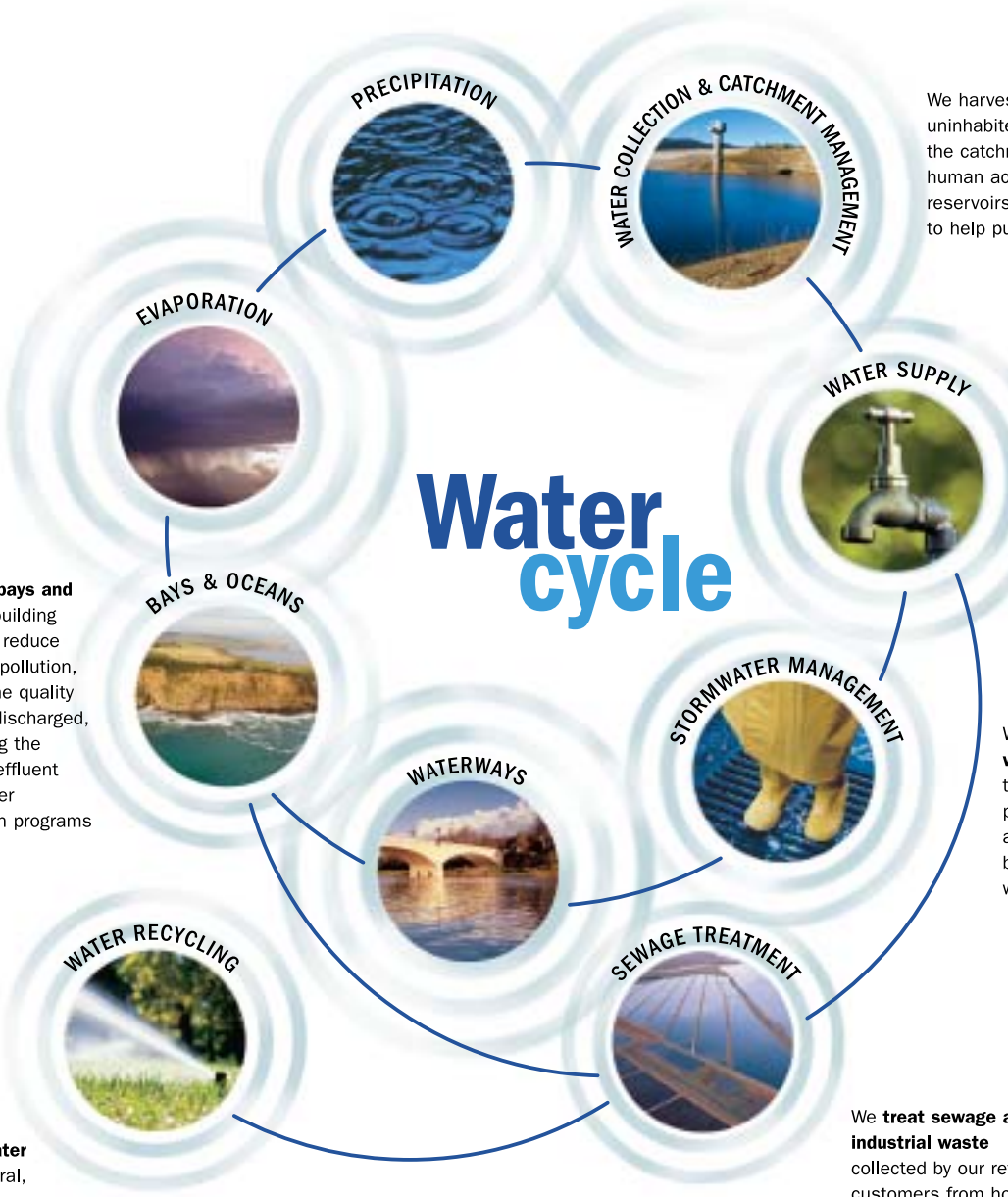
MELBOURNE WATER
BUSINESS REVIEW

2001/02

We manage Melbourne's water resources in a way that aims to ensure that future generations enjoy one of the best urban environments in the world.

Our activities span the water cycle and include:



We harvest high quality water from uninhabited **catchments**, protect the catchments from bushfires and human activities and store water in reservoirs, often for years at a time, to help purification

We manage an extensive network of pipes, pumping stations and water treatment plants and **supply water** to our retail customers

We **build wetlands and other water-sensitive features** to treat or remove stormwater pollution – litter, engine oil and other urban runoff – before it washes into drains, waterways and bays

We **treat sewage and industrial waste** collected by our retail customers from homes and businesses

We protect and improve **waterways** by managing irrigators, stabilising beds and banks, preventing flooding, fencing off stream frontages, removing willows and other weeds, planting native species and releasing water from reservoirs to ensure environmental flows

We supply **recycled water** for agricultural, horticultural and other businesses and to irrigate open spaces such as golf courses

We protect **bays and oceans** by building wetlands to reduce stormwater pollution, improving the quality of effluent discharged, and reducing the quantity of effluent through water conservation programs

Front cover: Upper Yarra Reservoir; native grasses at Western Treatment Plant; water supply maintenance works at Tacoma Road, Park Orchards

MELBOURNE WATER BUSINESS REVIEW

Contents

Melbourne Water charter

Melbourne Water is owned by the Victorian Government. We manage Melbourne's water supply catchments, remove and treat most of Melbourne's sewage, and manage waterways and major drainage systems.

Our drinking water is highly regarded by the community. It comes from protected mountain ash forest catchments high up in the Yarra Ranges east of Melbourne. We are committed to conserving this vital resource, and to protecting and improving our waterways, bays and the marine environment. We recognise our important role in planning for future generations.

Our vision is to show leadership in water cycle management, through effective sustainable and forward-looking management of the community resources we oversee. We are a progressive organisation that applies technology and innovation to achieve environmentally sustainable outcomes.

The business objectives established to realise our vision are to:

- provide excellent customer service
- operate as a successful commercial business
- manage Melbourne's water resources and the environment in a sustainable manner
- maintain the trust and respect of the community.

We also appreciate that achievements occur through the contribution of our people and through our values. We are people who:

- recognise that we achieve more by working with others
- feel privileged to be the custodians of our water resources
- behave with integrity
- attain excellence through creativity and innovation
- celebrate our achievements and learn from our experiences.

At Melbourne Water, we understand that engaging our stakeholders is the key to achieving our vision of leadership in water cycle management.

Melbourne Water is a statutory authority. The responsible minister is the Minister for Environment and Conservation, the Honourable Sherryl Garbutt.

Chairman and Managing Director's report

We are pleased to report that Melbourne Water had a busy, challenging and successful year. Our financial results were strong and we invested more than $98 million in upgrading water supply, drainage and sewerage infrastructure. Considerable progress was also made on initiatives to protect and improve Melbourne's waterways and the marine environment, and to ensure the sustainable use of our energy and water resources.

Melbourne's protected water supply catchments to the north and east of the city cover some 140,000 hectares, most of which is Mountain Ash forest.

We participated in the development of key Victorian Government initiatives such as the Water Resources Strategy, the Werribee Plains Vision, the Infrastructure Planning Council report, the Metropolitan Strategy and the move to economic regulation of our business.

The following is a snapshot of our performance during the year.

Meeting the challenge of prolonged drought

After six years of dry weather, inflows into Melbourne's water storages continued to be below average. During the year, with our retail water customers, we reviewed our joint industry Drought Response Plan, and developed a Drought Response Protocol and Storage Recovery Plan.

The community responded positively to education and information on water conservation and this, combined with a cool summer, helped reduce Melbourne's water consumption to six per cent below the annual average for the past five years.

Planning for a sustainable future

Recycling 20 per cent of the effluent produced at our sewage treatment plants by 2010 is our target and significant progress in water recycling initiatives was achieved during the year.

A successful demonstration trial of on-site water recycling was run in conjunction with the City of Melbourne and the Department of Infrastructure in which sewage was pumped directly from a sewer main in South Yarra to a membrane-technology treatment plant. The treated water was used to irrigate a section of the King's Domain gardens. Similar systems could be used to irrigate parks and gardens around Melbourne.

A positive start was made on a $30 million project to use biogas – a by-product of the sewage treatment process – to generate our own electricity and reduce energy costs and greenhouse gas emissions by 24,500 tonnes a year at the Eastern Treatment Plant. Using biogas enables us to replace imported electricity and minimise the use of diesel fuel at the plant.

We played a lead role in developing the Victorian Government's Water Resources Strategy – a blueprint for managing Melbourne's water resources to 2050 and beyond. Melbourne Water made a financial commitment of $800,000 to this significant project. Other partners included the retail water companies, the Department of Natural Resources and Environment, councils, the Australian Conservation Foundation, the CSIRO and the Victorian Council of Social Services.

Protecting our waterways

Working in partnership with councils and other stakeholders, $5.5 million was invested to improve and protect our waterways and $1.6 million was provided for a community partnership to fence out livestock and revive rural waterways. More than 200,000 native trees and shrubs were also planted.

A further eight stormwater management plans were initiated with councils to enable them to identify projects to protect our waterways and bays from pollution. There are now 20 plans in place. Each participating council has been provided with $20,000 as part of a $600,000 program.

Six councils worked with us to improve environmental practices at building sites to reduce stormwater pollution flowing to waterways and bays.

Stakeholders, including four councils and environmental organisations, were involved in a $2.6 million project to reduce litter and stormwater pollution in the Moonee Ponds Creek catchment. Melbourne Water is contributing $1 million to this project.

Protecting the marine environment

Melbourne Water is committed to achieving substantial reductions in nitrogen discharge to our waterways and Port Phillip Bay. One of the most significant capital works projects was the continuation of a $124 million environmental upgrade of our Western Treatment Plant at Werribee. The first major phase of this project won an environmental excellence award from the Institution of Engineers (Victoria).

The upgrade, together with the construction of stormwater treatment wetlands across Melbourne, is designed to reduce nitrogen loads to Port Phillip Bay by 1000 tonnes annually. Seven wetlands were completed that will reduce annual nitrogen loads to the Bay by 17 tonnes.

The first stage of an ammonia reduction project was completed at the Eastern Treatment Plant at Bangholme to improve the quality of effluent discharged to Bass Strait. We developed a comprehensive sustainable resource management plan to upgrade the Eastern Treatment Plant. This $170 million plan, which followed extensive scientific research and community consultation, involves reducing flows to the plant, upgrading treatment and increasing water recycling. The innovative plan is designed to protect the marine environment and provide increased opportunities for water recycling. It will providea case study for world's best practice in sewage treatment plant operations.

Serving our customers

Our retail customers, City West Water, South East Water and Yarra Valley Water, were supplied with 462,322 million litres of water during the year. Water was also supplied to Gippsland Water, Southern Rural Water and Western Water. Samples taken of this water showed that 100 per cent was free of *E. Coli* bacteria, exceeding our target of 98 per cent and national guidelines.

Health, safety and risk management

The Winneke Water Treatment Plant at Christmas Hills became Victoria's first major hazards facility to gain a licence to operate under new Victorian Occupational Health and Safety (Major Hazard Facilities) Regulations. The plant stores liquefied chlorine gas to disinfect drinking water.

Our safety performance is still a significant concern because we are yet to achieve our zero injury target, but the lower injury rate during the year is a step in that direction.

Education and information

Dedicated sites for stormwater and drought were established as further enhancements to Melbourne Water's website and a comprehensive education and training program was developed in consultation with the education sector to increase the emphasis on water issues in schools and tertiary institutions. An industry training program with the Master Plumbers and Mechanical Services Association saw 200 plumbers accredited as "green plumbers" to recognise their knowledge and awareness of sustainable water use practices.

Our financial results

We recorded strong financial results, with an operating revenue of $480.2 million, which exceeded our plan by $10.2 million. Our free cash flow of $310.4 million enabled us to invest $98.1 million in assets for the future, reduce our debt by $47.5 million and pay taxes and dividends of $106.5 million to our owner, the Victorian Government. Operating expenses (before interest and income tax) were $218.2 million, which was lower than our plan by $8.2 million. Net profit after tax was $130.3 million, which was better than our plan by $8.2 million.

Our people

We would like to acknowledge the hard work and expertise of our people without whom our achievements would not have been possible.

On 1 July 2002, two directors left the board and two new directors joined. We take this opportunity to record our appreciation of the considerable contribution made by the retiring directors Tony Browne and Julie Garland McLellan.

We welcome our new directors. Mary Anne Hartley is a practising barrister, Chairperson of the Victorian Channels Authority and Director of Gascor Ltd. Robert Squire is Chief Executive of Connell Wagner and has extensive engineering experience in Australia and Asia.

Looking ahead

In the coming year we look forward to continuing to work with key stakeholders on delivering major projects. These include upgrades to our Eastern and Western treatment plants, providing safe, high quality drinking water, protecting our waterways and conserving our water resources through initiatives such as water recycling.

Graeme Bowker
Chairman

Brian Bayley
Managing Director

Financial results

ACHIEVEMENTS

- Our free cash flow of $310.4 million enabled:
  - a reduction in debt of $47.5 million,
  - investment of $98.1 million on capital works to improve and upgrade infrastructure,
  - payments to the Victorian Government of $106.5 million, comprising a dividend of $98.9 million and income tax payments of $7.6 million.
- Operating efficiencies of $8.2 million above our plan were achieved, largely through improved energy management and the consolidation into one centre of services such as the monitoring of our water, drainage and sewerage systems.

KEY CHALLENGES

- Generating ongoing operating efficiencies to achieve a minimum 10% return on equity.
- Continuing to achieve efficiencies in delivering our capital works program.
- Ensuring our financial systems and processes can support changed reporting requirements with a move to economic regulation.

Five-year summary

Statement of financial performance

as at 30 June

$ million unless otherwise indicated	1998	1999	2000	2001	2002
Revenue from ordinary activities	567	450	478	461	480
Profit from ordinary activities before income tax expense	243	167	204	176	186
Income tax expense relating to ordinary activities	82	54	7	47	56
Net profit	161	113	197	129	130
Dividends paid	141	106	126	58	99

Statement of financial position

as at 30 June

$ million unless otherwise indicated	1998	1999	2000	2001	2002
Current assets	37	28	36	39	50
Non-current assets	2,684	2,728	2,816	2,914	2,945
Total assets	2,721	2,756	2,852	2,954	2,995
Current liabilities	308	326	348	235	264
Non-current liabilities	1,355	1,363	1,337	1,422	1,402
Total liabilities	1,663	1,689	1,685	1,657	1,667
Net assets	1,058	1,066	1,167	1,297	1,328
Total equity	1,058	1,066	1,167	1,297	1,328

When reviewing the five-year financial summary, the following key issues should be considered:
– Major reforms were introduced by the Victorian Government to water and sewerage pricing for Melbourne on 1 January 1998.
– Legislation reducing the company tax rate received Royal Assent on 10 December 1999 (benefiting the 2000 year).
– Accounting and Finance Bulletin Issue 36, detailing changes to the recognition of proposed dividends, was released in respect of the 2001 year.

Our aims are to operate efficiently and to continuously seek improvement in our performance. We participate in benchmarking studies to learn from others and to assess our performance.

Operating revenue

Our operating revenue was $480.2 million, an increase of $19.4 million from last year's results as well as being $10.2 million better than our plan.

Operating expenditure

As a result of increased efficiency, our expenses were $8.2 million below plan.

Capital expenditure

Capital expenditure was lower than last year, at $98.1 million and slightly below our plan of $100.1 million.

Net Profit

Net profit after tax was $130.3 million, compared with $129 million the previous year, which exceeded our plan by $8.2 million. This result equates to an after-tax rate of return on total shareholder equity of 9.9 per cent compared with 10.2 per cent in our plan.

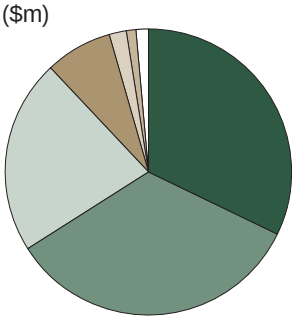
Debt reduction

Our debt was reduced by $47.5 million compared with $20 million the previous year. We had planned to borrow $23 million to meet our obligations, particularly to fund our capital works program. However, while cash flows from operating activities were stronger than anticipated, cash flows for investment activities were lower, resulting in the net reduction in debt.

Liabilities

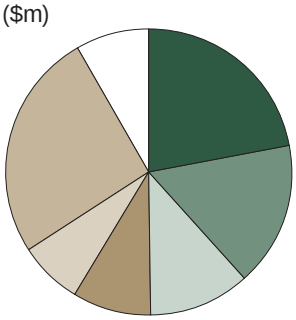
At 30 June 2002, the total book value of our interest-bearing liabilities was $1.2 billion. Our gearing ratio (debt to total assets) was 39.2 per cent, compared with 41.4 per cent for the previous year.

Operating revenue
($m)



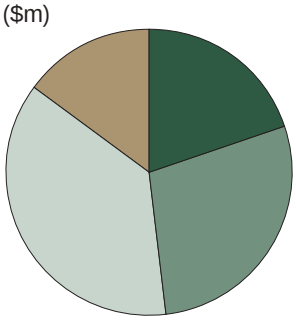
Water sales	$154.4
Sewage disposal charges	$162.5
Drainage rates	$105.6
Developer charges and contributions	$36.4
Proceeds (Asset sales)	$9.3
WAG sales revenue	$5.2
Other revenue	$6.8

Operating expenditure
($m)



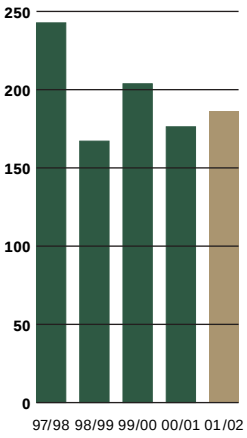
Depreciation & amortisation	$64.8
Operational expense	$48.0
Employee benefits	$33.7
Repairs and maintenance	$26.1
Administrative	$21.2
Borrowing costs	$76.1
Other	$24.4

Capital expenditure
($m)

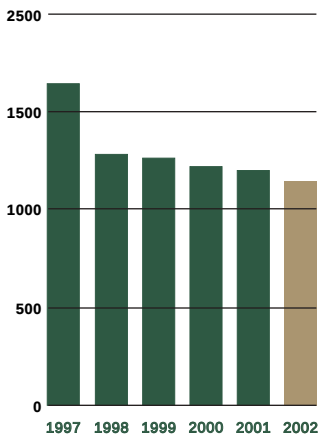


Water	$19.4
Sewerage	$27.8
Waterways and drainage	$36.3
Business improvements	$14.6

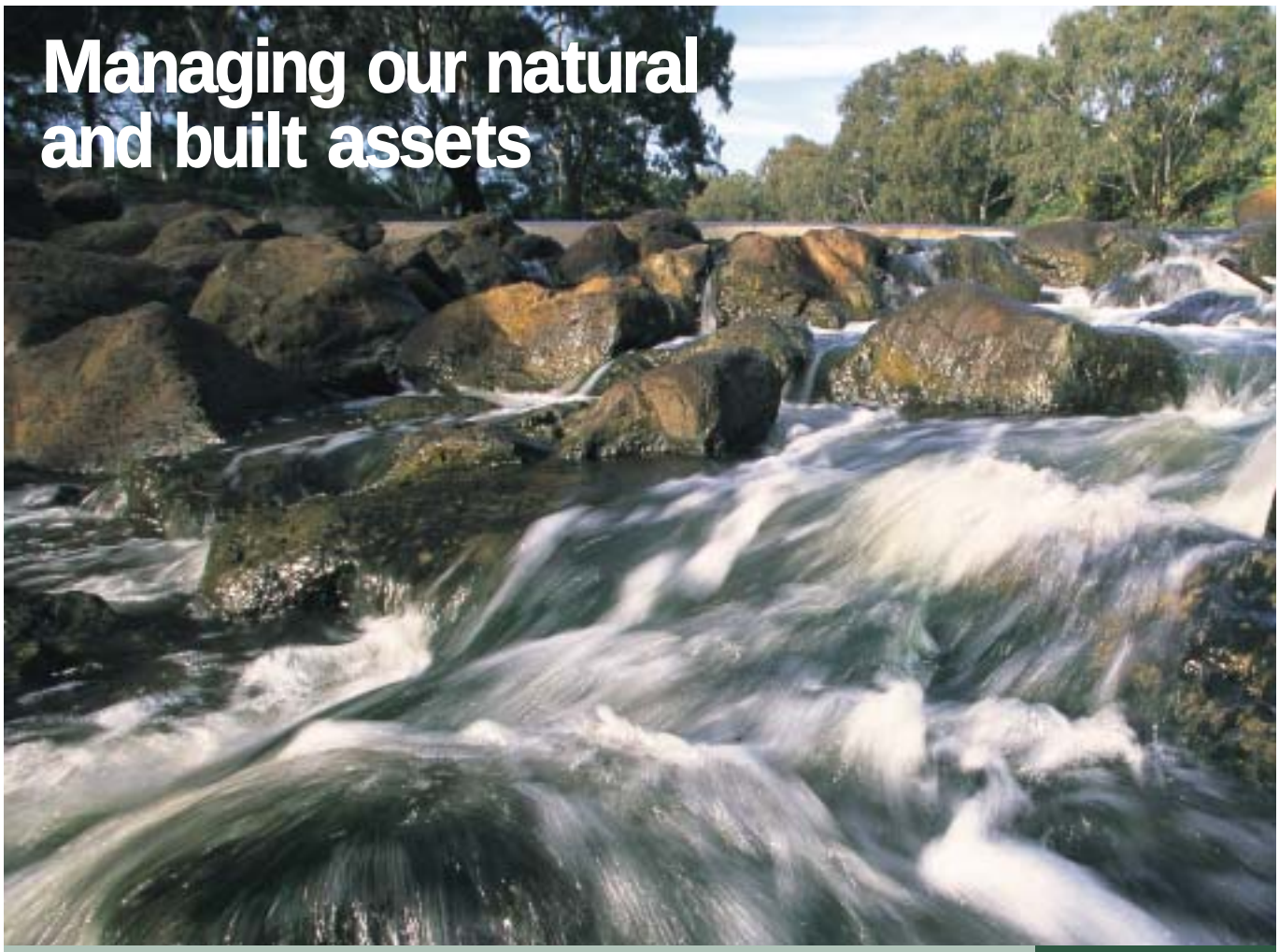
Profit before income tax
($m)



Debt (as at 30 June)
($m)



Managing our natural and built assets



Melbourne Water manages about $3 billion in water supply, sewerage and drainage assets that service an area of more than 7,800 square kilometres. These include natural and built assets. Most of the built assets were constructed between 1920 and 1980, but some date from the 1850s, including elements of the Yan Yean water supply system to Melbourne's north.

In maintaining and upgrading these assets, we take into account environmental, economic and social factors in our decision-making. This often requires extensive research as well as stakeholder consultation.

Impacts on the total water cycle are considered as part of our integrated capital works program. For example, in a project such as a sewage treatment plant upgrade, we consider how to reduce flows into the plant as well as how to reduce the impact of the discharge from the plant on the marine environment.

Melbourne Water operates an efficient information management system to co-ordinate asset management and to collect asset data. The system combines information on asset locations and maintenance management. A $1.4 million electronic document management system was introduced to improve access to our 180,000 asset plans and drawings.

$4.8 million was spent on the continued implementation of a new Supervisory Control and Data Acquisition (SCADA) system. This system, which is due to be fully implemented in September 2002, will enhance the standard of service to our customers, deliver operational efficiencies and help integrate our monitoring systems.

Melbourne Water complies with the building and maintenance provisions of the *Building Act 1993 (Vic.)* for buildings and structures we own.

Graylings were found in the Maribyrnong River for the first time since 1982. Fishways built as part of our Healthy Waterways Program helped the fish to migrate.

