

**SUSTAINABILITY
REPORT 2007/08**





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OUR VISION WORKING TOGETHER TO ENSURE A SUSTAINABLE WATER FUTURE

Front cover: The Waterwall at the National Gallery of Victoria (NGV)

The NGV is committed to achieving and promoting water conservation. With the assistance and support of Melbourne Water, the Water Trail has been developed to promote the value of water to NGV visitors. The Waterwall at the entrance to NGV International marks the beginning of the Water Trail. Using recycled water, the constant flow creates a natural filter between the bustle of the city and the calm seclusion and ambience of the Gallery.

Opposite: Kids at Cherry Lake, Altona

OVERVIEW

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

ABOUT THIS REPORT

Melbourne Water's *Sustainability Report 2007/08* describes our progress towards achieving our vision of *Working Together to ensure a Sustainable Water Future*, and how we met our business obligations from 1 July 2007 to 30 June 2008.

The report reviews our performance against Key Performance Indicators (KPIs) detailed in our *Corporate Plan*, and against a selection of relevant sustainability or water industry-based indicators. It has used the *Global Reporting Initiative (GRI): Sustainability Report Guidelines* to guide reporting.

The reporting boundary covers areas that Melbourne Water is responsible for as an organisation. We have not included details of contractors or stakeholders, unless stated.

Melbourne Water is committed to the process of assurance and verification, and engaged an independent auditor to assess this report. The Independent Assurance Statement is on page 148.

STAKEHOLDER CONSULTATION

Consultation and research with internal and external stakeholders about last year's sustainability report helped shape this document. The research, conducted via interviews and group discussions in June and July 2008, found that the report was an appealing document, with content/information, structure and design rated highly. This consultation and research:

- › Refined and developed the reporting process so that the document is responsive to stakeholder needs
- › Enabled Melbourne Water to stay informed about the issues that are important to stakeholders
- › Ensured the report demonstrates best-practice transparency and accountability
- › Strengthened existing relationships and helped build new ones.

REPORTING PRINCIPLES

As with last year's report, information for the *Sustainability Report 2007/08* was prepared consistent with the following principles relating to content and quality:

- › Balance – reporting favourable and unfavourable outcomes
- › Comparability – enabling information to be compared on a year-on-year basis, and with appropriate industry benchmarks
- › Accuracy – making every effort to ensure accuracy of data
- › Timeliness – aligning reporting processes
- › Clarity – explaining the concepts using clear and concise language
- › Reliability – data can be sourced and stands up to the assurance process
- › Materiality – ensuring that important business issues are covered
- › Stakeholder inclusiveness – identifying stakeholders and addressing their interests
- › Sustainability context – explaining how initiatives impact on our business sustainability, and sustainability more broadly
- › Completeness – ensuring transparency in the coverage of major business issues.

CREATING A MORE SUSTAINABLE REPORT

We produced our first Sustainability Report, *Towards Sustainability*, in 2005, soon after we had developed our strategic framework. This document, *Sustainable Water – A Strategic Framework*, outlined our high-level goals and objectives for achieving our vision.

Towards Sustainability was our first attempt to assess our performance against the framework and sustainability indicators. At the time, we also produced an Annual Report. The following year, we combined the reports as sustainability principles became more fully integrated into our business processes.

Previously, we produced about 2000 printed reports a year to distribute to our stakeholders and the community. We also made the report available online via our website. Consistent with our sustainability principles, we have gradually reduced the number of printed publications we produce, including our Sustainability Report.

In most cases where printed copies are required (particularly for people with accessibility issues), we produce small quantities using environmentally friendly printing processes on recycled paper. Last year, we produced 500 printed copies (including 80 required for the Victorian Parliament) of the Sustainability Report on 100% recycled paper.

This year we have produced the required copies for Parliament and a summary version for distribution. We have made the online document user-friendly so that people can access sections of most interest to them more readily.

These printed copies were produced on 100% recycled paper using sustainable printing processes.

ONLINE DOCUMENT

This report is available on the Melbourne Water website, melbournewater.com.au, along with financial statements and comprehensive social and environmental data for 2007/08. For people without internet access, please contact Melbourne Water on 131 722 for a CD of this report.

We welcome your feedback and invite you to fill in the form, which is on our website under 'Publications', then 'Reports'.

ACCESSIBILITY

If you would like to receive sections of this publication in large print, please telephone 131 722 or email inquiry@melbournewater.com.au

Who we are

Melbourne Water is a water resource manager owned by the Victorian Government.

We manage Melbourne's water supply catchments, remove and treat most of Melbourne's sewage, and manage rivers and creeks and major drainage systems throughout the Port Phillip and Westernport region.

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 (see Our relationships, page 54).

