increase/(decrease) in provision for income tax | 5,761 | (1,607) |
| (Decrease)/increase in provision for deferred income tax | (594) | 53,075 |
| Net cash provided by operating activities | 238,086 | 217,023 |

Notes to the Accounts

YEAR ENDED 30 JUNE 2000

28. RELATED PARTIES DISCLOSURE

Responsible persons

Persons who held office as a director of Melbourne Water Corporation at any time during the year ended 30 June 2000 are as follows: B R Bayley, G W Bowker, A A Browne, R V Gilbert, V M Mansour, B Solnordal, C J Schultz and C J Stewart.

R V Gilbert and C J Stewart completed their term as director and Chairman of Melbourne Water Corporation respectively, on 31 December 1999.

G W Bowker was appointed Chairman, V M Mansour and C J Schultz were appointed Directors, of Melbourne Water Corporation for three year terms commencing on 1 January 2000.

The responsible Minister during the period 1 July 1999 to 19 October 1999 was the Hon P McNamara, Minister for Agriculture and Resources. The responsible minister for the period 20 October 1999 to 30 June 2000 was the Hon S Garbutt, Minister for Environment and Conservation.

Remuneration of responsible persons

Information on the remuneration of directors is disclosed in Note 22.

Loans to responsible persons

There were no loans to responsible persons at 30 June 2000.

| | |
|--------------|-------|
| 2000 | 1999 |
| \$000 | \$000 |

Other transactions of responsible persons and their related parties

A director, A A Browne, is a partner in the firm Arthur Robinson & Hedderwicks, solicitors, which has provided legal services to Melbourne Water during the reporting period on normal commercial terms and conditions.

The aggregate amount spent on these services is as follows:

| | | |
|-----------------------------|------------|-----|
| Legal and professional fees | 413 | 347 |
|-----------------------------|------------|-----|

29. ECONOMIC DEPENDENCY

The normal trading activities of the Corporation depend to a significant extent on the sale of bulk water and sewerage services to Yarra Valley Water Ltd, South East Water Ltd and City West Water Ltd. In addition, the Corporation depends on Yarra Valley Water Ltd, South East Water Ltd and City West Water Ltd for the provision of billing and collection services with respect to drainage rates.

30. EVENTS OCCURRING AFTER BALANCE DATE

No material events occurred after balance date.

Notes to the Accounts

YEAR ENDED 30 JUNE 2000

31. FINANCIAL INSTRUMENTS

31.1 Interest rate exposure

The Corporation's interest rate and the effective weighted average annual interest rate for each class of financial asset and liability is set out below.

| | Weighted avg. annual effective interest rate | Floating rate | Fixed interest rate maturing 1 year or less | 1 to 5 years | over 5 years | Non interest bearing | Total |
|--|--|---------------|---|--------------|--------------|----------------------|--------|
| | % | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |

30 JUNE 2000

Financial assets

| | | | | | | | |
|-------------------------------|-------------|--------------|--------------|---|---|---------------|---------------|
| Cash | 6.13 | 1,757 | - | - | - | - | 1,757 |
| Investments | 6.17 | - | 8,900 | - | - | - | 8,900 |
| Trade debtors | | - | - | - | - | 10,175 | 10,175 |
| Other receivables | | - | - | - | - | 4,791 | 4,791 |
| Total financial assets | | 1,757 | 8,900 | - | - | 14,966 | 25,623 |

Financial Liabilities

| | | | | | | | |
|---|-------------|-----------------|------------------|------------------|------------------|-----------------|--------------------|
| Creditors and accruals | - | - | - | - | - | 74,652 | 74,652 |
| Lease liabilities | | - | - | - | - | 20,872 | 20,872 |
| Advances | | - | - | - | - | 341 | 341 |
| Borrowings* | 6.32 | 100,000 | 141,900 | 400,000 | 580,000 | - | 1,221,900 |
| Total financial liabilities | | 100,000 | 141,900 | 400,000 | 580,000 | 95,865 | 1,317,765 |
| Net financial assets (liabilities) | | (98,243) | (133,000) | (400,000) | (580,000) | (80,899) | (1,292,142) |

30 JUNE 1999

Financial assets

| | | | | | | | |
|-------------------------------|------|-------|---|---|---|--------|--------|
| Cash | 4.85 | 2,961 | - | - | - | - | 2,961 |
| Investments | | - | - | - | - | - | - |
| Trade debtors | | - | - | - | - | 9,940 | 9,940 |
| Other receivables | | - | - | - | - | 5,927 | 5,927 |
| Total financial assets | | 2,961 | - | - | - | 15,867 | 18,828 |