ACHIEVEMENTS

- $19.4 million was spent on water supply improvements, including the $3.2 million St Georges Road Main Replacement project, to cater for growth and continuity in supply.
- Seven wetlands were built that will reduce nutrients entering waterways and Port Phillip Bay by an estimated 17 tonnes per year.
- More than 200,000 trees and shrubs were planted to improve the long-term health of waterways.
- Two lakes were constructed at the Woodlands Industrial Estate to improve stormwater quality.
- A $170 million comprehensive sustainable resource management plan was submitted to EPA Victoria as our works approval application for a major upgrade to the Eastern Treatment Plant. EPA Victoria has approved this plan and has also requested that Melbourne Water upgrade the South East Outfall to reduce the impact of freshwater on the marine environment.
- New ammonia reduction technology was introduced at our Eastern Treatment Plant as part of a major program to improve effluent quality. When completed, the technology is estimated to reduce the amount of ammonia in the effluent by 75 per cent.
- $27.8 million was invested in capital works to improve sewerage system infrastructure, including treatment plant upgrades.
- Reduced nitrogen into Port Phillip Bay by 29 per cent through our upgrade of the Western Treatment Plan. We were recognised by the Institution of Engineers (Victoria) Environment and Sustainability Excellence Award.

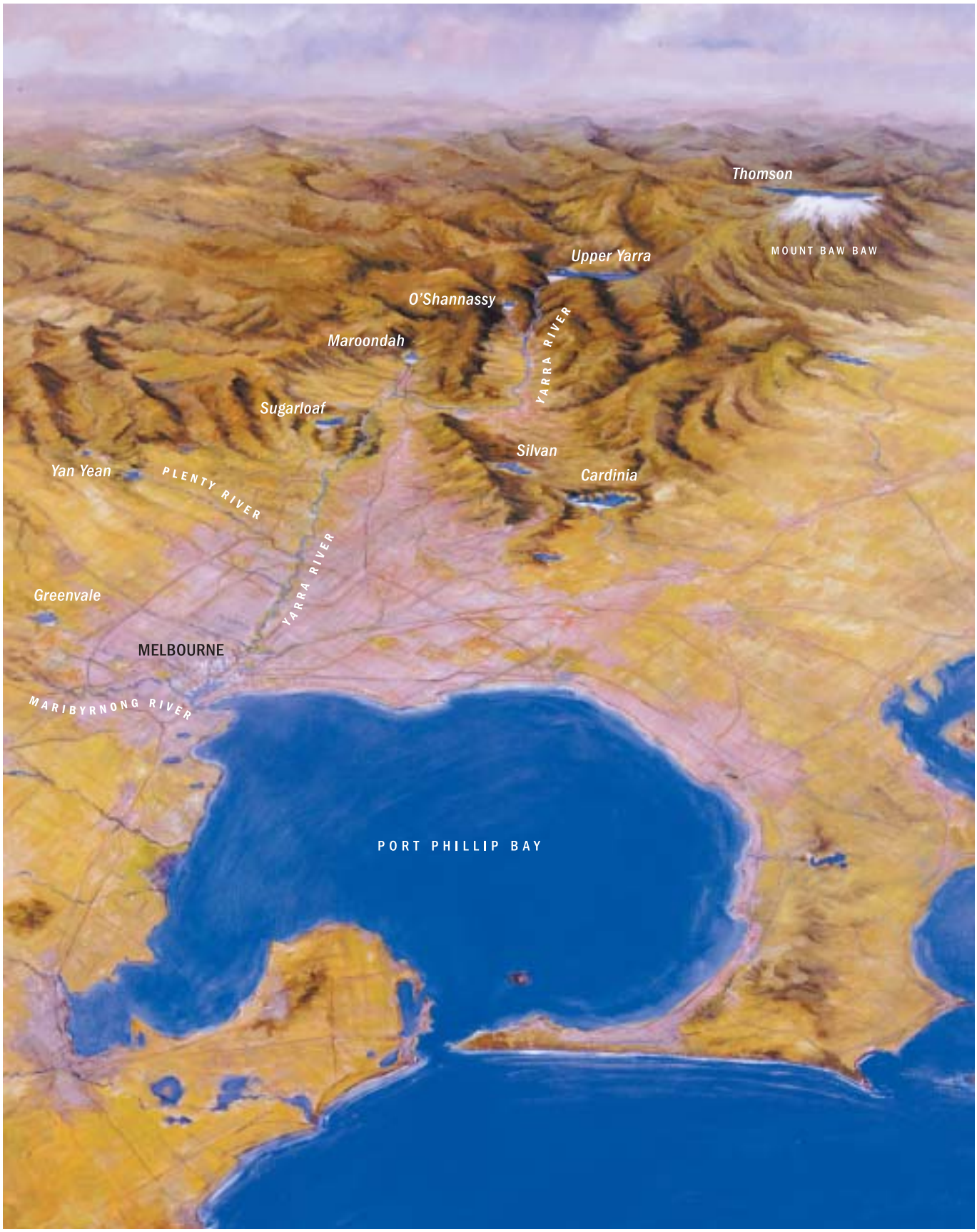
DISAPPOINTMENTS

- We had planned to cover or replace open reservoirs at Dromana, Frankston and Mornington. Unfortunately we were unable to obtain planning permits for these projects, and they have each been delayed by at least 12 months.
- Any uncontrolled leak of chlorine gas, which is toxic, is unacceptable and, as a result of a minor chlorine gas leak at our Greenvale Water Treatment Plant, we reviewed our operating procedures.
- Higher than normal algal levels in Yan Yean Reservoir in March 2002 resulted in it being taken out of service.
- The minimum environmental flow on the Thomson River was not met on one occasion in April 2002, due to equipment failure.
- Construction of three wetlands (Police Road, Huntingdale Road and the Jacana Southern system) was not completed due to unfavourable site conditions.
- An agreement was not reached with one council to participate in the development of a stormwater management plan to reduce stormwater pollution.
- We had 16 odour complaints relating to the Eastern Treatment Plant, one from the Western Treatment Plant and 15 from the sewerage transfer system.

KEY CHALLENGES

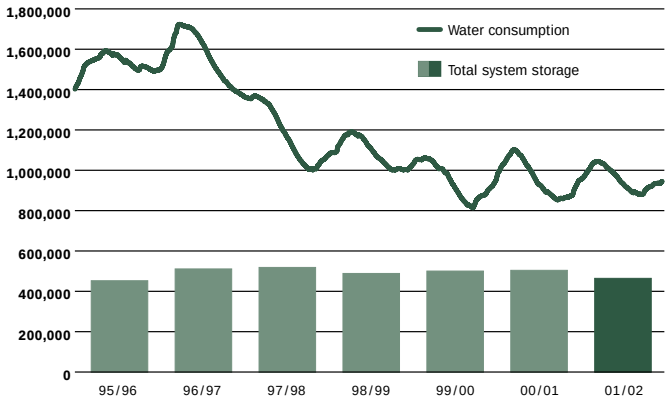
- Undertaking the $6.9 million upgrade to the M41 water main, which will improve capacity and reliability and cater for growth. This is a complex project which requires extensive community and stakeholder consultation to minimise disruption.
- Working with the remaining seven councils to implement special building overlays that provide information on flood prone areas in the planning schemes.
- Undertaking drain rehabilitation works to ensure continued structural integrity of the Elizabeth Street main drain, with an estimated cost of $2 million. This project will involve extensive stakeholder consultation to minimise community impact.
- Continuing to implement stormwater management plans with 31 councils to reduce pollution in our waterways and bays.
- Implementing the Eastern Treatment Plant upgrade.
- Implementing action plans to eliminate odour from our Eastern Treatment Plant.
- Continuing to implement the major upgrade to the Western Treatment Plant to reduce nitrogen loads to Port Phillip Bay and to produce an abundant supply of high quality effluent suitable for water recycling.
- Undertaking the $45 million Northern Diversion Sewer project to protect the Merri Creek and the Yarra River and to cater for growth.

Melbourne's storage reservoirs



Melbourne's storage reservoirs have a total storage capacity of 1,773,000 million litres. In July 2001, the system dropped to 870,423 million litres – its lowest point for the year, representing 49.1 per cent of the total capacity.

Water volumes (million litres)



Managing our catchments and water supply system

Around $1.1 billion in water supply assets are managed by Melbourne Water including 11 major storage reservoirs, with a capacity of 1,773,000 million litres. Approximately 1,300 kilometres of water distribution mains carried 462,322 million litres of water during the year for distribution from our service reservoirs, which are located throughout the metropolitan area. From there, we transferred water to the retail water companies, City West Water, South East Water and Yarra Valley Water. These companies operate the reticulation network that delivers water to Melbourne homes, businesses and other consumers. We also supply three regional water authorities - Gippsland Water, Southern Rural Water and Western Water.

About 90 per cent of Melbourne's water comes from vast reservoirs located in our protected catchments. These catchments to the city's north and east cover more than 140,000 hectares of mostly native forest, which is crucial to the supply of safe, high quality drinking water.

Although Yan Yean Reservoir is located in a protected catchment, the water requires filtration to improve its quality. Because the reservoir is relatively shallow this does not allow for long detention and natural settling of any impurities. Water from the Sugarloaf Reservoir is fully treated as it is supplied from the Yarra River, downstream of our protected catchments.

In addition to the research we undertake to protect our catchments, we continually maintain tight security and procedures to protect the area from the threat of bushfires and other hazards. In recent years, Melbourne Water has increased security for catchments and water supply assets by upgrading signage and security systems. Our security team patrols the catchments regularly and $360,000 was spent to further improve catchment security.

Drought and the water supply

With Melbourne's major water catchments experiencing a sixth consecutive year of below average rainfall and streamflow conditions, we developed a Storage Recovery Plan with our retail customers.

One of the first measures we introduced under this plan was to increase supply from the Sugarloaf/Winneke system to enable the major storages to replenish. This required additional pumping from the Yarra River while maintaining environmental flows.

A Drought Response Protocol was developed with our retail customers to ensure Melbourne's metropolitan water industry is well prepared should current dry conditions persist.

Upper Yarra Reservoir holds 200,000 million litres. In April it dropped to 88,179 million litres, or 44.1 per cent of its total capacity – the lowest level for the year.

The Hon. Sherryl Garbutt, Minister for Environment and Conservation, visited the property of Kate Ady, secretary of the Merriang District Landcare Group, to inspect works funded by Melbourne Water's $1.4 million stream frontage management program.

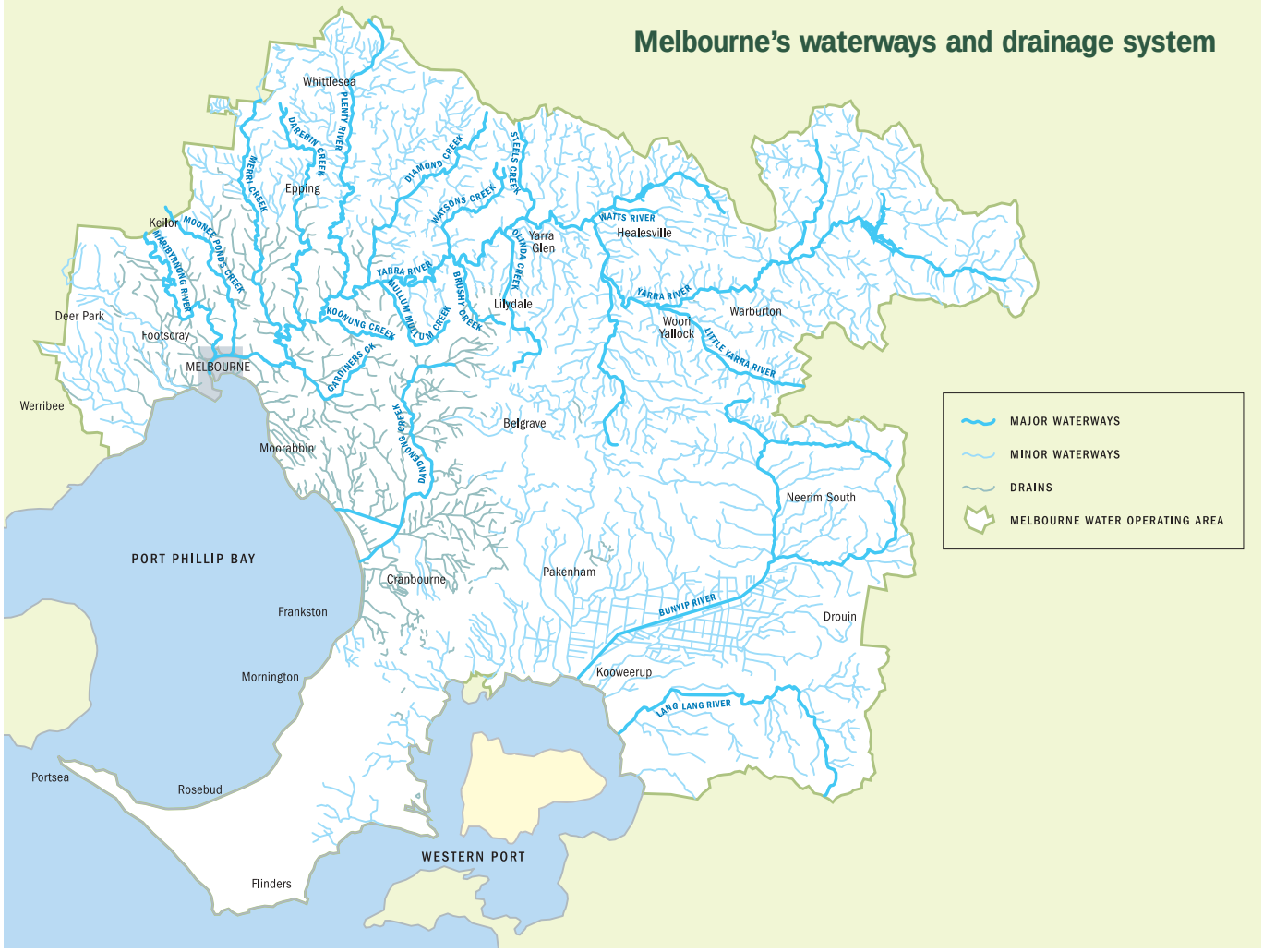
Protecting and improving our waterways and drainage system

Melbourne Water manages 3,974 kilometres of natural assets – streams, creeks and rivers - and $500 million of drainage infrastructure including 1,179 kilometres of underground drains and 23 drainage pump stations. We also manage 27 recreational lakes and 144 retarding basins that temporarily store stormwater to reduce the impact of flooding. Some stormwater is treated through 50 natural and constructed wetlands before flowing into the bays.

Our primary goals, strategies and service delivery for waterways, floodplains, regional drainage and stormwater quality management are set out in our Operating Charter for Waterways and Drainage. The Operating Charter was prepared with advice from external stakeholders, and included a commitment that we would report our performance against it annually.

We spent $36.3 million this year on projects to improve our waterways and drainage system. Major works were undertaken to ensure structural stability of streambeds and banks and to improve streamside vegetation on the Bunyip Main Drain in Cora-Lynn, and Running Creek and Brushy Creek north of Melbourne.

Melbourne's waterways and drainage system



River flows in a dry year

We aim to ensure that river flows are maintained to provide a healthy ecosystem and we release water from eight of our 11 water storage reservoirs consistent with regulatory requirements or agreements with relevant agencies.

On average, we release into waterways about 35 per cent of the water that flows into our on-river storages. Each year, water releases vary from about 54 per cent of water flowing into the Thomson catchment to 28 per cent in the Yarra catchment and 23 per cent in the Silver/Wallaby Creek catchment.

Sharing a valuable resource

During the year, we continued to develop streamflow management plans across the Yarra catchment. These plans define the total amount of water in a catchment and describe how it will be shared between the environment and water users. Under these plans, we bring together all stakeholders, including diverters, in a working group to develop a blueprint for the long-term, sustainable future for the waterway.

The draft Hoddles Creek plan was released for public consultation in June 2002, with the Diamond Creek draft plan to be released in July 2002.

Improving stormwater quality

We constructed seven wetlands across Melbourne as part of our commitment to reduce nitrogen loads from stormwater. They should reduce annual nitrogen loads to Port Phillip Bay by 17 tonnes. Aquatic plants established at these wetlands trap and filter contaminants before discharging stormwater to waterways and bays.

Around $1 million was spent removing litter from waterways, working with councils, the community, Parks Victoria and other stakeholders. We contributed almost $1 million to the $2.6 million Moonee Ponds Creek – Keep it Clean project. The project features a waste accreditation program for businesses to prevent litter entering the creek, and installation of litter traps across the catchment.

Eight new stormwater management plans were initiated with local councils and we are on schedule to have the program completed by June 2003. Stormwater management plans provide councils with the actions they need to prevent stormwater pollution. Of the 32 councils in our operating area, 20 plans have been finalised, 11 are being developed and only one council has declined to participate.

A pilot project was also developed with six councils to reduce sediment and other litter from construction sites entering the stormwater system. Our challenge is for this initiative to be implemented by all Melbourne councils. We continued working with developers to promote water sensitive urban design. This involves features such as wetlands and grassed drainage areas to absorb stormwater and treat pollutants.

New drainage schemes were established, including at Edrington Park and Pakenham West, during the year to ensure there is adequate drainage works at new subdivisions and to help streamline town planning approval, design and construction.

Better stormwater from the Hallam Bypass

In association with us, VicRoads is implementing water sensitive urban design features into the Hallam Bypass project to protect our waterways and bays from stormwater runoff.

When stormwater runs off the Hallam Bypass road surface it will be absorbed by drains planted with special grasses and vegetated filter strips located at the side of the freeway. From there, water will flow into holding basins and then into wetlands where pollutants are caught. The naturally treated water eventually discharged into waterways and Port Phillip Bay is much cleaner than if it had come straight off the roadway. This alternative to traditional stormwater management provides substantial immediate and long-term environmental benefits to our waterways.

Managing our sewerage system

The $1.3 billion of sewerage assets we manage includes Melbourne's two main sewage treatment plants – at Werribee and Bangholme – and a 399-kilometre network of major sewers. We also operate three major and several minor sewage pump stations.

Melbourne produces 900 million litres of sewage a day, made up of domestic waste as well as trade waste discharged to the sewerage system by industry. Our retail water customers collect this sewage and trade waste. These companies have contracts with industry and business for discharge into the sewerage system. During the year, we treated 320,400 million litres of sewage and trade waste, compared with 344,971 million litres in the previous year.

We work with the Trade Waste Acceptance Advisory Committee, an independent expert committee, to review trade-waste standards that guide the discharge of critical pollutants.

In managing the sewerage system, Melbourne Water's aim is to eliminate offensive odours beyond the treatment plant boundaries and from the sewage transfer system. We received 32 odour complaints – 16 regarding the Eastern Treatment Plant, one regarding the Western Treatment Plant and 15 regarding the transfer system. All complaints were investigated. We also undertook a survey of residents near the Eastern Treatment Plant and are revising our odour management strategies.

Dawn at Gunnamatta Beach, near the outfall into Bass Strait.

Protecting the marine environment

Western Treatment Plant

The 10,850-hectare Western Treatment Plant at Werribee, commissioned in 1897, treats 54 per cent of Melbourne's sewage and discharges treated effluent into Port Phillip Bay under licence from EPA Victoria.

We are undertaking a major upgrade of our Western Treatment Plant at a cost of $124 million, with $12.6 million spent during the year. This upgrade, developed with EPA Victoria and the Western Treatment Plant community liaison committee, is reducing the amount of nitrogen entering Port Phillip Bay, enhancing our lagoon system and increasing water recycling opportunities. It will reduce greenhouse gas emissions and improve monitoring systems and air quality. It also includes a conservation management plan.

The upgrade of the plant's first lagoon system, the 55 East lagoon, was completed in July 2001. The project took three years to complete and together with the planned second lagoon upgrade will enable us to reduce nitrogen loads to Port Phillip Bay by 500 tonnes annually.

Melbourne Water runs the farming operations at Western Treatment Plant. Sewage has been used to irrigate the pasture since the farm was established in 1897. Recycled water from the plant was used for the first time during the year and the farm generated revenue of $5.2 million.

Eastern Treatment Plant

The 1,000-hectare Eastern Treatment Plant at Bangholme, commissioned in 1975, treats 42 per cent of Melbourne's sewage and discharges the treated effluent via a 56-kilometre pipeline into Bass Strait under licence from EPA Victoria.

We completed a $5 million six-month ammonia removal pilot, in January 2002, which modified one of six secondary treatment tanks to reduce the amount of ammonia in the effluent. Ammonia is affecting the marine environment in the receiving waters at Boags Rocks on the Mornington Peninsula. The pilot was successful and we will upgrade the remaining tanks as soon as possible, at a total cost of $47 million.

An extensive independent water quality monitoring program is already in place for the receiving waters at Boags Rocks. In partnership with the CSIRO we introduced a new long-term monitoring project to enable us to assess the benefits to the marine environment of works being undertaken to improve effluent quality.

A sustainable resource management plan was submitted to EPA Victoria for approval to undertake a $170 million upgrade of the Eastern Treatment Plant. The plant's community liaison committee played a major role in the development of the plan. The committee will now focus on assisting Melbourne Water to produce an environment improvement plan that will incorporate outcomes and measures to assess the plant's

Lagoon 55 east at Western Treatment Plant is undergoing a major upgrade which, together with the planned second lagoon upgrade, is anticipated to reduce nitrogen to Port Phillip Bay by 500 tonnes per year.

performance. We will also work with the retail water companies and other key stakeholders to reduce the amount of flow going into the Eastern Treatment Plant, improve the quality of the effluent leaving the plant, and continue to explore opportunities to maximise recycling.

Reducing sewage spills

In heavy rain, stormwater can infiltrate sewers leading to overflows when sewer capacity is exceeded. This impacts on the environment. Such overflows are directed through "emergency relief structures" to prevent impacts on private property and public health.

We have a rigorous program to contain these sewage spills even in a one-in-five-year rainfall event. This standard is among the highest in the world. We are progressively upgrading our infrastructure to eliminate sewage spills due to overflows. No dry or wet weather spills occurred during the year.

Planning commenced to implement works on the Northern Diversion Sewer. The project will overcome sewer capacity problems that can lead to wet weather spills into the Merri Creek from Yarra Valley Water and Melbourne Water sewerage systems. The $45 million project is due for completion by 2008/09.

The $15 million Upper Moonee Ponds Sewer Augmentation Project will start in 2003 and achieve similar outcomes. It is due to be completed in 2008/09.

Merri Creek at Coburg. A key challenge is to implement the Northern Diversion Sewer project which will protect Merri Creek and the Yarra River from wet weather sewage spills.

Managing risk

Winneke Water Treatment Plant at Christmas Hills was the first facility in Victoria to receive a major hazards licence.

Managing risk is a critical part of our business. Our priority is to minimise risk for the community, our people and our assets. We have comprehensive procedures for condition monitoring and risk assessments of assets to enable us to calculate the likelihood and consequence of an asset failing. Rigorous emergency response procedures are in place to manage the situation should an incident occur. We have established risk focus areas covering all major aspects of our business and they involve comprehensive identification, assessment and reporting procedures.

ACHIEVEMENTS

- Our Winneke Water Treatment Plant at Christmas Hills became Victoria's first major hazards facility to be licensed by WorkSafe Victoria under Occupational Health and Safety (Major Hazard Facilities) Regulations.
- $3.2 million worth of works were completed to protect properties from flooding including the Fulton Road retarding basin and wetland ($900,000), the Tooronga Road Main Drain ($500,000) and the Steele Creek culvert ($1 million).

DISAPPOINTMENTS

- The delay in starting the Palmer Street Diversion drain, which will provide increased flood protection for properties in Richmond.

KEY CHALLENGES

- Reaching agreement with the last seven councils to introduce amendments that will incorporate special building overlays into their planning schemes to ensure that new development complies with the one-in-100-year flood protection standard.

