

annual report

2004 ◦ 05



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Cover: Mitch Lucas, Hurstbridge Primary School



Upper Yarra Reservoir

Overview

Our business and stakeholders

Melbourne Water manages Melbourne's water supply catchments, removes and treats most of Melbourne's sewage, and manages rivers and creeks and major drainage systems in and around the city.

We are owned by the Victorian Government, with an independent Board of Directors responsible for governance. The responsible Minister is the Minister for Water.

We are a significant business, managing \$8.1 billion in water supply, sewerage and drainage assets that service an area of more than 7800 square kilometres. We are committed to looking after these assets in a way that protects and improves their environmental, social and financial values. We are responsible for 1029 kilometres of water distribution mains, 399 kilometres of sewers, 1285 kilometres of underground drains, and 47 drainage, sewage and water pumping stations.

Our annual operating revenue of more than \$500 million is earned from water supply and sewage treatment charges, and drainage rates. It is used to fund our operations and infrastructure projects including water, sewerage and drainage upgrades and water recycling schemes, as well as works to improve and protect Melbourne's rivers, creeks, wetlands and the bays.

We work across several arms of the Victorian Government, including the Department of Sustainability and Environment and the Department of Treasury and Finance. EPA Victoria and the Department of Human Services regulate the environmental and public health aspects of our business, and we work closely with the Essential Services Commission, the economic regulator of Victoria's water industry.

Our customers are the metropolitan retail water businesses – City West Water, South East Water and Yarra Valley Water – other water authorities, local councils, land developers and businesses that divert river water. Other partners include the Port Phillip and Westernport Catchment Management Authority, the Municipal Association of Victoria, the Sustainable Energy Authority of Victoria and the University of Melbourne.

We work closely with research organisations to assess long-term impacts on Melbourne's water resources. Our community engagement activities rely on the support and involvement of many community stakeholders.

Our sustainability principles

Our commitment to sustainability will be demonstrated by:

- Protecting and conserving Melbourne's water resources
- Protecting and improving the environment, including biodiversity
- Our leadership, scientific research, creativity and innovation
- Ensuring responsible risk management
- Sharing information and fostering collaborative working relationships
- Maintaining long-term financial viability
- Contributing to the health of the community
- Demonstrating corporate social responsibility
- Ensuring intergenerational equity by considering short-term and long-term implications in all decision making
- Providing an environment where employees are encouraged to achieve their full potential.

Our goals

Water resources

- Protect and conserve Melbourne's existing water resources
- Protect our water supply catchments from bushfire
- Develop alternative water resources, including recycled water, that meet our customers' current and future needs
- Increase water resource efficiency.

Public health

- Supply high quality and reliable drinking water
- Deliver safe sewage transfer, treatment and disposal
- Manage flood risk.

Natural environment

- Improve environmental outcomes from all aspects of our business
- Improve river health and the marine environment
- Improve biodiversity
- Preserve and promote our cultural heritage.

Financial viability

- Increase business value through innovation and efficiency
- Balance investments and levels of service and risk
- Maximise resource efficiency
- Maintain sound governance
- Ensure investment decisions are sustainable
- Deliver planned shareholder returns.

Infrastructure

- Ensure stringent regulatory obligations are met
- Provide efficient and effective capital planning processes and maintenance programs
- Develop and implement efficient capital investment and operations programs
- Minimise waste disposal and maximise resource recovery.

Our people

- Provide a safe and enjoyable work environment which brings out the best in people
- Retain and attract a diverse, motivated, skilled and experienced workforce
- Encourage our people to develop and share knowledge gained from each other and stakeholders
- Implement a framework which rewards employees' performance against the delivery of our business objectives
- Ensure sustainable work practices.

Relationships

- Identify and meet customer service expectations
- Develop enduring partnerships with retail water businesses, developers and other customers through open and transparent communication
- Build cooperation with all levels of government and regulators
- Further develop programs to support corporate social responsibility
- Foster the exchange of knowledge with the community
- Develop collaborative relationships with suppliers to gain support for our sustainability principles.

Our values

- We recognise that we achieve more by working collaboratively
- We behave with integrity
- We attain excellence through creativity and innovation
- We celebrate our achievements and learn from our experiences
- We work with openness, transparency and accountability.

Why we produced this report

Melbourne Water's Annual Report outlines how we have performed in meeting our economic, social and environmental responsibilities in 2004/05. It gives an overview of our performance in providing a safe and reliable water supply, managing essential services such as sewerage and drainage, protecting the environment, working with the community and assisting the Victorian Government to achieve its policy objectives.

The Annual Report will be followed by a Sustainability Report, which outlines our strategies and initiatives for ensuring a sustainable water future.

We are committed to ensuring the community is well informed and educated on the water cycle. The Annual Report is one of the publications produced by Melbourne Water to achieve this goal. To view the report online, visit melbournewater.com.au

Chairman and Managing Director's report

We are pleased to report that Melbourne Water has had a successful year in meeting the challenges associated with managing Melbourne's water resources.

Stream flow into the main water supply reservoirs during the year was 17% below average, and has been below the long-term average for seven years. With this in mind, the Victorian Government introduced permanent water saving rules following the lifting of Stage 2 restrictions in March 2005.

As part of our long-term planning, we released a CSIRO report on the possible effects of climate change on our catchments and infrastructure. An initial response to address the effects of climate change was the announcement of the early recommissioning of Tarago Reservoir in 2011, to give Melbourne a 'buffer' period while longer-term options for managing our water supply are studied and fully assessed within the *Central Region Sustainable Water Strategy*.

Recycled water is a secure, alternative water source for uses where drinking water is not required and is a key element of the Government's planning for a sustainable water future. Two major new recycling schemes were launched in the east and west of Melbourne during the year. The Werribee Irrigation District Scheme will deliver around 2000 million litres of Class A recycled water to Southern Rural Water to supply to about 130 growers in the Werribee South area by 2006/07. The Eastern Irrigation Scheme aims to pipe about 5000 million litres of Class A water to vegetable, flower and turf growers, golf courses, the Cranbourne Racecourse, the Sandhurst residential development and other businesses in the Cranbourne and Five Ways area.

We substantially completed the \$160 million environmental improvement program at the Western Treatment Plant, which increased our sewage treatment capacity to deal with growth, reduced greenhouse gas emissions and facilitated recycling opportunities. Our nitrogen discharge to Port Phillip Bay was 2700 tonnes, which was better than the established target. Generating energy from biogases, a by-product of sewage treatment, will eventually meet 80% of the Plant's energy needs.

Our infrastructure

The water, sewerage and drainage infrastructure we manage has a major impact on the environment and public health. This year, we spent \$182 million on projects to ensure this infrastructure remains reliable, including substantial progress on replacing the ageing Morang-Preston and Morang Outlet water pipelines and lining and covering Dromana Reservoir to improve drinking water quality for Mornington Peninsula residents.

We completed, in partnership with the Port Phillip and Westernport Catchment Management Authority, a draft *Regional River Health Strategy*, which sets long-term targets for improving the rivers and creeks in our region. The goal is that by 2025, all natural rivers and creeks will be in good or better condition than they are now.

Our Water Our Future

We played a significant role in implementing the Victorian Government's *Our Water Our Future* action plan to secure Melbourne's water future, including:

- Involvement in the development of a *Water Supply-Demand Strategy for Melbourne* and a *Central Region Sustainable Water Strategy*, which will provide the ongoing framework for sustainable water supplies

- Improving environmental flows for the Thomson and Macalister rivers. The process and schedule for returning this water will be determined in the *Central Region Sustainable Water Strategy*
- Working with City West Water, industry, government and other authorities to promote cleaner production, and reduce the amount of salt coming into the Western Treatment Plant from industrial and household waste by 10%
- Promoting the assignment of Melbourne's pooled source bulk water entitlements to the retail water businesses to strengthen the links between management of water supply and demand.

Underpinning all this work, and all work in the future, are the principles outlined in our strategy document, *Sustainable Water – A Strategic Framework*, which we released in January this year. The framework links our programs to a range of government policy initiatives and provides a context for our planning process, ensuring that social, economic and environmental impacts are always considered.

To further this work, a Sustainability Unit is being established within the business to focus the delivery of the strategic framework outcomes. Long-term investment decisions will be a key factor in delivering capital intensive infrastructure that achieves our sustainability objectives.

Our people

We recognise that without the commitment and expertise of our employees, the achievements outlined in this report would not have been possible. To ensure we continue to attract and retain the best people, we have embarked on a major review of our *Human Resources Strategy*. The strategy will be finalised in 2005/06 and reported on in next year's Annual Report.

We work hard to ensure a safe and healthy working environment. Overall, we had a reduction in lost time injuries for employees and contractors, although it continues to be a challenge to achieve our goal of zero lost time injuries.

Financial results

The Essential Services Commission's price determination for Melbourne Water means that our water, sewerage and drainage prices will increase on average by 2.1% above inflation over the next three years.

The price review process helped in clarifying the customer service and environmental outcomes to be achieved and the costs likely to be incurred in delivering them.

The review also resulted in bulk water and sewerage charging structures that will encourage water conservation and waste minimisation.

Once again, we delivered sound financial performance, generating strong returns to the Victorian Government. We made payments to the Government of \$67.8 million, comprising a dividend of \$41.3 million, equivalent income tax payments of \$22.7 million and a financial accommodation levy of \$3.8 million.

Looking ahead

We see substantial challenges for Melbourne Water as we continue to manage the city's water resources effectively.

Among other things, Melbourne's population is expected to grow by one million people by 2030, and we must, at the same time, reduce greenhouse gas emissions by using energy more efficiently and by changing to energy from renewable resources.

2005/06 will see the development of a sewerage strategy and drainage strategy to address medium to long-term challenges of population growth and climate change.

The implications of climate change on our water supplies and infrastructure could be wide reaching, and we will be considering the impacts for the medium and long-term within the context of the *Central Region Sustainable Water Strategy*.

We need to improve the condition of our natural rivers and creeks, 47% of which are in poor or very poor condition. This will be addressed in the *Regional River Health Strategy*, to be completed in 2005/06.

Next year will also see further implementation of the Government's *Our Water Our Future* action items, which include expanding Melbourne Water's area of responsibility by 5000 square kilometres. This will make us the responsible authority for rivers, drainage, floodplains and environmental water reserves for most of the Port Phillip and Westernport catchment. During the year, we undertook extensive consultation in preparation for the change, and further consultation will take place in the coming year.

In order to continue our drive for business efficiency, we are undertaking a review in conjunction with an overseas water company to assess where further cost and business efficiencies can be made and performance measures improved.

Another significant initiative in the coming year will be the development of a cultural development program to maximise opportunities for employee collaboration on program delivery and stakeholder engagement.

Sustainability Report

This year, we are preparing a Sustainability Report to expand on the goals outlined in '*Sustainable Water – A Strategic Framework*'.

In it, we paint a bigger picture, describing openly Melbourne Water's progress towards meeting our goals for a sustainable water future. We want to show how our policies and programs are shaped by a concern about the full impacts they will have – socially, environmentally and financially.



Cheryl Batagol
Chairman



Rob Skinner
Managing Director

This year, Melbourne Water farewelled Brian Bayley, who had been with the business for 34 years, and Managing Director since 1998. We thank him for his invaluable contribution to Melbourne Water, and wish him well in his role as project manager for the Victorian Government's Eastern Water Recycling Proposal.

We welcomed a new Managing Director, Rob Skinner, a civil engineer who has had an outstanding career in public sector leadership, particularly in the areas of resource management, including General Manager of Water Services for Melbourne Water, Chair of Southern Rural Water and most recently, Chief Executive of Kingston City Council.

Economic management

Key achievements

Net cash flow from ordinary activities, after operating expenditure, of \$219.7 million enabled:

- Investment of \$182 million in capital works to improve and upgrade infrastructure
- Payments to the Victorian Government of \$67.8 million, comprising a dividend of \$41.3 million, equivalent income tax payments of \$22.7 million and financial accommodation levy of \$3.8 million.

Sound financial performance

This year, we made payments to the Victorian Government of \$67.8 million, comprising a dividend of \$41.3 million, equivalent income tax payments of \$22.7 million and financial accommodation levy of \$3.8 million.

We invested \$182 million in capital works, and reduced our debt by \$11.2 million. Operating revenue was \$528 million, an increase of \$24.2 million and \$4.4 million higher than our plan.

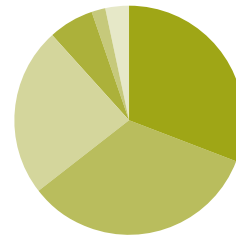
Operating expenditure was \$261.4 million, which was \$4.7 million below the Corporate Plan due to lower than expected depreciation and land tax expense. Net profit after tax was \$125.7 million compared with \$123.4 million the previous year.

Total assets increased by \$131.3 million from \$3131.8 million in 2003/04 to \$3263.1 million in 2004/05.

Our borrowings fell by \$11.2 million during the year.

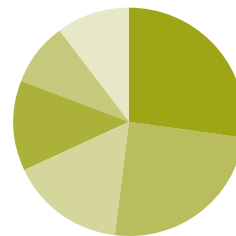
This result equates to an after-tax rate of return on total shareholder equity of 8.7%, compared with 8.8% in our plan.

At 30 June 2005, the total book value of our interest-bearing liabilities was \$1.18 billion. Our gearing ratio (debt to total assets) was 36% compared with 38% for the previous year, which is within our target range.



Operating revenue (\$M)

- Water sales \$163.8
- Sewage disposal charges \$177.8
- Drainage rates \$125.0
- Developer charges and contributions \$34.2
- Werribee Agriculture sales revenue \$9.5
- Administrative \$17.7



Operating expenditure (\$M)

- Depreciation \$71.2
- Operational \$65.2
- Employee benefits \$41.5
- Repairs and maintenance \$33.4
- Administrative \$23.8
- Other \$26.3

Business efficiency

Melbourne Water continually focuses on improving business performance. We take part in benchmarking, audits and reviews to find further efficiencies, and have found that Melbourne Water benchmarks very well within the Australian water industry. To further improve, we have asked an international water company to assist with an independent review of areas that drive our operating costs.

The Essential Services Commission gave approval for Melbourne Water's prices for water, sewerage and drainage services to increase annually by an average of 2.1% above inflation over the period 2005/06 to 2007/08.

We completed a financial strategy, which will provide a framework for improved financial performance.

Electricity generation from biogas at the Western Treatment Plant provided additional income of \$1 million a year from New South Wales Government Gas Abatement Certificates. We completed plans for six new mini-hydro schemes to be installed at various points in the water supply system. They will generate hydro-electricity from the water flows.

Water Plan development

Developing a Water Plan, which was required as part of the pricing approval process with the Essential Services Commission, has given us a clearer understanding of the customer service and environmental outcomes to be delivered over the next three years and the drivers for expenditure (capital and operational). This will provide greater business certainty, and will give the Government and community more confidence in our ability to achieve these outcomes.

Statement of financial performance for the year ended 30 June 2005

	2001 \$M	2002 \$M	2003 \$M	2004 \$M	2005 \$M
Revenue from ordinary activities	460.8	480.2	510.7	503.8	528.0
Profit from ordinary activities before income tax expense	176.3	185.8	218.4	179.5	188.6
Income tax expense relating to ordinary activities	47.2	55.6	68.5	56.1	62.9
Net profit	129.0	130.3	150.0	123.4	125.7
Dividends paid	58.3	98.9	99.4	95.7	41.3

Statement of financial position as at 30 June 2005

	2001 \$M	2002 \$M	2003 \$M	2004 \$M	2005 \$M
Current assets	39.2	50.3	52.9	44.3	57.3
Non-current assets	2,914.4	2,944.5	2,998.5	3,087.5	3,205.9
Total assets	2,953.6	2,994.8	3,051.4	3,131.8	3,263.2
Current liabilities	235.0	264.3	318.0	367.6	296.1
Non-current liabilities	1,421.8	1,402.4	1,352.0	1,355.0	1,473.6
Total liabilities	1,656.8	1,666.7	1,670.0	1,722.6	1,769.7
Net assets	1,296.8	1,328.1	1,381.4	1,409.2	1,493.5
Total equity	1,296.8	1,328.1	1,381.4	1,409.2	1,493.5

Key performance indicators 2004/05

	Target	Performance
Free cash flow (\$M)	\$141.0M	\$153.5M
Debt to assets ratio (%)	37.7%	35.7%
Operating return (EBIT) on Average Total Assets – annualised (%)	8.1%	8.3%
Return on Equity – annualised (%)	8.8%	8.7%*
Economic return on Capital Employed – annualised (%)	6.8%	7.7%
Interest coverage ratio (EBIT/Interest expense)	3.3	3.4
Returns to Government – cash	\$111.9M	\$67.7M*

* Both targets were below plan, mainly reflecting the deferment of payment of the interim dividend of \$57.9M until 2005/06.

2004•05 in review

Environmental sustainability



Yarra River

Key achievements

- Finalised the draft *Regional River Health Strategy*, which will set the framework for the management of rivers and creeks in the Port Phillip and Western Port region
- Expanded the Stream Frontage Management Program for river protection and restoration
- Provided grants to 40 community groups and 31 schools for revegetation, native plant propagation and other conservation works under our Community Grants and Young Watercare Grants, and supported further 'Corridors of Green' projects to plant 115,000 plants along 23 rivers and creeks
- Launched two major recycled water schemes guaranteeing high quality recycled water to vegetable growers and other users east and west of Melbourne and, with VicUrban and City West Water, announced a dual pipeline scheme for 10,500 homes at West Werribee
- Reduced nitrogen discharge to Port Phillip Bay by more than 500 tonnes
- Reduced our greenhouse gas emissions by almost 173,000 carbon dioxide tonnes equivalent during last year. This represents a 31% reduction against our levels in 2001. Our target for last year was 20%
- Achieved a 90% reduction in odour from the Western Treatment Plant, and made major progress on works to address odours at Eastern Treatment Plant.

Improving river health

We are responsible for managing almost 5200 kilometres of rivers and creeks, which will increase with our extended boundaries, and includes 1200 kilometres in forested areas and closed water supply catchments.

We work hard to protect and improve the ecological health of our rivers, creeks and wetlands by improving stormwater quality, rehabilitating degraded waterways, controlling environmental flows and carefully managing rivers, creeks and wetlands sites of biodiversity significance.