Financial Liabilities

| | | | | | | | |
|---|------|------------------|------------------|------------------|------------------|-----------------|--------------------|
| Creditors and accruals | | - | - | - | - | 73,238 | 73,238 |
| Lease liabilities | | - | - | - | - | 22,083 | 22,083 |
| Advances | | - | - | - | - | 285 | 285 |
| Borrowings | 5.99 | 125,000 | 145,300 | 400,000 | 575,000 | - | 1,245,300 |
| Total financial liabilities | | 125,000 | 145,300 | 400,000 | 575,000 | 95,606 | 1,340,906 |
| Net financial assets (liabilities) | | (122,039) | (145,300) | (400,000) | (575,000) | (79,739) | (1,322,078) |

* Of the total amount of borrowings at floating interest rate, \$50 million will mature within 12 months and the remaining \$50 million will mature in 1 to 3 years.

Notes to the Accounts

YEAR ENDED 30 JUNE 2000

31. FINANCIAL INSTRUMENTS

31.2 Market value

The book values and net market values of financial assets and liabilities at balance date are as follows.

| | 2000 Book value \$'000 | 2000 Net market value* \$'000 | 1999 Book value \$'000 | 1999 Net market value* \$'000 |
|------------------------------------|---------------------------------|--|---------------------------------|--|
| ON BALANCE SHEET | | | | |
| Financial Assets | | | | |
| Cash | 1,757 | 1,757 | 2,961 | 2,961 |
| Trade debtors | 10,175 | 10,175 | 9,940 | 9,940 |
| Other receivables | 4,791 | 4,791 | 5,927 | 5,927 |
| Deposits | 8,900 | 8,900 | – | – |
| Total financial assets | 25,623 | 25,623 | 18,828 | 18,828 |
| Financial Liabilities | | | | |
| Trade creditors and accruals | 74,652 | 74,652 | 73,238 | 73,238 |
| Lease liabilities | 20,872 | 20,872 | 22,083 | 22,083 |
| Advances | 341 | 341 | 285 | 285 |
| Borrowings | 1,221,900 | 1,237,581 | 1,245,300 | 1,259,942 |
| Total financial liabilities | 1,317,765 | 1,333,446 | 1,340,906 | 1,355,548 |

* Net market values are capital amounts. The differences between book values and net market values relate principally to interest rate movements.

Melbourne Water had no derivative positions as at 30 June 2000.

Net market values of financial instruments are determined on the following basis:

On Balance Sheet

Cash, deposit investments, short term borrowings, cash equivalents and non interest bearing financial assets and liabilities (trade debtors and trade creditors) are valued at cost.

Other borrowings are estimated based on the present value of expected future cash flows discounted at current market interest rates quoted for securities issued by Treasury Corporation of Victoria (TCV).

Investments in securities, other financial assets and liabilities are estimates based on present value of expected future cash flows discounted at current market interest rates for assets and liabilities of similar risk and maturity structure.

Notes to the Accounts

YEAR ENDED 30 JUNE 2000

31. FINANCIAL INSTRUMENTS

31.3 Credit Risk

The carrying amounts of financial assets included in the balance sheet represent the Corporation's exposure to credit risk in relation to those assets, net of any provisions for doubtful debts.

Melbourne Water controls risk through credit ratings, limits and monitoring procedures consistent with Board approved policy. Collateral or other security is not required to support financial instruments.

All financial risk management instruments are transacted with the Treasury Corporation of Victoria (TCV), whose liabilities are guaranteed by the Government of Victoria. Melbourne Water potentially has a concentration of credit risk with TCV as the central borrowing authority of Victoria. The risk is considered minimal.

Melbourne Water does not have any significant trade credit exposure to an individual counterparty as at 30 June 2000.

31.4 Financing Arrangements

The capacity to borrow funds and manage the associated risks is subject to the provisions of the *Borrowing and Investment Powers Act (1987)*. In accordance with this Act, the Victorian Treasurer issues annual approvals permitting new borrowings and the refinancing of all loan maturities for that year.