Emergency management and response

Melbourne Water has established operating and maintenance procedures, disaster recovery and contingency plans to manage and recover from emergencies. Our people undertake emergency management and response awareness training and emergency exercises to enhance their experience in responding to work-related incidents.

We worked with our retail customers on several emergency response initiatives including a full-scale water contamination role play and a deployment exercise to test emergency sewerage pumping plant, equipment, systems and resources.

Major hazard facilities

The Occupational Health and Safety (Major Hazard Facilities) Regulations 2000 were enacted in July 2000 in Victoria. These regulations aim to improve the safety of major hazard facilities, which are defined as any workplace that stores, handles or processes large quantities of dangerous goods that have the potential to cause a major incident. Specifically, the regulations aim to reduce the likelihood of a major incident and the resulting impact on health and safety, and damage to property.

WorkSafe Victoria, which is responsible for overseeing compliance and licensing major hazard facilities in Victoria, determined that three Melbourne Water sites – Winneke Water Treatment Plant, Eastern Treatment Plant and Silvan Water Treatment Plant – require licences due to the risks associated with storing and using liquefied chlorine gas at the sites.

We submitted the full safety case for our Winneke Water Treatment Plant in October 2001. In response, WorkSafe Victoria issued a major hazard facility operating licence in May 2002. The plant became Victoria's first licensed major hazards facility.

As a result of the safety case, we installed more rigorous chlorine monitoring, leak detection and emergency shutdown systems. We have also budgeted to install an emergency chlorine scrubbing system during 2002/03 at a cost of $400,000 to capture and neutralise any chlorine gas released during an emergency. Our no-chlorine-leaks policy stresses that any release of chlorine to the atmosphere is unacceptable and, to meet this policy, we continually review our procedures.

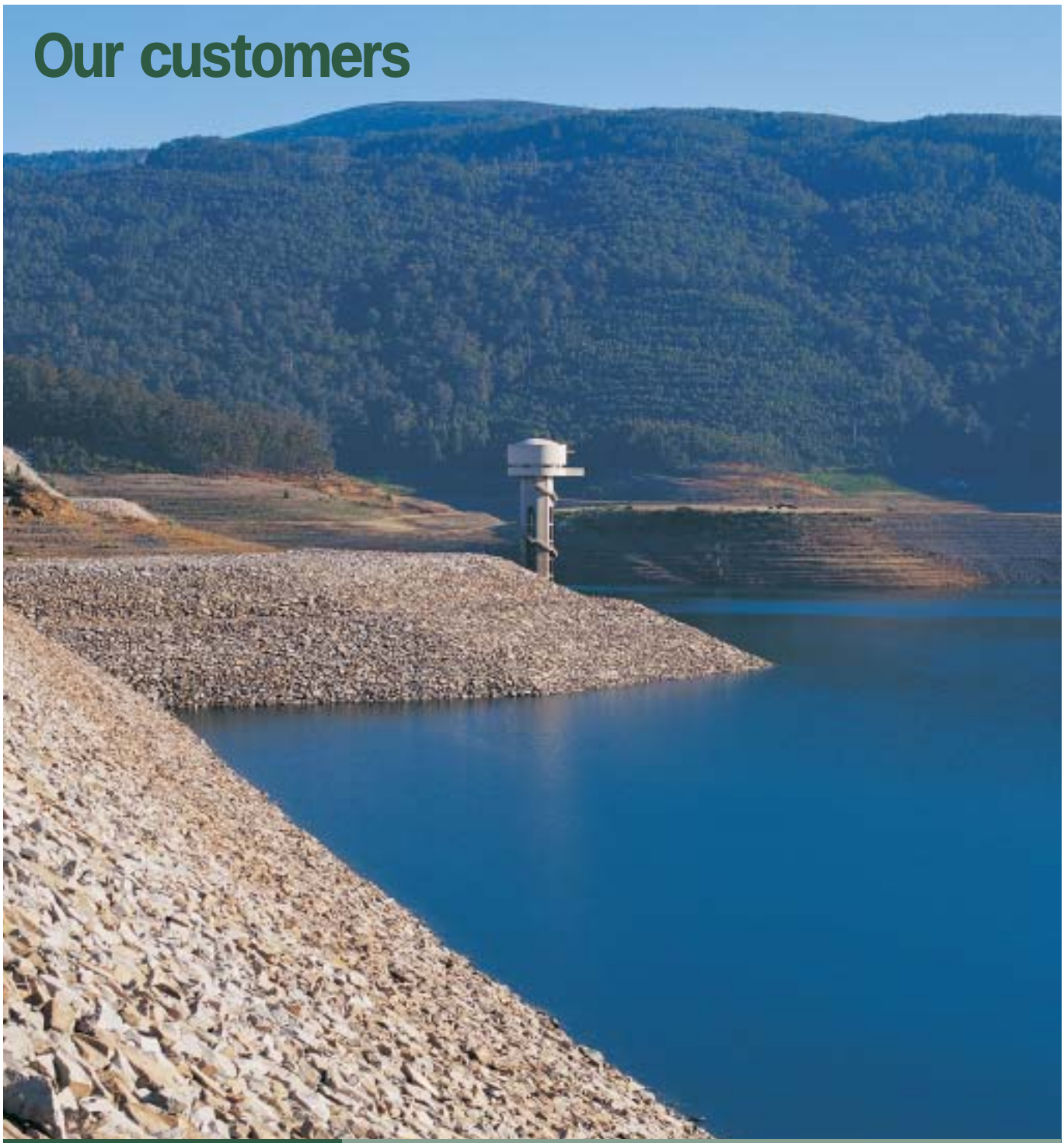
Flood protection

Flood protection is a priority for Melbourne Water. It involves managing Melbourne's waterways and major stormwater drains and carrying out works to reduce flood risk in priority areas. Our target is to protect newly developed and redeveloped properties from flood in a one-in-100-year storm event. In our role as a referral authority for development applications we are able to ensure new buildings are not flood prone.

We have set a target to reduce the number of vulnerable properties by 800 over 10 years from July 1999. We estimate an annual expenditure of $6 million to $8 million is required to achieve this target.

Major flood protection projects included the Fulton Road Drain, Tooronga Road Main Drain and Steele Creek. We spent $3.2 million to reduce the number of properties vulnerable to flooding, and continued our major program with local councils and the community to incorporate flood risk and drainage survey information into planning schemes.

Our customers



Melbourne's largest reservoir, the Thomson, holds 1,068,000 million litres. In August it fell to 474,613 million litres, or 44.4 per cent of its total capacity – the lowest level for the year.

Melbourne Water's primary customer service role is to supply safe healthy drinking water to the retail water companies – City West Water, South East Water and Yarra Valley Water. We supply lesser amounts of water to Western Water, Gippsland Water and Southern Rural Water. We also undertook long-term water resource planning studies with neighbouring authorities such as Western Water, Gippsland Water and Barwon Water. Services are provided to a wide range of organisations and individuals including councils, land developers, river water diverters and recycled water users.

ACHIEVEMENTS

- Exceeded the stringent National Health and Medical Research Council guidelines with 100 per cent of the samples of water supplied to our retail water customers being free of *E.coli* bacteria
- Completed the Melbourne Water-City West Water Water Supply Improvement Strategy that will ensure future security of supply for City West Water's customers.
- Improved the quality of water delivered to South East Water customers in the Garfield area by covering the Garfield Reservoir as part of the $60 million Mornington Peninsula Water Supply Improvement Strategy.
- Improved water quality for Yarra Valley Water's customers in the Emerald area by completing a $4.6 million upgrade of the Emerald Water Supply System, including replacing an open reservoir at Johns Hill and commissioning a new water treatment plant.

DISAPPOINTMENTS

- Operational changes to the water supply system by Melbourne Water resulted in dirty water complaints to our retail customers servicing the Tullamarine and Broadmeadows areas and the Mt Waverley, Clayton and Oakleigh areas.
- A large algal bloom in the Greenvale Reservoir highlighted the need for improvements in our algal management response plan for this water storage.

KEY CHALLENGES

- Managing the water supply system and customer impacts if dry conditions continue and water restrictions are required.
- Managing the risk of algae in Melbourne's open reservoirs so the impacts to customers are minimised.
- Spending a further $7.3 million on the Mornington Peninsula Water Supply Improvement strategy to replace open water storages with covered reservoirs.
- Planning the upgrade of the Greenvale Pump Station to meet demand growth in the western suburbs serviced by City West Water. The $4.1 million project is due to be completed by November 2004.
- Increasing pipeline capacity from the St Albans Reservoir to the Western Highway to meet the projected growth in peak demand in Melbourne's west. This $5.8 million project is due to start in early 2003 with a scheduled completion date of December 2005.

Working together to manage the continuing dry conditions; members of the Drought Response Group include (L to R) John Woodland, Melbourne Water; Keith Johns, City West Water; Glenn Goldsmith, South East Water; and David Elliott, Yarra Valley Water.

Retail water companies

A cooler-than-average summer and positive response from the community on the need to save water helped reduce Melbourne's water consumption to six per cent below the annual average for the past five years. Peak daily consumption of 2,158 million litres, recorded on 19 January 2002, was well below the maximum historic daily peak levels of more than 3,000 million litres.

All water supplied to our retail customers is disinfected to ensure the water is free from microorganisms that can cause disease. We operate 44 disinfection plants at the outlets of systems that are open to contamination, such as major storage reservoirs, and within the closed distribution system.

There were six minor incidents involving our disinfection plants. This is a reduction from previous years. The most common causes were equipment failures. In all cases we took action to minimise the impact on our customers. Standby power generators enable critical disinfection plants to continue operating when mains power fails.

Unauthorised entry and vandalism at service reservoirs in the metropolitan area can pose a risk to our water supplies.

Testing drinking water at Water EcoScience's laboratories. Water Ecoscience undertakes water quality and microbiological analyses for Melbourne Water.

In June 2002 there was an unauthorised entry into a service reservoir at Cranbourne which was investigated by the police. The incident did not affect water quality.

Monitoring water quality

We undertake comprehensive drinking water quality testing. We carried out more than 50,000 tests on samples from 160 sites during the year. We took the samples from our reservoirs, aqueducts, transfer mains, service reservoirs and points of supply to the retail water companies.

A range of parameters is examined to determine water quality. The indicator of health risks due to faecal contamination is *E.coli* bacteria.

Our objective is for 98 per cent of samples of water supplied to the retail water companies to be free of *E.coli* bacteria. We exceeded this target, achieving 100 per cent, which is more than required by National Health and Medical Research Council guidelines.

City West Water
City West Water services customers in the central business district and inner and western suburbs. This year, we supplied 116,531 million litres of water to City West Water.

A detailed water supply improvement strategy was completed to ensure water supply infrastructure could continue to meet the demands of Melbourne's growing western suburbs. This strategy was jointly developed by Melbourne Water and City West Water. It identifies a range of system improvement options such as flow, pressure, water quality, asset management and operational requirements to meet the future needs of City West Water's customers.

South East Water
South East Water services customers in the south-eastern suburbs and Mornington Peninsula. We supplied 165,635 million litres of water to South East Water during the year.

As part of providing a reliable supply of high-quality safe drinking water to South East Water customers, Melbourne Water continued to implement the $60 million Mornington Peninsula Water Supply Improvement Strategy during the year. The aim is to minimise the risk of contamination and improve drinking water quality.

The next stage of the strategy involves:
- Eliminating potential sources of drinking water contamination, by replacing open service reservoirs at Frankston and Mornington with steel tanks. This $8.6 million project is to be completed by June 2004.
- Boosting supply to the Tynong area by constructing a Tarago-Westernport pump station. Works are due for completion by June 2004.
- Eliminating the risk of contamination and algal blooms by lining and covering the Dromana Reservoir. This project has an estimated completion date of October 2004.

Yarra Valley Water
Yarra Valley Water services customers in the northern and eastern suburbs. We supplied Yarra Valley Water with 180,156 million litres of water during the year.

A major upgrade of the Emerald water supply system, including a new chloramination plant and new steel tank, was completed in February 2002 in conjunction with Yarra Valley Water.

The seven million litre tank, located at Johns Hill, Kallista, replaced an open basin that was supplied from small, local catchments with a range of agricultural and human activity. Now the water supply is from Melbourne's major protected catchments via the Silvan/Cardinia pipeline.

The $4.6 million upgrade will improve water quality for Yarra Valley Water customers in the Emerald system, which has a history of taste and odour problems and microbiological compliance issues associated with open storages and unprotected catchments.

To meet growth in demand and continuity of supply during power failures, we started installing new motors and pumps and a back-up generator in the Somerton Pump Station. The planned completion date for this work is August 2002.

Councils

Melbourne Water is a Referral Authority under the *Planning and Environment Act, 1987*. Councils refer building permit, subdivisions and planning scheme amendment applications in flood-affected areas. We responded to 13,778 items of business referred to us by local councils during the year, and exceeded our response time targets.

We worked with councils on improving flood protection and assisted eight councils to introduce special building overlays into planning schemes to ensure that flooding issues are assessed before land is developed. We also prepared guidelines on agreed standards for development in flood-affected areas to help ensure a clear and consistent approach to development approvals.

Further services to councils included production of a CD-ROM containing information on water sensitive urban design.

Melbourne Water conducted tours, seminars and workshops for councils to raise awareness of, and promote, best practice stormwater treatment systems and water sensitive urban design. We conducted many council briefings and established a pilot "council co-ordinator" project to enhance relationships. A co-ordinator was nominated for each pilot council – Port Phillip, Maribyrnong and Darebin. We intend to extend the project over the coming year.

Developers

Melbourne Water is responsible for ensuring that land development in Melbourne addresses flood protection and stormwater runoff quality and minimises environmental impacts.

Stormwater runoff quality from new subdivisions is also addressed to ensure best practice stormwater management objectives are met.

We are working closely with developers and local councils, seeking innovative solutions that embrace water sensitive urban design features. These include wetlands to treat stormwater, sediment and litter traps, and bioretention/infiltration systems in new urban developments.

A review of 144 drainage schemes was undertaken to ensure that scheme proposals met current standards for flood protection and water quality, and that scheme rates were appropriate to cover the costs of proposed works. Representatives from the Association of Land Development Engineers supported the approach to reviewing the schemes. New scheme rates came into effect in May 2002.

Recycled water customers

The Eastern Treatment Plant has been selling recycled water for many years. During the year, our 33 customers bought some 1,156 million litres of recycled water, or 0.86 per cent of plant output. They used their recycled water for agriculture,

A healthy planning partnership

The wetlands that are a feature of the Mill Park Lakes residential estate are among the largest in metropolitan Melbourne.

The developer held workshops with Melbourne Water, the council and the Co-operative Research Centre for Catchment Hydrology to design a system that would create a clean discharge of water into neighbouring waterways.

Investa Executive General Manager John Bruzzaniti said: "We had a co-operative working relationship with Melbourne Water. We understood their environmental requirements for the site, and they showed an ability to understand our needs. We both knew what we wanted to achieve and we worked together to achieve it."

horticulture, vineyards or to irrigate golf courses and sporting fields.

The mild summer and winter are the main reasons there was a drop in demand for recycled water. The low price and ready availability of bore water contribute to the difficulty in obtaining new customers.

Improving services to recycled water users

Several initiatives were undertaken to assist our recycled water customers. These included preparing a draft handbook, reviewing and improving our customer billing process and reviewing the water supply agreement.

A generic environment improvement plan was produced to assist recycled water customers prepare site-specific environment improvement plans to obtain EPA Victoria's agreement to use recycled water.

The number of our visits to our 12 highest use customers was increased, and we commenced servicing and cleaning their filters monthly. We have also placed information on water recycling on our website to improve customer access.

River water diverters

Melbourne Water is responsible for managing the volume of water that users pump from waterways in the Yarra, Stony, Kororoit, Laverton, Skeleton and lower Maribyrnong catchments. We issue licences to these customers – known as diverters – which allow them to take water for their homes, farms, market gardens, vineyards and other businesses.

At 30 June Melbourne Water had licensed 1,303 diverters to take a total of 37,167 million litres from these waterways, and our objective in making this resource available is to balance environmental flow requirements with the economic needs of our diverter customers.

The prolonged drought presented continuing difficulties for diverters relying on river and stream water for their operations. Reduced allocations were available to Maribyrnong diverters due

to low rainfall. For some diverters, this caused reduced quality and quantity of crop yield. However reduced water availability has assisted some diverters to improve irrigation efficiencies.

We also implemented the Yarra Drought Response Plan during the summer period as a means of sharing available water between diverters and the environment during times of low streamflow.

We continue to encourage diverters to invest in off-stream "winter-fill dams" to store winter rains to provide greater security of supply during drought years. In conjunction with our customers, we are also developing streamflow management plans which establish flow-sharing arrangements between diverters and the environment to ensure a reliable supply for the long term.

In conjunction with Southern Rural Water, Melbourne Water prepared a water resource management plan for the Maribyrnong catchment for community consultation. The plan protects the environment and water supply reliability for licensed diverters.

Metering water use

All Maribyrnong diversions are metered. However, at 30 June 2002, only 18 per cent of 674 major Yarra diversions were metered. During the year, we installed 44 meters and our target is to have 23 per cent of major licensed Yarra diversions metered by 30 June 2003. We will also develop a strategy for general metering of water diverted from rivers and streams for irrigation by 30 June 2003.

Keeping track of water use

When Melbourne Water installed a meter at Murray Valley Nurseries in January 2001, Manager Craig Finlay had little idea how much water he was using. Now he has a clear view and is able to make informed decisions about the Silvan wholesale tree growing business.

"At first I kept a very close eye on the meter and sat down and did my sums," he said. "I was pleasantly surprised to find that I was using only a small amount of my allocation.

"Now we're in a position to consider initiatives like trading water for a short period. There's only a certain amount of water there, and the meters protect our entitlements especially if there are multiple diverters using one water source."

Planning for a sustainable future

Our wetlands at Western Treatment Plant are internationally recognised under the Ramsar Convention. The wetlands attract more than 270 bird species each year, which is second only to Kakadu.

Melbourne Water's role involves managing our water resources in a sustainable manner for the future. Several of our major activities involve using finite resources such as water and energy that are critical to global sustainability. Areas where we are developing specific sustainability initiatives include water conservation, water recycling, waste, energy and greenhouse gas emissions.

ACHIEVEMENTS

- A lead role was played in the Victorian Government's Water Resources Strategy, a blueprint for managing Melbourne's water resources to 2050 and beyond. We contributed about $800,000 to this project.
- A successful three-month trial was undertaken of high technology equipment for on-site water recycling in the King's Domain gardens. The trial demonstrated how parks and gardens around Melbourne could be kept green while conserving supplies of drinking water.
- Obtained approval to use biosolids in our wetland development at the Woodlands Industrial Estate. Biosolids produced from sewage treatment processes have a range of valuable uses, including soil and site rehabilitation and landscaping.
- Commenced construction of the Eastern Green Energy Project, which involves upgrading the pump and power station at our Eastern Treatment Plant. It will result in efficiencies by using biosolids gas to generate electricity. This project will deliver average annual savings of $2.4 million, minimise on-site use of diesel fuel, support plant automation and reduce greenhouse gas emissions by 24,500 tonnes annually.
- Invested $3.24 million in research programs as part of our ongoing commitment to planning for the future. This is an increase from $2 million in recent years.
- Maintained high community awareness of drought and water storage levels.
- Established a reference group to assist us to develop a sustainable land use strategy for the Western Treatment Plant.
- Improved effluent quality at the Western Treatment Plant to facilitate water recycling schemes such as the Werribee Tourism Precinct project - the first such scheme in the western region.
- Won an American Water Works Association Research Foundation grant of US$150,000 to develop a model Hazard Analysis and Critical Control Point plan for distribution system protection.
- Instigated two major research projects to maintain drinking water quality, which have significant support from the American Water Works Association Research Foundation.

DISAPPOINTMENTS

- The delay in developing a sustainable biosolids management strategy.
- Delay in the beginning of an international laboratory trial to compare methods for detecting and enumerating *Cryptosporidium*. This project is expected to commence in 2002/03.

KEY CHALLENGES

- Working with the retail water companies to conserve Melbourne's water supplies in the current dry conditions and for the long-term.
- Achieving the target to recycle 20 per cent of the effluent produced at our sewage treatment plants by 2010.
- Establishing targets and implementation plans for the beneficial use of biosolids at our sewage treatment plants.
- Meeting our targets to reduce greenhouse gas emissions by up to 36 per cent over the next five years.
- Meeting our energy reduction target of 20 per cent.
- Storing, analysing and effectively interpreting the quantity of data collected from numerous research projects.

Water resources and conservation

We chaired a project management group and an industry working group for the Victorian Government's Water Resources Strategy. In May 2002, a Strategy Directions Report was released for community consultation and we have committed $50,000 to prepare a final report to the Minister for Environment and Conservation by the end of 2002. This report will be the basis for Melbourne's water conservation and storage recovery plans.

Melbourne Water undertook several water conservation initiatives, including a public education campaign featuring billboards with electronic displays of Melbourne's water storage levels. Market research demonstrates high awareness of water storage levels as a result of these visible landmarks.

We also produced education materials, advertised water storage levels in the print media and continued to distribute a weekly water storage update. We have a dedicated water conservation website, www.conservewater.melbournewater.com.au, which received 99,977 hits during the year and in May 2002 our Living With Drought website was launched.

Our work on water conservation communications received a Gold Quill merit award from the International Association of Business Communicators. There were only three winners of Gold Quill awards from Australia.

Working with councils and the community

Melbourne Water worked with the City of Melbourne and the International Council for Local Environmental Initiatives (ICLEI) to develop a sustainable water management plan, which should

Watching our waste

An innovative pilot project introduced by the City of Port Phillip is working on ways to reduce the environmental impacts of households. Some 100 households have been involved in the project, called Sustainable Living at Home, which is jointly sponsored by Melbourne Water and South East Water.

The project concentrates on water, energy, waste, travel and purchasing. Each household received information on sustainable living, a free water audit, energy-efficient light bulbs and compost bins. The households, which total almost 400 people, meet every month in small teams to talk about their experiences, exchange ideas and receive practical information.

Port Phillip Mayor Cr Darren Ray said that a large number of the participants were families.

"Lots of children participated directly in the program – and they're now some of its keenest advocates," he said.

provide a model for other councils and water authorities. The draft plan will be presented to the council by the end of 2002 and community consultation will be undertaken.

Together with South East Water, Melbourne Water supported the City of Port Phillip's Sustainable Living at Home program (see box Watching Our Waste).

We supported a similar program for the western suburbs, entitled Cool Communities, with the Western Bulldogs Education and Training Centre, City West Water and Environment Victoria.

Water recycling

We use an average of 480,000 million litres of drinking water a year, some of which could be replaced by recycled water. Our target is to recycle 20 per cent of treated effluent by 2010 and we are developing several projects to help achieve this target.

Western Treatment Plant

On-site recycling at the Western Treatment Plant could potentially use up to 16,000 million litres a year (five per cent of total effluent) by 2002/03, which could increase to 35,000 million litres a year (10 per cent) by 2005. The first significant flows of recycled water became available to support cattle and sheep farming at the plant, with about 5,000 million litres used.

Western region

There are significant recycling opportunities in Melbourne's west due to the region's low rainfall and concentrated land ownership.

Werribee Tourist Precinct

A key project to secure new customers for our recycled water is centred on the Werribee Tourist Precinct. The National Equestrian Centre and Werribee Park Golf Club signed agreements to use recycled water. A pipeline is being constructed to provide recycled water to these properties and, potentially, to other large-scale irrigation water consumers in Werribee.

Signing of customers to the Werribee Tourist Precinct recycled water scheme is significant as it marks the first external use of recycled water from our Western Treatment Plant. We are seeking additional customers, such as the Werribee Zoo and Werribee Mansion, to join this scheme and use recycled water to satisfy their irrigation requirements.