Victorian River Health Strategy

We prepared, in partnership with the Port Phillip and Westernport Catchment Management Authority, the draft *Regional River Health Strategy*. This is in line with the Victorian Government's *Biodiversity Strategy* and the *Port Phillip and Westernport Regional Catchment Strategy*, and will set the framework for managing the region's rivers and creeks over the long term.

Our wide range of activities included studies on the environmental flow requirements for the Yarra and Werribee rivers and their estuaries to find out how much water these streams need to be ecologically healthy.

We extended the nine-year-old Stream Frontage Management Program, giving \$718,500 to more than 350 landholders for river protection and restoration works. We provided \$282,900 to local councils for 32 Corridors of Green projects along 23 rivers and creeks, \$104,400 through our Community Grants program to 40 community groups, and \$50,000 to 31 schools under our Young Watercare Grants program for revegetation and restoration, native nursery projects and community education resources.

In total, 380,000 trees, shrubs and native grasses were planted through our rivers and creeks improvement programs.

We completed a stream flow management plan for the Plenty River, the third by Melbourne Water, and one of 21 priority catchments listed in the *Our Water, Our Future* action plan.

Research included trials of a pilot toxicant treatment facility to remove heavy metal pollutants from a drain entering Merri Creek.

We began a major restoration of the lower Werribee River, consulting heritage advisors and traditional owners before removing infestations of willow and desert ash.

Victorian Biodiversity Strategy

This year, Melbourne Water developed a draft *Biodiversity Strategy* to improve biodiversity across all the natural assets we manage. The strategy assesses current practices and will provide direction for future actions. The draft will be finalised later this year.

We have a Community, Environment and Public Health Assessment Checklist, which ensures project managers consider biodiversity values and use consultant ecologists when necessary.

Other initiatives have included forming a weed management focus group involving all natural resource management teams. Also, an Eastern Treatment Plant Conservation Committee was formed to oversee the *Biodiversity Conservation Strategy* for the site. A review of pest animal management in the water supply catchments was conducted with the primary focus on water quality issues, but any outcomes could well have beneficial impacts for native wildlife and plants. Work was also conducted during the year to scope the information technology requirements for improving the capture of data associated with land and biodiversity management.

2004•05 in review

Environmental sustainability

We developed a Whole Farm Plan for the 11,000 hectare Ramsar-listed Western Treatment Plant to balance the needs of sewage treatment, conservation and farm production. With sewage treatment now lagoon-based, we are also working on a land use strategy for the site, focusing on areas suitable for primary production activities. We also built 100 artificial cormorant nest platforms to support the largest mainland breeding colony of Pied Cormorants in Victoria.

Across our organisation, Melbourne Water conducts regular monitoring and research into bird populations, platypus and frogs, invertebrates, fish and plants across our rivers, creeks and wetlands sites with significant biodiversity values such as the Eastern Treatment Plant and Edithvale Seaford Wetlands. In addition, a preliminary assessment of rare and threatened species present across all Melbourne Water land has been produced using data from the Department of Sustainability and Environment. This data indicates a need for further enhancement of awareness of our biodiversity values.

Platypus in Melbourne's rivers and creeks

Melbourne Water and the Australian Platypus Conservancy released six platypus into Cardinia Creek in 2004 as part of the first platypus reintroduction project in Victoria, and the animals are known to be still living there.

Platypus have not been found in Cardinia Creek for about 20 years, probably as a result of the Ash Wednesday bushfires. The only natural expansion to the previous year's platypus distribution has occurred along Diamond Creek.

At the Toorourrong Reservoir near Whittlesea, we opened a platypus hide in partnership with Parks Victoria, which gives one of the best opportunities in Melbourne to see platypus in their natural environment.

Frog Census

In June 2005, more than 900 volunteers were registered for the Melbourne Water Frog Census, an increase of 21% since December last year. The annual Frog Census recorded 11 frog species at 450 sites across greater Melbourne during 2004. A key finding of the survey, a joint initiative between Melbourne Water, the Amphibian Research Centre and Melbourne Waterwatch, was discovering the endangered Growling Grass Frog in two new locations – Caroline Springs and Rockbank.

Greenhouse strategy

Most of our energy is used in pumping and treating water and sewage. We contributed to the *Victorian Greenhouse Strategy* through reducing our greenhouse gas emissions to the atmosphere by about 173,000 tonnes of carbon dioxide equivalent during the year. This is 31% lower than our 2001 emission levels, representing a total saving since then of 386,000 tonnes of carbon dioxide equivalent.

The biggest contribution during the past year flowed from the \$160 million upgrade at the Western Treatment Plant. This enabled Melbourne Water to end land and grass filtration treatment, which reduced greenhouse emissions, mainly methane and nitrous oxide, by about 180,000 tonnes of carbon dioxide equivalent. The upgrade included AGL boosting its power generation from biogases at the site, saving an estimated 39,000 tonnes of carbon dioxide equivalent emissions. Eventually, AGL will meet 80% of the Plant's energy needs from this source.

As well, green energy fed into the electricity grid from our two existing mini-hydro schemes saved an estimated 40,000 tonnes of greenhouse gases. We have completed designs for six mini-hydro electricity-generating plants at various sites on Melbourne's water supply network. These will generate green power, reduce greenhouse gas emissions and give positive financial returns.

The \$46 million Eastern Green Energy Project at the Eastern Treatment Plant will boost our efforts to reduce greenhouse gas emissions by using biogas from sludge digestion to generate energy.

Protecting and improving the marine environment

Our sewerage system includes Melbourne's two main sewage treatment plants and some 400 kilometres of sewers. We operate three major sewage pumping stations at Kew, Hoppers Crossing and Brooklyn, and several minor pumping stations.

Brooklyn and Hoppers Crossing stations pump sewage to the Western Treatment Plant. Kew station pumps sewage to the Eastern Treatment Plant.

During the year, the daily average flow to the Western Treatment Plant was 490 million litres, and the daily average flow to the Eastern Treatment Plant was 380 million litres.

All the pumping stations have the capacity to pump at greatly increased levels during wet weather.

Melbourne Water treated 318,327 million litres of sewage at its Western and Eastern treatment plants in 2004/05. This compares to 310,402 million litres the previous year.

We are committed to reducing nitrogen entering Port Phillip Bay from the Western Treatment Plant. A 1990s CSIRO study found that although Port Phillip Bay was healthy by world standards, rising levels of nitrogen could irretrievably damage its ecology. The study recommended that the annual nitrogen load to the Bay should be cut by 1,000 tonnes. Melbourne Water committed to reducing the nitrogen load from the Western Treatment Plant by 500 tonnes. As the average annual nitrogen load from the Plant during the 1990s had been about 3,600 tonnes, we set a new annual target of 3,100 tonnes, to be reached by 2005.

Nitrogen discharged to Port Phillip Bay from the Plant in 2004/05 was about 2,700 tonnes, which was better than our established target. We also remove nitrogen from waterways entering the Bay by building wetlands to filter stormwater runoff. Our target for last year was to reach 30.7 tonnes of nitrogen removed, and we achieved 30.3 tonnes.

We are well advanced with an \$87 million upgrade at our Eastern Treatment Plant to reduce ammonia levels in the treated effluent discharged at Boags Rocks by 75%. This is in response to a two-year CSIRO study, which found that ammonia and freshwater were having a detrimental impact on the marine environment around the discharge point. The project involves upgrading each of the Plant's aeration tanks. Modifications to existing tanks will be completed by 2007 and construction of additional tanks will be completed by 2009.

Melbourne Water will invest \$1.5 million over the next three years to monitor the long-term impacts of effluent discharge on the marine environment at Boags Rocks. The monitoring program, which is in addition to the current monitoring of 18 sites around Gunnamatta and St. Andrew's Beaches, includes testing for algae on rock platforms, underwater surveys of sub-tidal reefs and a long-term study on the build-up of contaminant levels in biota and sediments. A separate CSIRO study is investigating the aesthetic impacts of the discharge.

Our Water Our Future

We are working closely with the Victorian Government, other water authorities, local government, regulators and the community to ensure a sustainable water future for Melbourne.

Central Region Sustainable Water Strategy and Water Supply-Demand Strategy

Melbourne Water is working with the Department of Sustainability and Environment, catchment management authorities and other water authorities to develop a *Central Region Sustainable Water Strategy* to set out a long-term, regional plan to secure water for homes, farms, businesses and the environment.

We are also working with the retail water businesses to produce a single *Water Supply-Demand Strategy* for Melbourne, describing the city's long-term approach to balance supply and demand.

This strategy will feed into the *Central Region Sustainable Water Strategy*.

Promoting water savings in the community

Melbourne Water continued to work towards the Victorian Government's target of a 15% reduction in consumption of drinking water by 2010.

During the year, we contributed \$1.5 million to the Victorian Government's *Our Water Our Future* behavioural change campaign, which is a joint initiative of Melbourne Water, the Department of Sustainability and Environment and the retail water businesses. The campaign has been successful in changing community perceptions of water as a scarce resource, and building knowledge and awareness of how to save water as part of everyday life.

Permanent water saving rules followed the lifting of Stage 2 restrictions in March. Capital works, like major repairs and closing the lower section of the Maroondah Aqueduct, conserved water by reducing losses through waste and leakage. We also participated and assisted in the development of statewide uniform water restriction guidelines, which will be implemented next year.

Enhancing environmental flows in the Thomson River

The Thomson and Macalister rivers have been identified as flow stressed, particularly in their lower reaches. To improve existing environmental flows, an additional 10,000 megalitres of water has been set aside each year for the Thomson River. The extra water has been made available through water saving efforts in Melbourne. The water will be released from Thomson Reservoir under instructions from the West Gippsland Catchment Management Authority to replicate natural flow patterns in the spring, summer and autumn.

Within the next 10 years a further 8000 megalitres recovered from system savings will be provided for the river. The process and schedule for recovering this water will be determined in the *Central Region Sustainable Water Strategy*.

Bulk water entitlements for the Thomson, Yarra and Bunyip basins

The Minister for Water has amended Melbourne Water's bulk water entitlement for the Thomson Reservoir to reflect the increased allocation for the environment.

The White Paper promotes the assignment of Melbourne's pooled source bulk water entitlements to the retail water businesses to strengthen the links between management of water supply and demand. 'Pooling' of the bulk water entitlements will allow the integrated operation of the bulk water supply system by Melbourne Water to continue unchanged. The Yarra and Upper Goulbourn basin bulk water entitlements have been forwarded to the Minister for Water for endorsement. Significant progress has been made on finalising the bulk water entitlements on the Bunyip basin.

2004•05 in review

Environmental sustainability

Melbourne Water's recycling projects

Project	Actual 2003/04		Actual 2004/05 up to 30 June		Target 2010	
	ML	%	ML	%	ML	%
Western Treatment Plant						
On-site recycling	17,945	6.3	20,676	6.5	37,000	11.3
Werribee Tourist Precinct	130	0.04	156	0.05	500	0.2
Werribee South	0	0	201	0.06	8,500	2.6
Sub-total west	18,075	6.3	21,033	6.61	46,000	14.1
Eastern Treatment Plant						
On-site recycling	13,128	4.6	13,408	4.2	13,800	4.2
Eastern Irrigation Scheme	143	0.05	237	0.08	5,000	1.5
Existing South East outfall customers	1,622	0.54	1,389	0.44	1,700	0.5
Sub-total east	14,893	5.2	15,034	4.72	20,500	6.2
Total	32,968	11.5	36,067	11.3	66,500	20.3

NB: Recycled water flows for WID, WAG, SEO and EIS are below plan due to additional and/or delayed works and wet weather during the irrigation season.

An additional 1,793 ML was used on site at WTP for environmental flows to Lake Borrie, T-section and Western Lagoons.

Expanding Melbourne Water's regional drainage, waterways and floodplain management services to the entire port Phillip and Westernport region

Under the Victorian Government's *Our Water Our Future* action plan, Melbourne Water's rivers and drainage boundary will be extended to cover the majority of the Port Phillip and Westernport catchment. The new area of responsibility covers rivers, drainage and the management of floodplains and environmental reserves over 12,800 square kilometres.

Recycling water for a greener future

This year Melbourne Water recycled 36,067 million litres of water from our sewage treatment plants, which is 11.3% of the treated effluent, to help achieve the Victorian Government's target of 20% recycling by 2010. We launched two major water recycling schemes, the Eastern Irrigation Scheme and Werribee Irrigation District, joint projects with TopAq and Southern Rural Water respectively. The schemes will supply high quality recycled water to vegetable growers and other users to the east and west of Melbourne, and

ease pressure on supplies drawn from rivers, groundwater and precious drinking water. We announced plans, with the Victorian Government's urban development agency, VicUrban and City West Water, for a dual pipeline scheme to take recycled water for toilet flushing and gardens to 2500 new homes at Werribee Fields. We will work with City West Water to deliver recycled water to the scheme, which will take 10 to 12 years to complete.

Melbourne Water is part of a two-year, \$2 million feasibility study into the Eastern Water Recycling Proposal, which could pipe recycled water from the Eastern Treatment Plant to the LaTrobe Valley. The study, funded by the Victorian Government, the Federal Government under its *National Water Initiative*, Melbourne Water and Gippsland Water is due to report next year.

Attaining quality control accreditation

The HACCP (Hazard Analysis and Critical Control Point) process is a risk assessment and quality control system originally developed by NASA to manage the quality of food for its astronauts.

It has since been adopted by the food industry and its use is becoming widespread in the water industry. This means that quality can be managed at a number of points along the process, rather than just relying on testing the end product.

In March, the Eastern Treatment Plant achieved HACCP (Hazard Analysis and Critical Control Point) certification for Class C recycled water and biosolids, enabling it to guarantee its clients a more consistently compliant product.

The Western Treatment Plant received approval from the Department of Human Services to supply Class A recycled water for dual pipe residential schemes and on food crops such as those grown in the Werribee Irrigation District, as a result of the \$160 million upgrade in June 2005. At the Plant, lagoon treatment, followed by ultraviolet and chlorine disinfection, is used to produce Class A recycled water.

Class A recycled water has been endorsed by EPA Victoria and the Department of Human Services as safe for uses including those involving human contact.

Salt reduction strategy for the Western Treatment Plant

At Werribee, the salt content of recycled water is higher than tap water and, in the long run, may damage soils, plants, pipes and other infrastructure.

To manage the impact of salt, recycled water is being blended with water from the Werribee River. However, this also can be too saline.

To give our recycled water customers water they can use for the long-term, we aim to reduce the salt content by 40% by 2009.

Melbourne Water and City West Water are working with industry, government and other authorities to promote cleaner production, and to cut the amount of salt coming into the Western Treatment Plant from industrial and household waste by 10%.

Water sensitive urban design

Over the last five years, there have been increasing initiatives to manage the urban water cycle in a more sustainable way. To further promote water sensitive urban design, we introduced a *Stormwater Quality Offsets Strategy*, which will equitably apply stormwater quality standards to all developments and give financial rewards for innovation in sustainable water management.

Our new manual, *WSUD Engineering Procedures: Stormwater*, produced with help from EPA Victoria's Stormwater Action Program, gives clear advice to designers on including water sensitive urban design technologies in new developments.

We built and planted retarding basins and wetlands at Evans Road, Golf Links Road, Monbulk Creek and Elizabeth Bridge Reserve, projects which will help reduce the nitrogen load to Port Phillip Bay.

February floods

We responded promptly to flooding following some of the highest rainfalls Melbourne has ever experienced, which caused some \$4 million worth of damage. Waterways suffered bank erosion, large silt deposits, fallen trees, adjacent property inundation and substantial amounts of debris and litter. There was flooding at the Eastern and Western sewage treatment plants, with the Eastern Treatment Plant receiving record inflows.

This year, an audit by the Victorian Auditor-General found that Melbourne Water's stormwater planning and management practices were excellent and close to best practice.

The Auditor-General made 11 recommendations with regard to stormwater management and drainage asset management including that Melbourne Water and local councils work collaboratively to make the most of their flood mitigation resources.

We will work with local councils and the Victorian Government to develop a *Metropolitan Drainage Strategy* to address this and other issues.

Key performance indicators 2004/05

	Target	Performance
Number of sewage spills (cumulative):		
– Wet weather: Compliant (> 1 in 5)*	N/A	11
– Wet weather: Non-compliant (< 1 in 5)**	4	17
– Operational: Non-compliant	0	0
% achievement of EPA licence requirements:	100%	100%
Eastern Treatment Plant		
Western Treatment Plant		
Reduction in nitrogen load to Port Phillip Bay from Western Treatment Plant	500 tonnes	887 tonnes
Odour complaints (cumulative)	<19	16
% of biosolids recycled at Eastern Treatment Plant	100%	49%***
% reduction in greenhouse gas emissions compared to 2000/2001	20%	31%
Water conservation – % reduction in water consumption resulting from Melbourne Water initiatives eg. Aqueduct leak reduction, community engagement and partnership programs	0.5%	0.4%
% of waterways where waterway plans are in place and Melbourne Water has river diverter customers	33%	44.4%
% of water harvesting points meeting environmental flow requirements to rivers	100%	100%
Cumulative reduction in nitrogen load to Port Phillip Bay from wetlands	31 tonnes	30.7 tonnes
Proportion of water recycled – cumulative % of water recycled from the total volume available for recycling from sewage treatment plants	13.5%	11.3%****

* Refers to the number of sewage spills that result from heavier wet weather events that occur less often than once every 5 years. We had 11 such spills, all during the extreme wet weather event in February.

** Refers to the number of sewage spills that result from lighter wet weather events that occur more often than once every 5 years. We had 17 such spills.

*** Target was not achieved due to low demand in the topsoil market brought about by the prevailing drought conditions.

**** Target was not achieved as recycled water flows for Werribee Irrigation District, Werribee Agriculture, South East Outfall and Eastern Irrigation Scheme are below plan due to additional and/or delayed works and wet weather during the irrigation season.