We are responsible for managing \$8.7 billion of water supply, sewerage and drainage assets, as well as natural assets such as rivers and creeks. These assets service 3.4 million people in an area spanning 12,800 square kilometres.

Who we work with

An independent Board of Directors is responsible for the governance of Melbourne Water. During 2007/08, the following Ministers were responsible for Melbourne Water. The Honourable John Thwaites was Minister for Water, Environment and Climate Change until 29 July 2007, the Honourable John Brumby was Minister for Water, Environment and Climate Change from 30 June 2007 to 2 August 2007, and the Honourable Tim Holding was Minister for Water from 3 August 2007.

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, 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, Sustainability Victoria and universities. Research organisations, such as the CSIRO and Cooperative 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.

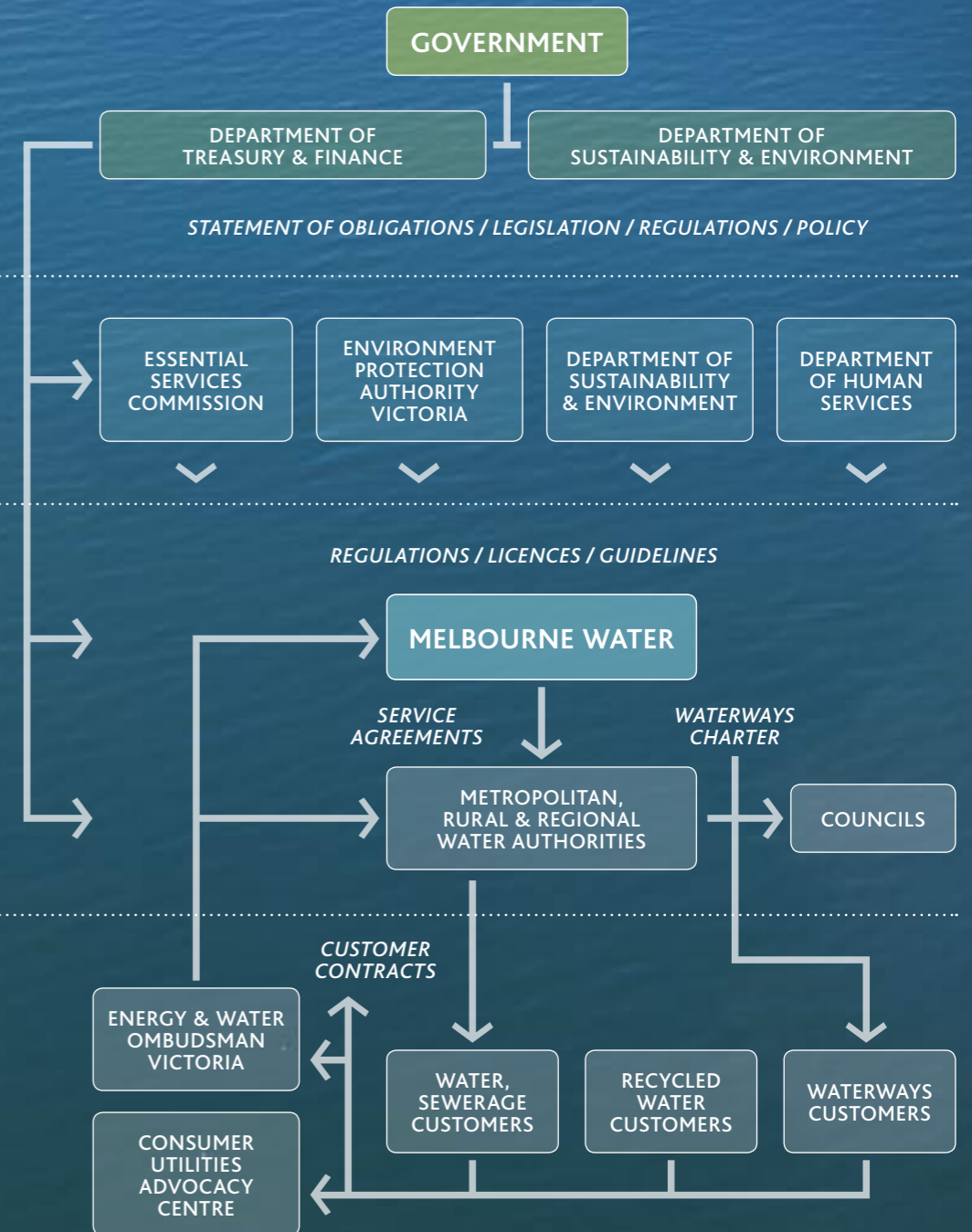
OWNER, LEGISLATOR & POLICY MAKER

REGULATORS

SERVICE PROVIDERS

CUSTOMERS

INDUSTRY STRUCTURE AND REGULATORY FRAMEWORK



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
- › Meet planned reductions in greenhouse emissions and increased use or export of renewable energy.