All funding is sourced from the Treasury Corporation of Victoria.

| | Intra* 2000 \$000 | Intra 1999 \$000 |
|------------------------------------|-------------------------|------------------------|
| Total financial assets | 25,623 | 18,828 |
| Total financial liabilities | 1,317,765 | 1,355,548 |

32. TRANSACTIONS WITH OTHER VICTORIAN GOVERNMENT ENTITIES

Material transactions undertaken with other State Government controlled entities in the ordinary course of business

| | Intra* 2000 \$000 | Intra 1999 \$000 |
|--------------|--------------------------|------------------------|
| Revenue | 408,222 | 398,901 |
| Expenses | 5,975 | 6,125 |
| Total | 414,197 | 405,026 |
| | Inter** 2000 \$000 | Inter 1999 \$000 |
| Revenue | 1,549,359 | 1,558,535 |
| Expenses | 253,251 | 245,843 |
| Total | 1,296,108 | 1,312,692 |

| | | |
|-------------|-----------|-----------|
| Assets | 19,836 | 12,372 |
| Liabilities | 1,549,359 | 1,558,535 |
| Revenue | 12 | 112 |
| Expenses | 253,251 | 245,843 |

*Intra denotes entities within the same portfolio (Natural Resources & Environment) as Melbourne Water.

**Inter denotes entities outside the portfolio.

Statement by Directors and Chief Finance Officer

In the opinion of the directors of Melbourne Water Corporation:

- (a) the accompanying financial statements are drawn up so as to present fairly the financial transactions of the Corporation for the year ended 30 June 2000 and the financial position of the Corporation as at that date; and
- (b) at the date of this statement there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they fall due.

We certify that the financial statements have been prepared in accordance with the requirements of the *Financial Management Act 1994* and applicable accounting standards.

We are not aware, at the date of this statement, of any circumstance which would render any particulars in the financial statements to be misleading or inaccurate.

Dated at Melbourne on this 18th day of August 2000.

On behalf of the Board:



G W Bowker

Chairman



B R Bayley

(Managing Director)



G McFarlane

Acting Chief Finance Officer



AUDITOR GENERAL
VICTORIA

AUDITOR-GENERAL'S REPORT

To the Members of the Parliament of Victoria, the responsible Ministers and the Members of the Board of Melbourne Water Corporation

Audit Scope

The accompanying financial report of Melbourne Water Corporation for the financial year ended 30 June 2000, comprising Balance Sheet, Profit and Loss Statement, Statement of Cash Flow and notes to the financial statements, has been audited. The Members of the Board are responsible for the preparation and presentation of the financial report and the information it contains. An independent audit of the financial report has been carried out in order to express an opinion on it to the Members of the Parliament of Victoria, the responsible Ministers and the Members of the Board as required by the *Audit Act 1994*.

The audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. The audit procedures included an examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Australian Accounting Standards and other mandatory professional reporting requirements and complies with the requirements of the *Financial Management Act 1994*, so as to present a view which is consistent with my understanding of the Corporation's financial position, the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion, the financial report presents fairly the financial position of Melbourne Water Corporation as at 30 June 2000 and the results of its operations and its cash flows for the year ended on that date in accordance with Australian Accounting Standards and other mandatory professional reporting requirements and complies with the requirements of the *Financial Management Act 1994*.

MELBOURNE
18 August 2000



J.W. CAMERON
Auditor-General

Victorian Auditor-General's Office Level 34, 140 William Street, Melbourne Victoria 3000
Telephone (03) 8601 7000 Facsimile (03) 8601 7010 Email comments@audit.vic.gov.au Website www.audit.vic.gov.au

Auditing in the Public Interest

Statement of Corporate Intent

1 JULY 2000 TO 30 JUNE 2003

Introduction

Melbourne Water Corporation is a statutory corporation wholly owned by the Victorian Government. The major functions are to:

- Provide water and sewerage wholesale services to three retail water companies in Melbourne, viz Yarra Valley Water Ltd, South East Water Ltd and City West Water Ltd; and
- Provide major drainage services, manage designated waterways and undertake the operational functions of floodplain management (by Deed of Delegation from the Minister) to the greater Melbourne area.

Vision

Leaders in urban water cycle management

Melbourne Water's vision is to be "leaders in urban water cycle management". The vision reflects that there are potential gains for the organisation, the environment and the community in recognising the interdependencies between the products in managing the urban water cycle.

It provides Melbourne Water with the opportunity to achieve greater synergies between the provision of safe drinking water, the management of stormwater and the treatment and disposal of sewage – the urban water cycle. A key ingredient in delivering value for the community and our common shareholder, the State Government of Victoria, is a cooperative relationship with Melbourne Water's retail water companies.