This project is part of the State Government's Werribee Plains Vision, which sets a framework for sustainable development in the area.

Meeting a growing concern

For the Werribee Park Golf Club, water has been a source of much management concern in recent years. Mick Russell, the club's Golf Course Superintendent, said: "We are in a very low rainfall area anyway and have had about five years of drought, with the threat of restrictions every year. A guaranteed and secure supply of water regardless of weather conditions is vital for us."

The club has finalised plans to use an initial 40 million litres a year of recycled water from the nearby Western Treatment Plant as part of a 12-month implementation phase to begin in late 2002.

Mr Russell said the recycled water would initially be used on fairways and tee areas, where warm-season grasses had higher tolerance to sodium and other salts. He will continue to use irrigation water on the greens to protect the shallow-rooted turf.

The club already has in place a significant soil and groundwater testing regime, and Mr Russell is working to educate golfers about the recycled water project through the club newsletter and the course report to members.

Eastern region

Eastern Irrigation Scheme
The Eastern Irrigation Scheme proposal involves delivering 5000, million litres of "Class A" recycled water annually. This is nearly four per cent of the total Eastern Treatment Plant effluent, which will be used for horticultural, agricultural and recreational uses to the south of Cranbourne. Initially recycled water will be used to irrigate a golf course at the Sandhurst development, which is located close to the Eastern Treatment Plant.

Golf Courses
We are assessing volume and water quality requirements for recycled water use at numerous golf courses in the 'sandbelt' region. We are also investigating options for on-site recycling or supply from the Eastern Treatment Plant. The results will be used to develop markets and strategies with councils.

Frankston and Peninsula region
Potential projects close to the existing outfall pipeline running between the Eastern Treatment Plant and the Mornington Peninsula could replace an estimated 200 million litres of drinking water and 8,000 million litres of groundwater with recycled water annually. Projects include using recycled water on recreational reserves, golf courses, orchards and vineyards in the Moorooduc area and on high-value vegetable crops in the Boneo irrigation area.

On-site water recycling

On-site recycling involves extracting and treating sewage from nearby sewers to produce recycled water while returning waste back to the sewerage system.

In a three-month demonstration trial, water was pumped directly from a sewer main in Domain Road, South Yarra, to a treatment plant using the latest membrane technology. The treated water was then used to irrigate a section of the King's Domain gardens. Treated water quality exceeded "Class A" requirements – the highest class of water specified under EPA Victoria wastewater guidelines.

The trial used up to 30,000 litres a day or one per cent of flows from the South Yarra Main Sewer. It is envisaged that up to 2,500 million litres or 1.5 per cent of the flows that would otherwise go to our Western Treatment Plant could be used to irrigate parks and gardens around Melbourne. These include the Royal Botanic Gardens, Royal Park and Fitzroy Gardens. Similar projects could be used to irrigate Melbourne's 'sandbelt' golf courses, racecourses, public gardens and other open spaces. Melbourne Water developed the King's Domain project with the City of Melbourne and the Department of Infrastructure. Other organisations involved included EPA Victoria, Parks Victoria and the Royal Botanic Gardens Melbourne.

Aquifer storage and recovery

Drawing water beyond an aquifer's recharge rate and saline intrusion has degraded some groundwater reserves in Victoria. Artificially recharging wells using recycled water can replenish

Environmental engineer Marnie Ireland explains the technology used in the on-site water recycling trial held in King's Domain gardens.

overdrawn aquifers and improve groundwater availability and water quality.

Recharging is also an alternative to surface storage where land is limited, catchment areas are developed, algae may compromise stored water quality, or evaporation rates are high.

We are investigating opportunities to store and recover recycled water from underground aquifers.

Managing biosolids

Disposing of sewage sludge or biosolids – the treated and stabilised sludge that remains after treating sewage – is strictly regulated by EPA Victoria. Finding acceptable environmental and economic ways of using biosolids is a long-term issue. Biosolids are stockpiled at our sewage treatment plants and their use is restricted. On average, some 25 per cent of biosolids produced at our Eastern Treatment Plant is used. During the year, Hippo Soils, a blended soil supplier near the Eastern Treatment Plant, bought 1,734 tonnes of biosolids to use in its products.

Initiatives involving biosolids from our Eastern and Western treatment plants include:

- Using 5,500 tonnes of biosolids in soil conditioner,
- Using 100,000 tonnes, or four years of Eastern Treatment Plant's biosolids production, in the construction of wetlands at the Woodlands Industrial Estate at Braeside,
- Using 75,000 tonnes at the Eastern Treatment Plant to fill the borrow pit after refurbishing the sludge drying pans,
- A new facility for handling increased production of biosolids from the upgraded sewage treatment lagoon at our Western Treatment Plant,
- Assessing long-term remediation of contaminated stockpiles, including use of new technologies.

Managing energy and greenhouse emissions

Melbourne Water aims to use as little energy as possible to minimise our impact on the environment and to reduce costs. We are also exploring ways to generate our own energy. We use electricity, natural gas, diesel, petrol, LPG, solar and biogas (methane and other gases) to meet our energy needs. Energy represents around 12 per cent of our operating expenses, with electricity alone costing us more than $14 million a year.

We have identified 14 potential hydro-electricity generation sites in our water supply system. Subject to appropriate approvals, we plan to build the first generating plant at Preston Reservoir by June 2003 and the remaining plants by June 2006, at a total cost of $11.1 million. Responses from the private sector to a request for expressions of interest are being evaluated.

These plants, which will produce a total of 66 gigawatt hours of electricity a year, will not affect the water supply. This program will add to our existing hydro-electricity plant at the Thomson Reservoir and on the pipeline supplying water to Cardinia Reservoir. Benefits include electricity sales to the grid and reduced greenhouse gas emissions.

Renewable Energy Program

As a generator of renewable energy through our hydro-electricity and biogas plants, we will take part in the Australian Government's mandatory renewable energy target. We have registered as an eligible generator and established baselines for our existing sites. Under this program, organisations generating renewable energy receive certificates for each megawatt-hour that they produce, enabling them to sell certificates to electricity retailers.

Using biogas

Biogas, a byproduct of our sewage treatment process, is a significant greenhouse gas. Using biogas as an energy source prevents methane emissions while reducing costs. The $30 million Eastern Green Energy Project at our Eastern Treatment Plant includes increasing our use of biogas, minimising the use of diesel fuel, and reducing our electricity costs. We expect construction to be completed by September 2003.

At our Western Treatment Plant, AGL Ltd operates facilities under a partnership that generates electricity from

Protecting our local waterways, such as Skeleton Creek at Point Cook, continues to be part of our planning for a sustainable future.

biogas collected from the covered lagoons. The total constructed capacity is 3.8 megawatts and we buy all the electricity generated to run the aerators in our lagoons. During the year more than 6.3 million cubic metres of biogas was captured and used, saving the equivalent of about 23,600 tonnes of methane emissions to the atmosphere, and generating 16,100 megawatt hours of electricity.

The activated sludge upgrade of the 55 East lagoon has doubled biogas production, requiring an upgrade of the biogas handling system to provide reliable and efficient extraction of this larger gas volume. Design work for the upgrade is under way, and construction should be completed in March 2003.

Energy management plan

We gathered data on energy consumption and greenhouse gas emissions for all our sites and made predictions of future energy usage and generation and greenhouse gas emissions.

This information was used in the preparation of the Energy and Greenhouse Management Plan which forms part of Melbourne Water's Sustainability Program. This plan shows we have the ability in the future to substantially reduce greenhouse gas emissions through the generation of energy from "green" sources such as biogas and hydro-electricity plants.

Cutting energy use and costs

Part of our program to improve our energy and greenhouse gas management included implementing an energy and greenhouse gas data management and reporting system. This system, to be commissioned in November 2002, is a database that holds all energy consumption, site production and other data necessary to calculate greenhouse gas production. It can also store forecasts and targets.

Modification of these digesters as part of the Eastern Green Energy project will reduce greenhouse gas emissions from the Eastern Treatment Plant by 24,500 tonnes per year.

Our research commitment

Research is a critical element in planning for the future. Melbourne Water undertakes annual and three-year research programs. In recent years, we have spent $2 million annually on research and development. During the year, our expenditure was $3.24 million, which represents 0.7 per cent of our operating revenue. The increase was due to specific projects associated with process improvements at our Eastern and Western treatment plants and effluent recycling. Most research is undertaken by expert external organisations such as Co-operative Research Centres, the CSIRO, universities and consultants and we maintain strong research links with national and international water industries. Our scientists are committed to learning about national and international research and technology developments so that Melbourne Water's operations can be continuously improved.

Drinking water research covers hydrology, asset optimisation, water resources and drinking water quality. The current emphasis is on drinking water quality and we spent $551,000 on research in this area.

Water environment research covers waterways, environmental management, receiving waters and conservation and $664,000 was allocated to specific research including stream ecosystems, toxicants and the environment of Westernport and Port Phillip Bays.

Treatment processes research is largely targeted at the Western and Eastern treatment plants, and also covers aspects relating to environmental regulation and public health, marine waters and resource recycling. During the year, $1.4 million was invested.

The remaining $611,000 was invested in effluent recycling studies and other strategic research.

Group Manager, Research and Technology, Peter Scott and Dr Melita Stevens at Sugarloaf Reservoir.

Water scientists collaborate in $2 million project

A $2 million project investigating the movement of water-borne bugs in reservoirs has brought together water researchers from across Australia.

Melbourne Water's Manager, Drinking Water Research, Dr Melita Stevens, said: "This is a big continent with limited resources. Increasingly, water authorities in Australia are using a collaborative approach to maximise the impact of our research funds."

The project involves scientists from the Co-operative Research Centre for Water Quality and Treatment, the University of Western Australia's Centre for Water Research, Melbourne Water, the Australian Water Quality Centre, the Sydney Catchment Authority, South Australian Water, the University of New South Wales and Egis Consulting.

The project won an international grant from the American Water Works Association Research Foundation. This non-profit foundation develops its research agenda by consulting with about 1,000 subscribing utilities, consultancies and manufacturers, including drinking water professionals from the United States, Canada, Australia, Brazil, England, France and the Czech Republic.

Our people

Waterways co-ordinator Jaana Strich takes part in a community tree planting day.

Melbourne Water aims to provide a safe and enjoyable work environment where people can learn and perform to their full potential and are committed to achieving our goals.

At Melbourne Water we acknowledge that our success depends on the skills and efforts of our people, and we support them through performance management systems, leadership and development programs together with reward and recognition. Our people have a diverse range of skills and professions ranging from environmental scientists to civil engineers, researchers, technicians, administrative and operational specialists.

ACHIEVEMENTS

- Bringing the majority of our people together by relocating to offices in East Melbourne.
- Developing a new Intranet site to enable our people to increase their knowledge of the business and communicate more effectively.
- Achieving the best rate of absenteeism with a rate of 2.76 days per person against the target of 3.5 days.
- Implementing a successful graduate program which will ensure ongoing opportunities for young people in our business.
- Reviewing our health and safety management system to ensure greater consistency across the organisation.
- Continuing support of the Apprenticeships Victoria scheme to help with our succession planning and bring younger people into the organisation.

DISAPPOINTMENTS

- We have not increased the percentage of women or the cultural diversity in the organisation.
- Zero lost-time injuries targets for our people and major contractors were not met.
- Nine WorkCover claims were received.
- Performance targets were not met for responses from our people to telephone calls and correspondence received.

KEY CHALLENGES

- Increasing the diversity of our people to ensure we reflect the community we serve.
- Improving access to our Intranet site for our people located in remote locations.
- Providing opportunities for our people to increase their skills and expertise through exchange programs with other organisations.
- Achieving ongoing improvement in our health and safety performance.
- Better understanding of our business objectives by all our people.

A skilled and diverse work environment

Melbourne Water is an equal opportunity employer. Our objective is to have a workforce representative of the community we serve. Women make up less than one third of our people and this needs to be addressed. As at 30 June 2002 we employed 498 people compared with 488 for the same time last year.

A key initiative is Melbourne Water's graduate program. We recruited six engineers and environmental scientists to join our program during the year. A presentation kit was developed and courses were prepared for all interested graduates to help develop their presentation skills. These people are now part of our Speaker's Group and deliver presentations to the community on a range of Melbourne Water issues.

We also began a formal technical mentoring program to assist graduates to obtain chartered membership with the Institute of Engineers. A graduate focus group was established to discuss development issues and to encourage graduates to take responsibility for the program's success.

To improve our approach to recruitment and selection, our procedures were revised to focus on recruiting people who would be best equipped to contribute to the achievement of our business objectives.

Melbourne Water continued supporting the Apprenticeships Victoria scheme in the water operations area to help with succession planning and to bring younger people into the organisation. The success of this program is highlighted by the fact that six people have now been appointed to permanent positions at Melbourne Water.

Our people are encouraged to take annual leave regularly to support individual and organisational health. We have a target for our people to have an annual leave balance of 30 days or less at 30 June each year. At 30 June 2002, 91 per cent of our people met this target. Initiatives such as flexible working arrangements and free flu injections helped reduce the level of absenteeismto 2.7 days per person - below our target of 3.5 days per person. We have subsequently adopted 2.7 days per person as our target.

During the year, our policies on parental leave were enhanced to incorporate three months paid maternity leave and up to 12 months total leave. We now provide the same benefits to adopting parents who are primary carers.

Our annual employee turnover target is between five and 10 per cent of our people. During the year, the turnover rate was eight per cent compared with 10.5 per cent the previous year. This outcome is particularly favourable as we relocated 360 of our people to a central office in East Melbourne during this period.

Learning and development

We recognise that learning and development training for our people will help to achieve our vision, as well as enhance their skills in line with career aspirations.

During the year, 10 people participated in Leadership Development Programs and one person attended a Senior

Executive Program at the London Business School. Other developmental programs undertaken include interpersonal skills training, recruitment and selection training, strategic negotiation, project and contract management and risk management awareness training. Work/life balance initiatives were introduced, and the Graduate Development Program provided tailor-made workshops in presentation skills.

Recognising excellence and achievement

We operate an employee recognition program so that outstanding achievements by our people are recognised. Sixty-four of our people were acknowledged under the employee recognition program.

The majority of our people are covered by an Enterprise Agreement. As part of the agreement with our people, we have established a set of key performance indicators linked to remuneration. Related to our objectives, these targets have been established to reflect Melbourne Water's commitment to continuous improvement and the need to meet its statutory requirements. During the year, eight of the 12 key performance targets were met.

While our health and safety performance improved significantly during the year (there was a 50 per cent reduction in lost time injuries for our people and 83 per cent for major contractors), it is still unacceptable that people are being injured while working for us. Only 72 per cent of phone calls were answered within the required five rings which is disappointing in terms of the level of service we wish to offer. In April, only 97.9 per cent of correspondence was answered in the required timeframe.

Our people have a diverse range of knowledge and expertise. Freshwater ecologist, Rhys Coleman, is responsible for waterways monitoring and investigation.

Key Performance Indicators 2001/02

Operate as a successful commercial business	Target	Result
Lost time injuries - employees (No.)	0	Not achieved - 3 lost time injuries
Lost time injuries - major contractors (No.)	0	Not achieved - 1 lost time injury
Manage Melbourne's water resources and the environment in a sustainable manner		
Sewage spills due to system failure (No.)	0	Achieved
Provide excellent service and maintain the trust and respect of the community		
All water samples at wholesale/retail interfaces with no E.Coli present (%)	98.8	Achieved
Reliability of supply to retail customers (%)	99.5	Achieved
Response to water leaks within two hours and by close of business next working day (%)	100	Achieved
External correspondence responded to within 10 days (%)	100	Not achieved – 97.9% in April
Telephone calls answered within five rings (%)	100	Not achieved – 72%
Other performance targets		
Direct operating expenditure at or below target ($M)	134.0	Achieved – $133.6
Capital expenditure +/- 5% of target - ($M)	100.1	Achieved – $98.1
Response to waterway pollution within one hour (%)	90	Achieved
Compliance with protocol for unauthorised entry to water supply asset (%)	100	Achieved

Taking up new opportunities

Graduate process engineer Tohi Otimi believes Melbourne Water offers him an outstanding opportunity to apply the knowledge and skills he gained at university.

Tohi, who is working at the Eastern Treatment Plant at Bangholme, says the plant provides one of the best examples of the activated sludge process, and that the proposal to upgrade to tertiary treatment of sewage has generated considerable discussion on this technology.

"Very few treatment plants in the world have tertiary treatment and there will be an enormous opportunity to share knowledge within Melbourne Water and internationally."

Tohi says he wanted to work for Melbourne Water because he was interested in using water resources in a positive manner to protect the environment. Other graduates at Melbourne Water felt the same way when he met them as part of his work with the Graduate Focus Group.

"The graduate program gives us a broad perspective of the organisation. Melbourne Water is certainly proactive about our development."

Communicating with our people

A key tool used to communicate with our people is our comprehensive Intranet site. During the year, the Intranet was redesigned after an extensive internal consultation process. Key changes included new sections that reflect our values and commitment to triple bottom-line reporting and a smarter, more colourful design.

Extensive consultation occurred with our people through the Employee Representative Committee. We also held employee forums during the year, which gave people an opportunity to learn more about our business and strategic directions on water issues. Ongoing quarterly presentations by the Managing Director focused on business performance and the review of Melbourne Water's values. These presentations were conducted with individual teams, rather than larger groups.

Leadership Team: (L to R) Bill Forrester, Chief Finance Officer; Brian Bayley, Managing Director; Peter Scott, Group Manager Research and Technology; Christine Gibbs, Group Manager Communications; Grant Wilson, Group Manager Infrastructure; Howard Rose, Group Manager Pricing and Regulation; Ross Young, Group Manager Planning; Tony Antoniou, Group Manager Service Delivery; Ian Morrison, Group Manager Information Technology; Malcolm Haynes, Group Manager Human Resources; Jane Denton, Corporate Secretary and Legal Counsel.

Health and Safety

Our people and contractors expect to be safe when they are working for Melbourne Water. We do not accept that some level of workplace injury is inevitable, and we have set a target of zero injuries for our people and major contractors. Our responsibility for safety extends to the community.

The key to achieving a strong safety performance is building and reinforcing safety awareness among all our people. Part of that task is to reinforce the understanding that we all must take responsibility for our own safety and the safety of those around us.

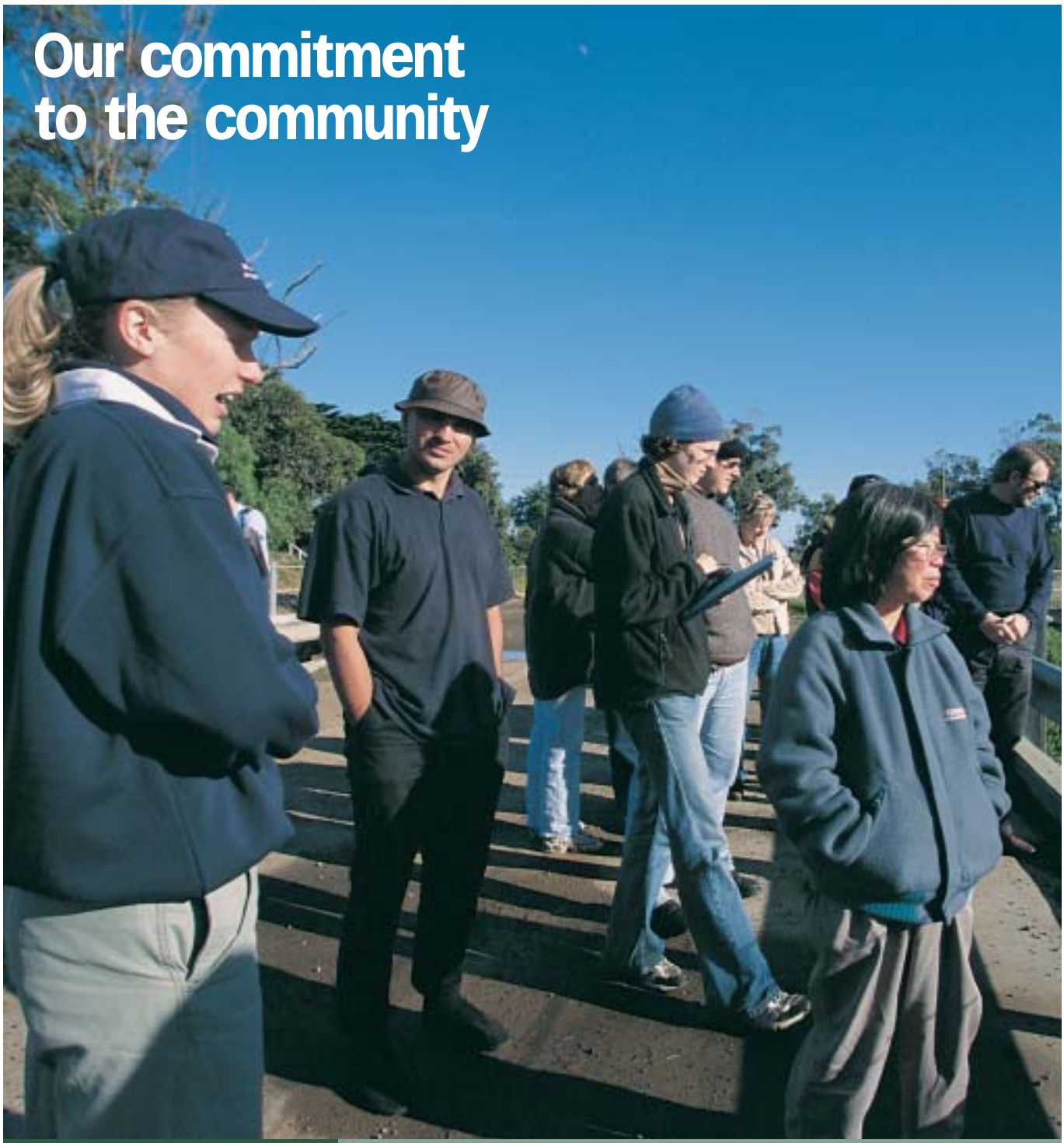
We achieved the benchmark initial level of SafetyMAP™ at an organisation-wide level, as certified by Lloyd's Register Quality Assurance on 19 July 2001, and are continuously improving our occupational health and safety systems and culture. To support our commitment to health and safety, $300,000 has been allocated to improve our performance in this area during 2002/03 by better informing our people of the importance of a safe working environment.

While a considerable improvement on the previous year, our occupational health and safety record remains unacceptable, with three of our people and one of our major contractors sustaining lost-time injuries.

Timely and rigorous health and safety incident reporting and investigation are critical to improving our safety performance. Greater scrutiny of all incidents - not just lost-time injuries - will improve our understanding of, and response to, the factors that contribute to health and safety incidents. During the year, 43 health and safety incidents were reported compared with 76 during 2000/01.

A site safety audit at Yarra Glen for the pipe repair team.

Our commitment to the community



Samone Towers shows visitors around our Western Treatment Plant at an open weekend in April. More than 1,000 people visited the plant.

We are committed to ensuring that the community is given the opportunity to be informed about and, wherever possible, to have an input into the planning and delivery of our services.

ACHIEVEMENTS

- Commenced the Prep to PhD education program, undertaking research, developing a comprehensive strategy, engaging industry and teacher associations.
- Undertook an extensive community languages campaign to educate the multicultural community about how to prevent stormwater pollution.
- Community involvement in the development of a masterplan for the future use of Devilbend and Bittern reservoirs site.
- An independent review of our community consultation program for the Eastern Treatment Plant works approval said that we had engaged in a highly satisfactory process.

DISAPPOINTMENTS

- Not fully meeting teachers' expectations of having one central contact for school visits and information on Melbourne Water's education resources.
- We relied on council planning processes on two occasions to inform residents of our projects when we should have undertaken the consultation.
- We did not undertake a review of our funding guidelines.