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, our workplace

- › Provide a safe and enjoyable work environment which brings out the best in people
- › Attract and retain a diverse, motivated, skilled and experienced workforce
- › Encourage our people to develop and share knowledge gained from each other and stakeholders
- › Reward employees' performance against the delivery of our business objectives
- › Foster a Melbourne Water culture that encourages sustainable behaviour
- › Ensure that sustainability principles underpin our workplace policies and practices
- › Encourage and recognise innovation and ideas for sustainable improvements.

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
- › Preserve and promote our cultural heritage
- › Foster the exchange of knowledge with the community
- › Develop collaborative relationships with suppliers to gain support for our sustainability principles
- › Engage and inform the community to seek support for our projects and priorities.

OUR SUSTAINABILITY APPROACH

Sustainable Water – A Strategic Framework formalises Melbourne Water's commitment to sustainability and outlines our sustainability principles.

It also links our work to Victorian Government strategies and policies including *Our Water Our Future, Our Environment Our Future*, the *Central Region Sustainable Water Strategy* and *Melbourne 2030 Metropolitan Strategy*.

The framework provides the context for Melbourne Water's planning process, ensuring that economic, environmental and social impacts are considered.

The framework was developed by Melbourne Water's Board and senior management team with input from our people, and in consultation with government, water industry and community stakeholders.

OUR SUSTAINABILITY PRINCIPLES

Melbourne Water's 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 potential.

STATEMENT OF OBLIGATIONS

Our *Statement of Obligations* to the Minister for Water now contains sustainability management principles that mirror those in the *Water (Governance) Act 2006*, which was proclaimed on 1 July 2007.

These principles are:

- › The need to ensure that water resources are conserved and properly managed for sustainable use and for the benefit of present and future generations
- › The need to encourage and facilitate community involvement in the making and implementation of arrangements relating to the use, conservation and management of water resources
- › The need to integrate both long-term and short-term economic, environmental, social and equitable considerations
- › The need for the conservation of biological diversity and ecological integrity to be a fundamental consideration
- › If there are threats of serious or irreversible environmental damage, lack of full scientific certainty as to measures to address the threat should not be used as a reason for postponing such measures.

The *Statement of Obligations* also requires Melbourne Water to develop and implement programs for assessing, monitoring and continuously improving our sustainability performance, including:

- › Responding to climate change
- › Maintaining and restoring natural assets
- › Using resources more efficiently
- › Managing everyday environmental impacts.

Melbourne Water has developed initiatives in each of these key areas and included these in our *2008/09 – 2010/11 Corporate Plan* and *Draft 2008 Water Plan*.

HOW WE RATE

Melbourne Water's sustainability performance was benchmarked against publicly listed companies considered to be world leaders in sustainability. On the 2006/07 Dow Jones Sustainability World Indexes of financial, environmental and social criteria, Melbourne Water increased its score from the previous year from 69% to 71%, placing us 3% behind the leading company.

On the Australian Sustainable Asset Management Sustainability Index for 2006/07, Melbourne Water increased its score from 69% in 2005/06 to 71% in 2006/07, placing us 5% behind the leading company. These benchmarking assessments were the most recent as of 30 June 2008. (see *Business efficiency*, page 68).

OFFICE-BASED SUSTAINABILITY

Melbourne Water established several Key Performance Indicators to measure our office sustainability performance. These began in 2007/08, when we met our KPI for paper use but we didn't achieve our targets in other areas including water use, despite effective systems being in place (see *Our people, our workplace*, page 60).

The paper consumption target was included in our employees' Enterprise Agreement. Water, energy and waste will be in the Enterprise Agreement from 2008/09 and our performance in meeting these targets will be considered when determining salary increases.