Strategic Objectives

Four core business objectives have been developed to realise Melbourne Water's vision.

Protect public health

Key strategic directions are to:

- Provide a reliable supply of safe, high quality drinking water that consistently meets regulatory standards
- Increase water quality standards only where there are demonstrated health benefits
- Minimise potential health risks associated with urban and rural stormwater runoff

Manage Melbourne's water resources and the environment in a sustainable manner

Key strategic directions are to:

- Protect and improve the quality of Melbourne's waterways and bays
- Achieve best practice standards for the disposal of treated sewage and sewage byproducts
- Minimise the requirement for new dams and/or major water supply augmentation for Melbourne

Operate as a successful commercial business

Key strategic directions are to:

- Be an efficient product and service provider
- Earn a commercial return on investment
- Work with Government on further development of the Victorian water industry
- Grow the business where there are demonstrated benefits to the shareholder and the community

Statement of Corporate Intent

1 JULY 2000 TO 30 JUNE 2003

- Manage risk recognising community expectations and maximising shareholder value
- Innovate and apply new technologies to achieve business efficiencies

Provide excellent service and maintain the trust and respect of the community

Key strategic directions are to:

- Further develop open and accountable relationships with customers and key stakeholders in line with their expectations
- Improve the quality, timeliness and accessibility of services
- Ensure the community is kept informed of directions and achievements
- Encourage and foster community involvement and understanding of Melbourne Water's operations

Commercial Arrangements

Scale of the Business

- Melbourne Water
 - has total fixed assets of approximately \$2.8 billion
 - has an annual operating revenue of approximately \$401.9 million, derived mainly from bulk water and sewerage services to the retail water companies and from drainage services to the community
 - supplies approximately 479 gigalitres per annum of potable water to the retail water companies
 - collects approximately 330 gigalitres per annum of sewage from the retail water companies for treatment and disposal
 - provides regional drainage services within the greater Melbourne area covering approximately 7,806 square kilometres. (Municipalities are responsible for local drainage systems).

Business Activities

Melbourne Water will undertake the following principal business activities:

- Manage and operate the bulk water, sewerage and drainage systems of Melbourne
- Protect and improve water quality in waterways and provide flood protection
- Maintain assets in good structural and hydraulic condition
- Manage infrastructure augmentation for improved service delivery, compliance with regulatory standards, urban growth and asset replacement
- Undertake technology innovation through research and development to improve productivity and manage business risks.

Basis of Charges

Melbourne Water charges for its services to

- Obtain revenue to cover operations and maintenance costs, finance costs, capital investment, dividend, tax payments and debt retirement
- Earn an appropriate commercial return on new investment having regard to the risk of the business.

Statement of Corporate Intent

1 JULY 2000 TO 30 JUNE 2003

The charges for bulk water and sewerage services are set by Government and are structured so that:

- The total economic cost of service delivery is recovered
- Approximately half of the costs are recovered through fixed charges and the remainder through variable charges based on the volume of water delivered and sewage treated.

Drainage charges are based on the rateable value of properties.

Capital Investment

Melbourne Water has made provision for significant capital investment to:

- Meet the expected growth in demand from population increases
- Meet environmental standards
- Improve drinking water quality
- Improve water quality in Melbourne's waterways
- Maintain assets in serviceable condition
- Improve flood protection.

The planned allocation of the \$124 million capital investment for 2000/01 is:

| | % |
|--|------|
| Protect public health | 29.4 |
| Manage Melbourne's water resources and the environment in a sustainable manner | 30.6 |
| Operate as a successful commercial business | 32.3 |
| Provide excellent service and maintain the trust and respect of the community | 7.7 |

Dividend

The dividend to be paid to Government will be in accordance with the amount determined by the Victorian Treasurer after consultation with the Corporation's Board of Directors.

Statutory Requirements

Environmental / Health Regulations

Melbourne Water is committed to meeting statutory and other requirements. In particular, Melbourne Water is committed to:

- Compliance with EPA discharge licences issued for the Eastern and Western Sewage Treatment Plants and other related agreements or understandings
- Achieving drinking water quality and supply standards specified in the bulk water supply contracts between Melbourne Water and the retail water companies and others including Southern Rural Water, Western Water and Gippsland Water
- Compliance with the Victorian Occupational Health and Safety Act 1985 and regulations.