2004•05 in review

Social sustainability



Melbourne Water's WaterWatch Program

Key achievements

- Extensive consultation with the Victorian Government, catchment management authorities, councils, stakeholders and interested community groups over expanding Melbourne Water's operating area by 5000 square kilometres, to bring a 'whole-of-catchment' approach to river health and land development in the Port Phillip and Westernport region
- Announcement, in response to our CSIRO *Climate Change Study*, that the Tarago Reservoir will be recommissioned earlier than planned, in 2011, to help ensure long-term, reliable water supply
- Further protection of Melbourne's long-term drinking water supply against bushfires, with new 'first strike' Operations and Catchment Maintenance team at the Thomson Reservoir
- Improved drinking water quality for Mornington Peninsula residents with the lining and covering of Dromana Reservoir, and Frankston and Mornington tanks under construction
- Began a major upgrade of Winneke Water Treatment Plant to reduce the risk of algal blooms affecting drinking water quality for northern suburbs residents
- Extensive community education about water resources, with survey showing 91% of respondents had a knowledge and understanding of major issues
- Welcomed more than 14,400 visitors to Melbourne Water sites, a 14% increase on last year, and increased visits to Melbourne Water's website by 73%.

Ensuring a safe and reliable water supply

Melbourne Water manages nine major reservoirs, with a total capacity of 1,773,000 million litres; 59 service reservoirs; 1029 kilometres of distribution water mains; more than 200 kilometres of aqueducts and tunnels; 18 pumping stations; five filtration plants and 44 water treatment (disinfection) plants.

We are responsible for the distribution and supply of safe, high quality drinking water that consistently meets stringent requirements now and in the future. We manage our system using the Hazard Analysis and Critical Control Point (HACCP) system, which focuses on quality management from catchment to consumer.

This year, we supplied 440,982 million litres of drinking water to City West Water, Yarra Valley Water, South East Water and Western Water. They delivered water to homes, businesses, hospitals and other consumers through their reticulation works.

The Tarago Reservoir will be recommissioned in 2011, following the findings of our CSIRO report into climate change. The study examined the potential implications of climate change on Melbourne's water supply, sewerage and drainage systems, and developed climate change scenarios for the years 2020 and 2050 for the greater Melbourne area. The study looked at a range of possible rainfall, temperature and evaporation situations, and found that greater Melbourne could experience:

- An increase in temperature of between 0.3 and 1.0°C by 2020, and 0.6 to 2.5°C by 2050
- A change in rainfall of between -5% and 0% by 2020 and -13% to 1% by 2050
- Drier conditions with more hot, dry days, but increased rainfall intensity during storms

- A reduction in average stream flow into Melbourne's main reservoirs of between 3% and 11% by 2020 and 7% and 35% by 2050
- Reduced total water supply system yield of between 4% and 15% by 2020 and between 10% and 40% by 2050.

Melbourne Water signed agreements with the three retail water businesses on new, consistent water quality standards for supply of water by Melbourne Water under Bulk Water Supply Agreements.

We also updated risk management plans to ensure compliance with the *Safe Drinking Water Act 2003 (Vic.)*.



A new 'first strike' Operations and Catchment Maintenance team has been established at Thomson Reservoir, which supplies about 35% of Melbourne's water. This team will complement existing catchment maintenance teams at Healesville, Warburton and Kinglake West and will carry out works that reduce the risk of bushfire.

To ensure that Melbourne's growing northern suburbs have secure water supplies, we began replacing the ageing Morang-Preston and Morang Outlet mains.

2004•05 in review

Social sustainability

Water quality summary 2004/05

Measure	Target	Target met
Disinfection plant reliability	Primary and secondary plants meet combined reliability of 96%	Yes
Testing of water supplied to the retail water businesses	<i>E. coli</i> : 100% of samples contain less than 1 organism per 100 millilitres	Yes
Trihalomethanes and Haloacetic Acids	All samples to meet BWSA standards	Yes
Fluoride	Short-term average dosage between 0.7-1.2 micrograms per litre; Average dosage over 1 year does not exceed 1 microgram per litre	Yes
Aluminium (aesthetic)	Meet Australian Drinking Water Guidelines of 99.88% compliance	Yes (see note 2)
Turbidity (aesthetic)	Meet Australian Drinking Water Guidelines	Yes

Note 1: Water supplied to the retail water businesses is tested at entry points (1) immediately downstream of Melbourne Water's primary disinfection plants and at monitoring points (2) at storages or water mains within the wholesale transfer system. The monitoring points are identified in our supply agreements with the retail water businesses.

Note 2: The limit for Aluminium in the Australian Drinking Water Guidelines is 0.2 mg/L. The limit for the Essential Services Commission service standard is half this value and compliance with this standard was not met.

On the Mornington Peninsula, residents now have better quality drinking water after the Dromana and Mornington reservoirs were lined and covered. Upgrade works at the Winneke Water Treatment Plant began and a filter trial there greatly improved capacity and flow control, and reduced the turbidity of filtered water.

Melbourne Water met its target for water supply pressure every month except October 2004, when high water pressures were delivered to South East Water in the St.Kilda area due to incorrect control of Melbourne Water valves.

In a separate incident in the City West Water area, low pressure was experienced in Sanctuary Lakes and Altona following work to shut down a Melbourne Water main and resulted in some 250 complaints.

Melbourne Water met the Australian Drinking Water standard for turbidity with all samples taken being below the guideline value. There were six occasions when customers complained to their retail water businesses about the aesthetic quality of the water. These were incidents directly related to Melbourne Water's operations of the transfer system and resulted in Melbourne Water not meeting our own more stringent target

of 100% operational compliance for aesthetic quality each month. The number of complaints for these incidents ranged from 20 to 255. Complaints are caused by the presence of turbidity, taste or odours in the water due to fine suspended matter such as clay, silt, plankton and other microscopic organisms. High turbidity can result in a water sample having a 'muddy' or 'milky' appearance.

Engaging our stakeholders

Expanding our operating area by 5000 square kilometres under the Victorian Government's *Our Water Our Future* action plan requires extensive consultation with the Victorian Government, the Port Phillip and Westernport Catchment Management Authority, local councils, stakeholders and interested community groups.

In 2004/05, Melbourne Water worked with a number of stakeholders to prepare for our role as a waterway, regional drainage and floodplain management authority and in April 2005, we signed a partnership agreement with the Port Phillip and Westernport Catchment Management Authority to formalise the commitment of both organisations to developing stronger links. In the coming year,

we will consult extensively with local communities to determine future service needs, taking into account urban and rural differences.

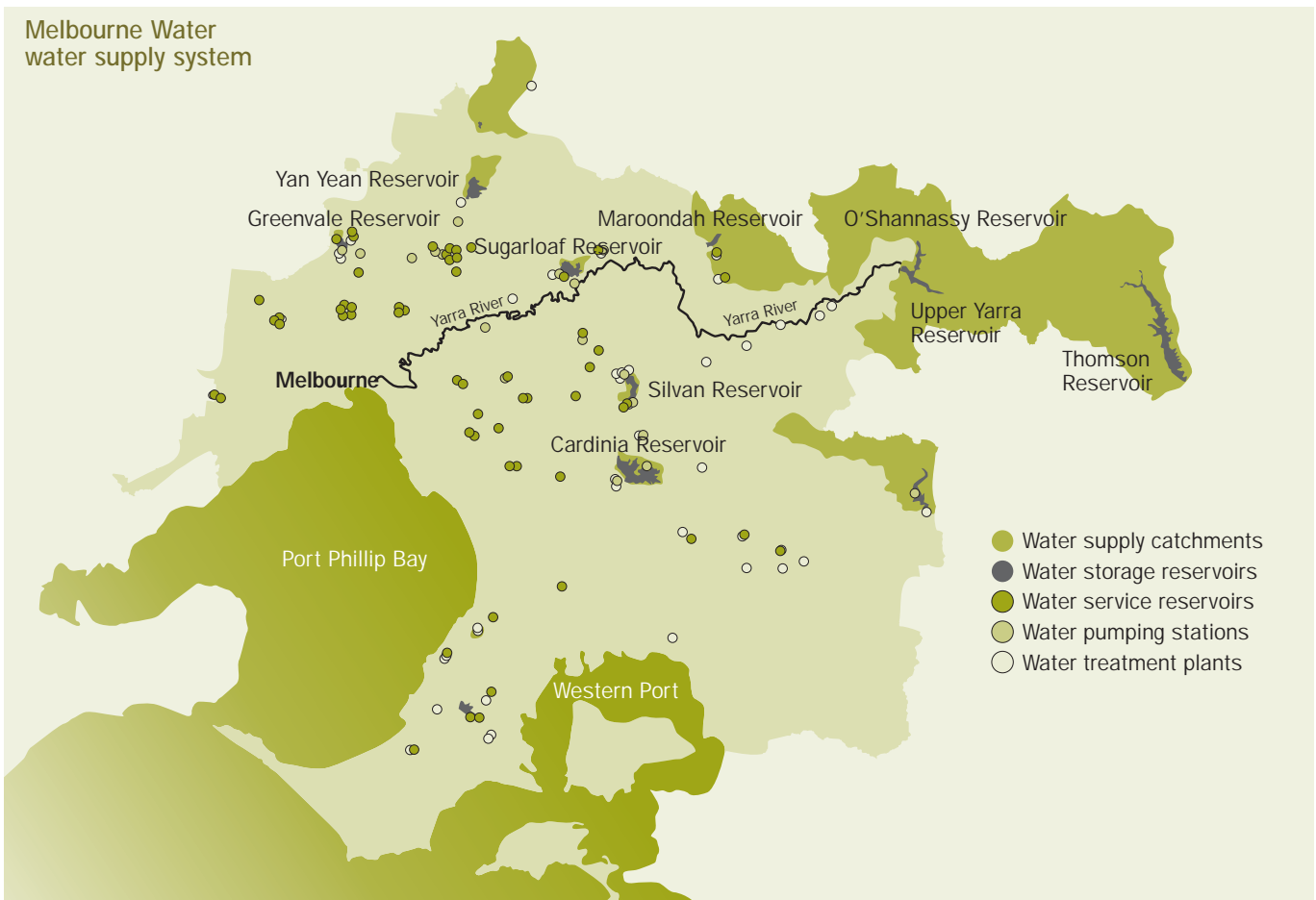
Work on upgrades at both the Eastern and Western sewage treatment plants involved extensive input from our community consultative committees. This year, Melbourne Water, the local consultative committee and EPA Victoria were able to finalise the Environment Improvement Plan for the Eastern Treatment Plant.

An extensive consultation program was also conducted in relation to the provision of education facilities at Edithvale Seaford Wetlands.

We continued our successful community relations calendar and environmental champion awards programs with schools near our Western, Eastern and Winneke treatment plants.

Extensive planning during the year has cleared the way for us to proceed to EPA works approval to clean up the contaminated former Dandenong Sewage Treatment Plant. This long-term remediation will cost about \$50 million, with \$10 million to be spent in the coming year after extensive community consultation. It is planned that the site be used as an industrial park with some housing.

A new *Community Engagement Strategy* will give clearer guidance about how we listen, provide information, minimise adverse impacts, be open to new ideas and seek community input early in decision making for our capital projects. We are also developing a *Cultural Heritage Strategy* to help ensure that our business activities do not damage culturally sensitive sites.



Increasing community awareness

Information about water resources is vital if the community is to value our high quality drinking water. We continued to update the community on water storage levels, with weekly bulletins sent to media and stakeholders and information posted on billboards on Punt Road and Flinders Street.

We welcomed more than 14,400 visitors to Melbourne Water sites, including two successful Open Days at our Eastern and Western sewage treatment plants. More than 2.6 million people visited our website, an increase of 73% from last year, with a 21% increase in visits to the conservewater site.

Other initiatives include river health community education programs such as Melbourne Waterwatch and the Melbourne Water Frog Census, and the provision of education materials. We hosted the Active Catchment Education stormwater trailer in partnership with Keep Australia Beautiful Victoria on behalf of Metro West Waste and EPA Victoria. We also have education partnerships with environmental organisations, including the Australian Platypus Conservancy, Amphibian Research Centre, Landcare, Dolphin Research Institute and the Melbourne Zoo, and industry partnerships with the Housing Industry Association and Sustainable Gardening Australia to deliver stormwater training workshops.

In a May survey, 91% of respondents said they had some knowledge or understanding of major water resource issues. Of these, 59% knew that water storage levels were 55% or below (at survey time, storage levels were between 54-55%), while 34% knew the exact water storage level within a 2% range. This compares to 62% awareness of storage levels in 2003/04.

New education resources for schools included an animated *Floods Explorer* program featuring sophisticated cartoon style graphics of city residents coping with rising flood levels after varying rains. The program aims to educate schools and local communities about what they can do to help mitigate the impact of floods, as well as inform them

2004•05 in review

Social sustainability

on the roles and responsibilities of the different authorities involved in managing floods.

In partnership with national water authorities, Melbourne Water contributed a river health interactive component to the National Archives' *Just Add Water* education exhibit, which will tour the country this year.

In partnership with the Department of Sustainability and Environment and City West Water, we developed a new recycled water exhibit at the Melbourne Water Discovery Centre at the Western Treatment Plant in Werribee, and a mobile recycled water trailer.

Providing a safe and enjoyable work environment

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

We continue to work towards achieving our target of zero injuries for our people and contractors. Workplace injuries for our contractors significantly decreased this year, with two contractors suffering lost time injuries compared to eight the previous year. The Safety Improvement Plan, which was implemented last year, has increased provision of information on health and safety issues and access to health and fitness programs for our field-based employees. However, three of our employees suffered lost time injuries this year compared to two last year.

We encourage our employees to achieve a better balance between their work and home lives. More of our people are taking advantage of flexible working options, including 48/52, part-time and working from home. We continued to provide other benefits such as paid maternity leave, health assessments and flu vaccinations.

Employees took an average of 2.3 days of sick leave in 2004/05, against our target of no more than 2.7.

A skilled and motivated workforce

Melbourne Water is an equal opportunity employer and we are committed to attracting and retaining a motivated and skilled workforce. Melbourne Water promotes high standards of integrity and conduct consistent with the principles outlined in the *Public Administration Act 2004 (Vic.)*.

Melbourne Water's total workforce as at 30 June 2005 was 537, with 76% men and 24% women. This is a slight increase of 1% in the number of female employees compared with last year. Of the 84 new people employed during the year, 33 were women.

Staffing trends

2001	2002	2003	2004	2005
488	498	512	501	537

During the year, a new Enterprise Agreement was certified.

Its implementation means that all employees covered by the agreement, some 370 employees, have an up-to-date position description and have been translated to a new job level structure.

We continued to increase employees' knowledge of our operations with more than 420, or 80%, of employees taking part in employee tours during the year, which for the first time included our stakeholders. These tours provide an opportunity for our employees to understand how their role contributes to meeting our business priorities and long-term vision.

Employee profile by position

	Male		Female		Total	
	2005	2004	2005	2004	2005	2004
Executives	38	36	5	4	43	40
Technical and Professional	211	200	86	75	297	275
Operational	142	131	1	0	143	131
Administrative	15	21	39	34	54	55
	406	388	131	113	537	501

Our employees have performance and development plans, which are reviewed and updated annually. The plans provide a framework by which employees can develop or enhance skills that will help achieve business objectives and their individual career objectives.

Training and development

Melbourne Water's success as an organisation depends on the skills and efforts of our employees, and we support them through performance management systems and leadership and development programs.

We employed 31 people under our Graduate Program in 2004/05. Our five operations trainees were offered permanent employment at the end of their traineeship, as part of Melbourne Water's support for the Apprenticeships Victoria scheme.

WaterAid Australia

WaterAid Australia is an international, non-government organisation dedicated exclusively to the provision of safe domestic water, sanitation and hygiene education to the world's poorest people. This year, Melbourne Water contributed \$5000 as a foundation member of WaterAid, and employees raised \$500 through fundraising activities.

Key performance indicators 2004/05

	Target	Performance
% compliance with retail water business water pressure requirements	99.5%	Target not met*
Breaches in water colour and turbidity requirements	nil	Target not met**
% achievement of requirements under <i>Safe Drinking Water Act</i>	100%	100%
% effectiveness of community consultation procedures	80%	80%
% of community that continue to rate Melbourne's drinking water as good or very good	85%	86.9%
Level of community knowledge and understanding of water resource issues	80%	90.9%
Level of knowledge and understanding of the organisation's business priorities by our employees	75%	N/A***
Number of lost-time injuries:		
– Melbourne Water employees	0	3
– Major contractors	0	2
Lost time injuries frequency rate (Melbourne Water employees – rolling 12 months)	0	3.4

* Targets are monthly targets and 100% compliance is required each month for target to be met. Did not reach pressure target in one month.

** Targets are monthly targets and 100% compliance is required each month for target to be met. Did not reach colour and turbidity requirement in five months.

*** Result was not available as survey was not undertaken because of major changes to the organisation's long-term plan and development of a new strategic framework, associated review of business priority areas and decision to undertake a culture survey.

Corporate governance

Our values

We have organisational values that guide our decision-making and enable the organisation to operate in a professional manner, and in the best interests of our customers, employees, shareholder, suppliers and stakeholders. Melbourne Water requires its contractors to acknowledge and adhere to these values in performing works and services for Melbourne Water.

Board of Directors

Melbourne Water has been a reorganising body under the *State Owned Enterprises Act* since 1992. The Minister for Water, in consultation with the Treasurer, appoints our Directors for terms of up to three years and the Victorian Government sets their remuneration. Directors are eligible for reappointment for subsequent terms up to a maximum of nine consecutive years. In making new appointments to the Board, the Government ensures the Board has the necessary combination of skills and experience.

The Managing Director is appointed by the Board, subject to the approval of the Minister in consultation with the Treasurer, for a term of up to five years.

Annual reviews are conducted of the performance of the Board as a whole and of individual members. Professional development opportunities are made available for Board members. This year, external expertise was utilised in the performance assessment of the Board. Pursuant to Melbourne Water's obligations under its Statement of Obligations issued by the Minister, the outcomes of the performance review are reported to the Treasurer.



Melbourne Water's Board of Directors Left to right: Merran Kelsall, Mary Anne Hartley, Jane Denton (Corporate Secretary), Carolyn Schultz and Cheryl Batagol (Chairman). Seated left to right: Terry Larkins, Grant Wilson (Acting Managing Director Nov 04 – Feb 05) and Peter Darvall (Note: Rob Skinner absent)

The Board of Directors currently comprises a non-executive chairman, six non-executive directors and the Managing Director.