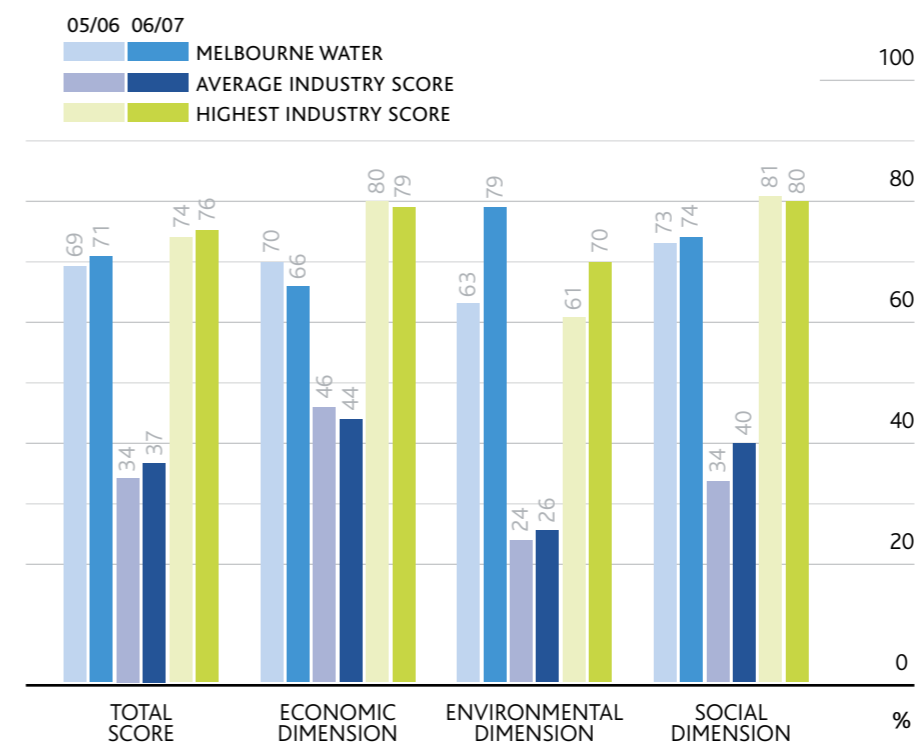
Our LivingSmart program, which began in June 2006, was revised this year to include a greater emphasis on a sustainable office environment.

MELBOURNE WATER'S PLANNING FRAMEWORK



MONITORING, REPORTING & BENCHMARKING

DOW JONES SUSTAINABILITY INDEX – GLOBAL WATER UTILITY INDEX COMPARISON



2007/08 in review

Melbourne Water and our 729 employees faced another challenging and chronically dry year, which featured:

Safety failure

A serious injury to one of our valued employees was the most distressing and disappointing aspect of our performance. We did not achieve our goal of zero lost time injuries (LTIs), with two LTIs affecting our employees and four affecting our contractors.

Working smarter

Sweeping changes were introduced to the way we deliver a significantly increased capital works program, with alliance contracts established with our project partners that align values and objectives and provide commercial incentives for superior performance.

Building our water future

A \$417.8 million capital works program to help secure Melbourne's water future included the Sugarloaf Pipeline, the reconnection of Tarago Reservoir and the Eastern Treatment Plant upgrade.

Improving efficiency

A range of information technology enhancements included a capital management system to improve support and monitoring of our capital works program.

Investing in research

Invested \$4 million in research and technology projects – mainly in drinking water, waterways and wetlands, treatment, marine and wastewater – to enhance scientific knowledge, reduce environmental and public health risks and improve efficiency, productivity and innovation.

Developed strategic relationships with PUB Singapore and Mekerot, Israel's national water company, who are world leaders in membrane technology, water recycling and seawater desalination.

Cutting greenhouse gas emissions

The first of six mini hydro-electricity plants was commissioned as part of our target to achieve zero net greenhouse gas emissions by 2018. We exceeded our target of a 40% reduction in greenhouse gas emissions from the 2000/01 baseline.

Increasing energy needs

Our energy consumption climbed by 9.6% due to increased pumping requirements associated with managing drought conditions.

Changing our culture

A second analysis of Melbourne Water's culture found significant improvement in constructive behaviour in our workplace.

Delivering results

This year, Melbourne Water:

- › Supplied 381,097 million litres of water (7.4% less than last year) to the retail water businesses, reflecting water restrictions and conservation initiatives
- › Treated a total of 266,105 million litres of sewage at the Eastern and Western treatment plants (down 2.5% on last year)
- › In partnership with the metropolitan retailers, supplied 66,742 million litres of recycled water. This is 23.2% of the total amount of sewage treated in metropolitan Melbourne, exceeding the Government's target of 20% by 2010. This compared with 22.5% last year
- › Protected and improved waterways, water quality and drainage infrastructure to service urban growth, investing \$32 million on 200 projects
- › Delivered a net profit after tax of \$67.6 million – about half that of last year. This was due to higher operating expenditure including employee and borrowing costs to support our significantly increased capital works program, depreciation and a writedown of superannuation assets due to market conditions and employee defined benefit obligations.

Chairman and Managing Director's report

The long-term challenge of creating a sustainable water future has been at the forefront for us in 2007/08.

Against a backdrop of continued drought, debate on climate change and low storage levels, we've been advancing two key projects in response – reconnection of Tarago Reservoir and the Sugarloaf Pipeline.

Through this and other major projects, our capital works program has expanded fourfold from last year to reach \$1 billion in 2008/09 on behalf of the Victorian Government.

The size of this challenge – or rather, how we meet it – mandates an innovative approach.