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Performance Reporting

The operational and financial position of the Corporation will be reported to the Government as owner at the end of each financial year.

Melbourne Water will demonstrate its commitment to environmental and public health performance by annual public reporting on its regulatory and internal procedures and policies and performance against established benchmarks.

Business Targets

Protect public health

| <i>Indicator</i> | 1999/00 Forecast | 2000/01 Plan | 2001/02 Plan | 2002/03 Plan |
|--|-----------------------------|-------------------------|-------------------------|-------------------------|
| % of Retail Water Companies supply points complying with pressure requirements | 99.5% | 99.5% | 99.5% | 99.5% |
| % of all water samples at wholesale/retail interface with <i>O. E.coli</i> present | 95% | 95% | 95% | 95% |

Manage Melbourne's water resources and the environment in a sustainable manner

| <i>Indicator</i> | 1999/00 Forecast | 2000/01 Plan | 2001/02 Plan | 2002/03 Plan |
|---|-----------------------------|-------------------------|-------------------------|-------------------------|
| % of water harvesting points meeting environmental flow requirements to rivers | 100% | 100% | 100% | 100% |
| % of water quality alert levels reported to EPA | 100% | 100% | 100% | 100% |
| EPA Licence Compliance (%) | | | | |
| - Eastern Treatment Plant | 100% | 100% | 100% | 100% |
| - Western Treatment Plant | 100% | 100% | 100% | 100% |
| Air - Odour complaints attributable to Melbourne Water Corporation assets | 0 | 0 | 0 | 0 |
| Number sewage spills within defined standard of service conditions (1:5 rainfall event) | 2 | 4 | 4 | 4 |
| No. of sewer spills due to system failure | 0 | 0 | 0 | 0 |

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Operate as a successful commercial business

| Indicator | 1999/00 Forecast | 2000/01 Plan | 2001/02 Plan | 2002/03 Plan |
|--|-----------------------------|-------------------------|-------------------------|-------------------------|
| Opex Increases (%) | | 4.4 | 4.9 | 3.7 |
| Debt to Total Assets Ratio | 43.3% | 42.8% | 41.9% | 40.4% |
| Interest Coverage (times) | 4.5 | 3.9 | 3.9 | 4.0 |
| Operating Return (EBIT) on Average | 9.6% | 8.2% | 8.2% | 8.2% |
| Total Assets | | | | |
| Return on Average Net Assets | 12.7% | 9.8% | 10.3% | 10.4% |
| Number of Lost Time Injuries | 5 | 0 | 0 | 0 |
| Key management and technical positions with Succession Plan | 100% | 100% | 100% | 100% |
| Average number of sick days per employee | 3.7 | 3 | 3 | 3 |

Provide excellent service and maintain the trust and respect of the community

| Indicator | 1999/00 Forecast | 2000/01 Plan | 2001/02 Plan | 2002/03 Plan |
|---|-----------------------------|-------------------------|-------------------------|-------------------------|
| External correspondence responded to within 10 days | 100% | 100% | 100% | 100% |
| % land development offers processed within 60 days | 95.0% | 95.0% | 95.0% | 95.0% |
| % of town planning applications processed within 28 days | 97.5% | 97.5% | 97.5% | 97.5% |
| % of other authority works and stormwater connections applications processed within 28 days | 95.0% | 95.0% | 95.0% | 95.0% |
| Compliance with community relations policy | 100% | 100% | 100% | 100% |

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Business Policies

Human Resources

As a sound business practice and in recognition that employees are a valuable resource, Melbourne Water will seek to provide a work environment where employees can learn and perform to their full potential, are committed to the achievement of corporate goals and regard Melbourne Water as their preferred employer.

This will be achieved by providing:

- Training that enables all individuals to fulfil their job requirements
- A market-based remuneration system to reward and recognise superior performance
- Career and skill development planning for all employees
- Succession planning for management positions and key technical positions
- The target of an injury-free workplace

Code of Conduct

Melbourne Water has adopted a Code of Conduct which outlines the standards expected of all employees. The Code covers ethics, responsibility to stakeholders, standards of behaviour, conflict of interest, confidential information, public statements, equal opportunity and occupational health and safety.

Public Health

Melbourne Water will ensure that public health is safeguarded through the:

- Reliable supply of safe drinking water primarily using water harvested from protected water supply catchments
- Collection and treatment of sewage and disposal and storage of byproducts in accordance with EPA requirements
- Contribution to improvement of waterway water quality and minimisation of the impacts of stormwater on receiving waters.