Cheryl Batagol Chairman

Cheryl Batagol was appointed Chairman on 1 January 2004. Ms Batagol has 30 years experience in the waste management industry, including commercial, industrial and trade waste management and treatment. Previously, she was Chair of EcoRecycle Victoria and a director of City West Water. Ms Batagol is currently Chair of the Interim Advisory Board for Sustainability Victoria. Ms Batagol has also been involved with EPA Victoria and the Co-operative Research Centre for Pollution Control and Waste Management.

Peter Darvall, BE (Hons) Melb, MS Ohio State MSE MA PhD Prin. DipEd FIEAust. FTSE Director

Peter Darvall was appointed to the Board on 1 January 2004. Professor Darvall was previously the Vice-Chancellor and President of Monash University as well as Vice-President for Research and Development and Dean of Engineering at Monash. He has served on the boards of many research organisations, including the Co-operative Research Centres for Catchment Hydrology, Water Quality and Treatment, and Freshwater Ecology.

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

Mary Anne Hartley was appointed to the Board on 1 July 2002. Ms Hartley, a practising barrister, is also a Director of the Port of Melbourne Corporation. She was a partner in a national law firm where she advised public hospitals and practised insurance law before joining the Victorian Bar in 1997.

Merran Kelsall, B.Com (Hons), MBA, FCA
Director

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

Terry Larkins, PSM
Director

Terry Larkins was appointed to the Board on 1 January 2004. Mr Larkins was appointed Chairman of Western Water in 2001. He has extensive experience in the water industry and local government and has been Chief Executive Officer of the Shire of Gisborne and Secretary of the former Gisborne Water Board.

Carolyn Schultz, BSc (Hons), PhD
Director

Carolyn Schultz was appointed to the Board on 1 January 2000. Dr Schultz is a lecturer at the University of Adelaide, School of Agriculture and Wine, and is a graduate of the Australian Institute of Company Directors.

Rob Skinner, DipCE, BE (Hons), MSc (Birm)
Managing Director

Rob Skinner was appointed Managing Director of Melbourne Water in February 2005. Prior to joining Melbourne Water, he was Chief Executive Officer of Kingston City Council for 10 years, and held a number of senior positions including Chairman, Southern Rural Water, General Manager Water Services with Melbourne Water, Chief Executive Officer of Dandenong Valley and Western Port Authority and Chief Executive, Coode Island Review Panel.

Board appointments

Brian Bayley resigned from the Board, effective 29 January 2005. Robert Squire resigned from the Board, effective 4 March 2005.

Powers and accountability

The Board's functions and duties are specified in Section 10 and 11 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)*.

Under an agreement with the relevant Minister, effective as of 1 January 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 area for which Melbourne Water has drainage responsibilities.

The Minister has also delegated powers of management under the *Water Act 1989 (Vic.)* relating to licensed private water diversions from waterways to Melbourne Water, effective 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 Minister responsible for Melbourne Water is the Hon. John Thwaites MP Minister for Water. We work with officials in the Department of Sustainability and Environment and the Department of Treasury and Finance. They receive statutory and other reports covering our performance against objectives and performance indicators in the Corporate Plan.

The Government is currently undertaking a review of legislation applicable to the water industry in Victoria and it is anticipated that new legislation will be introduced in the Autumn 2006 session of State Parliament.

Primary responsibilities

Melbourne Water's Board of Directors has a Charter that defines its role and responsibilities.

The Board makes plans to achieve specific objectives, which include:

- The establishment of long-term outcomes based on a triple bottom line approach
- The approval of budgets together with key performance indicators linked to objectives
- The approval of annual financial statements and the monitoring of performance against objectives and risks
- Monitoring of safety, health and environmental standards and management systems
- The Board has ratified a Corporate Governance Policy and a Statement of Corporate Governance has been prepared outlining Melbourne Water's corporate governance framework and arrangements (to be reviewed annually). This Statement includes details of Melbourne Water's policy framework, which specifies that the Board will ratify Melbourne Water policies that deal with high-risk issues, including the environment and public health.

Key features of the Board's activities are that:

- It meets 11 times a year, undertakes site visits and participates in business strategy workshops with Melbourne Water's Leadership Team
- A structured induction program exists for new Board and Committee members
- Board papers are available to all directors seven days before 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

Corporate governance

- Declarations of pecuniary interest by directors are made annually, with procedures for updating that information between declarations.

The Board has three sub-committees, each comprising three non-executive directors, who meet quarterly to focus on audit and corporate risk, remuneration and human resources, and environment and health and safety respectively. The Managing Director attends meetings of committees by invitation. Each Committee has a Charter approved by the Board.

Committees

Audit and Corporate Risk Committee

The role of the Audit and Corporate Risk Committee is to assist the Board of Directors in fulfilling its responsibilities relating to risk management, financial management and operational control practices, and compliance with relevant laws and regulations. Key responsibilities include reviewing Melbourne Water's approach to the management of economic and business risks, reviewing and evaluating the adequacy and effectiveness of internal, operating, accounting and compliance controls and risk management practices, and ensuring the organisation is operating within an effective governance framework.

In carrying out its functions for the year, the Audit and Corporate Risk Committee has had unrestricted access to appropriate internal and external expert advice. At 30 June, the Committee comprised Merran Kelsall (Chairman), Peter Darvall and Terry Larkins. A report about the activities of the Committee in fulfilling its Charter is prepared annually. The Committee meets the requirements of the *Financial Management Compliance Framework*.

Remuneration and Human Resources Committee

This Committee recommends to the Board the terms of employment and remuneration for Melbourne Water employees, taking into account the financial performance and condition of Melbourne Water.

For details of directors' and executives' remuneration, refer to notes 25 and 26 of the Financial Statements.

At 30 June, the Committee comprised Terry Larkins (Chairman), Cheryl Batagol and Merran Kelsall. A report about the activities of the Committee in fulfilling its Charter is prepared annually.

Environment and Health and Safety Committee

This Committee assists the Board in fulfilling its responsibilities relating to environmental sustainability, public health and to fulfil responsibilities in respect of workplace health and safety.

The Committee encourages continuous improvement of, and monitors adherence to, Melbourne Water's environmental, public health, sustainability and workplace policies and procedures at all levels.

As at 30 June, the Committee comprised Mary Anne Hartley (Chairman), Cheryl Batagol and Carolyn Schultz. A report about the activities of the Committee in fulfilling its Charter is prepared annually.

Risk management

Melbourne Water's approach to risk management recognises our commercial, social and environmental responsibilities. Risk management does not mean that Melbourne Water will avoid all risks. Rather, it allows us to understand our risks and manage them in a consistent manner. Effective and efficient risk management is central to achieving sustainability.

We take a 'whole of business' approach by considering risks in: infrastructure and resource management, stakeholder relations, people, public health, environment, reputation and image, economic regulation, information management, commercial and corporate governance.

Risk assessments are conducted regularly to identify the likelihood or probability of a risk occurring, the consequence of a risk occurring and the existing level of business risk. This is strengthened by assessing the effectiveness of our mitigating strategies.

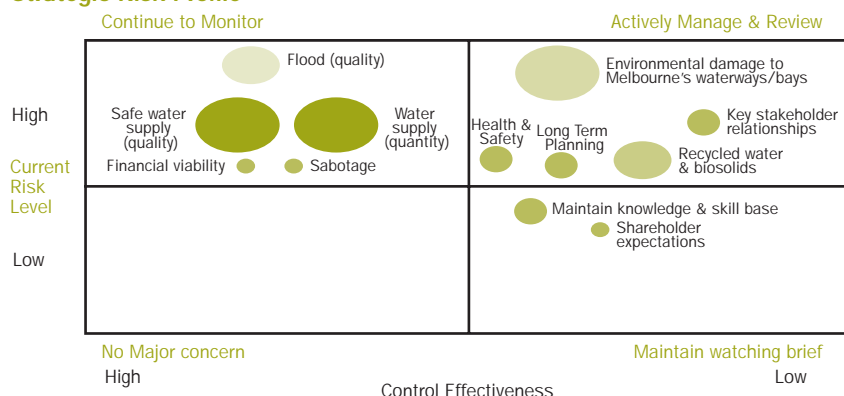
The capital prioritisation process uses risk assessment as a tool for investing. Operational risks are managed on a daily basis.

Risk management framework

To assist in strategic management, Melbourne Water has identified and assessed 12 key strategic risks. The strategic risks are depicted below and sized according to their risk exposure (i.e. the larger the representation, the greater the risk exposure to Melbourne Water).

Our risks will continue to be managed through a robust risk management framework, including certified management systems, skilled people, strong contractual relationships, close working relationships with stakeholders and the community, sound operational procedures, capital and assets

Melbourne Water Strategic Risk Profile



maintenance management programs, and a watching brief on changes in research and technology.

Melbourne Water has an emergency and incident management framework and a comprehensive insurance portfolio, and has taken part in developing industry response plans and protocols to apply in the event of a large scale incident.

We reassess our risk profile through external reviews by the Victorian Auditor General, other specialists and internal audits, and undertake a risk self-assessment review every six months. The results of all these reviews are presented to our Audit and Corporate Risk Committee.

Ethics and values

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

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

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

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

Organisational structure

Managing Director
Rob Skinner

Strategy and Planning Grant Wilson

Responsible for corporate strategy, pricing and regulation, capital expenditure planning, major planning strategies across water, sewerage systems and sustainability, energy and greenhouse management, and water recycling.

Research and Technology Peter Scott

Responsible for meeting our business priority objectives as set out in the Corporate Plan through the adoption of innovative technologies and scientific research. Also manages our compliance activities in relation to water quality, public health and environment.

Rivers and Drainage Chris Chesterfield

Responsible for managing stormwater and floodplains to protect the environment and provide a safe level of flood protection for communities, planning of infrastructure to service urban development, and programs to protect and enhance the health of the region's rivers, creeks and wetlands.

Infrastructure Eamonn Kelly

Responsible for design and construction of Melbourne Water's capital works, developer funded and other authorities works, asset management, capital program coordination, and management of maintenance contracts.

Operations Tony Antoniou

Responsible for managing the operation of Melbourne Water's water supply and sewerage systems to meet regulatory, bulk agreement and community expectations.

Business Services Malcolm Haynes

Responsible for the support of all areas of Melbourne Water by developing, implementing and maintaining strategies, systems, policies and procedures in relation to Finance, Supply, Information Technology, Risk and Insurance (including WorkCover), Corporate Secretariat and Legal Services (including Board support), and the Werribee Agriculture business.

Communications and Community Relations Christine Gibbs

Responsible for the development and implementation of communication programs, including community consultation, media relations, community education, website and internal communications, and management of the enquiry centre.

Human Resources Elise Callander

Responsible for developing, implementing and maintaining human resources strategies, policies and procedures that ensure we achieve our business objectives and that provide a safe and healthy work environment in which our people can develop and excel.

Five-year financial summary

Statement of financial performance for the year ended 30 June 2005

	2001 \$M	2002 \$M	2003 \$M	2004 \$M	2005 \$M
Revenue from ordinary activities	460.8	480.2	510.7	503.8	528.0
Profit from ordinary activities before income tax expense	176.3	185.8	218.4	179.5	188.6
Income tax expense relating to ordinary activities	47.2	55.6	68.5	56.1	62.9
Net profit	129.0	130.3	150.0	123.4	125.7
Dividends paid	58.3	98.9	99.4	95.7	41.3

Statement of financial position as at 30 June 2005

	2001 \$M	2002 \$M	2003 \$M	2004 \$M	2005 \$M
Current assets	39.2	50.3	52.9	44.3	57.3
Non-current assets	2,914.4	2,944.5	2,998.5	3,087.5	3,205.9
Total assets	2,953.6	2,994.8	3,051.4	3,131.8	3,263.2
Current liabilities	235.0	264.3	318.0	367.6	296.1
Non-current liabilities	1,421.8	1,402.4	1,352.0	1,355.0	1,473.6
Total liabilities	1,656.8	1,666.7	1,670.0	1,722.6	1,769.7
Net assets	1,296.8	1,328.1	1,381.4	1,409.2	1,493.5
Total equity	1,296.8	1,328.1	1,381.4	1,409.2	1,493.5

The following should be considered when reviewing the five-year financial summary:

* Accounting and Finance Bulletin Issue 36 detailing changes to the recognition of proposed dividends was released in respect of the 2001 year. Accordingly, no provision for dividend is taken to account until formally declared.

Financial summary

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Directors' report

Directors

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

Cheryl Batagol (Chairman) Terry Larkins
Peter Darvall Carolyn J Schultz
Mary Anne Hartley Robert Skinner (Managing Director – appointed 28 February 2005)
Merran H Kelsall (Deputy Chairman)

Particulars of the directors' qualifications, experience and special responsibilities are set out on pages 20 and 21 of this report.

Directors' meetings

During the financial period Melbourne Water held 12 meetings of directors.

Attendance at meetings of the Board and its committees were:

	Principal Board		Audit and Corporate Risk Committee		Remuneration and Human Resources Committee		Environment and Health and Safety Committee	
	Attended	Maximum Possible	Attended	Maximum Possible	Attended	Maximum Possible	Attended	Maximum Possible
Cheryl Batagol	12	12	3*	5	4	4	4	4
Robert Skinner	4	4	1*	1	1*	1	1*	1
Brian Bayley ^	3	6	2*	2	1*	1	1*	1
Carolyn Schultz	11	12	–	–	–	–	4	4
Mary Anne Hartley	12	12	–	–	–	–	4	4
Merran Kelsall	12	12	5	5	1	1	–	–
Peter Darvall	12	12	5	5	–	–	1*	4
Robert Squire ^	7	8	–	–	3	3	–	–
Terry Larkins	12	12	5	5	4	4	2*	4
Grant Wilson ^	5	5	2*	2	2*	2	2*	2

* Attended by invitation

^ Brian Bayley resigned with effect from 29 January 2005

^ Robert Squire resigned with effect from 4 March 2005

^ Grant Wilson was Acting Managing Director from 28 August 2004 to 26 September 2004 and 19 October 2004 to 27 February 2005

Principal activities

Melbourne Water manages all aspects of the water cycle, from Melbourne's water supply catchments, to protecting and improving rivers and creeks, sewage treatment and water recycling. Melbourne Water also provides water and sewerage services to Melbourne's three retail water businesses: Yarra Valley Water, South East Water and City West Water.

Operating results and dividend

Melbourne Water's net profit, after providing for income tax, was \$125.7 million.

The proposed interim and final dividend for 2004/05 is \$97.0 million, which is subject to final determination by the Treasurer of Victoria, after consultation with Melbourne Water's Board of Directors and the Minister for Water. The proposed dividend has not been booked as a provision as at 30 June 2005.

Review of operations

The directors' review of Corporation operations during the financial period ended 30 June 2005, and the results of those operations, are set out in the Managing Director's overview on pages 4 to 5 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 2005 not otherwise disclosed in this report.

Environmental regulation

Melbourne Water is subject to significant environmental regulation in respect of managing sewage treatment plants, maintaining environmental flow requirements and managing Ramsar wetlands.

Sewage treatment plants

Melbourne Water's compliance with EPA Victoria discharge parameters was 100 per cent at the Eastern Treatment Plant and 100 per cent at the Western Treatment Plant. Other discharge licence requirements were met during the year to EPA Victoria's satisfaction.

Works at the Western Treatment Plant to meet upgraded discharge licence requirements were commissioned during the year. These focussed on nitrogen load reduction, containing odour within the Plant boundary and reducing greenhouse emissions.

In November 2004, Melbourne Water requested an amendment to the Works Approval issued last year to upgrade the Eastern Treatment Plant and to account for potential impacts from the Eastern Water Recycling Proposal. Discussions with EPA Victoria indicated that amended works approval and discharge licence will be issued during July 2005.

Improvements to achieve tighter discharge ammonia limits progressed during the year.

Ramsar sites at Western Treatment Plant and Edithvale Seaford Wetlands

The Western Treatment Plant is broadly managed within parameters of the Ramsar International Convention's 'wise use' test, which aims to protect wetlands with internationally significant environmental values. The Commonwealth Department of Environment and Heritage approved a management plan and a more detailed Compliance Plan to manage environmental values at the Plant, while works to meet the upgraded EPA Victoria discharge licence were implemented. Actions taken during the year met the requirements of these two plans.

The Edithvale Seaford Wetlands management plan has been developed to ensure that site activities are managed within parameters of the Ramsar International Convention's 'wise use' test. Review of site management of vegetation and hydrology was completed during the year and relevant actions were incorporated into the site management plans. Activities such as monitoring bird numbers are implemented to ensure site activities do not adversely affect significant bird populations.

Dandenong Treatment Plant

The Melbourne Water Board has formally approved the rehabilitation of the former Dandenong Treatment Plant site together with the formulation of a commercial agreement with VicUrban for the site development for both residential and industrial purposes. Work has commenced on the preparation of an Environment Improvement Plan for the rehabilitation of the site and an EPA Victoria Works Approval Application for a proposed containment cell for the soils and biosolids to be stored on site. It is anticipated that works will commence on site during the summer of 2005/06.

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 a point below Melbourne Water's pumps at Yering Gorge. During the year, drought conditions eased and flows did not fall below this level with the lowest flow recorded at 257 million litres per day.

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 in the Thomson River. In the Maribyrnong River, there were three days when the flow was below the required level due to delays in diverters implementing bans when the river fell unseasonally in May 2005. Flows were met for the remainder of the year.

The Victorian Government released a White Paper (*Securing Our Water Future Together*) in June 2004 which recommended an Operating Strategy for the Thomson and Macalister Rivers. Melbourne Water has worked with appropriate agencies to adjust releases from Thomson Dam to meet the Operating Strategy flow requirements.

This will require a revised bulk entitlement and Melbourne Water will provide appropriate releases once this has been approved by Government.

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.

Directors' report

Director benefits

No director has received or become entitled to receive a benefit (other than a benefit included in notes 24 and 33 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 2005 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. The terms of the policy of insurance prohibit the disclosure of the nature of the liabilities insured and the amount of the premium.

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 33 to the financial statements.

Implementation of the Victorian Industry Participation Policy (VIPP)

In October 2003, the Victorian Parliament passed the *Victorian Industry Participation Policy Act 2003*. This Act requires public bodies and departments to report on the implementation of the Victorian Industry Participation Policy.