KEY CHALLENGES

- Ensuring all education resources link with the Victorian Curriculum Standards Framework so that teachers are able to use them effectively.
- Providing course materials and other education resources for the tertiary and TAFE sectors.
- Continuing to inform the community of the economic, environmental and social benefits of the planned upgrade to the Eastern Treatment Plant and to involve community representatives in the development of an Environment Improvement Plan for the plant.
- Continuing to undertake community consultation training and ensuring that all our people understand the importance of involving stakeholders early in the planning stage of projects that will impact on them.
- Ensuring our funding guidelines and agreements enable us to work effectively with our project partners.

Educating the community

Melbourne Water believes increasing the community's knowledge and understanding of water issues is critical to achieving our goals.

Two billboards with electronic displays are updated daily to help educate the community about the current water storage levels.

We have allocated $1 million a year for three years to improve awareness and understanding of water issues in schools, tertiary institutions and industry under our Prep to PhD program. The program, developed after extensive research, focuses on sustainable water resource management, water recycling, water conservation and stormwater management.

Community visits

More than 1,000 people attended our annual open weekend at the Western Treatment Plant. Overall more than 3,700 people visited the plant during the year, including 2,752 students and teachers. More than 600 people visited the Winneke Water Treatment Plant at the Sugarloaf Reservoir through an open day and school and community tours.

Partnerships

We continued our partnership with Museum Victoria during the year, supporting the Water Zone in the Forest Gallery and the Sewer Tour at Melbourne Museum. We also supported the development of a new exhibit – Raincheck 3000. The exhibit follows the path of a raindrop from a cloud, through the catchments and pipes to the tap to provide a better appreciation of where our water comes from.

Plumbers go green

During the year, more than 200 Victorian plumbers became green.

These plumbers and plumbing apprentices took part in the Green Plumbers – Caring for our Water program, which is being jointly run by Melbourne Water and the Master Plumbers' and Mechanical Services Association.

Under the program, plumbers and plumbing apprentices learn about water conservation, stormwater pollution and waste disposal methods so that they can then provide advice to the community on better water use and waste disposal.

A further 200 plumbers are expected to undergo training in the coming year.

We continued working with the Melbourne Aquarium on the Rock Pools exhibit, which now includes stormwater pollution messages in accompanying education materials.

Community languages

We provided information to multicultural communities on ways to reduce the amount of litter flowing into Melbourne's stormwater drains. Advertisements and information sheets in 10 languages – Arabic, Chinese, Croatian, Greek, Italian, Macedonian, Serbian, Spanish, Turkish and Vietnamese – were promoted in community language newspapers, on our website and in a supporting media campaign.

Our Internet

We recognise the Internet is a critical information resource and place a high priority on making our site vibrant, attractive, accessible and current. We are aware of the need to provide clear and readily understood information on our operations and performance. During the year, our website was significantly upgraded to reflect these goals.

The site received 298,992 visits during the year, compared to 91,468 in the previous year. The increased number of visits is largely attributable to the launching of three new websites during the year. These sites provide information on such topics as stormwater, drought and frogs. Our water conservation site launched in June 2001 was also popular.

Melbourne Water keeps the community informed about treatment plant operations and the results of monitoring programs in the receiving waters. Since November 2000, we have published weekly water quality monitoring data on our website. The flow rate from Eastern Treatment Plant is also reported weekly. Publications including detailed environment and public health reports are published on the website.

We are developing a comprehensive education website which will provide easy access for students and educators to all our education materials. To ensure the site is effective, we have consulted our people, educators, students, and environmental organisations such as EPA Victoria, the retail water companies and local government. The site is scheduled for completion by the end of October 2002.

Consulting with the community

Many of our capital works and operational projects have impacts on the community and, while these vary in duration and intensity, we strive to work closely with affected residents, councils and other organisations when we undertake any works.

We worked closely with the Eastern Treatment Plant Community Liaison Committee and consulted extensively with the broader community as part of the works approval process, receiving 133 submissions on the draft plan. An element of the consultation was to be a series of community forums. Unfortunately these had to be cancelled as a result of campaigners against the outfall insisting on video taping independent participants who did not want to be filmed at the first forum.

An independent review panel endorsed our consultative process and, during the year, we won an excellence award in the issues management section of the International Association of Business Communicators awards for our community consultation and communications.

Developing a plan for Devilbend

After more than two years of community consultation and specialist investigations, Melbourne Water has developed a draft master plan for the future of the Devilbend and Bittern reservoirs site.

A 645-hectare conservation park is the central feature of the draft plan, which includes such other concepts as environmentally friendly visitor facilities and managed recreational opportunities.

The completion of the Cardinia-Pearcedale pipeline meant that the Devilbend and Bittern reservoirs were no longer needed for drinking water supply purposes.

The future of the 1,057-hectare site located in an area renowned for its natural beauty, environmental significance and active and committed local communities then had to be determined.

To ensure the community was able to be involved in the master planning process, a community forum and open day was held and a reference group established comprising community, council and government representatives.

The draft master plan was due to be released in July 2002 for further community comment and input.

More than 300 people visited the Devilbend Reservoir site on an open day held in July.

Corporate governance

Melbourne with Beacon Cove development, Port Melbourne, in the foreground. Melbourne Water works with councils and retail water companies to develop sustainable water use plans.

Melbourne Water's board of directors: (L to R) Merran Kelsall, John So, Julie Garland McLellan, Brian Bayley, Tony Browne, Graeme Bowker (chairman), Carolyn Schultz.

The board of directors is responsible for governance of Melbourne Water and determines strategies and policies.

The board's approach is centred on five foundations:
- values, the behaviour we expect from all our people,
- clarity of vision, outcomes and objectives,
- rewards linked to performance against objectives,
- a risk management framework integrated with management processes,
- monitoring by the board together with external professionals.

Melbourne Water is a statutory corporation owned by the Victorian Government. The board approves the strategic direction comprising the vision, outcomes and objectives developed by management in conjunction with the Victorian Government. Approval of the strategic and business plans follows a process of challenge and debate between board members and management. These plans are provided to the Victorian Government. The managing director, with the management team, is charged with the responsibility of delivering these plans.

The board has an operational charter that defines its role and management responsibilities. Committees help ensure the board carries out its functions effectively. Induction of new board members includes briefing on Melbourne Water's operations and objectives. Regular site visits are arranged to ensure board members understand the business.

At the board's request, management – with our people's input – has developed values that enable the organisation to operate in a professional manner and in the best interests of the Victorian Government, customers, our people, suppliers and stakeholders.

The following values guide our decision-making. We are people who:
- recognise we achieve more by working with others,
- feel privileged to be custodians of our water resources,
- behave with integrity,
- attain excellence through creativity and innovation,
- celebrate our achievements and learn from our experiences.

Board of directors

Melbourne Water has been a re-organising body under the State Owned Enterprises Act since 1992. The Governor in Council appoints directors and the Victorian Government sets their remuneration. Directors are eligible for reappointment for subsequent terms up to a maximum of nine consecutive years.

The board of directors comprises a non-executive chairman, five non-executive directors and the managing director.

Graeme W Bowker, B.Com, ACA
Chairman
Graeme Bowker was appointed chairman of the board on 1 January 2000. Previously Victorian office managing partner of Deloitte Touche Tohmatsu, Mr Bowker has extensive financial and management experience. He is a director of Soccer Australia Limited and the National Stroke Foundation.

Brian R Bayley
Managing Director
Brian Bayley was appointed managing director on 28 July 1998, after being appointed chief executive officer on 1 February 1998. Formerly head of the corporation's Water Group, Mr Bayley has extensive water industry experience in a broad range of senior management positions. He is also Chair of the Victorian Water Industry Association and Water Services Association of Australia.

Anthony A Browne, BA, LLB (Hons)
Director
Tony Browne joined the board on 22 March 1995. A senior partner with Allens Arthur Robinson, Solicitors, Mr Browne is also a director of the Epworth Hospital. He has extensive experience in corporate and financial law. His appointment on the board ended on 30 June 2002.

Julie Garland McLellan, BSc (Hons) Civil Engineering, MBA
Director
Julie Garland McLellan was appointed to the board on 1 January 2001. Ms Garland McLellan is an independent director and has extensive experience in strategic business development. Her appointment on the board ended on 30 June 2002.

Merran H Kelsall, B.Com (Hons), MBA, FCA
Director
Merran Kelsall was appointed to the board on 1 January 2001. An independent company director and consultant, Ms Kelsall has considerable experience in financial services, health and contract management. She is a former partner in a chartered accounting firm.

Carolyn J Schultz, BSc (Hons), PhD
Director
Carolyn Schultz was appointed to the board on 1 January 2000. Dr Schultz is a lecturer at the Adelaide University, Department of Plant Science, and is a graduate of the Australian Institute of Company Directors.

John So, BSc, DipEd
Director
John So was appointed to the board on 1 January 2001. A councillor of the City of Melbourne since 1996, in July 2001 Mr So became Lord Mayor. He is also a businessman with extensive commercial and community interests.

Board appointments

On 1 July 2002 Tony Browne and Julie Garland McLellan left the board and two new directors were appointed.

Mary Anne Hartley, BA (Hons), LLB (Hons)
Director
Mary Anne Hartley was appointed to the board on 1 July 2002. A practising barrister, Chairperson of the Victorian Channels Authority and a director of Gascor Ltd, Ms Hartley was a partner in a national law firm where she advised public hospitals and practised insurance law before joining the Victorian Bar.

Robert Squire, BE (Hons), FIEAust
Director
Robert Squire was appointed to the board on 1 July 2002. He was appointed Chief Executive of Connell Wagner in July 2000 and he has extensive engineering experience in Sydney, Melbourne, Singapore and Malaysia with Rankine & Hill, which merged with Connell Wagner in 1992. He became manager of Connell Wagner's Victorian office in 1996.

Risk management

A risk management framework has been developed which has 12 focus areas. This helps management, as part of its day-to-day responsibilities, deal with the critical risks that face our business. There are defined delegations of authority from the board to the managing director who in turn devolves authority to his management team members.

Powers

The board operates under the provisions of the *Melbourne Water Corporation Act 1992 (Vic.)*. Additionally, its operational powers derive primarily from the *Melbourne and Metropolitan Board of Works Act 1958 (Vic.)*. This Act enables Melbourne Water to make by-laws in relation to its functions. The two current by-laws are *Water Supply Protection (1997 No 1)* and *Waterways and Drainage Protection (1998 No 2)* respectively. Under an agreement with the relevant Minister, effective as of 30 November 1995, the Minister's functions and powers as a Floodplain Management Authority under the *Water Act 1989 (Vic.)* have been delegated to Melbourne Water. Pursuant to this delegation, Melbourne Water, as an agent of the Minister, provides floodplain management services over the Melbourne Water drainage area.

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

The responsible Minister for Melbourne Water is the Honourable Sherryl Garbutt, Minister for Environment and Conservation. We work with departmental officials in the Department of Natural Resources and Environment, together with those in the Department of Treasury and Finance. They receive statutory and other reports covering performance against objectives and performance indicators in the business plan.

Monitoring

The board monitors performance against both objectives and risk. Key features of the board's activities are that:

– it meets 11 times a year and undertakes site visits,
– board papers are available to all directors seven days prior to the meetings,
– conflicts of interest are declared and a director does not participate in discussion or 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.

Board committees

To assist the board in its duties, two committees, each comprising three non-executive directors, meet at least twice a year to focus on audit and corporate risk and remuneration.

Audit and corporate risk

Key responsibilities include review of key risk focus areas and adequacy of controls, review of audit plans, and performance of both internal and external auditors.

During 2001/02, Tony Browne (chairman), Merran Kelsall and Julie Garland McLellan were on this committee.

Remuneration

This committee recommends to the board the terms of employment and remuneration of the leadership team including the managing director, taking into account performance against objectives set out in plans. For details of directors' and executives' remuneration refer to notes 23 and 24 of the Financial Statements. This year members comprised Graeme Bowker (chairman), Carolyn Schultz and John So.

The managing director attends the meetings of both committees by invitation.

Performance of the board is also reviewed using external expertise.

Through governance arrangements, the Portfolio and Shareholding Ministers are kept informed of the direction, plans and performance of Melbourne Water.

The Edithvale-Seaford Wetlands became Australia's newest site to be recognised under the international Ramsar convention. This is an achievement which demonstrates a succesful partnership between Melbourne Water and the community.

Verification Statement

SIRIS

SMEC

VERIFICATION STATEMENT

Melbourne Water commissioned jointly the Sustainable Investment Research Institute (SIRIS) and the Snowy Mountains Engineering Corporation Victoria (SMEC Victoria) to verify the non-financial data and content of this Annual Business Review 2001/02 (the 'report'). This is Melbourne Water's first separate business report where the non-financial component has been subjected to independent verification. Melbourne Water has the responsibility for the preparation of the report and this statement represents the auditor's independent opinion. Neither SIRIS nor SMEC Victoria was responsible for preparation of any part of this report.

Verification scope

There are currently no statutory requirements or generally accepted standards for the preparation, public reporting and attestation of non-financial stakeholder reports. In the absence of such standards, our approach to verification is based on emerging international best practice, and accordingly this statement is constructed based on the recommended approach by the Global Reporting Initiative's *Sustainability Reporting Guidelines*.

The verification scope included:

- a review of the report for any major anomalies;
- an examination of Melbourne Water's measurement and reporting processes, background documentation and data collection and reporting procedures; and
- an execution of an audit trail of selected claims and data streams to determine the level of accuracy in collection, transcription and aggregation processes.

The scope of the verification process this year has been extended to include separate verification of each of the business (non-financial component), environment and social reviews by the auditor.

Verification process

The report verification was undertaken in September and October 2002, using an audit process that is based on annual rotation of assessing parameters and sites. The audit involved:

- a series of interviews with key personnel responsible for collating and writing various parts of the report in order to ensure selected claims were discussed and substantiated;
- a review of Melbourne Water's policies, objectives, management systems, monitoring and reporting procedures and examination of selected data sets including several drafts of the report; and
- an examination of the aggregation and derivation of, and underlying evidence for, data presented and statements made in the report.

Our Opinion

- Each of the data trails selected was easily identifiable and traceable and the personnel responsible were able to reliably demonstrate the origin(s) and interpretation of data.
- Majority of the data and information presented are accurate. However, some level of data inaccuracy was found with anomalies attributable to human transcription and interpretation errors.

Overall the auditor is satisfied that:

- the report is a fair and honest representation of the organisation's policies, management systems and performance;
- the report is a good reflection of business performance (non-financial component) achieved during 2001/02;
- the systems and processes in place to generate the numerical data presented in the report are sound but further improvement is achievable; and
- the written statements made in the report accurately reflect the results and progress achieved during the reporting period.

General Findings and Recommendations

The following observations and recommendations are made as a result of the verification process to assist in further improving the standard of reporting:

- A separate review of the non-financial component of business demonstrates Melbourne Water's commitment to adopt a triple bottom line reporting framework.
- Melbourne Water's stakeholder reporting process has evolved over the past six years and this year is moving closer to a triple bottom line reporting framework.
- A more complete set of data and information was not available for verification earlier. This created some inefficiency in the verification process resulting in the necessity of cross checking contents of the earlier and later versions of the report. However, it is expected that this will not continue to be a source of concern in future reporting periods as the process of report preparation continues to improve. Emphasis should be placed on allocating responsibilities in generating data and information and their internal review.
- Further analysis of key business issues from a triple bottom line aspects and impacts perspective is recommended. This is necessary to continue developing a relevant and responsive performance measurement and reporting mechanism that comprehensively addresses Melbourne Water's triple bottom line aspects and impacts.

The above findings represent a summary of a more detailed assessment report presented to Melbourne Water.

On behalf of the audit team
7th October 2002
Melbourne, Australia

Terence Jeyaratnam
Accredited Auditor
Principal, SIRIS

Financial statements

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Directors' report

Directors

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

Graeme W Bowker (Chairman)
Anthony A Browne (retired 30 June 2002)
John So
Mary Anne Hartley (appointed 1 July 2002)
Robert Squire (appointed 1 July 2002)
Brian R Bayley (Managing Director)
Carolyn J Schultz
Julie Garland McLellan (retired 30 June 2002)
Merran H Kelsall

Particulars of the directors' qualifications, experience and special responsibilities are set out on page 42 of this report.

Directors' meetings

During the financial period the corporation held 11 meetings of directors. Attendance at meetings of the board and its committees are set out in the table below.

	Principal Board		Audit and Corporate Risk Committee		Remuneration Committee	
	Attended	Maximum possible	Attended	Maximum possible	Attended	Maximum possible
Graeme W Bowker	11	11	–	–	2	2
Brian R Bayley	10	11	3	4	2	2
Anthony A Browne	11	11	4	4	–	–
Carolyn J Schultz	10	11	–	–	2	2
John So	10	11	–	–	1	2
Julie Garland McLellan	9	11	3	4	–	–
Merran H Kelsall	9	11	4	4	–	–

Principal activities

The corporation's principal activities during 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 managed the main drainage network and waterways, providing flood protection and waterways quality improvement services for greater Melbourne.

Operating results and dividend

Melbourne Water's net profit, after providing for income tax, was $130.3 million.

The proposed dividend for 2001/02 is $97.0 million. This comprises $49.2 million paid as an interim dividend during 2001/02 and a proposed final dividend of $47.8 million. The proposed final dividend, which is subject to final determination by the Treasurer of Victoria, after consultation with Melbourne Water's board of directors and the Minister for Environment and Conservation, has not been booked as a provision as at 30 June 2002.

Review of operations

The directors' review of corporation operations during the financial period ended 30 June 2002, and the results of those operations, are set out in the overview on pages 3 to 7 of this report.

State of affairs

There were no significant changes in the state of affairs of the corporation during the financial period ended 30 June 2002 not otherwise disclosed in this report.

Environmental regulation

Melbourne Water is subject to significant environmental regulation in respect of managing sewage treatment plants and maintaining environmental flow requirements in the Yarra River. Information on these topics is included in Melbourne Water's annual environment and social reviews.

Sewage treatment plants

Melbourne Water's compliance with EPA Victoria discharge licence parameters was 100 per cent at the Eastern Treatment Plant and 100 per cent at the Western Treatment Plant. Eastern Treatment Plant exceeded the Sulphur Dioxide limit in the exhaust from an engine in the outfall pumping station. These pumps will be replaced as part of the Eastern Green Energy Project. Other licence requirements were met during the year to the EPA's satisfaction.

Ramsar site at Western Treatment Plant
The Western Treatment Plant was broadly managed within parameters of the Ramsar International Convention's 'wise use' test, which aims to protect significant wetlands. Actions outlined in the joint Conservation Management Action Plan between Melbourne Water, Parks Victoria and the Department of Natural Resources and Environment were completed. During the year, a draft conservation and Ramsar management plan for the plant, to replace the action plan, was completed and will be finalised during 2002/03. A summary of plan actions will be incorporated into the plant's discharge licence environmental improvement plan. These actions are consistent with the Parks Victoria draft management plan for the Port Phillip Bay (Western Shoreline) and Bellarine Peninsula Ramsar site that includes the Western Treatment Plant.

Dandenong Treatment Plant
The disused Dandenong Treatment Plant is subject to an EPA Pollution Abatement Notice. The notice is being reviewed by EPA Victoria following Melbourne Water's site assessment and plans for site remediation. Further site investigations to clarify the location and volume of contaminated soil were conducted during the year. An overall project manager for the project will be appointed early in the next financial year and it is anticipated that the project will be completed by 2006.

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 million litres per day at Warrandyte. The flow in the Yarra at Warrandyte did not fall below that level during the year.

Environmental flow requirement – bulk entitlements
Melbourne Water has bulk entitlements to water for the Thomson and Maribyrnong Rivers. During the year the environmental flow requirements established by these bulk entitlements were met with the exception of a single daily requirement at one station on the Thomson River. In this instance the 7-day total flow was met at the station.

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 this report 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 future years.

Director benefits

No director has received or become entitled to receive a benefit (other than a benefit included in notes 24 and 32 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 2002 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.

Director and officer liability insurance

During the financial year the corporation paid insurance premiums in respect of director and officer liability insurance. The policies do not specify the premium for individual directors and officers.

The director and officer 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 32 to the financial statements.

Graeme W Bowker
Chairman

Brian R Bayley
Managing Director

Statement of financial performance

for the year ended 30 June 2002

	Notes	2002 $000	2001 $000
Revenue from ordinary activities	2	480,150	460,821
Depreciation and amortisation expense	3	(64,790)	(62,896)
Operational expense		(48,000)	(36,820)
Employee benefits expense		(33,705)	(33,854)
Repairs and maintenance expense		(26,111)	(25,980)
Administrative expense		(21,204)	(18,839)
Borrowing costs expense	3	(76,142)	(79,809)
Other expenses from ordinary activities		(24,387)	(26,346)
Profit from ordinary activities before income tax expense		185,811	176,277
Income tax expense	4	(55,555)	(47,249)
Net profit		130,256	129,028
Increase/decrease in asset revaluation reserve	20	–	–
Total changes in equity other than those resulting from transactions with owners as owners	22	130,256	129,028

The above statement of financial performance should be read in conjunction with the accompanying notes.

Statement of financial position

as at 30 June 2002

	Notes	2002 $000	2001 $000
Current assets			
Cash assets	6, 35	271	539
Receivables	7, 35	35,033	26,317
Other assets	8	15,005	12,328
Total current assets		50,309	39,184
Non-current assets			
Property, plant and equipment	9	2,933,277	2,903,218
Deferred tax assets	10	11,273	11,194
Total non-current assets		2,944,550	2,914,412
Total assets		2,994,859	2,953,596
Current liabilities			
Payables	11, 35	100,058	87,166
Interest-bearing liabilities	12, 26, 35	141,174	133,234
Current tax liabilities	13	15,629	4,834
Provisions	14	7,446	9,774
Total current liabilities		264,307	235,008
Non-current liabilities			
Payables	15,35	294	1,396
Interest-bearing liabilities	16, 26, 35	1,031,543	1,088,316
Deferred tax liabilities	17	338,178	300,916
Provisions	18	32,408	31,145
Total non-current liabilities		1,402,423	1,421,773
Total liabilities		1,666,730	1,656,781
Net assets		1,328,129	1,296,815
Equity			
Contributed equity	19	662,692	662,692
Reserves	20	32,366	32,366
Retained profits	21	633,071	601,757
Total equity	22	1,328,129	1,296,815

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of cash flows

for the year ended 30 June 2002

	Notes	2002 $000	2001 $000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		436,872	425,274
Payments to suppliers and employees (inclusive of goods and services tax)		(180,696)	(138,105)
Income tax paid		(7,577)	(7,384)
Interest received		83	45
Borrowing costs		(73,928)	(77,793)
Other revenue		54,179	34,401
Net cash inflow from operating activities	31	228,933	236,438
Cash flows from investing activities			
Payment for property, plant, equipment and works in progress		(84,457)	(113,329)
Proceeds from sale of property, plant and equipment		3,031	7,741
Net cash (outflow) from investing activities		(81,426)	(105,588)
Cash flows from financing activities			
Proceeds from borrowings		354,011	496,987
Repayment of borrowings		(402,844)	(518,209)
Dividend paid		(98,942)	(119,746)
Net cash (outflow) from financing activities		(147,775)	(140,968)
Net increase/(decrease) in cash held		(268)	(10,118)
Cash at the beginning of the financial year		539	10,657
Cash at end of the financial year	6	271	539

Details of financing arrangements are detailed in notes 26 and 35.
The above statement of cash flow should be read in conjunction with the accompanying notes.

Notes to the accounts

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, Statements of Accounting Concepts, 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.