We've established an alliance model for our major projects, which binds Melbourne Water and our delivery partners to share responsibility for design, budgets and timelines. It's early days but already this approach has given us more flexibility in how we resource our projects as well as access to more know-how.

Input from the private sector led us to forge four more alliances, each lasting five years, to work towards a sustainable water future. These alliances cover our major business areas: sewage treatment, drainage, water supply, and waterways and stormwater quality.

Young people are among the most passionate sustainability champions out there. We spoke to thousands of students this year through our education programs, explaining the water cycle and giving them a personal stake in the health of their local rivers and creeks.

As the caretaker of waterways, we rolled out tree planting, weed removal and flood protection services into more parts of the urban and rural fringe. We've worked closely with these communities to work out what needs to be done in our new areas of responsibility, and starting from 2008/09, these programs will be supported by the waterways and drainage charge.

As a business, we've made clear commitments to improving the inherent sustainability of our day-to-day operations. This includes cutting net greenhouse gases to zero by 2018, a target we've started work on by bringing the first of six 'mini-hydro' plants online. These plants generate clean power from water moving around the system, and once all six are operational, they'll provide enough energy equivalent to that used by 5000 homes.

Of everything we do, sending our people home from work safely is the most important. This responsibility automatically becomes greater in the face of an expanding capital works program, and the year was marred by what we regard as an unacceptable safety performance.

A major incident at Brooklyn left one of our employees seriously injured, requiring months of recuperation and leaving a significant impact on his family. Though not as serious, there were several other incidents involving contractors.

We've since developed a 65-point health and safety improvement plan, and are refocusing our business to make 2008/09 above all, a safer year.

Finally, we must acknowledge the efforts of our team at Melbourne Water. Your intelligence, passion and sheer hard work is at the core of this journey towards a sustainable water future – and something of which we can all be proud.

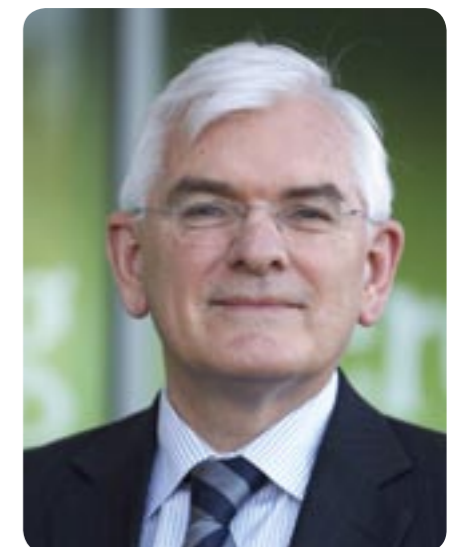
In accordance with the FMA 1994, we are pleased to present the Report of Operations for Melbourne Water for the year ending 30 June 2008.

30 September 2008

Cheryl Batagol
Chairman

Rob Skinner
Managing Director

Cardinia Reservoir





WATER

Goals related to water

- › Supply high quality and reliable drinking water
- › Protect and conserve Melbourne's existing water resources
- › Protect our water supply catchments from bushfire
- › Develop new and alternative water resources to diversify and secure supplies for current and future customers
- › Increase water resource efficiency
- › Develop and implement efficient capital investment and operations programs
- › Ensure stringent regulatory obligations are met

Key achievements

- › With our alliance partners, completed preliminary construction work on a treatment plant at Tarago Reservoir, which will supply 15,000 million litres of water to Melbourne by mid-2009
- › Completed investigations into the Sugarloaf Pipeline corridor, paving the way for construction activities
- › Developed and provided drinking water quality standards to the Government to support the desalination project design
- › Construction works are on schedule for a new water main in St Albans, which will service expanding areas west of Melbourne
- › Constructed five small filtration plants to ensure safe water supply to Upper Yarra communities

Disappointment

- › Water quality targets for turbidity and aluminium were not achieved

Challenges

- › Securing Melbourne's water future by delivering major capital works on time and budget using alliance partnerships
- › Monitoring and modelling climate patterns to ensure we are flexible in meeting Melbourne's water needs and in touch with customer needs
- › Continuing to plan and cater for future growth, particularly in Melbourne's west
- › Securing non-rainfall dependent sources of water given the strong possibility that low inflows will continue
- › Carefully managing and conserving existing water reserves until new sources progressively come on line

OVERVIEW

Melbourne's drinking water is highly regarded by the community. Most of it comes from more than 156,000 hectares of protected catchments high up in the Yarra Ranges east of Melbourne.

Water flows from the catchments to nine major reservoirs that have a capacity of 1,773,000 million litres.