Contracts commenced to which the VIPP applied:

During the financial year 2004/2005, Melbourne Water commenced five contracts totalling \$41.6 million in value to which the VIPP applied.

The number and value of these relate to six Metropolitan contracts.

The commitments by contractors under VIPP included:

- An overall level of local content of 92% of the total value of the contracts.
- 112 full time equivalent jobs.
- The benefits to the Victorian economy in terms of skills and technology transfers will be derived from learning a new pipe joint system and picking up new skills relating to water treatment process technology at Winneke Treatment Plant.

Contracts completed to which the VIPP applied:

During the financial year 2004/2005, Melbourne Water completed two contracts totalling \$25.9 million in value to which the VIPP applied.

The number and value of these relate to three Metropolitan contracts.

The outcomes reported by contractors under VIPP included:

- An overall level of local content of 93% of the total value of the contracts.
- 99 full time equivalent jobs.
- There was no transfer of any new skills and technology relating to these contracts.



Cheryl Batagol
Chairman



Robert Skinner
Managing Director

Statement of financial performance

for the year ended 30 June 2005

	Note	2005 \$000	2004 \$000
Revenue from ordinary activities	2	528,031	503,830
Depreciation and amortisation expense	3a	(71,231)	(70,303)
Operational expense		(65,199)	(61,825)
Employee benefits expense		(41,505)	(39,577)
Repairs and maintenance expense		(33,402)	(28,024)
Administrative expense		(23,823)	(24,808)
Borrowing costs expense	3a	(77,924)	(76,253)
Other expenses from ordinary activities		(26,326)	(23,578)
Profit from ordinary activities before income tax expense		188,621	179,462
Income tax expense	4	(62,920)	(56,089)
Net result for the reporting period	23	125,701	123,373

The above Statement of financial performance should be read in conjunction with the accompanying notes to the accounts.

Statement of financial position

as at 30 June 2005

	Note	2005 \$000	2004 \$000
Current assets			
Cash assets	6, 36	387	128
Receivables	7, 36	29,148	22,015
Other assets	8	27,722	22,155
Total current assets		57,257	44,298
Non-current assets			
Property, plant and equipment	9	3,191,787	3,079,628
Other assets	10	8,174	1,465
Deferred tax assets	11	5,932	6,416
Total non-current assets		3,205,893	3,087,509
Total assets		3,263,150	3,131,807
Current liabilities			
Payables	12, 36	114,909	94,525
Interest-bearing liabilities	13, 27, 36	161,877	257,757
Current tax liabilities	14	9,541	6,608
Provisions	15	9,763	8,741
Total current liabilities		296,090	367,631
Non-current liabilities			
Payables	16, 36	693	1,035
Interest-bearing liabilities	17, 27, 36	1,015,358	932,634
Deferred tax liabilities	18	441,463	404,620
Provisions	19	16,082	16,707
Total non-current liabilities		1,473,596	1,354,996
Total liabilities		1,769,686	1,722,627
Net assets		1,493,464	1,409,180
Equity			
Contributed equity	20	665,187	665,304
Reserves	21	32,579	32,579
Retained profits	22	795,698	711,297
Total equity	23	1,493,464	1,409,180

The above Statement of financial position should be read in conjunction with the accompanying notes to the accounts.

Statement of cash flows

for the year ended 30 June 2005

	Note	2005 \$000	2004 \$000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		493,184	480,571
Payments to suppliers and employees (inclusive of goods & services tax)		(224,835)	(202,772)
Income tax paid		(22,660)	(38,594)
Interest received		71	38
Borrowing costs		(78,159)	(75,588)
Other revenue		52,141	44,669
Net cash inflow from operating activities	32	219,742	208,324
Cash flows from investing activities			
Payment for property, plant, equipment and works in progress		(166,083)	(158,245)
Proceeds from sale of property, plant and equipment		1,055	4,789
Net cash (outflow) from investing activities		(165,028)	(153,456)
Cash flows from financing activities			
Proceeds from borrowings		194,967	362,697
Repayment of borrowings		(208,122)	(321,949)
Dividend paid		(41,300)	(95,700)
Net cash (outflow) from financing activities		(54,455)	(54,952)
Net increase/(decrease) in cash held		259	(84)
Cash at the beginning of the financial year		128	212
Cash at end of the financial year	6	387	128

The above Statement of cash flows should be read in conjunction with the accompanying notes to the accounts.

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 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*.

1.3 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.

1.4 Valuation of non-current assets

Property, plant and equipment, excluding Crown Land, are recorded at historical cost. Those assets acquired from external sources are valued at an arms-length value. Assets acquired at no cost by the Corporation are recognised at fair value at the date of acquisition.

Crown Land holdings of 9,402 hectares have been valued by the Office of the Valuer General at fair value based on deprival value (refer to note 9). Following adoption of Australian equivalents to International Financial Reporting Standards (A-IFRS), the *Financial Management Act 1994* requires Crown Land to be measured at fair value based on its highest and best use after due consideration to any legal or constructive restrictions on the asset. A valuation was conducted on 1 July 2004 on this basis for the disclosure of comparative information in the 2005-06 financial report, which will be prepared under A-IFRS (refer to note 37).

Transfers to and from other Victorian Government entities are recognised as revenue or adjusted against contributed equity in accordance with formal approval by the Minister of Finance. Crown Land revaluations are adjusted against the asset revaluation reserve.

1.5 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.

1.6 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 2005. 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.

Analysis confirmed that the recoverable amount for each major asset group was in excess of the written down carrying value.

1.7 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 150 years

The useful lives of the assets are reviewed annually.

1.8 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 useful life of the asset to the Corporation. The Corporation has one finance lease at 30 June 2005 (a water treatment plant at Yan Yean Reservoir) which is being amortised over a 21 year period.

1.9 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 from date of invoice. 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 – when assets are acquired at no cost to the Corporation an equivalent amount is recognised as revenue on completion of 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 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 payables.

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.

Notes to the accounts

1.10 Accounts payable

Creditors and accruals – represent liabilities for goods/services which are unpaid at 30 June 2005. 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.

1.11 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.

1.12 Derivative Financial Instruments

As at 30 June 2005, Melbourne Water had no derivative positions and there are no additional positions in place to hedge future transactions.

1.13 Cash

For the purposes 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 benefits

Salaries and annual leave

Liabilities for salaries, including non-monetary benefits expected to be settled within 12 months of the reporting date, are measured at their nominal amounts in respect of employee's services up to the reporting date. The nominal basis of measurement uses employee remuneration rates that the entity expects to pay as at each reporting date and does not discount cash flows to their present value.

Annual leave benefits are accrued on a pro rata basis in respect of services provided by employees up to balance date, having regard to future rates of remuneration and on-costs.

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

Long service leave expected to be paid within 12 months of the reporting date is recognised in the provision for employee benefits and is recorded as a current liability in the Statement of Financial Position at its nominal value. Long service leave expected to be paid later than one year is recognised in the provision for employee benefits and is measured at the present value of the estimated future cash outflows to be made for these entitlements and recorded as a non-current liability. Consideration is given to expected future employee remuneration rates, employment related on-costs and other factors, including experience of employee departures and periods of service. National Government Guaranteed Security Rates are used for discounting future cash flows.

Superannuation

In respect of the Corporation's defined benefits superannuation funds, any contributions made to the superannuation plans by the Corporation are recognised in the Statement of Financial Performance, when due.

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 \$5.9 million (\$5.3 million in 2003/04) is made for outstanding claims incurred and not settled, and for claims incurred but not reported at 30 June 2005.

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 on actuarial assessment, a provision of \$0.2 million is made for all outstanding workers compensation claims at 30 June 2005 (\$0.1 million in 2003/04).

1.15 Inventories

Stores (consumables)

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

Livestock

Livestock include cattle and sheep held in connection with operating the Corporation's Werribee Agriculture operations. 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 direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure.

1.16 Prepayments

The Smart Water Fund was established by Melbourne Water and the three retail water businesses for the purpose of providing grant funding to support the development of sustainable water use projects. Each entity has a 25 per cent interest in the fund. Melbourne Water will contribute a further \$4 million over a 3 year period to 2007/08. Payments of \$2 million have been paid to the fund.

Contributions made to the Smart Water Fund are initially recognised as prepayments in the water businesses' Statement of Financial Position. Expenses are subsequently recognised by the water businesses when incurred by the Fund.

1.17 Provisions, Contingent Liabilities and Contingent Assets

The purpose of AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets* is to prescribe requirements for the recognition, measurement, presentation and disclosure of provisions and recoveries receivable to assist users to assess their nature and amount. It also prescribes requirements for the disclosure of contingent liabilities and contingent assets to assist users to assess their nature and amount and the uncertainties expected to affect their ultimate outcome. Contingent liabilities and assets are not recognised in the financial statements but are only disclosed by way of a note, and if quantifiable are measured at nominal value.

1.18 Dividends

The Corporation is required to pay a dividend in accordance with a determination of the Treasurer of Victoria under the *Public Authorities (Dividend) Act 1983*, based on a prescribed percentage of the previous years' adjusted net profit. An obligation to pay a dividend only arises after consultation with the portfolio Minister and the Treasurer and a formal determination is made by the Treasurer.

1.19 Segment Reporting

As Melbourne Water operates solely within Australia, segments have been selected on the basis of business activity (i.e., Water, Sewerage, Waterways and Drainage), rather than geography.

1.20 Comparative Figures

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

1.21 Agreements equally proportionately unperformed (BOO/BOOT Schemes)

The Corporation has entered into contractual arrangements with AGL Ltd to build, own and operate a power generation plant over a 10 year period and TopAq Pty Ltd to build, own, operate and transfer water quality treatment services over a 25 year period both in exchange for a stream of payments. At the end of the contract period with TopAq the assets are transferred to the Corporation at no cost.

As this agreement is equally proportionately unperformed at balance date, the Corporation does not recognise assets and liabilities arising from the agreement in its Statement of Financial Position.

Notes to the accounts

	Note	2005 \$000	2004 \$000
2 Revenue			
Revenue from operating activities			
Water usage charges		163,749	158,822
Sewage disposal charges		177,790	172,332
Drainage rates		125,036	119,266
		466,575	450,420
Revenue from outside the operating activities			
Developer charges and contributions		34,215	38,025
Proceeds from sale of non-current assets*		2,839	(2,127)
Rent received		2,113	2,026
Interest received/receivable		71	38
Miscellaneous		22,218	15,448
		61,456	53,410
Revenue from ordinary activities		528,031	503,830

* During 2003/04, a previously accrued asset sale of \$3.1 million was reversed due to the sale failing to proceed. The reversal of this sale has resulted in a debit balance in the proceeds from sale of non-current assets.

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/(losses)

Net gain/(loss) on disposal of non current assets	(442)	(3,505)
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Expenses

Depreciation		
Buildings and leasehold improvements	1,553	1,654
Minor plant and equipment	6,074	6,506
Infrastructure assets	62,496	61,036
Total depreciation	70,123	69,196
Amortisation		
Infrastructure assets under finance leases	1,108	1,107
Total depreciation and amortisation expense	71,231	70,303
Assets written off/written down	1,885	912
Other charges against assets		
Bad and doubtful debts – trade/other debtors	1	6
Borrowing costs		
Interest and finance charges paid/payable	77,924	76,253

3b Revision of accounting estimates

During 2003/04, an asset-life review was conducted which involved an extension of Melbourne Water's broadband asset lives categories to up to 150 years (previously 100 years).

Note	2005 \$000	2004 \$000
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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	188,621	179,462
Prima facie income tax calculated at 30% (2003/04 – 30%)	56,586	53,839
Adjustment for the tax effect of permanent differences:		
– Non-deductible expenses	6,934	2,444
– Other assessable income	–	11
– Research and development concession	(600)	(205)
Income tax adjusted for permanent differences	62,920	56,089
Income tax expense	62,920	56,089
Income tax expense comprises:		
– Current taxation provision	25,593	23,529
– Deferred income tax provision	36,843	33,074
– Future income tax benefit	484	(514)
	62,920	56,089

5 Segment reporting

5.1 Segment reports for the year ended 30 June 2005

Business segments	Water \$000	Sewerage \$000	Waterways & Drainage \$000	Consolidated \$000
Revenue				
External segment revenue	169,259	194,735	163,966	527,960
Total segment revenue	169,259	194,735	163,966	527,960
Other unallocated revenue				71
Total revenue				528,031
Result				
Segment result	87,386	77,688	101,400	266,474
Unallocated corporate revenue less unallocated corporate expenses				(77,853)
Profit from ordinary activities before income tax expense				188,621
Income tax expense				(62,920)
Profit from ordinary activities after income tax expense				125,701
Net profit				125,701
Depreciation and amortisation	21,491	35,665	14,075	71,231

Notes to the accounts

5.1 Segment reports as at 30 June 2005

Business segments	Water \$000	Sewerage \$000	Waterways and Drainage \$000	Consolidated \$000
Assets				
Segment assets	1,173,171	1,395,222	688,437	3,256,830
Unallocated corporate assets				6,320
Consolidated total assets				3,263,150
Liabilities				
Segment liabilities	36,967	29,749	52,644	119,360
Unallocated corporate liabilities				1,650,326
Consolidated total liabilities				1,769,686
Acquisition of non-current assets (purchased during the year and form part of the total segment assets)	19,072	110,583	39,460	169,115

5.2 Segment reports for the year ended 30 June 2004

Business segments	Water \$000	Sewerage \$000	Waterways and Drainage \$000	Consolidated \$000
Revenue				
External segment revenue	163,039	180,170	160,583	503,792
Total segment revenue	163,039	180,170	160,583	503,792
Other unallocated revenue				38
Total revenue				503,830
Result				
Segment result	76,587	80,032	99,058	255,677
Unallocated corporate revenue less unallocated corporate expenses				(76,215)
Profit from ordinary activities before income tax expense				179,462
Income tax expense				(56,089)
Profit from ordinary activities after income tax expense				123,373
Net profit				123,373
Depreciation and amortisation	24,446	33,107	12,750	70,303

5.2 Segment reports as at 30 June 2004

Business segments	Water \$000	Sewerage \$000	Waterways and Drainage \$000	Consolidated \$000
Assets				
Segment assets	1,129,801	1,359,385	636,077	3,125,263
Unallocated corporate assets				6,544
Consolidated total assets				3,131,807
Liabilities				
Segment liabilities	26,580	31,199	40,828	98,607
Unallocated corporate liabilities				1,624,020
Consolidated total liabilities				1,722,627
Acquisition of non-current assets (purchased during the year and form part of the total segment assets)	19,036	21,038	57,223	97,297

	2005 \$'000	2004 \$'000
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6 Current assets – cash

Cash at bank and on hand	387	128
Total current assets – cash	387	128

7 Current assets – receivables

Trade debtors	13,246	11,239
	13,246	11,239
Other receivables	15,903	10,782
Less: provision for doubtful debts	1	6
	15,902	10,776
Total current assets – receivables	29,148	22,015

8 Current assets – other

Prepayments	1,272	1,758
Stores (consumables)	3,661	3,219
Livestock	22,474	15,762
Property, plant and equipment – held for resale	315	1,416
Total current assets – other	27,722	22,155

9 Non-current assets – property, plant and equipment

Buildings and leasehold improvements

Crown land at valuation	110,526	110,526
Freehold land and buildings at cost	129,602	101,468
Less: accumulated depreciation – buildings	26,048	9,153
Total land and buildings	214,080	202,841

Minor plant and equipment

Plant and equipment at cost	48,858	46,049
Less: accumulated depreciation	40,209	35,199
Total minor plant and equipment	8,649	10,850

Infrastructure assets

Infrastructure assets at cost	3,770,490	3,636,609
Less: accumulated depreciation	1,019,958	974,024
Sub total infrastructure assets	2,750,532	2,662,585

Infrastructure assets under finance lease	23,280	23,280
Less: accumulated amortisation	7,758	6,650
Sub total infrastructure assets under finance lease	15,522	16,630

Total infrastructure assets	2,766,054	2,679,215
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Capital works in progress at cost	203,004	186,722
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Total non-current assets – property, plant and equipment	3,191,787	3,079,628
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Notes to the accounts

9a Reconciliation of movement in property, plant and equipment for 2004/05

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
2004/05							
Carrying amount at 1 July 2004	110,526	92,315	10,850	2,662,585	16,630	186,722	3,079,628
Additions	-	678	2,695	165,742	-	-	169,115
Disposals	-	(923)	(28)	(2,157)	-	(1,072)	(4,180)
Depreciation/amortisation expense	-	(1,553)	(6,074)	(62,496)	(1,108)	-	(71,231)
Transfers between classes	-	11,936	1,206	(13,142)	-	-	-
Increase in assets identified for sale	-	1,101	-	-	-	-	1,101
Assets spares/consumables	-	-	-	-	-	-	-
Capital expenditure	-	-	-	-	-	181,955	181,955
Capitalisation of works in progress	-	-	-	-	-	(164,601)	(164,601)
Carrying amount at 30 June 2005	110,526	103,554	8,649	2,750,532	15,522	203,004	3,191,787

9b Reconciliation of movement in property, plant and equipment for 2003/04

	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
2003/04							
Carrying amount at 1 July 2003	110,461	89,196	11,779	2,640,072	17,737	123,396	2,992,641
Additions	113	5,761	5,608	85,815	-	-	97,297
Disposals	(48)	(93)	(31)	(2,266)	-	(430)	(2,868)
Depreciation/amortisation expense	-	(1,654)	(6,506)	(61,036)	(1,107)	-	(70,303)
Transfers between classes	-	-	-	-	-	-	-
Increase in assets identified for sale	-	(895)	-	-	-	-	(895)
Assets spares/consumables	-	-	-	-	-	-	-
Capital expenditure	-	-	-	-	-	150,566	150,566
Capitalisation of works in progress	-	-	-	-	-	(86,810)	(86,810)
Carrying amount at 30 June 2004	110,526	92,315	10,850	2,662,585	16,630	186,722	3,079,628

	2005	2004
	\$000	\$000

10 Non-current assets – other

Other receivables	12	-
Prepayments	8,162	1,465
Total non-current assets – other assets	8,174	1,465

11 Non-current assets – deferred tax assets

Future income tax benefit	5,932	6,416
Total non-current assets – deferred tax assets	5,932	6,416

12 Current liabilities – payables

Creditors	26,526	26,786
Interest payable	22,087	22,401
Accruals	65,152	44,780
Advances	1,144	558
Total current liabilities – payables	114,909	94,525

13 Current liabilities – interest-bearing liabilities

Lease liabilities	2,277	1,957
Borrowings	159,600	255,800
Total current liabilities – interest bearing liabilities	161,877	257,757

14 Current liabilities – current tax liabilities

Income tax	9,541	6,608
Total current liabilities – current tax liabilities	9,541	6,608

15 Current liabilities – provisions

Employee benefits	4,715	4,394
Insurance claims	1,201	1,415
Other provisions	3,847	2,932
Total current liabilities – provisions	9,763	8,741

16 Non-current liabilities – payables

Creditors	570	988
Advances	123	47
Total non-current liabilities – payables	693	1,035

17 Non-current liabilities – interest-bearing liabilities

Lease liabilities	10,358	12,634
Borrowings	1,005,000	920,000
Total non-current liabilities – interest bearing liabilities	1,015,358	932,634

Notes to the accounts

	2005 \$000	2004 \$000
18 Non-current liabilities – deferred tax liabilities		
Deferred income tax	441,463	404,620
Total non-current liabilities – deferred tax liabilities	441,463	404,620
19 Non-current liabilities – provisions		
Employee benefits	15,315	14,089
Insurance claims	767	868
Other provisions	–	1,750
Total non-current liabilities – provisions	16,082	16,707
20 Contributed equity		
Opening balance	665,304	665,239
Adjustment relating to government contribution of Crown land	(117)	65
Closing balance	665,187	665,304
21 Reserves		
Asset revaluation reserve		
Opening balance	32,579	32,579
Closing balance	32,579	32,579
22 Retained profits		
Retained profits at the beginning of the year	711,297	683,624
Net profit	125,701	123,373
Dividends paid (refer to note 29)	(41,300)	(95,700)
Retained profits at the end of the year	795,698	711,297
23 Equity		
Total equity at the beginning of the year	1,409,180	1,381,442
Net profit	125,701	123,373
Net increment/(decrement)	(117)	65
Dividends paid	(41,300)	(95,700)
Total equity at the end of the year	1,493,464	1,409,180

24 Remuneration of directors

The number of Corporation directors and income they received is shown below in their relevant income bands.