Environmental Practices

Melbourne Water will work to improve its environmental management capabilities and ensure that it retains certification of its environmental management systems to the international standard ISO14001. Research and development programs will be conducted to enable the practical application of innovative low cost solutions in the delivery of environmental programs.

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Community Responsibility

Melbourne Water is committed to an open and accountable relationship with the community.

In particular, Melbourne Water will:

- Provide information that is readily accessible and meets community expectations
- Consult with local communities to understand its concerns and needs where Melbourne Water's operations potentially have an impact
- Continue to undertake community education and liaison programs on the water supply and sewerage systems, the impact of stormwater on the waterways of Melbourne and the marine environment and other major issues relevant to the community, including water conservation.

Risk Management

Melbourne Water will incorporate a risk management approach in conducting its business activities with the objective of understanding the nature of the risks involved and managing these in a cost-effective way. Melbourne Water has adopted a risk management framework based on AS/NZS 4360:1999. The framework enables informed management decision-making and the efficient allocation of resources to resolve issues.

Accounting Policies

The financial statements will be prepared in accordance with the *Financial Management Act 1994*, Australian Accounting Standards, Urgent Issues Group Consensus Views and relevant statutory and other requirements. Where appropriate, the disclosure requirements of Corporations Law will also be observed on a voluntary basis.

Keeping the community informed

Melbourne Water produces a range of publications, brochures and fact sheets. Melbourne Water's Internet site, www.melbournewater.com.au, is updated regularly.

Multimedia

Melbourne Water recently created an interactive Internet game entitled *The Waterworks Adventure*. It is a set of activities designed to assist secondary school students in understanding the value and management of Melbourne's precious water resources, and is accompanied by teacher notes, and extensive glossary and fact sheets.

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Publications released during 1999/2000

- 1998/99 Annual Report
- 1998/99 Environment and Community Obligation Report
- Innovation & Initiative, A report on innovation & initiative at Melbourne Water
- Western Treatment Plant, Environment Improvement Plan
- Western Treatment Plant, Environment Improvement Plan Summary
- Healthy Bay Wetlands Initiative
- Environment & Public Health 2000, Improving environmental & public health performance at Melbourne Water
- Melbourne Water Corporate Profile, Making Melbourne a better place to live now and in the future
- Catchment to Coast, Melbourne Water's long-term strategic directions
- The Source Issues 3, 4, 5, 6, 7 and 8

Community newsletters released during 1999/2000

Melbourne Water makes every effort to keep the community informed. This includes informing residents about the work Melbourne Water is undertaking in their area. Some examples of Melbourne Water's efforts to keep local communities informed are:

- Box Hill South main drain works: Thank you packages were sent to all households directly affected by the works. Community bulletins were distributed throughout the project.
- Lygon Street, Carlton drainage works: Letters to residents were sent out throughout the works.
- St Georges Road water main upgrade: Community consultation involved the distribution of newsletters to local residents and traffic advertisements in local newspapers throughout the upgrade.
- Mordialloc main drain project: Newsletters to local residents
- Future Uses Strategy for Devilbend Reservoir: Information sessions were held at Mt Martha Community Hall to inform the local community on the development of the Future Uses Strategy for Devilbend. Advertisements were placed in local newspapers and media releases were published. A community reference group was appointed and a display on the project was exhibited at the council offices and local shopping centres. Regular community newsletters were distributed.
- Yan Yean Reservoir project: Regular community newsletter were distributed.
- Cardinia-Pearcedale pipeline: Media releases and newsletters were distributed regularly. Signage was organised.
- Healthy Bay wetlands initiative: Community newsletters were sent to local residents. Local displays and signage were organised.

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Eastern Treatment Plant environment management plan

The Eastern Treatment Plant environment management plan was announced at a function at the plant on 25 November 1999. Ongoing discussions are held with the Environment Protection Authority and Surfider Foundation Victoria regarding the improvement plan. Regular newsletters have been sent to the local community and interested parties and signage has been erected.

Western Treatment Plant initiatives

A media release was issued calling for public comment on the Western Treatment Plant environment improvement plan. The Western Treatment Plant Community Liaison Committee was set up and regular community newsletters have been distributed.

School education materials

School calendars were distributed to schools in December 1999. The school grants program concluded in December 1999, with more than 30 schools participating. Melbourne Water contributed \$10,000 to academic achievement in science and technology.