This water is of excellent quality and requires only minimal treatment at water treatment (disinfection) plants. Bulk water is transferred through about 1030 kilometres of water mains and 200 kilometres of aqueducts and tunnels to about 60 service reservoirs in the metropolitan area and delivered to the retail water businesses, which distribute it to individual customers.

Changing rainfall patterns

Autumn inflows to our four major harvesting reservoirs in 2008 were the lowest on record, revealing the additional pressures we face through changing rainfall patterns.

The lack of traditional autumn rain to wet the catchments, accompanied by shorter, more intense rainfall, reflects predicted climate change impacts.

Without autumn rain, dry soils impacted by heavy rain later in the year created increased levels of turbidity due to erosion and more exposed banks in reservoirs that were already at low levels, causing potential water quality issues.

Dry soils also soaked up the rain leading to reduced run-off, so that even when we received good falls, dam levels declined.

Storage levels continue to drop

Our storages continued to fall throughout the year, with Stage 3a water restrictions remaining in force until at least 30 November 2008.

By 30 June 2008, the storage level had dropped to 29.5% (523,526 million litres). This compared with 30.7% (544,415 million litres) at the same time the previous year.

With the drought entering its 11th year, the extent of the drought has raised questions about the impact climate change is having on our water resources. The prolonged dry conditions during 2007/08 highlighted the need to continue efforts to conserve supplies and find new water sources.

Winter and spring rain boosted the storage level to more than 40% by November 2007, but the record low 2008 autumn inflows reflected the extent of the ongoing drought.

This year, streamflows into the four major harvesting storages (Maroondah, O'Shannassy, Upper Yarra and Thomson) were 89% above the previous year but only one-third of the average for 1998-2007.

OUR WATER OUR FUTURE

Melbourne Water and our alliance partners are working with the Victorian Government, the retail water businesses, the community and other stakeholders to deliver a major capital works program to secure our water supply for the future, including water sources that do not depend on rainfall.

Our Water Our Future – The Next Stage of the Government's Water Plan sets out a \$4.9 billion infrastructure program to boost Victoria's water supplies, and prepare for the possibility that the record low inflows to reservoirs may continue.

Major projects include:

- › A desalination plant for Melbourne near Wonthaggi
- › Modernising of Victoria's Food Bowl irrigation system to capture lost water for farms, the environment and Melbourne
- › Expansion of Victoria's water grid, including the Sugarloaf Pipeline, to transfer up to 75,000 million litres of water a year from the Goulburn River to Melbourne
- › Reconnecting Tarago Reservoir to Melbourne's water supply system
- › Upgrading Melbourne's Eastern Treatment Plant to provide 135,000 million litres of recycled water (see Sewerage, page 22)
- › Supporting the retail water businesses to deliver water conservation programs for homes and industry.

The new projects will increase the total supply for Melbourne by 240,000 million litres a year by 2011 – about half of our current annual water use.

A collaborative approach

To deliver this significantly expanded capital program, Melbourne Water has implemented alliance partnering – a collaborative style of engaging project partners that harnesses a team approach and reduces capital risks in a tight labour market.

Over the next five years, four program alliances will handle numerous water asset creation and maintenance projects (see also Business efficiency, page 68).

Sugarloaf Pipeline

Melbourne Water is responsible for funding and constructing the \$750 million Sugarloaf Pipeline project linking the Goulburn River near Yea to the Sugarloaf Reservoir in Melbourne's north-east. The project is being constructed by an alliance.

We are also contributing \$300 million towards the Government's \$1 billion Food Bowl Modernisation project, which will save about 225,000 million litres of water through improvements to irrigation infrastructure across the Goulburn and Murray river systems. Water savings will be shared equally between irrigators, Melbourne and the environment.

RAINFALL AS MEASURED AT THE RESERVOIRS: FOR 2007 – 2008

CATCHMENT	JULY 2007 – JUNE 2008	LONG TERM AVERAGE*	VARIATION	LOWEST PREVIOUS YEAR SINCE
THOMSON	879.4 mm	1,039.5 mm	15.4 % below	2002-03 (712.0 mm)
UPPER YARRA	851.4 mm	1,051.9 mm	19.1 % below	2002-03 (829.5 mm)
O'SHANNASSY	1,117.0 mm	1,274.9 mm	12.4 % below	2006-07 (901.6 mm)
MAROONDAH	780.7 mm	1,056.2 mm	25.2 % below	2002-03 (771.6 mm)
YAN YEAN	477.8 mm	658.0 mm	27.4 % below	