Income Band	Total Remuneration		Base Remuneration	
	2005 Number	2004 Number	2005 Number	2004 Number
\$10,000 – \$19,999	–	3	–	3
\$20,000 – \$29,999	1	–	1	–
\$30,000 – \$39,999	3	6	3	6
\$40,000 – \$49,999	2	–	2	–
\$70,000 – \$79,999	1	–	1	–
\$80,000 – \$89,999	1	–	1	–
\$180,000 – \$189,999	–	–	1	–
\$220,000 – \$229,999	1	–	–	–
\$270,000 – \$279,999	–	1	–	1
\$320,000 – \$329,999	–	–	–	–
Total numbers	9	10	9	10
	\$000	\$000	\$000	\$000
Total amount	618	587	575	484

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.

Income Band	Total Remuneration		Base Remuneration	
	2005 Number	2004 Number	2005 Number	2004 Number
\$100,000 – \$109,999	1	–	2	6
\$110,000 – \$119,999	1	4	7	5
\$120,000 – \$129,999	4	6	2	4
\$130,000 – \$139,999	5	1	2	1
\$140,000 – \$149,999	4	6	4	2
\$150,000 – \$159,999	–	–	3	2
\$160,000 – \$169,999	3	1	1	4
\$170,000 – \$179,999	3	3	1	2
\$180,000 – \$189,999	–	1	3	2
\$190,000 – \$199,999	1	3	–	–
\$200,000 – \$209,999	2	2	–	–
\$210,000 – \$219,999	2	–	1	–
\$240,000 – \$249,999	1	1	–	–
Total numbers	27	28	26*	28
	\$000	\$000	\$000	\$000
Total amount	4,270	4,311	3,791	3,845

* This total excludes one executive officer with a base remuneration of less than \$100,000.

Notes to the accounts

	2005 \$000	2004 \$000
26 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	40	40
- Payable as at 30 June	63	60
	103	100
27 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	82,395	73,716
Later than one year but not later than five years	8,641	295
Total capital commitments	91,036	74,011
Operating lease commitments		
Total lease expenditure contracted for at balance date but not provided for in the accounts:		
Not later than one year	5,368	4,142
Later than one year but not later than five years	12,754	9,690
Later than five years	4,511	4,272
Total lease commitments	22,633	18,104
Finance lease commitments		
Commitments in relation to finance lease are payable as follows:		
Not later than one year	3,478	3,343
Later than one year but not later than five years	12,467	15,002
Later than five years	-	942
Minimum lease payments	15,945	19,287
Less: Future finance charges	3,310	4,696
Total finance lease liability	12,635	14,591
Representing lease liabilities:		
Current (refer to note 13)	2,277	1,957
Non-current (refer to note 17)	10,358	12,634
Total finance lease liability	12,635	14,591
Smart Water Fund		
Commitments in relation to Smart Water are payable as follows:		
Not later than one year	1,000	-
Later than one year but not later than five years	3,000	-
Later than five years	-	-
Total other commitments	4,000	-

	2005	2004
	\$000	\$000

Other operating commitments

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

Not later than one year	6,186	3,722
Later than one year but not later than five years	12,650	6,033
Later than five years	27,844	4,423
Total other commitments	46,680	14,178

BOO and BOOT Commitments

Contractual arrangement for the supply of electricity by the private sector

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

Under this contract AGL will build, own and operate a power generation plant, which has been constructed on land owned by Melbourne Water at the Western Treatment Plant. This arrangement became commercially operational on 1 July 2003.

The minimum obligation for the remaining term (excluding the effect of inflation) of the arrangement is \$8.4 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.

Future minimum obligations

Commitments, payable within:

Not later than one year	948	922
Later than one year but not later than five years	4,069	3,957
Later than five years	3,364	4,424
Total value of future minimum obligations	8,381	9,303

Contractual arrangement for the supply of recycled water by the private sector

On 10 June 2004, Melbourne Water signed a build, own, operate and transfer (BOOT) contract with TopAq Pty Ltd to purchase approximately \$2.0 million per annum of water quality treatment services and to sell Class C water to TopAq Pty Ltd for \$75 per megalitre.

Under this contract TopAq will build, own, operate and transfer (BOOT) a treatment plant and pipeline to supply 5,000 megalitres per annum of Class A recycled water for irrigation use in the Cranbourne area. This arrangement became commercially operational on 29 April 2005.

The minimum obligation for the remaining term (excluding the effect of inflation) of the arrangement is \$34.1 million. This calculation has been based on annual contract payments for water quality treatment services over 25 years made to TopAq Pty Ltd.

Future minimum obligations

Commitments, payable within:

Not later than one year	1,994	10,175
Later than one year but not later than five years	7,680	7,680
Later than five years	24,480	26,400
Total value of future minimum obligations	34,154	44,255

Notes to the accounts

	2005 \$000	2004 \$000
28 Contingent assets and liabilities		
28.1 Contingent assets		
White Paper Drainage Assets		
The Victorian Government White Paper <i>Our Water Our Future</i> included an action for the Government to designate Melbourne Water as the authority responsible for waterway, regional drainage and floodplain management throughout the majority of the Port Phillip and Westernport catchment. This will result in an increase in Melbourne Water's drainage and waterways boundary from 7,800 square kilometres to just under 13,000 square kilometres.	39,200	-
An Order in Council has been prepared as the vehicle for extending the boundary and transferring the assets, subject to legislation being passed in the July sitting of Parliament. The Order should be gazetted on 4 August 2005, which is the target date for commencement of services. Melbourne Water has been working with the ten Councils affected by the rivers and drainage boundary extension in identifying regional drainage assets to be transferred from Councils to Melbourne Water.		
Some 77 kilometres of drains and 21 wetlands/retarding basins will be gifted to Melbourne Water at a Fair Value of \$39.2 million.		
28.2 Contingent liabilities		
Details and estimates of maximum amounts of contingent liabilities for which no provision is included in the accounts, are as follows:		
Outstanding claims		
Claims or possible claims against the Corporation arising out of various matters connected with the Corporation's business dealings.	3,926	1,369
Contingent consideration of \$44.8 million in respect of anticipated outflows for environmental compliance and decommissioning costs in respect of surplus sites.	44,800	44,800
Melbourne Water regards the contingent amount to be the best estimate of the known obligation at balance date.		
Following rehabilitation of the surplus sites, it is expected that a significant proportion of the decommissioning costs disclosed will be offset by eventual revenue from land sales.		
Surrender of Land to the Crown		
The Minister for Water has written to Melbourne Water requesting that certain surplus Melbourne Water land be surrendered to the Crown for inclusion in National Parks, State Forest and Conservation Links, via an allocation statement using the provisions of Section 155 of the <i>Water Industry Act 1994</i> . Included with this land are some built/fixed assets, which will also be transferred to the Crown.	37,200	-
Estimated value of the land to be transferred is \$37.2 million and the estimated value of the built/fixed assets to be transferred is \$1.5 million (including draft valuation of Tirhatuan assets by the Valuer General of \$1.2 million). Anticipated date of transfer is October 2005.		
WorkCover		
In accordance with Section 146(5)(a) of the <i>Accident Compensation Act 1985</i> the Corporation must provide a bank guarantee to the Victorian WorkCover Authority.		
The value of this bank guarantee at 30 June 2005 was \$8.9 million.		

2005 \$000	2004 \$000
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29 Dividend

Final dividend paid (relating to previous financial year)	41,300	51,700
Interim dividend paid (relating to reported financial year)	-	44,000
Total dividend paid	41,300	95,700

The proposed interim and final dividend payable in relation to the 2004/05 financial year is \$97.0 million (\$85.3 million for 2003/04). This amount is subject to final determination by the Treasurer after consultation with the Melbourne Water Board of Directors and the Minister for Water and consequently has not been booked as a provision as at 30 June 2005.

30 Employee benefits

Aggregate employee benefits liability

Accrued salaries (part of note 12)	731	529
Provision for employee benefits current (note 15)	4,715	4,394
Provision for employee benefits non-current (note 19)	15,315	14,089
Total employee benefits liability	20,761	19,012

The aggregate employee benefit liability includes amounts for annual leave, shift leave, long-service leave, salaries, 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 Equisuper 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 percent 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 on a triennial basis. The last such assessment was made as at 30 June 2005 by Mercer Human Resource Consulting Pty Ltd.

Actuarial Estimate

Net market value of assets held by the fund	80,625	74,616
Present value of employees' accrued benefits	70,279	61,054
Excess of net market value of assets over employees' accrued benefits to meet future benefit payments.	10,346	13,562
Vested benefits	68,611	66,508
Net market value of assets held by the fund	80,625	74,616
Vested benefits	68,611	66,508
Excess/(deficit) of net market value of assets over employees vested benefits	12,014	8,108

The superannuation fund's position (\$12,014 million surplus for 2004/05) is measured as the difference between the equisuper fund assets and the employees' vested benefits. In accordance with the trust deed, the surplus advised by the actuarial estimate will give rise to a revision of the contribution rate for the 2005/06 year.

Accumulation funds

Employees engaged from 1 January 1994 are entitled to benefits under accumulation funds. The majority of these employees are covered by Vision Super Pty Ltd. 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 9.0 percent in 2004/05 (9.0 percent in 2003/04).

Employer contributions

Employer contributions to the funds	2,052	3,173
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Loans

There were no loans by the superannuation funds to the Corporation during 2004/05.

Notes to the accounts

31 Movements in Provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below.

30 June 2005	Insurance Claims \$000	Property Decommissioning \$000	Other Provisions \$000	Total \$000
Carrying amount at start of year	2,283	–	4,682	6,965
Additional provisions recognised	966	–	6	972
Amounts utilised during the year	(1,281)	–	(841)	(2,122)
Carrying amount at end of year	1,968	–	3,847	5,815

30 June 2004	Insurance Claims \$000	Property Decommissioning \$000	Other Provisions \$000	Total \$000
Carrying amount at start of year	1,040	194	3,646	4,880
Additional provisions recognised	2,309	–	1,750	4,059
Amounts utilised during the year	(1,066)	(194)	(714)	(1,974)
Carrying amount at end of year	2,283	–	4,682	6,965

32 Reconciliation of net cash provided by operating activities to net profit

Net profit	125,701	123,373
Depreciation	71,231	70,303
Provision for doubtful debts	(5)	1
Profit on sale of assets	(2,839)	2,127
Loss on sale of assets	3,281	1,378
Assets written off/written down	1,885	912
Value of works taken over from developers	(4,493)	(9,175)
Changes in assets and liabilities:		
– Decrease (increase) in receivables	(4,754)	636
– Decrease (increase) in other assets	(13,377)	(5,028)
– Decrease (increase) in deferred tax assets	484	(515)
– (Decrease) increase in payables	2,454	3,008
– (Decrease) increase in provisions	398	3,294
– (Decrease) increase in current tax liabilities	2,933	(15,367)
– (Decrease) increase in deferred tax liabilities	36,843	33,377
Net cash provided by operating activities	219,742	208,324

33 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 2005 are: Cheryl Batagol, Robert Skinner, Brian R Bayley, Grant Wilson, Carolyn J Schultz, Mary Anne Hartley, Merran H Kelsall, Peter Darvall, Robert Squire and Terry Larkins.

The responsible Minister for the year ended 30 June 2005 was the Hon. John Thwaites MP, Minister for Water.

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 2005.

Other transactions of responsible persons and their related parties

A director, Robert Squire, who resigned with effect from 4 March 2005, is the Chief Executive of Connell Wagner Pty Ltd, which provided engineering services to Melbourne Water on normal commercial terms and conditions during the reporting period.

Mr Squire was not present during the consideration and decision making of any matters affecting the selection of Connell Wagner Pty Ltd as a contractor, the management or oversight of any contracts involving Connell Wagner Pty Ltd or of any other matter pertaining to Connell Wagner Pty Ltd. Furthermore, Mr Squire did not have access to any information relating to these matters.

	2005	2004
	\$000	\$000
The aggregate amount paid for these services was:		
Engineering fees	5,721	6,556

A director, Terry Larkins, is the Chairman of Western Water which has a bulk water supply agreement with Melbourne Water that was operative on normal terms and conditions during the reporting period.

Mr Larkins was not present during the consideration and decision making about any matters affecting Western Water. Furthermore, Mr Larkins did not have any access to information relating to these matters.

34 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.

35 Events occurring after balance date

No material events occurred after balance date.

Notes to the accounts

36 Financial instruments

36.1 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:

Melbourne Water has entered into the following loan refinancing contracts with Treasury Corporation Victoria:

- On 15 September 2004, a \$70 million loan was refinanced for a 10 year period at a rate of 5.72% per annum.
- On 15 February 2005, a loan of \$50 million and a loan of \$10 million were refinanced into one \$60 million loan for a 10 year period at a rate of 5.82% per annum.
- On 18 May 2005, \$50 million was transferred out of daily cash borrowings and refinanced as a floating rate note with a 90 day reset, the commencing rate was 5.53% per annum and the maturity date is 15 September 2007.
- On 18 May 2005, a forward settlement loan was entered into for a 10 year period at a rate of 5.72% per annum for \$70 million in loans due to mature on 15 September 2005.

30 June 2005	Weighted avg. annual effective interest rate %	Floating interest rate \$000	Fixed interest rate maturing			Non- interest bearing \$000	Total \$000
			1 year or less \$000	1 to 5 years \$000	over 5 years \$000		
Financial assets							
Cash	5.38	387	-	-	-	-	387
Trade debtors		-	-	-	-	13,246	13,246
Other receivables		-	-	-	-	15,902	15,902
Total financial assets		387	-	-	-	29,148	29,535
Financial liabilities							
Creditors and accruals		-	-	-	-	114,335	114,335
Lease liabilities		-	-	-	-	12,635	12,635
Advances		-	-	-	-	1,267	1,267
Borrowings*	6.15	114,600	120,000	400,000	530,000	-	1,164,600
Total financial liabilities		114,600	120,000	400,000	530,000	128,237	1,292,837
Net financial liabilities		(114,213)	(120,000)	(400,000)	(530,000)	(99,089)	(1,263,302)

* Of the total amount of borrowings at floating interest rate, \$39.6 million will mature within 12 months and the remaining \$75 million will mature in less than five years

30 June 2004	Weighted avg. annual effective interest rate %	Floating interest rate \$000	Fixed interest rate maturing			Non- interest bearing \$000	Total \$000
			1 year or less \$000	1 to 5 years \$000	over 5 years \$000		
Financial assets							
Cash	5.20	128	-	-	-	-	128
Trade debtors		-	-	-	-	11,239	11,239
Other receivables		-	-	-	-	10,776	10,776
Total financial assets		128	-	-	-	22,015	22,143
Financial liabilities							
Creditors and accruals		-	-	-	-	94,955	94,955
Lease liabilities		-	-	-	-	14,591	14,591
Advances		-	-	-	-	605	605
Borrowings*	6.16	125,800	130,000	420,000	500,000	-	1,175,800
Total financial liabilities		125,800	130,000	420,000	500,000	110,151	1,285,951
Net financial liabilities		(125,672)	(130,000)	(420,000)	(500,000)	(88,136)	(1,263,808)

* Of the total amount of borrowings at floating interest rate, \$75.8 million will mature within 12 months and the remaining \$50 million will mature in less than five years.

36.2 Fair value

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

	2005		2004	
	Book value \$000	Net fair value* \$000	Book value \$000	Net fair value* \$000
On balance sheet				
Financial assets				
Cash	387	387	128	128
Trade debtors	13,246	13,246	11,239	11,239
Other receivables	15,902	15,902	10,776	10,776
Total financial assets	29,535	29,535	22,143	22,143
Financial liabilities				
Creditors, accruals and interest payable	114,335	114,335	94,955	94,955
Lease liabilities	12,635	12,635	14,591	14,591
Advances	1,267	1,267	605	605
Borrowings	1,164,600	1,217,886	1,175,800	1,209,354
Total financial liabilities	1,292,837	1,346,123	1,285,951	1,319,505

* Net book 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 as 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.

36.3 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. This risk is considered minimal.