Amounts in the financial statements have been rounded to the nearest thousand dollars. The accounting policies adopted, and the classification and presentation of items, are consistent with those of the previous year, except where a change is required to comply with an Australian Accounting Standard or Urgent Issues Group Consensus View, or an alternative accounting policy permitted by an Australian Accounting Standard is adopted to improve the relevance and reliability of the financial report. Where practicable, comparative amounts are presented and classified on a basis consistent with the current year.

1.2 Changes in accounting treatment

Segment reporting

Melbourne Water has applied AASB 1005 *Segment Reporting* for the first time from 1 July 2001. As Melbourne Water operates solely within Australia, segments have been selected on the basis of business activity rather than geography.

1.3 Income tax

Under Section 88(3D) of the *State Owned Enterprises Act 1992*, Melbourne Water became subject to the National Tax Equivalent Regime from 1 July 2001. The tax equivalent rules are based on the *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997*. The essential difference between the National Tax 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 AAS 3 *Income Taxes*.

1.4 Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis in accordance with AAS 28 *Statement of Cash Flows*. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

1.5 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 statement of financial position of the acquired entity or at an arms-length value.

Crown land was revalued by the Office of the Valuer General at 30 June 2000, using the 'deprival value concept' basis (refer to note 9). Transfers to and from other Victorian Government entities are adjusted against contributed equity in accordance with formal approval by the Minister of Finance. Crown land revaluations are adjusted against the asset revaluation reserve.

1.6 Asset revaluation reserve

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement previously recognised as an expense in the statement of financial performance, in respect of that same asset class, the increment is recognised immediately as revenue in the statement of financial performance.

Revaluation decrements must be recognised as an expense in the statement of financial performance, except that, to the extent that a credit balance exists in the asset revaluation reserve, in respect of that same asset class, the decrement grossed up for any related recognised current tax and deferred tax must be debited directly to the asset revaluation reserve.

1.7 Recoverable amount of non-current assets

To ensure compliance with the provisions of AAS 10 *Recoverable Amount of Non Current Assets*, Melbourne Water undertook an internal analysis of asset values in June 2002. Expected net cash flows at major asset grouping level were discounted to their present value to calculate the recoverable amount as prescribed in AAS 10.

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.

1.8 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:

Buildings and leasehold Improvements	5 to 80 years
Minor plant and equipment	3 to 50 years
Infrastructure assets	20 to 100 years

The useful lives of the assets are reviewed annually. The results of the review undertaken during 2001/02 are detailed in note 3.

1.9 Leased non-current assets

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all 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 2002 (a water treatment plant at Yan Yean) which is being amortised over a 21-year period.

1.10 Receivables and revenue recognition

Trade debtors

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

Drainage rates – revenue is recognised monthly, 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. To secure the debt, a lien is held over the property.

Other receivables and revenue

Developer charges and contributions – assets acquired at no cost to the corporation are recognised as revenue on 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.

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

In accordance with Urgent Issues Group Abstract 31 *Accounting for the Goods and Services Tax (GST)*, a receivable has been created to record the anticipated GST on finance lease liabilities, payables and provisions.

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.

1.11 Accounts payable

Creditors and accruals – represent liabilities for goods/services which are unpaid at 30 June 2002. Trade creditors are usually paid within 30 days from receipt of invoice.

Interest payable – interest is accrued in accordance with the terms and conditions of the underlying financial instrument or other contract.

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

1.12 Borrowings

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

All borrowings are carried at their principal amount. Interest is accrued based on the applicable interest rate for each loan.

1.13 Cash

For the purpose of the statement of cash flows, cash includes deposits at call with financial institutions and other highly liquid investments with short periods to maturity that are readily convertible to cash on hand and are subject to an insignificant risk of change in value, net of outstanding bank overdrafts.

1.14 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 on-costed in accordance with AAS 30 *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 unused 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 in respect of services provided by employees up to the reporting date. As prescribed by AAS 30, expected future payments are discounted using interest rates attaching to Australian Government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

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.

Refer to note 30 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 $4.7 million ($4.6 million in 2000/01) 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 statement of financial performance.

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 $200,000 is made for all outstanding workers compensation claims at 30 June 2002 ($300,000 in 2000/01).

1.15 Inventories

Stores (consumables)

Stores consist mainly of materials and supplies for asset construction, systems operation and general administration. These consumables are valued at the lower of cost and net realisable value.

Livestock

Livestock include cattle and sheep held in connection with operating the corporation's Werribee Agriculture division. Cost is based on the absorption costing methodology and includes expenditure incurred in acquiring the livestock and bringing them to their existing condition. Cost comprises of direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure.

1.16 Provision for property decommissioning

Melbourne Water is required by the *Occupational Health and Safety Act 1985* and the *Wrongs Act 1958 Part IIA – Occupiers Liability* 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 (EPA). A provision of $20.2 million has been provided in the accounts at 30 June 2002 ($21.1 million in 2000/01).

1.17 Dividends

An obligation to pay a dividend only arises after consultation between the corporation's board of directors, the Victorian Government's Minister for Environment and Conservation and the Treasurer. Following this consultation a formal determination is made by the Treasurer.

	2002 $000	2001 $000
2. Revenue		
Revenue from operating activities		
Water usage charges	154,448	155,847
Sewage disposal charges	162,450	157,229
Drainage rates	105,579	97,816
	422,477	410,892
Revenue from outside the operating activities		
Developer charges and contributions	36,386	27,567
Proceeds from sale of non-current assets	9,298	10,104
Rent received	1,745	1,824
Interest received/receivable	83	45
Miscellaneous	10,161	10,389
	57,673	49,929
Revenue from ordinary activities	480,150	460,821

3. Profit from ordinary activities before income tax expense

3a. Net gains and expenses

Profit from ordinary activities before income tax expense includes the following specific gains and expenses:

Net gains		
Net gain on disposal of non-current assets	5,605	5,922
Expenses		
Depreciation		
– Buildings and leasehold improvements	902	780
– Minor plant and equipment	4,780	5,765
– Infrastructure assets	57,999	55,242
Total depreciation	63,681	61,787
Amortisation		
– Infrastructure assets under finance leases	1,109	1,109
Total depreciation and amortisation expense	64,790	62,896
Assets written off/written down	2,259	5,142
Other charges against assets		
– Bad and doubtful debts – other debtors	37	(1)
Borrowing costs		
– Interest and finance charges paid/payable	76,142	79,809

3b. Revision of accounting estimates

During the financial year an asset-life review was conducted. No change has been made to the effective lives of assets as a result of this review.

	Notes	2002 $000	2001 $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 profit from ordinary activities.			
Profit from ordinary activities before income tax		185,811	176,277
Prima facie income tax calculated at 30% (2000/01–34%)		55,743	59,934
Adjustment for the tax effect of permanent differences:			
– Non-deductible expenses		144	2,180
– Net exempt income		–	(9,285)
– Research and development concession		(332)	(152)
Income tax adjusted for permanent differences		55,555	52,677
Net adjustment to deferred income tax liabilities and future income tax benefits to reflect the decrease in the tax rate to 30%		–	(5,428)
Income tax expense		55,555	47,249
Income tax expense comprises:			
– Current taxation provision		18,372	6,538
– Deferred income tax provision		37,262	40,969
– Future income tax benefit		(79)	(258)
		55,555	47,249

Adjustment to deferred income tax balances

Legislation reducing the company tax rate was announced on 21 September 1999 and received Royal Assent on 10 December 1999. This legislation introduces a reduced company tax rate over a two-year period from 36 to 30 per cent (2000/01 reduction from 36 to 34 per cent; 2001/02 reduction from 34 to 30 per cent). As a consequence, deferred tax balances at 30 June 2001 have been remeasured at the new company tax rate applicable in the expected year of their reversal.

$000 unless otherwise indicated	Water $000	Sewerage $000	Waterways & Drainage $000	Consolidated $000
5. Segment reporting				
5a. Segment reports as at 30 June 2002				
Business Segments				
Revenue				
External segment revenue	158,987	174,856	146,224	480,067
Total segment revenue	158,987	174,856	146,224	480,067
Other unallocated revenue				83
Total revenue				480,150
Result				
Segment result	80,846	84,144	95,013	260,003
Unallocated corporate revenue less unallocated corporate expenses				(74,192)
Profit from ordinary activities before income tax expense				185,811
Income tax expense				(55,555)
Profit from ordinary activities after income tax expense				130,256
Extraordinary items after tax				–
Net profit				130,256
Depreciation and amortisation	22,863	30,880	11,047	64,790
Non cash expenses other than depreciation	1,506	3,334	665	5,505
Business Segments				
Assets				
Segment assets	1,143,979	1,289,422	549,916	2,983,317
Unallocated corporate assets				11,542
Consolidated total assets				2,994,859
Liabilities				
Segment liabilities	68,310	54,890	35,323	158,523
Unallocated corporate liabilities				1,508,207
Consolidated total liabilities				1,666,730
Acquisition of non-current assets [purchased during the year and form part of the total segment assets]	20,694	18,872	29,460	69,026

	Water $000	Sewerage $000	Waterways & Drainage $000	Consolidated $000
5b. Segment reports as at 30 June 2001				
Business Segments				
Revenue				
External segment revenue	161,539	169,794	129,443	460,776
Total segment revenue	161,539	169,794	129,443	460,776
Other unallocated revenue				45
Total revenue				460,821
Result				
Segment result	88,137	82,925	82,996	254,058
Unallocated corporate revenue less unallocated corporate expenses				(77,781)
Profit from ordinary activities before income tax expense				176,277
Income tax expense				(47,249)
Profit from ordinary activities after income tax expense				129,028
Extraordinary items after tax				–
Net profit				129,028
Depreciation and amortisation	22,856	29,224	10,816	62,896
Non cash expenses other than depreciation	631	7,887	168	8,686
Business Segments				
Assets				
Segment assets	1,143,733	1,282,254	515,889	2,941,876
Unallocated corporate assets				11,720
Consolidated total assets				2,953,596
Liabilities				
Segment liabilities	59,444	45,104	44,583	149,131
Unallocated corporate liabilities				1,507,650
Consolidated total liabilities				1,656,781
Acquisition of non-current assets [purchased during the year and form part of the total segment assets]	19,349	17,646	27,546	64,541

	2002 $000	2001 $000
6. Current assets – cash		
Cash at bank and on hand	271	539
Total current assets – cash	271	539
7. Current assets – receivables		
Trade debtors	11,967	10,431
	11,967	10,431
Other receivables	23,089	15,929
Less: provision for doubtful debts	23	43
	23,066	15,886
Total current assets – receivables	35,033	26,317
8. Current assets – other		
Prepayments	589	924
Deferred expenses	–	515
Stores (consumables)	2,490	2,031
Livestock	10,964	8,296
Property, plant and equipment – held for resale	962	562
Total current assets – other	15,005	12,328

9. Non-current assets – property, plant and equipment

Buildings and leasehold improvements		
Crown land at valuation*	107,701	107,701
Freehold land and buildings at cost	25,524	27,084
Less: accumulated depreciation – buildings	6,121	12,515
Total land and buildings	127,104	122,270
Minor plant and equipment		
Plant and equipment at cost	31,130	31,189
Less: accumulated depreciation	24,572	21,565
Total minor plant and equipment	6,558	9,624
Infrastructure assets		
Infrastructure assets at cost	3,535,666	3,480,970
Less: accumulated depreciation	853,886	796,070
Subtotal infrastructure assets	2,681,780	2,684,900
Infrastructure assets under finance lease	23,280	23,280
Less: accumulated amortisation	4,435	3,326
Subtotal infrastructure assets under finance lease	18,845	19,954
Total infrastructure assets	2,700,625	2,704,854
Capital works in progress	98,990	66,470
Total non-current assets – property, plant and equipment	2,933,277	2,903,218

*** Crown Land**
The corporation controls 9,230 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).

9a. Reconciliation of movement in property, plant and equipment

Reconciliation of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year is set out below.

	Crown land $000	Freehold land, buildings and leasehold improvements $000	Minor plant and equipment $000	Infrastructure assets $000	Infrastructure assets under finance lease $000	Works in progress $000	Total $000
Carrying amount at 1 July 2001	107,701	14,569	9,624	2,684,900	19,954	66,470	2,903,218
Additions	–	11,871	2,803	54,351	–	–	69,026
Disposals	–	(5,735)	(85)	(472)	–	787	(5,505)
Depreciation/amortisation expense	–	(902)	(4,780)	(57,999)	(1,109)	–	(64,790)
Transfers between classes	–	–	(1,000)	1,000	–	–	–
Increase in assets identified for sale	–	(400)	–	–	–	–	(400)
Assets spares/consumables	–	–	(4)	–	–	(55)	(59)
Capital expenditure	–	–	–	–	–	98,134	98,134
Capitalisation of works in progress	–	–	–	–	–	(66,346)	(66,346)
Carrying amount at 30 June 2002	107,701	19,403	6,558	2,681,780	18,845	98,990	2,933,277

	2002 $000	2001 $000
10. Non-current assets – deferred tax assets		
Future income tax benefit	11,273	11,194
Total non current assets – deferred tax assets	11,273	11,194
11. Current liabilities – payables		
Trade creditors	26,554	28,711
Interest payable	22,230	22,404
Accruals	50,347	35,557
Advances	927	494
Total current liabilities – payables	100,058	87,166

	2002 $000	2001 $000
12. Current liabilities – interest-bearing liabilities		
Lease liabilities (refer to note 26)	1,774	1,334
Borrowings	139,400	131,900
Total current liabilities – interest bearing liabilities	141,174	133,234
13. Current liabilities – current tax liabilities		
Income tax	15,629	4,834
Total current liabilities – current tax liabilities	15,629	4,834
14. Current liabilities – provisions		
Employee entitlements (refer to note 30)	4,199	4,391
Insurance claims	641	1,146
Property decommissioning	1,559	2,153
Other provisions	1,047	2,084
Total current liabilities – provisions	7,446	9,774
15. Non-current liabilities – payables		
Trade creditors	218	900
Advances	76	496
Total non-current liabilities – payables	294	1,396
16. Non-current liabilities – interest-bearing liabilities		
Lease liabilities (refer to note 26)	16,543	18,316
Borrowings	1,015,000	1,070,000
Total non-current liabilities – interest bearing liabilities	1,031,543	1,088,316
17. Non-current liabilities – deferred tax liabilities		
Deferred income tax	338,178	300,916
Total non-current liabilities – deferred tax liabilities	338,178	300,916
18. Non-current liabilities – provisions		
Employee entitlements (refer to note 30)	12,328	11,982
Insurance claims	204	265
Property decommissioning	19,876	18,898
Total non-current liabilities – provisions	32,408	31,145
19. Contributed equity		
Opening balance	662,692	603,574
Adjustment relating to recognition of government contribution of crown land	–	59,118
Closing balance	662,692	662,692
20. Reserves		
Asset revaluation reserve		
Opening balance	32,366	32,366
Closing balance	32,366	32,366
21. Retained profits		
Retained profits at the beginning of the year	601,757	531,029
Net profit	130,256	129,028
Dividends paid	(98,942)	(58,300)
Retained profits at the end of the year	633,071	601,757

	2002 $000	2001 $000
22. Equity		
Total equity at the beginning of the year	1,296,815	1,166,969
Net profit	130,256	129,028
Net increment in contributed equity due to crown land	–	59,118
Dividends paid	(98,942)	(58,300)
Total equity at the end of the year	1,328,129	1,296,815

23. Remuneration of auditors		
Audit fees paid or payable to the Victorian Auditor-General's Office for auditing the corporation's annual financial statements.		
Paid as at 30 June	30	22
Payable as at 30 June	67	70
	Number	**Number**
24. Remuneration of directors		
The number of corporation directors and income they received is shown below in their relevant income bands.		
Remuneration between		
$10,000 – $19,999	–	4
$30,000 – $39,999	4	3
$40,000 – $49,999	1	–
$60,000 – $69,999	1	1
$290,000 – $299,999	–	1
$300,000 – $309,999	1	–
Total number	7	9
	$000	**$000**
Total amount	632	597
	Number	**Number**
25. Remuneration of executives		
The numbers of executive officers whose remuneration during the period was in excess of $100,000 are shown below in their relevant income bands.		
Remuneration between		
$100,000 – $109,999	4	5
$110,000 – $119,999	6	10
$120,000 – $129,999	6	4
$130,000 – $139,999	1	3
$140,000 – $149,999	3	–
$150,000 – $159,999	1	3
$160,000 – $169,999	–	3
$170,000 – $179,999	4	1
$180,000 – $189,999	1	–
$190,000 – $199,999	1	2
$200,000 – $209,999	1	–
Total number	28	31
	$000	**$000**
Total amount	3,880	4,136

	2002 $000	2001 $000
26. 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	32,731	18,300
Later than one year but not later than five years	–	6
Later than five years	–	–
Total capital commitments	32,731	18,306
Operating lease commitments		
Total lease expenditure contracted for at balance date but not provided for in the accounts:		
Not later than one year	3,781	3,622
Later than one year but not later than five years	7,724	11,521
Later than five years	7,790	9,194
Total lease commitments	19,295	24,337

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 have finite lease terms, no renewal clauses or purchase 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	3,514	3,201
Later than one year but not later than five years	14,668	13,857
Later than five years	8,143	12,467
Minimum lease payments	26,325	29,525
Less: Future finance charges	8,008	9,875
Total finance lease liability	18,317	19,650
Representing lease liabilities:		
– Current (refer to note 12)	1,774	1,334
– Non-current (refer to note 16)	16,543	18,316
Total finance lease liability	18,317	19,650
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	7,887	16,764
Later than one year but not later than five years	1,500	7,360
Later than five years	–	–
Total other commitments	9,387	24,124

27. 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 thecorporation's business dealings	870	10

In accordance with Section 146(5)(a) of the *Accident Compensation Act 1985* the Corporation must provide a bank guarantee to the Victorian WorkCover Authority. The value of this bank guarantee at 30 June 2002 was $6.9 million.

28. Dividend

Final dividend paid (relating to previous financial year)	49,742	–
Interim dividend paid (relating to reported financial year)	49,200	58,300
Total dividend paid	98,942	58,300

The proposed final dividend payable in relation to the 2001/02 financial year is $47.8M. This amount is subject to final determination by the Treasurer after consultation with the Melbourne Water board of directors and the Minister for Environment and Conservation and consequently has not been booked as a provision as at 30 June 2002.

29. Contractual arrangement for the supply of electricity by the private sector

On the 25 February 2000, Melbourne Water signed a build, own and operate (BOO) contract with AGL Ltd to purchase a minimum of 21.2 gigawatts of electricity per year for a period of 10 years.

Under this contract AGL will build, own and operate the power generation plant, which has been constructed on land owned by Melbourne Water at Western Treatment Plant. This arrangement is expected to be in full commercial operation during 2003.

Once the arrangement is in full commercial operation, the minimum obligation (excluding the effect of inflation) for the term of the arrangement is $10.2 million. This calculation has been based on best estimates of volume throughput, peak and off-peak consumption and other relevant variables as detailed in the contract.

	$000
Future minimum obligations	
Fixed costs, payable within:	
Not later than one year	896
Later than one year but not later than five years	3,848
Later than five years	5,455
Total value of future minimum obligations	10,199
Assets acquired	
Rights to receive electricity	10,199

30. Employee entitlements

	2002 $000	2001 $000
Aggregate employee entitlements liability		
Accrued wages and salaries (part of note 11)	323	197
Provision for employee entitlements current (note 14)	4,199	4,391
Provision for employee entitlements non-current (note 18)	12,328	11,982
Total employee entitlements liability	16,850	16,570

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

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

Defined benefits fund

The Equipsuper superannuation 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 per cent of their superannuation salary. The corporation contributes to the fund based on Melbourne Water's commitments under the Employee Participation Agreement and Contribution Policy with the Trustee of the fund.

Actuarial assessment of the fund is undertaken annually. The last such assessment was made as at 30 June 2002 by William M Mercer Pty Ltd.

Net market value of assets held by the fund	66,729	71,234
Present value of employees' accrued benefits	58,686	59,441
Excess of net market value of assets over employees' accrued benefits to meet future benefit payments	8,043	11,793
Vested benefits	63,928	63,434
Net market value of assets held by the fund	66,729	71,234
Vested benefits	63,928	63,434
Excess/(deficit) of net market value of assets over employees vested benefits	2,801	7,800

The superannuation fund's position ($2.8 million surplus for 2001/02) is measured as the difference between the equipsuper fund assets and the employees' vested benefits.

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 make personal contributions to this fund at a self-nominated rate or amount. The minimum employer contribution to the fund, pursuant to the Superannuation Guarantee Charge, was 8.0 per cent in 2001/02 (8.0 per cent in 2000/01).

Employer contributions

Employer contributions to the funds	810	1,101

Loans

There were no loans by the superannuation funds to the corporation during 2001/02.

	2002 $000	2001 $000
31. Reconciliation of net cash provided by operating activities to net profit		
Net profit	130,256	129,028
Depreciation	64,790	62,896
Provision for doubtful debts	(20)	40
Profit on sale of assets	(5,727)	(7,094)
Loss on sale of assets	122	1,172
Assets written off/written down	2,259	5,142
Value of works taken over from developers	(2,654)	(5,441)
Changes in assets and liabilities:		
– Decrease (increase) in receivables	6,323	(1,715)
– (Increase) in other assets	(2,277)	(1,763)
– (Increase) in deferred tax assets	(79)	(258)
– Decrease (increase) in payables	(11,052)	13,668
– Decrease (increase) in provisions	(1,065)	640
– Decrease (increase) in current tax liabilities	10,795	(846)
– Decrease in deferred tax liabilities	37,262	40,969
Net cash provided by operating activities	228,933	236,438

32. 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 2002 are: Graeme W Bowker, Brian R Bayley, Anthony A Browne, Carolyn J Schultz, John So, Julie Garland McLellan and Merran H Kelsall.

The responsible Minister during the period 1 July 2001 to 30 June 2002 was the Hon S Garbutt, Minister for Environment and Conservation.

Remuneration of responsible persons

Information on the remuneration of directors is disclosed in note 24.

Loans to responsible persons

There were no loans to responsible persons at 30 June 2002.

Other transactions of responsible persons and their related parties

A director, Anthony A Browne, is a partner in the firm Allens Arthur Robinson, 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:

Legal and professional fees (Allens Arthur Robinson)	492	622

33. Economic dependency

The normal trading activities of the corporation depend to a significant extent on the sale of bulk water and sewage 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.

34. Events occurring after balance date

No material events occurred after balance date.

35. Financial instruments

35.1 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 interest rate $000	Fixed interest rate maturing 1 year or less $000	1 to 5 years $000	over 5 years $000	Non-interest bearing $000	Total $000
30 June 2002							
Financial assets							
Cash	4.67	271	–	–	–	–	271
Trade debtors		–	–	–	–	11,967	11,967
Other receivables		–	–	–	–	23,066	23,066
Total financial assets		271	–	–	–	35,033	35,304
Financial liabilities							
Creditors and accruals		–	–	–	–	99,349	99,349
Lease liabilities		–	–	–	–	18,317	18,317
Advances		–	–	–	–	1,003	1,003
Borrowings*	6.14	104,400	100,000	450,000	500,000	–	1,154,400
Total financial liabilities		104,400	100,000	450,000	500,000	118,669	1,273,069
Net financial assets (liabilities)		(104,129)	(100,000)	(450,000)	(500,000)	(83,636)	(1,237,765)

Melbourne Water has entered into a contract with Treasury Corporation of Victoria to refinance loans of $5 million and $10 million on 17 September 2002 for a 10 year period at rates of 6.32% and 6.37% respectively.

* Of the total amount of borrowings at floating interest rate, $54.4 million will mature within 12 months and the remaining $50 million will mature between one to three years.