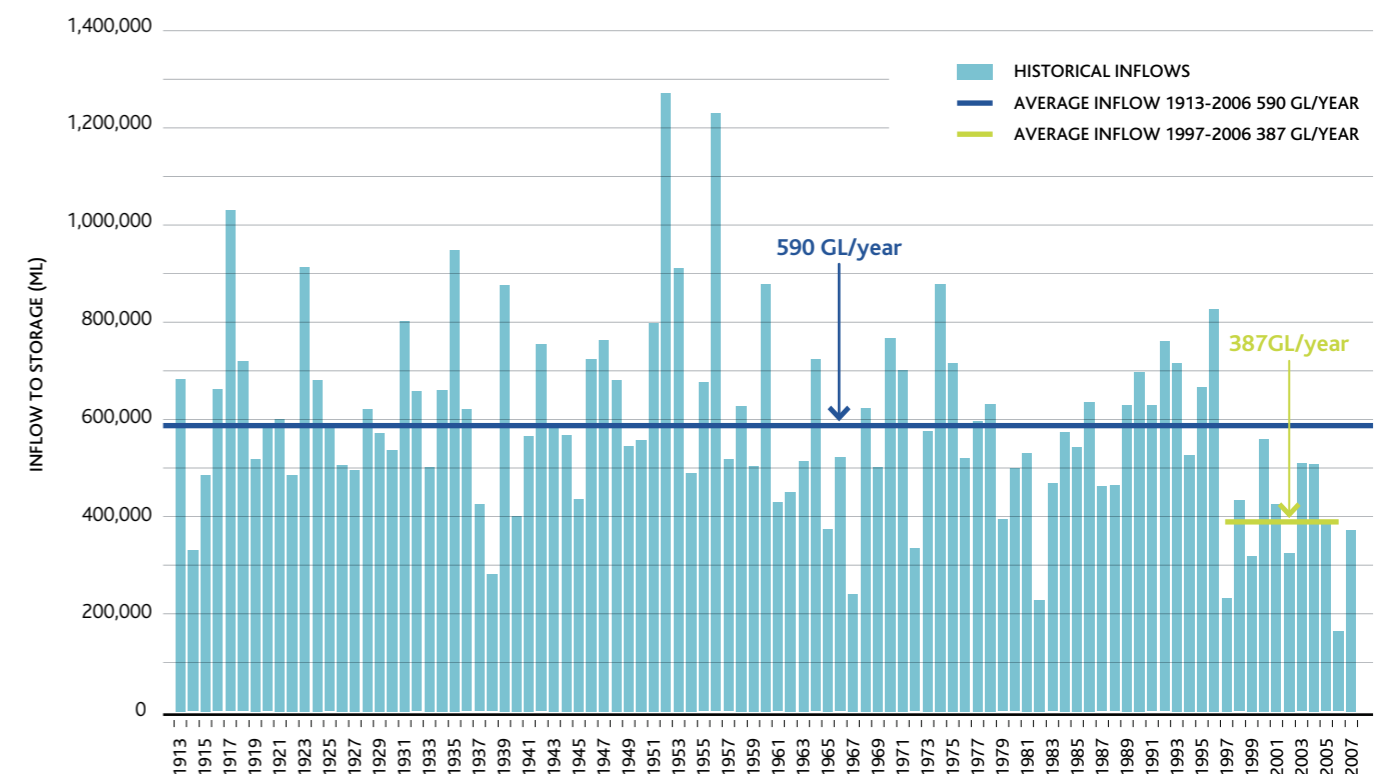
* Long Term Average (30 year mean 1978 – 2007)

STREAMFLOW AS MEASURED INTO THE RESERVOIRS: FOR 2007 – 2008

CATCHMENT	JULY 2007 – JUNE 2008	LONG TERM AVERAGE*	VARIATION	LOWEST PREVIOUS YEAR SINCE
THOMSON	159,146 ml	206,690 ml	23.0 % below	2006-07 (92,110 ml)
UPPER YARRA	80,459 ml	132,870 ml	39.4 % below	2006-07 (30,171 ml)
O'SHANNASSY	54,203 ml	90,690 ml	40.2 % below	2006-07 (28,556 ml)
MAROONDAH	48,183 ml	77,490 ml	37.8 % below	2006-07 (21,166 ml)
TOTAL	341,991 ml	507,740 ml	32.6 % below	2006-07 (180,003 ml)

* Long Term Average (30 year mean 1978 – 2007)

ANNUAL INFLOW TO MELBOURNE'S MAIN HARVESTING RESERVOIRS (THOMSON, UPPER YARRA, O'SHANNASSY & MAROONDAH)



The pipeline project involves:

- › Constructing a 70-kilometre pipeline from the Goulburn River to Sugarloaf Reservoir
- › Building two pumping stations near Yea and a balancing water storage facility
- › Upgrading the Winneke water treatment plant
- › Upgrading the water distribution network to increase the area supplied from Sugarloaf Reservoir
- › Investigating hydro-electricity generation options on the downstream end of the pipeline.