Melbourne Water does not have any significant trade credit exposure to an individual counterparty as at 30 June 2005.

36.4 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.

36.5 Bank Overdraft

Overdrafts are recognised at the principal amount. Interest is recognised as an expense as it accrues.

Notes to the accounts

37 Impact of adopting Australian equivalents to International Financial Reporting Standards

Following the adoption of Australian equivalents to International Financial Reporting Standards (IFRS), Melbourne Water will report for the first time in compliance with IFRS when results for the financial year ended 30 June 2006 are released.

An IFRS compliant financial report will comprise a new statement of changes in equity in addition to the three existing financial statements, which will all be renamed. The Statement of Financial Performance will be renamed as the Operating Statement, the Statement of Financial Position will revert to its previous title as the Balance Sheet and the Statement of Cash Flows will be simplified as the Cash Flow Statement. However, for the purpose of disclosing the impact of adopting IFRS in the 2004-05 financial report, which is prepared under existing accounting standards, existing titles and terminologies will be retained.

With certain exceptions, an entity that has adopted IFRS must record transactions that are reported in the financial report as though IFRS has always applied. This requirement also extends to any comparative information included within the financial report. Most accounting policy adjustments to apply IFRS retrospectively will be made against accumulated funds at the 1 July 2004 opening balance sheet date for the comparative period. The exceptions include deferral until 1 July 2005 of the application and adjustments for:

- AASB 132 Financial Instruments: Disclosure and Presentation
- AASB 139 Financial Instruments: Recognition and Measurement

The comparative information for transactions effected by these standards will be accounted for in accordance with existing standards.

Melbourne Water has taken the following steps in managing the transition to IFRS and has achieved the following milestones:

- Established a steering committee to oversee the transition to and implementation of IFRS;
- Established an IFRS project team to review the new accounting standards to identify key issues and the likely impacts resulting from the adoption of IFRS and any relevant Financial Reporting Directions as issued by the Minister for Finance;
- Delivered and participated in an education and training process to raise awareness of the changes in reporting requirements and the processes to be undertaken;
- Initiated reconfiguration and testing of user systems and processes to meet new requirements.

This financial report has been prepared in accordance with current Australian accounting standards and other financial reporting requirements (Australian GAAP). A number of differences between Australian GAAP and IFRS have been identified as potentially having a material impact on Melbourne Water's financial position and financial performance following the adoption of IFRS.

The following tables outline the estimated significant impacts on the financial position of Melbourne Water as at 30 June 2005 and the likely impact on the current year result had the financial statements been prepared using IFRS.

The estimates disclosed below are Melbourne Water's best estimates of the significant quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to IFRS may differ from the estimates disclosed due to:

- (a) Change in facts and circumstances;
- (b) Ongoing work being undertaken by the IFRS project team;
- (c) Potential amendments to IFRS and Interpretations;
- (d) Emerged accepted practice in the interpretation and application of IFRS and UIG interpretations; and
- (e) Potential amendments to Financial Reporting Directions.

Table A: Reconciliation of net result as presented under Australian GAAP and that under IFRS

Year ended 30 June 2005
\$000

Net result as reported under Australian GAAP	125,701
Estimated IFRS impact on revenue	
Employee benefits	1,993
Estimated IFRS impact on expenses	
Property, plant and equipment	1,867
Capitalised interest	3,743
Agriculture	(3,603)
Other expenses	76
Taxation	1,567
Total Estimated IFRS impact on net result	5,643
Net result under IFRS	131,344

Table B: Reconciliation of total assets and total liabilities as presented under Australian GAAP and that under IFRS

Year ended 30 June 2005
\$000

Total assets under Australian GAAP	3,263,150
Estimated IFRS impact on assets	
Property, plant and equipment	567,348
Capitalised interest	(218,005)
Agriculture	(3,802)
Deferred tax assets	1,300
Employee benefits	10,346
Intangibles	3,528
Total Estimated IFRS impact on assets	360,715
Total assets under IFRS	3,623,865
Total liabilities under Australian GAAP	1,769,686
Estimated IFRS impact on liabilities	
Payables	532
Deferred tax liabilities	36,026
Total Estimated IFRS impact on liabilities	36,558
Total liabilities under IFRS	1,806,244
Net assets under IFRS	1,817,621
Total equity under Australian GAAP	1,493,464
Estimated IFRS impact on equity	
Reserves	(32,579)
Contributed capital	(1,429)
Accumulated funds on transition	352,521
Accumulated funds on current year	5,643
Total Estimated IFRS impact on equity	324,156
Total equity under IFRS	1,817,621

Notes to the accounts

Explanatory notes:

1. Defined benefit superannuation plans

Under IFRS, Melbourne Water will be required to recognise the surplus or deficit of defined benefit plans as an asset or liability in the statement of financial position and has elected for all movements, including actuarial gains and losses, to be recognised in the profit or loss.

The cumulative effect of the above requirement on the financial position at 30 June 2005 will be the recognition of a defined benefit asset of \$10.3 million (\$8.4 million 2004). Defined benefit income will increase by \$1.9 million for the financial year ended 30 June 2005.

2. Property, Plant and Equipment

Melbourne Water has elected to measure land and buildings on transition to IFRS at fair value and has used that fair value as the item's deemed cost at that date. This election has been made in accordance with current government policy. Fair value is determined by reference to market based evidence to determine the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction.

The effect of the revaluation to fair value for land and buildings is an increase in the carrying amount of land by \$576.4 million to \$763.4 million and a decrease in the value of buildings by \$9.2 million to \$15.2 million. As a result of the election, the current revaluation reserve of \$32.3 million will be reset to zero. Net changes to depreciation and gain/losses on disposal will result in reduced expenses of \$1.9 million.

3. Agriculture

Under IFRS, Melbourne Water will be required to revalue the carrying amount of livestock held to fair value less estimated point of sale costs at each balance date. Fair value is determined by reference to readily available external market based evidence, which in this case is deemed to be the carcass value appropriate for each category of livestock.

The cumulative effect of the above requirement on the financial position at 30 June 2005 will be a decrease in the existing livestock asset of \$3.8 million to \$18.6 million (\$15.6 million 2004). Expenditure relating to livestock will increase by \$3.6 million for the financial year ended 30 June 2005.

4. Taxation

Under IFRS, Melbourne Water will be required to replace the income statement liability method of tax effect accounting with the comprehensive balance sheet method. The impact of this change in accounting policy is expected to result in an increase to the deferred tax liability of \$36.0 million and an increase in the deferred tax asset of \$1.3 million as at 30 June 2005.

5. Capitalised Interest

Melbourne Water has previously capitalised borrowing costs relating to qualifying assets. On adoption of IFRS, Melbourne Water has elected to immediately expense all borrowing costs as they are incurred, even when relating to qualifying assets. This election has been made in accordance with current government policy.

The impact of this change in accounting policy is expected to result in a reduction in the carrying values of qualifying assets as at 30 June 2005 of \$270.5 million. Depreciation expense will also decrease by \$3.7 million as a consequence.

6. Intangibles

Prior to the transition to IFRS, Melbourne Water classified all purchased software as minor plant and equipment. Under IFRS all purchased software that is not integral to the operation of specific hardware has been transferred to the Intangible asset category.

The impact of this change in accounting policy is expected to result in a reduction in property, plant and equipment of \$3.5 million and an offsetting increase in intangibles of \$3.5 million as at 30 June 2005.

7. Financial Instruments

Melbourne Water has elected to apply the first-time adoption exemption available under AASB 1 *First-time adoption of Australian equivalent to International Financial Reporting Standard* to defer the date of transition of AASB 139 Financial Instruments: Recognition and Measurement until 1 July 2005.

Accordingly, there will be no quantitative impact on the financial positions as at 1 July 2004 and 30 June 2005 and the financial performance for the year ended 30 June 2005.

On adoption of IFRS, it is anticipated that there will be no significant changes in recognition of assets and liabilities relating to financial instruments.

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, in all material respects the financial performance of the Corporation for the year ended 30 June 2005 and the financial position of the Corporation as at that date;
- (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;
- (c) the accompanying financial statements are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board of directors; and
- (d) the Corporation's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

We certify that the financial statements have been prepared in accordance with the requirements of the Financial Management Act 1994, including the Directions 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 19th day of August 2005.

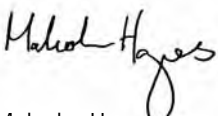
On behalf of the board:



Cheryl Batagol
Chairman



Robert Skinner
Managing Director



Malcolm Haynes
Chief Finance Officer

Auditor-General's report



AUDITOR GENERAL
VICTORIA

INDEPENDENT AUDIT REPORT

Melbourne Water Corporation

To the Members of the Parliament of Victoria and Members of the Board of the Melbourne Water Corporation

Scope

The Financial Report

The accompanying financial report for the year ended 30 June 2005 of the Melbourne Water Corporation consists of statement of financial performance, statement of financial position, statement of cash flows, notes to and forming part of the financial report, and the supporting declaration.

Members' Responsibility

The Members of the Board of the Melbourne Water Corporation are responsible for:

- the preparation and presentation of the financial report and the information it contains, including accounting policies and accounting estimates
- the maintenance of adequate accounting records and internal controls that are designed to record its transactions and affairs, and prevent and detect fraud and errors.

Audit Approach

As required by the *Audit Act 1994*, an independent audit has been carried out in order to express an opinion on the financial report. 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:

- examining information on a test basis to provide evidence supporting the amounts and disclosures in the financial report
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the members
- obtaining written confirmation regarding the material representations made in conjunction with the audit
- reviewing the overall presentation of information in the financial report.

These procedures have been undertaken to form an opinion as to whether the financial report is presented in all material respects 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, and its financial performance and cash flows.

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

Victorian Auditor-General's Office Level 34, 140 William Street, Melbourne Victoria 3000
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Auditing in the Public Interest



AUDITOR GENERAL
VICTORIA

Independence

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

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 the Melbourne Water Corporation as at 30 June 2005 and its financial performance and cash flows for the year then ended.

MELBOURNE
19 August 2005

JW CAMERON
Auditor-General

Disclosure index

The Annual Report of Melbourne Water is prepared in accordance with all relevant Victorian legislation. This index has been prepared to facilitate identification of compliance with statutory disclosure requirements

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Statement of Corporate Intent

About us

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 rivers, creeks and major drainage systems in the Melbourne region. We are a significant business managing \$8.1 billion (replacement asset value) of natural and built assets.

Our people have diverse skills and expertise and we place a high priority on building strong partnerships and relationships with the community and all our other stakeholders. Our customers include the metropolitan retail water businesses, other water authorities, local councils and the land development industry.

Governance

The governance of Melbourne Water is undertaken by an independent Board of Directors. The Board operates under the provisions of the *Melbourne Water Corporation Act 1992 (Vic)* and reports annually to the Minister and Treasurer.

Vision and values

Our vision is ***working together to ensure a sustainable water future.***

Our commitment to sustainability will be demonstrated by:

- Protecting and conserving Melbourne's water resources
- Protecting and improving the environment, including biodiversity
- Our leadership, scientific research, creativity and innovation
- Ensuring responsible risk management
- Sharing information and fostering collaborative working arrangements
- Maintaining long-term financial viability
- Contributing to the health of the community
- Demonstrating corporate social responsibility ensuring intergenerational equity by considering both short-term and long-term implications in all decision making
- Providing an environment where employees are encouraged to achieve their full potential.

Our values

- We recognise that we achieve more by working collaboratively
- We behave with integrity
- We attain excellence through creativity and innovation
- We celebrate our achievements and learn from our experiences
- We work with openness, transparency and accountability.

Initiatives to support the achievement of our vision are outlined under our strategic priority areas:

- Water Resources
- Public Health
- Natural Environment
- Financial Viability
- Infrastructure
- Our People
- Relationships – Customer, Stakeholder, Community.

Service responsibilities

As manager of the water resources available to supply Melbourne, Melbourne Water's role integrates the management of the total water resource across the water cycle, including provision of:

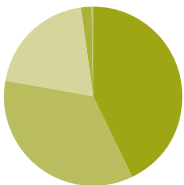
- Water to the three metropolitan retail water businesses and two non-metropolitan water authorities (Western Water and Gippsland Water)
- Sewerage services to the three metropolitan retail water businesses
- Rivers and drainage services, including drainage management, waterway management and water quality protection to the greater Melbourne metropolitan area. Melbourne Water also administers diversion licences for the Yarra and Maribyrnong catchments
- Recycled water services to metropolitan retail water businesses and rural water authorities.

Statement of Corporate Intent

Scale of activities

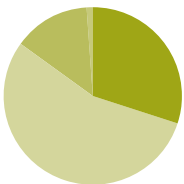
Melbourne Water manages about \$8.1 billion (replacement value) in water supply, sewerage, drainage and recycled water assets that service an area of more than 7800 square kilometres. The assets comprise:

- 156,000 hectares of water supply catchments
- 44 water treatment plants and two major sewage treatment plants
- 18 water pumping stations and 10 sewage pumping stations
- 1029 kilometres of water mains and 399 kilometres of sewer mains and channels
- 1285 kilometres of drains and 5252 kilometres of waterways.



Asset Value by Product

- Water 43%
- Sewerage 35%
- Waterways and Drainage 20%
- Corporate 2%
- Recycled Water 0.03%



Asset Value by Type

- Headworks 30%
Dams, weirs, aqueducts, conduits and tunnels
- Transfer 55%
Mains, service reservoirs and pumping stations
- Treatment 14%
Treatment plants
- Corporate 1%
IT, minor plant and equipment and property

Who we work with

EPA Victoria and the Department of Human Services regulate the environmental and public health aspects of our business. The Essential Services Commission regulates prices and monitors service performance. We work across several arms of the Victorian Government, including the Department of Sustainability and Environment, and the Department of Treasury and Finance.

Our customers include the metropolitan retail water businesses – City West Water, South East Water, Yarra Valley Water – other water authorities, local councils, land developers and businesses that divert river water.

We work with a wide range of partners including the Port Phillip and Westernport Catchment Management Authority, the Municipal Association of Victoria, the Sustainable Energy Authority of Victoria and The University of Melbourne. Research organisations, such as the CSIRO and Co-operative Research Centres, engineering consultants, and contractors who carry out tasks ranging from inspecting and maintaining assets to catchment surveillance and litter removal, also assist us to achieve our objectives.

We are involved with a wide range of community stakeholders including "Friends of", Landcare, resident and environment groups, advisory bodies, rural landowners and the education sector.

Statutory requirements

Melbourne Water is committed to meeting statutory and environmental and health regulations, including:

- Complying with EPA Victoria discharge licences issued for the Eastern and Western 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 other water authorities, including Southern Rural Water, Western Water and Gippsland Water
- Complying with the *Safe Drinking Water Act 2003*, *Health Fluoridation Act 1973*
- Complying with the *Occupational Health and Safety Act 1985* and regulations.

Business policies

Melbourne Water has policies covering its key responsibilities and obligations including environment, public health, occupational health and safety, risk management, commercial management, human resources, and research and technology.

Key performance indicators 2005/06–2007/08

Indicator	2005/06	2006/07	2007/08
Water			
Production/Storage			
Operate water supply system within environmental requirements – % compliance	100%	100%	100%
Contribute to the Government's 15% water conservation target (adjusted for transfer of sustainable water plans to councils)	1.9%	2.5%	2.9%
Reduce system losses as a percentage of water supplied to retail water businesses	0.94%	0.76%	0.76%
Fulfil dam safety obligations	For reporting purposes only		
Minimise potential impact of bushfires on water supply catchments			
Report blue green algal blooms impacting on water supply services and maintain a contingency plan			
Water Transfer			
Compliance with retail water business pressure requirements as set out in BWSAs	99.6%	99.6%	99.6%
Water Quality			
Compliance with BWSA water quality requirements:			
• microbiological standards [<i>E.coli</i>]	99.99%	99.99%	99.99%
• disinfection by products	100%	100%	100%
• aesthetics (turbidity)	86.8%	86.8%	86.8%
• aesthetics (aluminium)	99.9%	99.9%	99.9%
Sewerage			
Western Treatment Plant Treatment/Disposal			
EPA Licence Compliance			
• Compliance with EPA Victoria discharge licence requirements	100%	100%	100%
– Nitrogen discharged to Port Phillip Bay	500 tonnes	500 tonnes	500 tonnes
– Offensive odours beyond the boundary	0	0	0
Eastern Treatment Plant Treatment/Disposal			
EPA Licence Compliance			
• Compliance with EPA Victoria discharge licence requirements	100%	100%	100%
– Ammonia reduction	30mg per 1	30mg per 1	5mg per 1
– Offensive odours beyond the boundary	0	0	0
– Litter	0	0	0
Sewerage Transfer			
EPA SEPP compliance for sewerage system spills.			
• system failure – zero spills due sewerage system failure	0	0	0
• hydraulic deficiency – progressively achieve zero spills due to storm events of a severity of up to 1-in-5 years by 2015	0	0	0
• complaints relating to transfer system odour	18	16	11
Biosolids Management			
Maximise sustainable re-use of biosolids			
• % of biosolids produced annually at ETP	100	100	100
• % of biosolids produced annually at WTP	33	33	33

Statement of Corporate Intent

Indicator	2005/06	2006/07	2007/08
Trade Waste			
• Trade waste volume received % influent for:	For reporting purposes only		
– Industrial			
– Commercial			
• Trade waste annual load of priority parameters			
• Work with retail water businesses to improve trade waste management:			
– % of retail water business trade waste customers compliant with trade waste agreement	99.7%	99.8%	99.9%
– % of risk ranked 1 and 2 retail water business customers compliant with trade waste agreement	90%	95%	99%
Rivers and Drainage			
• Achieve 2005 Waterways and Drainage Operating Charter performance targets	100%	100%	100%
Drainage & Flood Protection			
• All new development complies with flood protection standards	100%	100%	100%
• Reduce flood prone properties by 149 over Water Plan period through expenditure on flood mitigation works	32	36	81
• Planning controls further reduce the number of flood prone properties in redevelopment areas by approximately 250 per year	250	250	250
Stormwater Quality			
• Cumulative reduction in pollutant/nitrogen loads in urban stormwater run-off in accordance with the Environment Management Plan for Port Phillip Bay	37 tonnes	56 tonnes	59 tonnes
Waterways Condition			
• Achievement of 3 year implementation targets assigned to Melbourne Water from the Regional River Health Strategy	100%	100%	100%
Land Development			
• All new growth areas in development corridors to have drainage schemes in place within 3 years of significant subdivisional activity commencing	100%	100%	100%
• Create 10 redevelopment schemes per year with priority given to areas of high new development activity	10	10	10
• Property development applications processed within specified response times	100%	100%	100%
Streamflow Diversions			
• Number of streamflow diverter licences >5ML/yr metered or assessed for metering at 30 June	640	732	732
Recycled Water			
• Contribute 19.6% to the Government's 20% water recycling target	16.5%	18.9%	19.6%