	Weighted avg. annual effective interest rate %	Floating interest rate $000	Fixed interest rate maturing 1 year or less $000	1 to 5 years $000	over 5 years $000	Non-interest bearing $000	Total $000
30 June 2001							
Financial assets							
Cash	4.20	539	–	–	–	–	539
Trade debtors		–	–	–	–	10,431	10,431
Other receivables		–	–	–	–	15,886	15,886
Total financial assets		539	–	–	–	26,317	26,856
Financial liabilities							
Creditors and accruals		–	–	–	–	87,572	87,572
Lease liabilities		–	–	–	–	19,650	19,650
Advances		–	–	–	–	990	990
Borrowings*	6.11	100,000	151,900	400,000	550,000	–	1,201,900
Total financial liabilities		100,000	151,900	400,000	550,000	108,212	1,310,112
Net financial assets (liabilities)		(99,461)	(151,900)	(400,000)	(550,000)	(81,895)	(1,283,256)

* 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 one to three years.

35.2 Fair value

The book values and net fair values of financial assets and liabilities at balance date are:

	2002 Book value	Net fair value*	2001 Book value	Net fair value*
On balance sheet				
Financial assets				
Cash	271	271	539	539
Trade debtors	11,967	11,967	10,431	10,431
Other receivables	23,066	23,066	15,886	15,886
Deposits	–	–	–	–
Total financial assets	35,304	35,304	26,856	26,856
Financial liabilities				
Trade creditors and accruals	99,349	99,349	87,572	87,572
Lease liabilities	18,317	18,317	19,650	19,650
Advances	1,003	1,003	990	990
Borrowings	1,154,400	1,185,950	1,201,900	1,232,022
Total financial liabilities	1,273,069	1,304,619	1,310,112	1,340,234

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

Net fair values of financial instruments are determined follows:

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.

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.

35.3 Credit risk

The carrying amounts of financial assets included in the statement of financial position 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 Victorian Government. Melbourne Water potentially has a concentration of credit risk with Treasury Corporation of Victoria 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 2002.

35.4 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.

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 performance of the corporation for the year ended 30 June 2002 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.

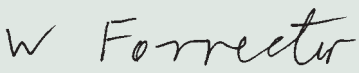
We are not aware, at the date of this statement, of any circumstance which would render any particulars in the financial statements to be misleading or inaccurate.

Dated at Melbourne on this 16th day of August 2002.

On behalf of the board:

Graeme W Bowker
Chairman

Brian R Bayley
Managing Director



William E Forrester
Chief Finance Officer

Auditor General's report

AUDITOR GENERAL
VICTORIA

AUDITOR-GENERAL'S REPORT

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

Matters relating to the Electronic Presentation of the Audited Financial Report

This audit report relates to the financial report of Melbourne Water Corporation for the financial year ended 30 June 2002 included on Melbourne Water Corporation's web site. The Managing Director of the Corporation is responsible for the integrity of Melbourne Water Corporation's web site. I have not been engaged to report on the integrity of Melbourne Water Corporation's web site. The audit report refers only to the statements named below. An opinion is not provided on any other information which may have been hyperlinked to or from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Audit Scope

The accompanying financial report of Melbourne Water Corporation for the financial year ended 30 June 2002, comprising a statement of financial performance, statement of financial position, statement of cash flows 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, responsible Ministers and 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 Accounting Standards and other mandatory professional reporting requirements in Australia and the financial reporting 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, financial performance 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 in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the financial reporting requirements of the *Financial Management Act* 1994, the financial position of Melbourne Water Corporation as at 30 June 2002, its financial performance and cash flows for the year then ended.

MELBOURNE
16 August 2002

J.W. CAMERON
Auditor-General

Victorian Auditor-General's Office Level 34, 140 William Street, Melbourne Victoria 3000
Telephone 613 8601 7000 Facsimile 613 8601 7010 Email comments@audit.vic.gov.au Website www.audit.vic.gov.au

150 years of Auditing in the Public Interest

Compliance index

This review has been prepared in accordance with the *Financial Management Act 1994* (Vic.) and the Directions of the Minister for Finance. This index is provided to facilitate identification of our compliance with statutory disclosure and other requirements.

* Refer to the Melbourne Water Business Review 2001/02.

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Statement of corporate intent

Melbourne Water charter

Melbourne Water is owned by the Victorian Government. We manage Melbourne's water supply catchments, remove and treat most of Melbourne's sewage, and manage waterways and major drainage systems.

Our drinking water is highly regarded by the community. It comes from protected mountain ash forest catchments high up in the Yarra Ranges east of Melbourne. We are committed to conserving this vital resource, and to protecting and improving our waterways, bays and the marine environment. We recognise our important role in planning for future generations.

Our vision is to show leadership in water cycle management, through effective sustainable and forward-looking management of the community resources we oversee. We are a progressive organisation that applies technology and innovation to achieve environmentally sustainable outcomes.

The business objectives established to realise our vision are to:

- provide excellent customer service
- operate as a successful commercial business
- manage Melbourne's water resources and the environment in a sustainable manner
- maintain the trust and respect of the community.

We also appreciate that achievements occur through the contribution of our people and through our values. We are people who:

- recognise that we achieve more by working with others
- feel privileged to be the custodians of our water resources
- behave with integrity
- attain excellence through creativity and innovation
- celebrate our achievements and learn from our experiences.

At Melbourne Water, we understand that engaging our stakeholders is the key to achieving our vision of leadership in water cycle management.

Strategic objectives

Melbourne Water is committed to sharing knowledge, working in partnership, thinking beyond compliance and considering the social dimension of its activities – 'the triple bottom line'.

Key business drivers identified as the link between Melbourne Water and the external business environment are:

- government policy and regulation
- economic efficiency
- environmental sustainability and water conservation
- public health
- community expectations
- technological advancement.

The drivers underpin four core objectives that form the basis of Melbourne Water's business and long-term plans. Those objectives are to:

- provide excellent customer service
- operate as a successful commercial business
- manage Melbourne's water resources and the environment in a sustainable manner
- maintain the trust and respect of the community.

Melbourne Water's priorities in achieving its business objectives are to:

provide excellent customer service by:

- further developing open and accountable relationships with customers and key stakeholders in line with their expectations
- improving the quality, timeliness and accessibility of services and information
- providing a reliable supply of safe drinking water primarily using water harvested from protected water supply catchments
- increasing drinking water quality standards where there are demonstrated health benefits
- minimising potential health risks associated with urban and stormwater runoff
- collecting, treating and disposing of wastewater and store by-products in accordance with EPA Victoria requirements
- contributing to improvement of waterway water quality and minimisation of the impacts of stormwater and effluent on receiving waters

operate as a successful commercial business by:

- being an efficient product and service provider
- earning a commercial return on investment
- working with Government on further development of the Victorian water industry
- growing the business where there are demonstrated benefits to the shareholder and the community
- managing risk, recognising community expectations and maximising shareholder value
- innovating and applying new technologies to achieve business efficiencies

manage Melbourne's water resources and the environment in a sustainable manner by:

- protecting and improving the quality of Melbourne's waterways and bays
- achieving best-practice standards for disposing of treated sewage and sewage by-products
- minimising the requirement for new dams and/or major water supply augmentation for Melbourne
- undertaking effective water conservation programs

maintain the trust and respect of the community by:

- encouraging and fostering stakeholder involvement and feedback
- providing open and transparent reporting on our operations
- obtaining a high degree of community support on major projects
- providing education resources that support the understanding of water issues and encourage behavioural change
- ensuring the community is informed and consulted
- aligning community and Melbourne Water's expectations.

Commercial arrangements

Scale of the business

Melbourne Water:

- has total fixed assets of approximately $3.0 billion
- has an annual operating revenue of approximately $494 million derived mainly from bulk water and sewerage services to the retail water companies and from drainage services to the community
- supplies some 492 gigalitres of potable water to the retail water companies annually
- collects some 327 gigalitres of sewage from the retail water companies annually for treatment and disposal
- is responsibile for providing 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's principal business activities include:

- managing and operating Melbourne's bulk water, sewerage and drainage systems
- protecting and improving water quality in waterways and providing flood protection
- maintaining assets in good structural and hydraulic condition
- managing infrastructure augmentation for improved service delivery, compliance with regulatory standards, urban growth and asset replacement
- undertaking 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 for risk management.

Charges for bulk water and sewerage services are set by the Victorian 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 $124.3 million in capital investment for 2002/03 is to:

	%
provide excellent customer service	12.6
manage Melbourne's water resources and the environment in a sustainable manner	17.5
operate as a successful commercial business	68.5
maintain the trust and respect of the community	1.4

Dividend

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

Statutory requirements

Environmental and health regulations

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

- 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 City West Water, South East Water and Yarra Valley Water and others including Southern Rural Water, Western Water and Gippsland Water
- compliance with the *Victorian Occupational Health and Safety Act 1985* and regulations.

Performance reporting

Melbourne Water's operational and financial position is reported to its owner, the Victorian Government, at the end of each financial year.

Melbourne Water demonstrates its commitment to environmental and public health performance and to meeting its community obligations by annual public reporting on its regulatory and internal procedures and policies and performance against established benchmarks.

Business policies

Melbourne Water has policies covering its key responsibilities and obligations including environment, public health, community, employees, occupational health and safety, risk management, accounting, legal and commercial.

Business targets

Measuring our customer service performance

Indicator	2002/03 plan	2003/04 plan	2004/05 plan
Improvement in product and service delivery quality (Weighted average degree of performance in regard to service delivery against contracted levels from survey.)	TBA	TBA	TBA
Reliable supply of water (Compliance with BWSA system pressure requirements.)	99.5%	99.5%	99.5%
Aesthetically pleasing water (Number of breaches of compliance with BWSA water-colour and turbidity requirements.)	0	0	0
Safe water (Percentage of water samples at wholesale/retail interface with no E.coli present.)	98%	98%	98%

BWSA – Bulk Water Supply Agreement

Measuring our commercial performance

Free cash flow (Operating cash flows less capital cashflows before interest, tax and dividend payments.)	$213.6 M	$206.7 M	$212.7 M
Debt to assets ratio	37.2%	35.9%	34.7%
Interest coverage ratio (times)	3.6	3.8	3.9
Credit rating	AA-	AA-	AA-
Profit generated from new business opportunities (Profit before tax from all 'new business' opportunities.)	TBA	TBA	TBA
Capital projects delivery (Percentage of all capital projects completed on time 80% and within budget 100%.)	TBA	TBA	TBA
Lost-time injuries (Number of days lost through injuries to employees and contractors.)	0	0	0
Reduction in flood-prone properties (Cumulative number of additional properties no longer at risk of one-in-100-year flood.)	320	400	480

Measuring our environmental performance

Renewable energy generation Percentage of its total electricity use that Melbourne Water generates from renewable sources.)	41%	54%	62%
Sewage spills			
Wet weather	4	4	4
Dry weather	0	0	0
Compliance with EPA licence requirements at sewage treatment plants (Number of breaches.)	0	0	0
Water harvesting points meeting environmental flow requirements to rivers (Number of breaches of compliance with catchment obligations.)	0	0	0
Use of biosolids in sustainable applications (Percentage of biosolids used beneficially from each sewage treatment plant.)			
Eastern Treatment Plant	33%	67%	100%
Western Treatment Plant	n/a	n/a	n/a
Proportion of water recycled (Percentage of water recycled from the total volume discharged from sewage treatment plants.)	4%	5%	8%
Nitrogen discharge reduction (Annual nitrogen discharge savings, in tonnes, through constructing wetlands.)	20	30	40
Water conservation (Percentage reduction in demand from retail water companies.)	1.5%	1.5%	1.5%

Measuring our social performance

Staff turnover (Percentage of total staff ceasing employment per year.)	5 to 10%	5 to 10%	5 to 10%
Stakeholder satisfaction (Percentage score from annual survey.)	60%	TBA	TBA
Level of community knowledge and understanding of water resource issues (Percentage of community with an understanding of priority water resource issues.)	65%	70%	75%

Statutory information

As part of its public accountability, Melbourne Water is required to report on some specific activities undertaken during the year. Below we provide information on the publications produced, consultants used and government grants received. We also provide details on national competition policy, freedom of information, privacy legislation, the Energy and Water Ombudsman, whistleblowers procedures and protection, and the organisational chart.

List of publications

In addition to material distributed through our website, we produced and distributed the following publications during the year:

Care about the Waterways
– an updated brochure containing tips on preventing stormwater pollution

Eastern Treatment Plant Update
– a community newsletter providing information on the Eastern Treatment Plant upgrade

Infostreams
– various fact sheets on Melbourne Water operations and major projects

Melbourne Water annual report
– *Melbourne Water Business Review 2000/2001*
– *Melbourne Water Environment Review 2000/2001*
– *Melbourne Water Public Health Review 2000/2001*
– *Melbourne Water Safety Review 2000/2001*
– *Melbourne Water Social Review 2000/2001*

Contact Details: An information Source for Local Government
– a brochure to facilitate communication between councils and Melbourne Water on technical matters

Melbourne Water Frog Census
– a brochure containing information on the Melbourne Water frog census carried out in conjunction with Waterwatch Victoria and the Amphibian Research Centre

Promoting Improved Building Site Practices
– an information leaflet for the building industry

Rain Hail Shine
– a flyer providing information on Melbourne's water storages and water conservation

Smart Paint Disposal
– a brochure on how to dispose of paint in an environmentally friendly manner, and so avoid the risks to waterways of washing paint into stormwater drains

Sustainable Resource Management Plan
– works approval application to EPA Victoria for an upgrade at Eastern Treatment Plant

The Source
– a bi-monthly magazine

Water Sensitive Urban Design (CD-ROM)
– an information source of case studies and academic references for local councils and the development industry.

Consultants

During 2001/02, Melbourne Water engaged 76 consultants to undertake operational and capital activities at a total cost of $1.6 million. No individual consultancy exceeded $100,000.

Government grants

Melbourne Water received $970,000 in grants from the Natural Heritage Trust, Department of Natural Resources and Environment, EPA Victoria and the Moreland City Council to undertake programs including the Moonee Ponds Creek Litter Initiative, the Healthy Bay Initiative and the Werribee Tourist Precinct Water Recycling Initiative.

National competition policy

As part of its commitments under national competition policy, the Victorian Government commissioned an independent review of Victoria's water legislation. The aim of the review was to identify opportunities to make better use of competition so that the community overall benefits from improved industry performance.

Melbourne Water contributed to the review by meeting the Government's consultants and preparing detailed submissions on their issues paper and final report.

In June 2002, the Victorian Government released its response to the review. Melbourne Water will seek to assist the Government to implement measures outlined in this response.

Freedom of Information

Melbourne Water is subject to the *Freedom of Information Act 1982* (Vic.) and is committed to making documents and information available to the community whenever it can.

The designated persons for the purpose of the act are:
Principal officer:
Brian Bayley
Managing Director
Melbourne Water

Authorised officer:
Jane Denton
Freedom of Information Officer
Melbourne Water

Information on our consultative arrangements required under Section 7 of the Act is set out in the Melbourne Water Social Review 2001/02. Information on our publications, also required under Section 7, is included in our Financial Statements listed above.

Categories of documents
We use a computerised records management system to manage our correspondence and documents. We use other on-line computer systems to manage our financial, human resource and other operational activities and plans relating to our water supply, waterways and drainage and sewerage functions. Historical archives on our activities are available through the Public Record Office Victoria.

Access to documents
People wanting access to Melbourne Water documents under the *Freedom of Information Act 1982* (Vic.) should write to:

Freedom of Information Officer
Melbourne Water
PO Box 4342
Melbourne Victoria 3001

Each application must clearly identify the documents sought and be accompanied by a $20 application fee. General inquiries concerning freedom of information can be made by telephoning the Freedom of Information Officer on (03) 9235 7184 between 8am and 5pm, Monday to Friday or via email foi@melbournewater.com.au

New privacy legislation

Melbourne Water is subject to the *Information Privacy Act 2000* and the *Health Records Act 2001* and is committed to protecting the privacy of all personal and health information it collects and handles. Melbourne Water only collects and handles personal and health information in order to carry out its functions and activities.

During the year, we undertook a major privacy compliance project to ensure that our collection and handling of personal and health information takes place responsibly and conforms with the new privacy legislation.

Melbourne Water is committed to openness and transparency and welcomes any queries about its approach to privacy. We also endeavour to resolve any privacy complaints quickly and effectively. People wanting to make a privacy complaint should write to:

Privacy Officer
Melbourne Water
PO Box 4342
Melbourne Victoria 3001

Energy and Water Ombudsman (Victoria)

The Energy and Water Ombudsman's role is to receive, investigate and facilitate resolution of complaints and disputes between Victorian consumers of energy and water and providers of these services. The scheme provides consumers with a free, specialised and independent dispute resolution process as an alternative to legal proceedings or other complaint processes.

Industry participants fund the scheme and its board includes representatives from the water, gas and electricity industries as well as consumer bodies. Its independent chairman is appointed by the Victorian Government, which also appoints the Ombudsman.

Operation
Melbourne Water has a procedure to ensure prompt response to all complaints received from the ombudsman's office. Our objective in investigating issues underlying these complaints is to improve our service to customers.

Of the five complaints received during the year, one related to property management and the other four related to information supply. Three of the five complaints were not resolved by 30 June 2002. We have taken steps to improve our operations in areas where there have been complaints.

Whistleblowers protection and procedures

Melbourne Water is committed to its obligations under the *Whistleblowers Protection Act 2001*, which commenced operation on 1 January 2002. These include protecting people (known as "whistleblowers") who come forward with a public interest disclosure about any perceived improper conduct by Melbourne Water or its people. We support the promotion of public sector accountability and transparency to increase public confidence in Government. We are required to report annually on activities relating to the Act. For the 2001/02 financial year;

- number and types of disclosures made to Melbourne Water - 0
- number of disclosures referred to the Ombudsman for determination as to whether they are public interest disclosures - 0
- number and types of disclosed matters referred to Melbourne Water by the Ombudsman for investigation - 0
- number and types of disclosed matters referred by Melbourne Water to the Ombudsman for investigation - 0
- number and types of investigation taken over from Melbourne Water by the Ombudsman - 0
- number of requests made by a whistleblower to the Ombudsman to take over an investigation by Melbourne Water - 0
- number and types of disclosed matters that were substantiated after investigation and action taken on completion of the investigation - 0
- recommendations made by the Ombudsman relating to the public body - 0

Melbourne Water has detailed procedures concerning compliance with the *Whistleblowers Protection Act 2001*.

1 Purpose
These procedures establish a system for reporting disclosures of improper conduct or detrimental action by Melbourne Water or its people under the *Whistleblowers Protection Act 2001*. The system enables such disclosures to be made to the Protected Disclosure Coordinator or to one of the nominated Protected Disclosure Officers. Disclosures may be made by Melbourne Water people or by members of the public.

These procedures are designed to complement normal communication channels between Melbourne Water people. People are encouraged to continue to raise appropriate matters at any time with their managers or team leaders. As an alternative, people may make a disclosure of improper conduct or detrimental action under the Act in accordance with these procedures.

2 Scope

Melbourne Water is committed to the aims and objectives of the *Whistleblowers Protection Act 2001* (the Act). It does not tolerate improper conduct by its people, nor the taking of reprisals against those who come forward to disclose such conduct.

Melbourne Water recognises the value of transparency and accountability in its administrative and management practices, and supports the making of disclosures that reveal corrupt conduct, conduct involving a substantial mismanagement of public resources, or conduct involving a substantial risk to public health and safety or the environment.

Melbourne Water will take all reasonable steps to protect people who make such disclosures from any detrimental action in reprisal for making the disclosure. It will also afford natural justice to the person who is the subject of the disclosure.

3 Performance standards

The *Whistleblowers Protection Act 2001* commenced operation on 1 January 2002. The purpose of the Act is to encourage and facilitate the making of disclosures of improper conduct by public officers and public bodies. The Act provides protection to whistleblowers who make disclosures in accordance with the Act, and establishes a system for the matters disclosed to be investigated and rectifying action to be taken.

4 Definitions

Three key concepts in the reporting system are improper conduct, corrupt conduct and detrimental action. Definitions of these terms are set out below.

4.1 Improper Conduct

Improper conduct means conduct that is corrupt, a substantial mismanagement of public resources, or conduct involving substantial risk to public health or safety or to the environment. The conduct must be serious enough to constitute, if proved, a criminal offence or reasonable grounds for dismissal.

4.2 Corrupt conduct

Corrupt conduct means:

- Conduct of any person (whether or not a public official) that adversely affects the honest performance of a public officer's or public body's functions;
- The performance of a public officer's functions dishonestly or with inappropriate partiality;
- Conduct of a public officer, former public officer or a public body that amounts to a breach of public trust;
- Conduct by a public officer, former public officer or a public body that amounts to the misuse of information or material acquired in the course of the performance of their official functions; or
- A conspiracy or attempt to engage in the above conduct.

4.3 Detrimental action

The Act makes it an offence for a person to take detrimental action against a person in reprisal for a protected disclosure. Detrimental action includes:

- Action causing injury, loss or damage;
- Intimidation or harassment; and
- Discrimination, disadvantage or adverse treatment in relation to a person's employment, careers, profession, trade or business, including the taking of disciplinary action.

5 Legislation / regulations

Whistleblowers Protection Act 2001

6 References

Melbourne Water Code of Conduct

7 Procedure

Melbourne Water will take all reasonable steps to protect the identity of the whistleblower. Maintaining confidentiality is crucial in ensuring reprisals are not made against a whistleblower.

The Act requires any person who receives information due to the handling or investigation of a protected disclosure, not to disclose that information except in certain limited circumstances. Disclosure of information in breach of Section 22 constitutes an offence that is punishable by a maximum fine of $6,000 or six months imprisonment or both.

The circumstances in which a person may disclose information obtained about a protected disclosure include:

- Where exercising the functions of the public body under the Act;
- When making a report or recommendation under the Act;
- When publishing statistics in the annual report of a public body; and
- In criminal proceedings for certain offences in the Act.

However, the Act prohibits the inclusion of particulars in any report or recommendation that is likely to lead to the identification of the whistleblower. The Act also prohibits the identification of the person who is the subject of the disclosure in any particulars included in an annual report.
Melbourne Water will ensure all files, whether paper or electronic, are kept in a secure room and can only be accessed by the Protected Disclosure Coordinator, Protected Disclosure Officer, the investigator or welfare manager (in relation to welfare matters). All printed material will be kept in files that are clearly marked as a Whistleblower Protection Act matter, and warn of the criminal penalties that apply to any unauthorised divulging of information concerning a protected disclosure. All electronic files will be produced and stored on a stand-alone computer and be given password protection. Backup files will be kept on floppy disc. All materials relevant to an investigation, such as tapes from interviews, will also be stored securely with the whistleblower files.

Melbourne Water will not email documents relevant to a whistleblower matter and will ensure all phone calls and meetings are conducted in private.

7.1 Collating and publishing statistics

The Protected Disclosure Coordinator will establish a secure register to record the information required to be published in the annual report, and to generally keep account of the status of whistleblower disclosures. The register will be confidential and will not record any information that may identify the whistleblower.

The register will contain the following information:
- The number and types of disclosures made to public bodies during the year;
- The number of disclosures referred to the Ombudsman for determination as to whether they are public interest disclosures;
- The number and types of disclosed matters referred to the public body by the Ombudsman for investigation;
- The number and types of disclosures referred by the public body to the Ombudsman for investigation;
- The number and types of investigations taken over from the public body by the Ombudsman;
- The number of requests made by a whistleblower to the Ombudsman to take over an investigation by the public body;
- The number and types of disclosed matters that the public body has declined to investigate;
- The number and types of disclosed matters that were substantiated upon investigation and the action taken on completion of the investigation; and
- Any recommendations made by the Ombudsman that relate to the public body.

7.2 Receiving and Assessing Disclosures

7.2.1 Has the disclosure been made in accordance with Part 2 of the Act?

Where a disclosure has been received by the Protected Disclosure Officer or by the Protected Disclosure Coordinator, he or she will assess whether the disclosure has been made in accordance with Part 2 of the Act and is, therefore, a protected disclosure.