Key performance indicators 2005/06–2007/08

Indicator	2005/06	2006/07	2007/08
Corporate			
Maintain financial viability:			
• Economic Return on Capital Employed	5.8%	6.1%	6.5%
• BEVA Margin	-0.8%	-0.5%	-0.1%
• Gearing (Interest Bearing Debt/Interest Bearing Debt plus Equity)	42%	43%	44%
• EBIT Interest Cover	3.0	3.0	3.3
• Return on Equity	6.4%	6.7%	8.0%
• Return on Assets	6.7%	6.8%	7.4%
• Returns to Government (Dividend + Tax +FAL+LGRE)	\$170.3M	\$117.4M	\$129.0M
Our People			
• Number of lost time injuries	0	0	0
– Melbourne Water people			
– Major contractors			
• Maintain SafetyMap accreditation	Yes	Yes	Yes
Relationships – Customer, Community, Stakeholder			
Customers			
• Average time taken for call to be connected to the operator	For reporting purposes only		
• Customer calls connected to the operator within 30 seconds			
• Number of complaints escalated to EWOV	3	3	3
Community			
• Satisfaction with community committee processes:	80%	80%	80%
– Community Liaison Committee WTP			
– Community Liaison Committee ETP			
– Drainage Advisory Committee			
• Increase in participation in education programs	20%	10%	10%
• Effectiveness of education programs	90%	90%	90%
• Increase in support of community programs/activities	15%	10%	10%
– employee involvement			
Greenhouse			
• CO2 equivalent emissions (net tonnes)	For reporting purposes only		
– Water treatment and supply			
– Sewage treatment and management			
– Transport (vehicles)			
– Other (buildings)			
• % reduction on 2000/01 greenhouse gas emissions	35%	38%	40%
• Renewable energy produced as % of total energy used	40%	45%	50%

Statutory information

Publications

Melbourne Water produces a range of publications to increase community knowledge and understanding of water issues and our activities. In 2004/05, we produced the following reports, magazines, factsheets, newsletters and CDROMs:

Annual Report

- Melbourne Water Annual Report 2003/04
- Melbourne Water Social and Environment Report 2003/04 (online only)

Consultation

- Community Information Bulletins for various capital works programs
- Patterson Lakes newsletters
- Eastern Treatment Plant Community Liaison Committee newsletters

Education

- EdStream Newsletter Issue 6 October 2004
- EdStream Newsletter Issue 7 April 2005
- Water Education Tours
- Essential Facts – various fact sheets

Internal

- OnTap newsletter (monthly online)

Newsletters

- Stream News
- Water Diverters Update Issues

Recycling/sewage treatment

- Eastern Treatment Plant Environment Improvement Plan (online version only)

The Source

- Issue 31, August 2004 (CDROM and web-based)
- Issue 32, December 2004 (CDROM and web-based)
- Issue 33, April 2005 (CDROM and web-based)

Water

- Planning for Climate Change (updated Essential Factsheet)

Consultants

During 2004/05, Melbourne Water engaged 19 consultants at less than \$100,000 each to undertake operational and capital works projects at a total cost of \$200,000. In addition, Melbourne Water engaged one consultant (see table below) at over \$100,000 to undertake the following project. Expenditure excludes GST.

Consultant	Farrier Swier
Project	Strategic advice on pricing regulation
Total annual fee	\$100,000
Expenditure 2004/05	\$100,000
Future expenditure	Nil

National Competition Policy

On 15 June 2005, the Essential Services Commission completed its first determination of prices to be charged by Victorian urban water businesses. This is consistent with the National Competition Policy's pricing and institutional reform objectives. Melbourne Water will also work with the Government to ensure that any future revision of its legislative framework takes account of relevant National Competition Policy requirements.

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:

Rob Skinner
Managing Director
Melbourne Water

Authorised officer:

Jane Denton
Freedom of Information Officer
Melbourne Water

Requests for information

This year we received 11 requests for access to documents under the Freedom of Information legislation.

We processed these requests as follows:

Access in full	9
Access in part	0
Access refused	0
Documents not located	1
Transferred to another agency	1
Applicant did not proceed	0
Not finalised	0

The applications received related to the following issues:

Property development	4
Personal injury	1
Environment and planning	1
Diversion permits	3
Melbourne Water works	1
Fluoridation chemicals	1

Year	Number of requests
2000/01	19
2001/02	22
2002/03	6
2003/04	17
2004/05	11

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 \$21 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 to: foi@melbournewater.com.au

Information on our consultative arrangements, required under Section 7 of the Act, is available on our website, melbournewater.com.au

Information on our publications, also required under Section 7, is included on page 64.

Categories of documents

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

Pricing

Bulk water and sewerage charges to the metropolitan retail water businesses and drainage rates increased up to 2.1% in accordance with the Victorian Government's pricing order. Further information on bulk water and sewerage charges and drainage rates is available at melbournewater.com.au

Bulk entitlements

The following tables detail how Melbourne Water managed our bulk entitlements from the Maribyrnong River in 2004/05.

Entitlement to water in Rosslynne Reservoir as at 30 June 2005
Volume (million litres)

Releases made from the reservoir to supply our licence customers	0
Share of storage capacity	269.0
Inflows attributed to Melbourne Water for the year	248.8
Transfers and operating losses within the system	16.7
Melbourne Water releases to meet environmental flow requirements	6.9
Water taken by licence holders from the Maribyrnong River to satisfy entitlements	343.3*
Transfer of licences	2**

* Excludes domestic and stock licences, which are currently unmetered.

** Temporary transfer

Entitlement to water in Thomson Reservoir as at 30 June 2005
Volume (million litres)

Water taken by Melbourne Water to supply Melbourne	71,712
Water releases for flood control	0
Water released for hydro-electricity generation*	0
Melbourne Water releases to meet environmental flow requirements	45,708
Melbourne Water's share of storage	448,106
Inflows attributed to Melbourne Water for the year	163,546

* Environmental flow and irrigation releases were made via the Thomson hydro-electricity station. However, no releases were made specifically for hydro-electricity generation.

Privacy legislation

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

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

The 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.

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.

Melbourne Water responded to 20 cases this financial year. Of the 20 cases, 17 were enquiries and three were complaints. Enquiries covered a range of issues including service charges, land maintenance, easements, pipe and drain locations, and water restrictions. The three complaints concerned land use, creek maintenance and noise from treatment plant operations. At 30 June 2005, two complaints were still to be resolved.

Whistleblowers' protection and procedures

The *Whistleblowers Protection Act (Vic.)* commenced operation on 1 January 2002. It aims to encourage and facilitate disclosure of improper conduct by public officers and public bodies.

Melbourne Water is committed to the aims and objectives of the Act and has established the following procedures and takes the following approach to disclosures of improper conduct:

- A reporting system has been established with Protected Disclosure Officers reporting to the Protected Disclosure Coordinator, who in turn, reports to the Managing Director
- Melbourne Water will take all reasonable steps to protect the identity of a whistleblower and is committed to the protection of genuine whistleblowers against reprisals for making protected disclosures

Statutory information

- The principles of natural justice will be followed in any investigation of a public interest disclosure.

The following appointments have been made to facilitate and manage disclosures of improper conduct:

Protected Disclosure Coordinator

General Manager, Human Resources

Protected Disclosure Officers:

Kevin Woff
Judith Palmer
Linda Duprey
Nicole Latham
Peter Wylie
Salyana Williams
Steve Hosking

Melbourne Water has established written procedures, which are on page 69.

We are required to report annually on activities relating to the Whistleblowers Protection Act. For 2004/05:

The number of disclosures made to Melbourne Water	Nil
The number of disclosures referred by Melbourne Water to the Ombudsman for determination as to whether they are public interest disclosures	Nil
The number of disclosed matters referred to Melbourne Water by the Ombudsman	Nil
The number of disclosed matters referred by Melbourne Water to the Ombudsman to investigate	Nil
The number of investigations of disclosed matters taken over by the Ombudsman from Melbourne Water	Nil
The number of requests made under section 74 to the Ombudsman to investigate disclosed matters	Nil
The number of disclosed matters that Melbourne Water has declined to investigate	Nil
The number of disclosed matters that were substantiated on investigation	Nil
Any recommendations of the Ombudsman under the Act that relate to Melbourne Water	Nil

Compliance with Building Act 1993

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

Office-based environmental impacts

We are continuing our efforts to reduce environmental impacts made by office-based activities such as procurement, energy usage, waste production, paper use, water consumption and transportation.

Energy use

Melbourne Water plans to reduce our greenhouse gas emissions by 35% by 2005/06. We consume most of our energy in sewage treatment processes. In regard to the energy consumed within our office space, our 13,110 square metres of office space consumed 2958 megawatt hours of energy in 2004/05, which was a slight increase on last year's figure of 2948 megawatt hours. This resulted in 0.23 megawatt hours per square metre of total energy usage and associated greenhouse gas emissions. For more information on our energy consumption visit melbournewater.com.au

Water consumption

Employees at our East Melbourne office consumed 3013 kilolitres of water in 2004/05. This averages out to about 31.37 litres per person each day for the 400 people that work out of this office. Usage figures for other Melbourne Water sites are harder to determine as consumption measurements include operational, not just individual, use. Melbourne Water has reduced water consumption at its sewage treatment plants through the use of recycled water onsite for irrigation and operational activities.

Waste production

On average, Melbourne Water employees create approximately one kilogram of waste per week. There are about 400 people who work in Melbourne Water's head office in East Melbourne, producing some 20.8 tonnes of waste annually.

Melbourne Water has introduced organic (food scraps) and cork recycling to the East Melbourne office, which has reduced the amount of waste going to landfill.

Paper use

Melbourne Water employees each used approximately 13 reams of paper in 2004/05 (500 sheets per ream), which is 8% less than last year. Recycled paper is used in all paper applications, and all desk bins are recycling bins. One hundred per cent of printer cartridges are also recycled, and all printers and photocopiers have duplex capability.

Transportation

Melbourne Water's total fuel consumption for motor vehicles in 2004/05 was 1.21 million litres (unleaded, LPG and diesel), and the motor vehicle fleet travelled a total of 8.4 million kilometres in the same period. Melbourne Water is the second largest Victorian Government owner of the Toyota Prius, the world's first mass-produced hybrid electric engine car. Melbourne Water continued its policy of replacing standard motor vehicles with Prius cars when the vehicle's lease expires. This year two more standard motor vehicles were replaced with Prius cars, bringing the total number of Prius cars to 26 in the fleet.

In 2005, an employee survey found that 41% of the participants surveyed at the East Melbourne office travelled to and from work by public transport in the week of the survey, and 13% of East Melbourne survey participants either cycled or walked. Melbourne Water is now a member of the Commuter Club, which allows employees to purchase yearly metcards at a discount and repay through fortnightly salary deductions.

Information available on request

Further information is available on request about: pecuniary interests of relevant officers, details of Melbourne Water publications, major external reviews carried out on Melbourne Water, research and development activities, overseas visits, major promotional, public relations and marketing activities, assessments and measures to improve the occupational health and safety of employees, statement of industrial relations and details of time lost through industrial accidents and disputes, and community education support programs. Please ring 131 722 (within Victoria) or (03) 9235 7100 (within the rest of Australia) or visit melbournewater.com.au

Committees

Melbourne Water consulted with the following committees in 2004/05:

Land development

Association of Land Development Engineers (ALDE) Committee

Community Liaison Committee for the Commonwealth Games Athletes Village Development Industry – Water Industry Liaison Committee

Growth Area Technical Committees for Casey/Cardinia and Wyndham

Melbourne Water/VicRoads Liaison Committee

Sustainability for the Built Environment Reference Group

Sustainability and the Building Code Reference Group

City of Manningham – Warrandyte Urban Design Framework Committee

Drainage Scheme Review Working Group

Special Rating Arrangements

Koo Wee Rup and Longwarry Drainage and Flood Mitigation Advisory Committee

Patterson Lakes Advisory Committee

Yallock Drainage and River Improvement Rates Advisory Committee

Diversions/flow management

Bulk entitlements committees

Diversion Management Advisory Committee

Gippsland Regional Monitoring Partnership Working Group

Gippsland Research Coordination Group

Gippsland Research, Development and Coordination Committee

Keilor Diverters Advisory Group

Koo Wee Rup Groundwater Supply Protection Area Management Plan Working Group

Licensing Steering Committee and associated working groups

Metropolitan Drought Response Plan Coordination Committee (MDRP)

Stream Flow Management Plan committees

Sustainable Diversion Limits Steering Group

Thomson/Macalister Environmental Flow Working Group

Wandin Yallock Groundwater Supply Protection Area Management Plan Working Group

Water Market and Irrigation Reforms Steering Committee and associated working groups

Yarra River Environmental Water Reserve Steering Committee and Advisory Group

Werribee River Environmental Water Reserve Steering Committee and Advisory Group

Rivers and creeks management

Bunyip Main Drain Project Coordinating Committee

Friends of groups (various)

Kananook Creek Association

Landcare (various)

Merri Creek Management Committee

Moonee Ponds Creek Coordination Committee

Moonee Ponds Creek – Clean-up Project

Darebin Creek Coordination Committee

Merri Creek Coordination Committee

Port Phillip and Westernport Regional River Health Strategy Steering Committee and Working Group

Floodplain management

Gisborne Flood Study Steering Committee

Bacchus Marsh Flood Steering Committee

Victorian Flood Plain Managers Forum

Bunyip Tenement Control Working Group

Victorian Flood Warning Consultative Committee (Met Bureau)

Nillumbik Municipal Emergency Management Plan Committee

Federal – Natural Disaster Relief and Regional Flood Mitigation Programs – Assessment Committee

DSE/CMA/Melbourne Water Caravan Park Flood Risk Review Committee

Wetlands/water quality management

Edithvale Seaford Wetlands Community Liaison Committee

Lilydale Lake Landcare Consultative Committee

Ruffey Lake Park Advisory Committee

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State/national policy/advisory committees or boards

Australian Water Association
Board of Water Services Association of Australia (WSAA) committees and associated committees
Cooperative Research Centre (CRC)
Index of Stream Condition Steering Committee
International Water Association
National Codes Reference Group
Painting Contractors Certification Program Technical Committee
Region 4 Division 2 Emergency Response Planning Committee
Regulatory Control of Water Meters
Shire of Yarra Ranges Municipal Emergency Management Planning Committee
State Fishway Implementation Committee
Trade Waste Acceptance Advisory Committee
Victorian Stormwater Advisory Committee, Working Group and Technical Group
Victorian Water Industry Association
Water Efficient Appliance Group
Water Environment Federation
Western Port Portfolio Coordinating Group
Operating Charter Review Steering Committee

Catchment and land protection

Board of Port Phillip and Westernport Catchment Management Authority
Dandenong Catchment Committee
Galada Tamboore Working Group
Knox Regional Pest Plant and Animal Management Group
Maribyrnong Catchment Committee
Metropolitan Drought Coordination Group
Monbulk Creek Retarding Basin/Birdland Reserve Working Group
Neerim District Land Care Group

Port Phillip and Westernport Regional Catchment Strategy Steering Committee
State Water Quality Monitoring and Assessment Committee
State Waterway Managers Forum
Tarago Integrated Catchment Management Plan Committee
Truganina Coastal Parklands Coordinating Group
VicWater Water Restrictions Working Group
Water Supply Demand Management Committee
Waterways and Drainage Advisory Committee
Waterway Rehabilitation Working Group
Werribee Catchment Implementation Committee
Westernport Catchment Committee
Yarra Catchment Committee
Yarra Valley and Dandenong Ranges Environmental Weed Working Group
Yarra Valley Environmental Best Practice Working Group

Regional issue committees

Eastern Freeway Extension Community Activity Group
Eastern Treatment Plant Community Liaison Committee
Geelong Freeway Extension Liaison Group
Monash Freeway–Hallam By-Pass Project
Northern Suburbs Sewerage Strategy Consultation Committee
Smart Growth (Department of Sustainability and Environment) – Casey Cardinia Growth Corridor
Smart Growth (Department of Sustainability and Environment) – Plenty Corridor
Werribee West Infrastructure Group
Western Treatment Plant Community Liaison Committee
Western Treatment Plant Wildlife Consultative Committee
Western Treatment Plant/The Spit Forum

Yarra Glen By-Pass Environmental Effects Consultative Committee

Waterwatch

Melbourne Waterwatch Boonerwung Region Steering Committee
Melbourne Waterwatch Coordinators' Committee
Melbourne Waterwatch Werribee Catchment Steering Committee

Professional organisations

Stormwater Industry Association (Victorian Committee)

Emergency response and fire prevention

Bureau of Meteorology/Victorian State Emergency Service, Melbourne Water Steering Group
Emergency Issues Committee
Regional Fire Prevention Committees
Shire Yarra Ranges Municipal Emergency Response Management Committee
Shire of Nillumbik Fire Prevention Committee
Victorian State Emergency Service/Melbourne Water/Municipal Association Victoria
Victorian Emergency Management Council

Recycled water

Recycled Water Advisory Committee

Road construction

VicRoads – Barnes Rd Bridge Consultative Committee
Department of Sustainability and Environment – Craigieburn By-Pass Environs Coordination Group
VicRoads – Craigieburn By-Pass Local Community Advisory Group
VicRoads – Pakenham By-Pass Community Consultation Committee
VicRoads – Greensborough By-Pass Government Agency Briefing Group
EastLink – TJH fortnightly waterways and drainage liaison working group
SEITA technical group.

Whistleblowers procedures

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/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

Melbourne Water's 2004/05 Social and Environment Report has more comprehensive information on our environmental and social performance in 2004/05 and is available at melbournewater.com.au/reports

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