7.2.1a Has the disclosure been made to the appropriate person?

For the disclosure to be responded to by Melbourne Water, it must concern a Melbourne Water person. If the disclosure concerns an Melbourne Water person, officer or member of another public body, the person who has made the disclosure must be advised of the correct person or body to whom the disclosure should be directed. If the disclosure has been made anonymously, it should be referred to the Ombudsman.

7.2.1b Does the disclosure contain the essential elements of a protected disclosure?

To be a protected disclosure, a disclosure must satisfy the following criteria:
- Did a person (that is, an individual person rather than a corporation) make the disclosure?
- Does the disclosure relate to conduct of a public body or public officer acting in their official capacity?
- Is the alleged conduct either improper conduct or detrimental action taken against a person in reprisal for making a protected disclosure?
- Does the person making a disclosure have reasonable grounds for believing the alleged conduct has occurred?

Where a disclosure is assessed to be a protected disclosure, it is referred to the Protected Disclosure Coordinator. The Protected Disclosure Coordinator will determine whether the disclosure is a public interest disclosure.

Where a disclosure is assessed not to be a protected disclosure, the matter does not need to be dealt with under the Act. The Protected Disclosure Officer will decide how the matter should be responded to in consultation with the Protected Disclosure Coordinator.

7.2.2 Is the disclosure a public interest disclosure?

Where the Protected Disclosure Officer or coordinator has received a disclosure that has been assessed to be a protected disclosure, the Protected Disclosure Coordinator will determine whether the disclosure amounts to a public interest disclosure. This assessment will be made within 45 days of the receipt of the disclosure.

In reaching a conclusion as to whether a protected disclosure is a public interest disclosure, the Protected Disclosure Coordinator will consider whether the disclosure shows, or tends to show, that the public officer to whom the disclosure relates:
- Has engaged, is engaging or proposes to engage in improper conduct in his or her capacity as a public officer; or
- Has taken, is taking or proposes to take detrimental action in reprisal for the making of the protected disclosure.

Where the Protected Disclosure Coordinator concludes that the disclosure amounts to a public interest disclosure, he or she will:
1. Notify the person who made the disclosure of that conclusion; and
2. Refer the disclosure to the Ombudsman for formal determination as to whether it is indeed a public interest disclosure.

Where the Protected Disclosure Coordinator concludes that the disclosure is not a public interest disclosure, he or she will:
1. Notify the person who made the disclosure of that conclusion; and
2. Advise that person that he or she may request the public body to refer the disclosure to the Ombudsman for a formal determination as to whether the disclosure is a public interest disclosure, and that this request must be made within 28 days of the notification.

In either case, the Protected Disclosure Coordinator will make the notification and the referral within 14 days of the conclusion being reached by the public body. Notification to the whistleblower is not necessary where the disclosure has been made anonymously.

7.3 Investigations

Where the Ombudsman refers a protected disclosure to Melbourne Water for investigation, the Protected Disclosure Coordinator will appoint an investigator to carry out the investigation.

The objectives of an investigation will be:
- To collate information relating to the allegation as quickly as possible. This may involve taking steps to protect or preserve documents, materials and equipment;
- To consider the information collected and to draw conclusions objectively and impartially;
- To maintain procedural fairness in the treatment of witnesses and the person who is the subject of the disclosure; and

– To make recommendations arising from the conclusions drawn concerning remedial or other appropriate action.

7.3.1 Terms of reference

Before commencing an investigation, the Protected Disclosure Coordinator will draw up terms of reference and obtain authorisation for those terms by the Managing Director. The terms of reference will set a date by which the investigation report is to be concluded, and will describe the resources available to the investigator to complete the investigation within the time set. The Protected Disclosure Coordinator may approve, if reasonable, an extension of time requested by the investigator. The terms of reference will require the investigator to make regular reports to the Protected Disclosure Coordinator who, in turn, is to keep the Ombudsman informed of general progress.

7.3.2 Investigation plan

The investigator will prepare an investigation plan for approval by the Protected Disclosure Coordinator. The plan will list the issues to be substantiated and describe the avenue of inquiry. It will address the following issues:

– What is being alleged?
– What are the possible findings or offences?
– What are the facts in issue?
– How is the inquiry to be conducted?
– What resources are required?

At the commencement of the investigation, the whistleblower should be:

– Notified by the investigator that he or she has been appointed to conduct the investigation;
– Asked to clarify any matters; and
– Provide any additional material he or she might have.

The investigator will be sensitive to the whistleblower's possible fear of reprisals and will be aware of the statutory protections provided to the whistleblower.

7.3.3 Natural justice

The principles of natural justice will be followed in any investigation of a public interest disclosure. The principles of natural justice concern procedural fairness and ensure a fair decision is reached by an objective decision maker. Maintaining procedural fairness protects the rights of individuals and enhances public confidence in the process.

Melbourne Water will have regard to the following issues in ensuring procedural fairness:

– The person who is the subject of the disclosure is entitled to know the allegations made against him or her and must be given the right to respond. (This does not mean the person must be advised of the allegation as soon as the disclosure is received or the investigation has commenced);
– If the investigator is contemplating making a report adverse to the interests of any person, that person should be given the opportunity to put forward further material that may influence the outcome of the report and that person's defence should be fairly set out in the report;
– All relevant parties to a matter should be heard and all submissions should be considered;
– A decision should not be made until all reasonable inquiries have been made;
– The investigator or any decision maker should not have a personal or direct interest in the matter being investigated;
– All proceedings must be carried out fairly and without bias. Care should be taken to exclude perceived bias from the process; and
– The investigator must be impartial in assessing the credibility of the whistleblowers and any witnesses. Where appropriate, conclusions as to credibility should be included in the investigation report.

7.3.4 Conduct of the investigation

The investigator will make comprehensive notes of all discussions and phone calls, and all interviews with witnesses will be taped. All information gathered in an investigation will be stored securely. Interviews will be conducted in private and the investigator will take all reasonable steps to protect the identity of the whistleblower. Where disclosure of the identity of the whistleblower cannot be avoided, due to the nature of the allegations, the investigator will warn the whistleblower and his or her manager of this probability.

It is in the discretion of the investigator to allow any witness to have legal or other representation or support during an interview. If a witness has a special need for legal representation or support, permission should be granted.

7.3.5 Referral of an investigation to the Ombudsman

The Protected Disclosure Coordinator will make a decision regarding the referral of an investigation to the Ombudsman where, on the advice of the investigator:

– The investigation is being obstructed by, for example, the non-cooperation of key witnesses; or
– The investigation has revealed conduct that may constitute a criminal offence.

7.3.6 Reporting requirements

The Protected Disclosure Coordinator will ensure the whistleblower is kept regularly informed concerning the handling of a protected disclosure and an investigation.

The Protected Disclosure Coordinator will report to the Ombudsman about the progress of an investigation.

Where the Ombudsman or the whistleblower requests information about the progress of an investigation, that information will be provided within 28 days of the date of the request.

7.4 Action taken after an investigation

7.4.1 Investigator's final report

At the conclusion of the investigation, the investigator will submit a written report of his or her findings to the Protected Disclosure Coordinator. The report will contain:

– The allegation/s;
– An account of all relevant information received and, if the investigator has rejected evidence as being unreliable, the reasons for this opinion being formed;
– The conclusions reached and the basis for them; and
– Any recommendations arising from the conclusions.

Where the investigator has found that the conduct disclosed by the whistleblower has occurred, recommendations made by the investigator will include:
- The steps that need to be taken by Melbourne Water to prevent the conduct from continuing or occurring in the future; and
- Any action that should be taken by Melbourne Water to remedy any harm or loss arising from the conduct. This action may include bringing disciplinary proceedings against the person responsible for the conduct, and referring the matter to an appropriate authority for further consideration.

The report will be accompanied by:
- The transcript or other record of any oral evidence taken, including tape recordings; and
- All documents, statements or other exhibits received by the officer and accepted as evidence during the course of the investigation.

Where the investigator's report is to include an adverse comment against any person, that person will be given the opportunity to respond and his or her defence will be fairly included in the report.

The report will not disclose particulars likely to lead to the identification of the whistleblower.

7.4.2 Action to be taken

If the Protected Disclosure Coordinator is satisfied that the investigation has found that the disclosed conduct has occurred, he or she will recommend to the Managing Director the action that must be taken to prevent the conduct from continuing or occurring in the future. The Protected Disclosure Coordinator may also recommend that action be taken to remedy any harm or loss arising from the conduct.

The Protected Disclosure Coordinator will provide a written report setting out the findings of the investigation and any remedial steps taken to the Ombudsman, the whistleblower and the responsible Minister for Environment and Conservation.

Where the investigation concludes that the disclosed conduct did not occur, the Protected Disclosure Coordinator will report these findings to the Ombudsman and to the whistleblower.

7.5 Managing the welfare of the whistleblower

7.5.1 Commitment to protecting whistleblowers

Melbourne Water is committed to the protection of genuine whistleblowers against detrimental action taken in reprisal for the making of protected disclosures. The Protected Disclosure Coordinator is responsible for ensuring whistleblowers are protected from direct and indirect detrimental action, and that the culture of the workplace is supportive of protected disclosures being made.

The Protected Disclosure Coordinator will appoint a welfare manager to all whistleblowers who have made a protected disclosure. The welfare manager will:
- Examine the immediate welfare and protection needs of a whistleblower who has made a disclosure and, where the whistleblower is a Melbourne Water person, seek to foster a supportive work environment;
- Advise the whistleblower of the legislative and administrative protections available to him or her;
- Listen and respond to any concerns of harassment, intimidation or victimisation in reprisal for making disclosure;
- Keep a comprehensive record of all aspects of the case management of the whistleblower including all contact and follow-up action; and
- Ensure the expectations of the whistleblower are realistic.

All Melbourne Water people will be advised that it is an offence for a person to take detrimental action in reprisal for a protected disclosure. The maximum penalty is a fine of $24,000 or two years imprisonment or both. The taking of detrimental action in breach of this provision can also be grounds for making a disclosure under the Act and can result in an investigation.

Detrimental action includes:
- Causing injury, loss or damage;
- Intimidation or harassment; and
- Discrimination, disadvantage or adverse treatment in relation to a person's employment, career, profession, trade or business (including the taking of disciplinary action).

7.6 Keeping the whistleblower informed

The Protected Disclosure Coordinator will ensure the whistleblower is kept informed of action taken in relation to his or her disclosure, and the time frames that apply. The whistleblower will be informed of the objectives of an investigation, the findings of an investigation, and the steps taken by Melbourne Water to address any improper conduct that has been found to have occurred. The whistleblower will be given reasons for decisions made by Melbourne Water in relation to a protected disclosure. All communication with the whistleblower will be in plain English.

7.7 Occurrence of detrimental action

If a whistleblower reports an incident of harassment, discrimination or adverse treatment that would amount to detrimental action taken in reprisal for the making of the disclosure, the welfare manager will:
- Record details of the incident;
- Advise the whistleblower of his or her rights under the Act; and
- Advise the Protected Disclosure Coordinator or Managing Director of the detrimental action.

The taking of detrimental action in reprisal for the making of a disclosure can be an offence against the Act as well as grounds for making a further disclosure. Where such detrimental action is reported, the Protected Disclosure Coordinator will assess the report as a new disclosure under the Act. Where the Protected Disclosure Coordinator is satisfied that the disclosure is a public interest disclosure, he or she will refer it to the Ombudsman. If the Ombudsman subsequently determines the matter to be a public interest disclosure, the Ombudsman may investigate the matter or refer it to another body for investigation as outlined in the Act.

7.8 Whistleblowers implicated in improper conduct

Where a person who makes a disclosure is implicated in misconduct, Melbourne Water will handle the disclosure and protect the whistleblower from reprisals in accordance with the Act, the Ombudsman's guidelines and these procedures. Melbourne Water acknowledges that the act of whistleblowing should not shield whistleblowers from the reasonable consequences flowing from any involvement in improper conduct. Section 17 of the Act specifically provides that a person's liability for his or her own conduct is not affected by the person's disclosure of that conduct under the Act. However, in some circumstances, an admission may be a mitigating factor when considering disciplinary or other action.

The Managing Director will make the final decision on the advice of the Protected Disclosure Coordinator as to whether disciplinary or other action will be taken against a whistleblower. Where disciplinary or other action relates to conduct that is the subject of the whistleblower's disclosure, the disciplinary or other action will only be taken after the disclosed matter has been appropriately dealt with.

In all cases where disciplinary or other action is being contemplated, the Managing Director must be satisfied that it has been clearly demonstrated that:

– The intention to proceed with disciplinary action is not causally connected to the making of the disclosure (as opposed to the content of the disclosure or other available information);
– There are good and sufficient grounds that would fully justify action against any non-whistleblower in the same circumstances; and
– There are good and sufficient grounds that justify exercising any discretion to institute disciplinary or other action.

The Protected Disclosure Coordinator will thoroughly document the process including recording the reasons why the disciplinary or other action is being taken, and the reasons why the action is not in retribution for the making of the disclosure. The Protected Disclosure Coordinator will clearly advise the whistleblower of the proposed action to be taken, and of any mitigating factors that have been taken into account.

7.9 Management of the person against whom a disclosure has been made

Melbourne Water recognises that people against whom disclosures are made must also be supported during the handling and investigation of disclosures. Melbourne Water will take all reasonable steps to ensure the confidentiality of the person who is the subject of the disclosure during the assessment and investigation process. Where investigations do not substantiate disclosures, the fact that the investigation has been carried out, the results of the investigation, and the identity of the person who is the subject of the disclosure will remain confidential.

The Protected Disclosure Coordinator will ensure the person who is the subject of any disclosure investigated by or on behalf of a public body is:

– Informed as to the substance of the allegations;
– Given the opportunity to answer the allegations before a final decision is made;
– Informed as to the substance of any adverse comment that may be included in any report arising from the investigation; and
– Has his or her defence set out fairly in any report.

Where the allegations in a disclosure have been investigated, and the person who is the subject of the disclosure is aware of the allegations or the fact of the investigation, the Protected Disclosure Coordinator will formally advise the person who is the subject of the disclosure of the outcome of the investigation. Melbourne Water will give its full support to a person who is the subject of a disclosure where the allegations contained in a disclosure are clearly wrong or unsubstantiated. If the matter has been publicly disclosed, the Managing Director of Melbourne Water will consider any request by that person to issue a statement of support setting out that the allegations were clearly wrong or unsubstantiated.

7.10 Criminal offences

Melbourne Water will ensure officers appointed to handle protected disclosures and all other people are aware of the following people offences created by the Act:

1. It is an offence for a person to take detrimental action against a person in reprisal for a protected disclosure being made. The Act provides a maximum penalty of a fine of $24,000 or two years imprisonment or both.
2. It is an offence for a person to divulge information obtained as a result of the handling or investigation of a protected disclosure without legislative authority. The Act provides a maximum penalty of $6,000 or six months imprisonment or both.
3. It is an offence for a person to obstruct the Ombudsman in performing his responsibilities under the Act. The Act provides a maximum penalty of $24,000 or two years imprisonment or both.
4. It is an offence for a person to knowingly provide false information under the Act with the intention that it be acted on as a disclosed matter. The Act provides a maximum penalty of $24,000 or two years imprisonment or both.

7.11 Contact persons within Melbourne Water

Disclosures of improper conduct or detrimental action by Melbourne Water or its people, may be made to the following people:

The Protected Disclosure Coordinator:
Group Manager, Human Resources
100 Wellington Parade
East Melbourne 3002
Tel: (03) 9235 7194

The Protected Disclosure Officers:
TBA

All correspondence, phone calls and emails from internal or external whistleblowers will be referred to the Protected Disclosure Coordinator.

Where a person is contemplating making a disclosure and is concerned about approaching the Protected Disclosure

Coordinator or a Protected Disclosure Officer in the workplace, he or she can call the relevant person and request a meeting in a discreet location away from the workplace.

7.12 Alternative contact persons

A disclosure about improper conduct or detrimental action by Melbourne Water or its people, may also be made directly to the Ombudsman:

The Ombudsman Victoria
Level 22, 459 Collins Street
Melbourne Victoria 3000
(DX 210174)
Internet: www.ombudsman.vic.gov.au
Email: ombudvic@ombudsman.vic.gov.au
Tel: (03) 9613 6222
Toll Free: 1800 806 314
Ombudsman: Dr Barry Perry
Tel: (03) 9613 6202

The following table sets out where disclosures about persons other than Melbourne Water people should be made.

Person who is the subject of the disclosure	Person/body to whom the disclosure must be made
Employee of a public body	That public body or the Ombudsman
Member of Parliament (Legislative Assembly)	Speaker of the Legislative Assembly
Member of Parliament (Legislative Council)	President of the Legislative Council
Councillor	The Ombudsman
Chief Commissioner of Police	The Ombudsman or Deputy Ombudsman
Member of the police force	The Ombudsman, Deputy Ombudsman or Chief Commissioner of Police

8 Responsibilities

8.1 Melbourne Water People

Melbourne Water people are encouraged to report known or suspected incidences of improper conduct or detrimental action in accordance with these procedures.

People at Melbourne Water have an important role to play in supporting those who have made a legitimate disclosure. They must refrain from any activity that is, or could be perceived to be, victimisation or harassment of a person who makes a disclosure. Furthermore, they should protect and maintain the confidentiality of a person they know or suspect to have made a disclosure.

8.2 Protected Disclosure Officers

Protected Disclosure Officers will:

- Be a contact point for general advice about the operation of the Act for any person wishing to make a disclosure about improper conduct or detrimental action;
- Make arrangements for a disclosure to be made privately and discreetly and, if necessary, away from the workplace;
- Receive any disclosure made orally or in writing (from internal and external whistleblowers);
- Commit to writing any disclosure made orally;
- Impartially assess the allegation and determine whether it is a disclosure made in accordance with Part 2 of the Act (that is, 'a protected disclosure');
- Take all necessary steps to ensure the identity of the whistleblower and the identity of the person who is the subject of the disclosure are kept confidential; and
- Forward all disclosures and supporting evidence to the Protected Disclosure Coordinator.

8.3 Protected Disclosure Coordinator

The Protected Disclosure Coordinator has a central 'clearinghouse' role in the internal reporting system. He or she will:

- Receive all disclosures forwarded from the Protected Disclosure Officers;
- Receive all telephone calls, emails and letters from members of the public or Melbourne Water people seeking to make a disclosure;
- Impartially assess each disclosure to determine whether it is a public interest disclosure;
- Refer all public interest disclosures to the Ombudsman;
- Be responsible for carrying out, or appointing an investigator to carry out, an investigation referred to the public body by the Ombudsman;
- Be responsible for overseeing and coordinating an investigation where an investigator has been appointed;
- Appoint a welfare manager to support the whistleblower and to protect him or her from any reprisals;
- Advise the whistleblower of the progress of an investigation into the disclosed matter;
- Establish and manage a confidential filing system;
- Collate and publish statistics on disclosures made;
- Take all necessary steps to ensure the identity of the whistleblower and the identity of the person who is the subject of the disclosure are kept confidential; and
- Liaise with the managing director of the public body.

8.4 Investigator

The investigator will be responsible for carrying out an internal investigation into a disclosure where the Ombudsman has referred a matter to the public body. An investigator may be a person from within an organisation or an external person engaged for that purpose.

8.5 Welfare manager

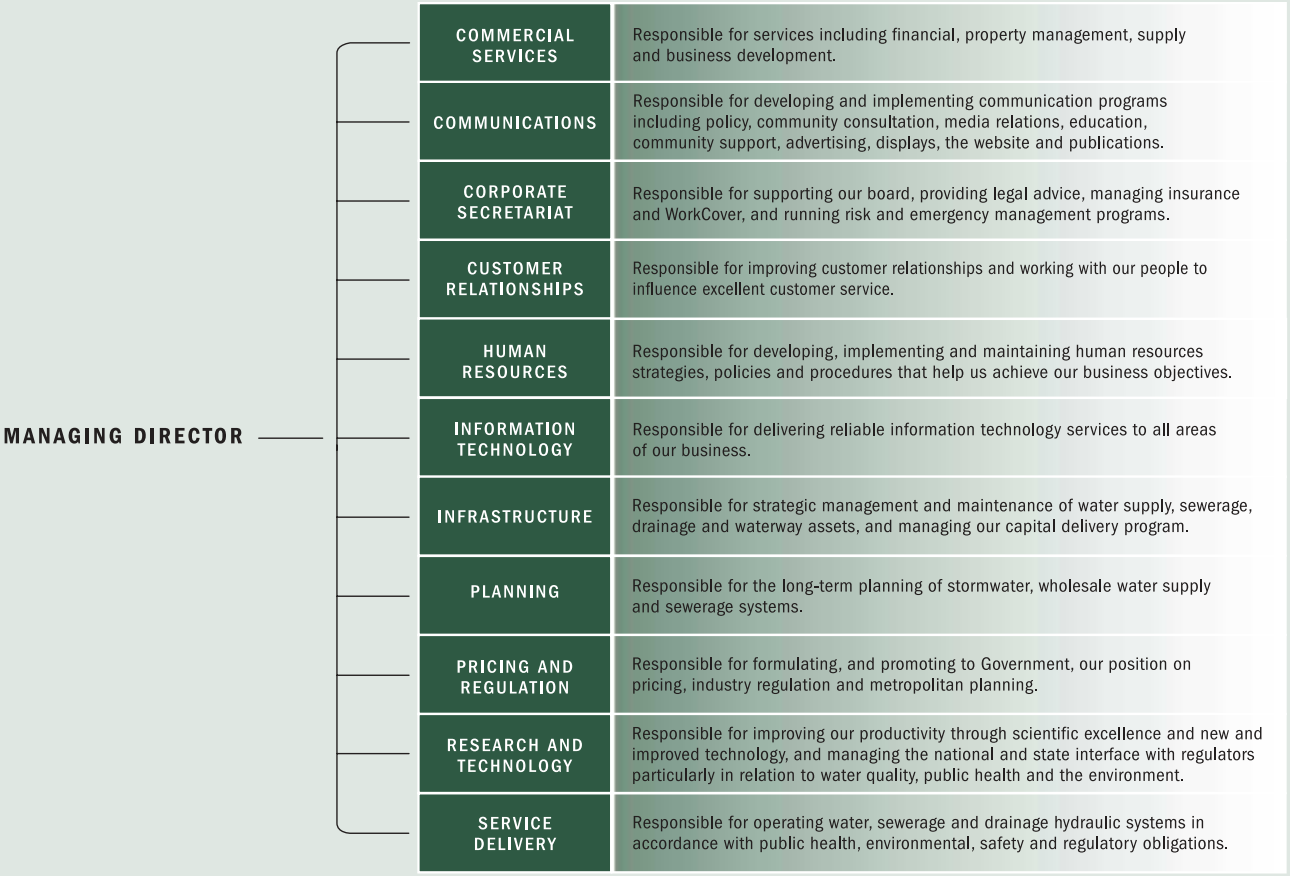
The welfare manager is responsible for looking after the general welfare of the whistleblower. The welfare manager will:

- Examine the immediate welfare and protection needs of a whistleblower who has made a disclosure and seek to foster a supportive work environment;
- Advise the whistleblower of the legislative and administrative protections available to him or her;
- Listen and respond to any concerns of harassment, intimidation or victimisation in reprisal for making disclosure; and
- Ensure the expectations of the whistleblower are realistic.

9 Audit requirements

These procedures will be reviewed annually to ensure they meet the objectives of the Act and accord with the Ombudsman's guidelines.

Organisational chart



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www.melbournewater.com.au

Melbourne Water Corporation
100 Wellington Parade East Melbourne Victoria 3002
PO Box 4342 Melbourne Victoria 3001
Telephone 131 722 Facsimile 03 9235 7200

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