In April, we began working with our alliance partners on planning, environmental assessments, engineering designs, community and landowner consultation, project management and construction.

The alliance completed survey works along preferred pipeline corridors, including core drilling works and approved requirements for the first stage of the Winneke upgrade.

We also contacted property owners and explained whether they would be affected, and announced a \$5 million grants program to provide long-term social benefits to communities along the preferred pipeline corridor (see Our relationships, page 54, and Protecting our natural environment, page 44).

Reconnecting Tarago

Reconnection of the Tarago Reservoir to Melbourne and Westernport region water supplies is the first major water supply project to be delivered under the Government's *Next Stage Water Plan*.

The Tarago Project aims to ensure the sustainability of the Tarago Reservoir catchment and its waterways, increase the security of local and regional water supplies, and provide community benefits.

Work on the Tarago treatment plant began in November. It is located in Drouin West, nine kilometres south-west of the reservoir on the route of the existing Tarago-Westernport Pipeline, and is scheduled for completion in mid-2009.

We have worked closely with the Baw Baw Shire Council on the project, and during 2007/08 made improvements to the town planning provisions in the Tarago catchment. A planning scheme amendment reduces risk of water supply contamination from sewage and septic sources, and provides clear strategic and statutory direction for land use and rural activity within the Tarago catchment.

Desalination plant

The Our Water Our Future – Next Stage of the Government's Water Plan includes the \$3.1 billion desalination plant to be constructed near Wonthaggi, which is being managed by the Victorian Government as a public-private partnership.

The desalination plant will deliver 150,000 million litres of water a year to Melbourne, Geelong, South Gippsland and Westernport. It will be capable of providing about one-third of Melbourne's annual water supply from a source that is independent of rainfall.

The project will include an 85-kilometre underground pipeline to connect the plant to a transfer main at Berwick and then to Cardinia Reservoir.

To prepare for the integration of the desalination plant into our water supply system, we undertook investigations into water quality, operational requirements, issues associated with securing entitlements to the water, resource and yield planning, network augmentation, use of renewable energy and other sustainability features.

Conserving our precious resource

In the face of prolonged severe drought, Melburnians are saving water at record levels. Although Melbourne has one million more people today than in the early 1980s, we were able to cut water consumption to levels last seen during the Ash Wednesday summer of 1982/83.

Last summer Melbourne used about 102,000 million litres compared with 111,800 million litres the previous summer – a reduction of 9%, and 22% lower than the average of the past five years.

Despite these savings, Melbourne Water and the retail water businesses are working collaboratively to ensure secure water supplies for the future and to meet the Government's goal to reduce water consumption by 30% by 2015 compared with the 1990s.

This year, we developed the *Melbourne Joint Water Conservation Plan*. The plan aims to meet the water conservation actions and targets set out in the Victorian Government's *Central Region Sustainable Water Strategy* (October 2006) and the supporting *Water Supply-Demand Strategy* for Melbourne (October 2006) for the period 2007 to 2015.

Under the plan, the water authorities have committed to the following targets:

- › 30% reduction in per capita drinking water consumption by 2015 to 296 litres per person per day, from the 1990s average
- › 30% reduction in per capita residential water consumption by 2015 to 174 litres per person per day, from the 1990s average
- › 8000 million litre saving by 2015 in the non-residential sector.

Melbourne Water and the retail water businesses also continued to support the Victorian Government's *Our Water Our Future* behavioural change campaign. This year Melbourne Water contributed \$1.1 million to the campaign, which is managed by the Department of Sustainability and Environment on behalf of the metropolitan water authorities.

This year the campaign focused on promoting Stage 3a water restrictions through the media; continuing the *Water Saver Garden Centre* program, which provides education and practical advice to customers on developing and maintaining water-efficient gardens through accredited garden centres;

and the *Water Learn it Live it!* schools program, which educates and motivates young people to save water.

Detecting and fixing leaks

Melbourne Water invested \$4.5 million this year to detect and repair leaks as quickly as possible, focusing particular attention on aqueducts.

Upgrades and maintenance works on our aqueducts will save a total of about 500 million litres of water a year.

A water-based spray-on liner was applied to 450 metres of the Coranderrk Aqueduct, which delivers drinking water to Silvan Reservoir. Comprehensive preparation and bypass arrangements were required to enable these works to be undertaken.

Four kilometres of the downstream section of Maroondah Aqueduct were relined in March, complementing works the previous March. Melbourne Water teams also rebuilt and repaired the foundation of bluestone pitchers from which the Wallaby/Silver Aqueduct was built more than 100 years ago.

The six-strong pipe repair team fixed 180 leaks in Melbourne Water pipework, with two crews operating at times during the year. This year, we also trialled new correlation (acoustic) technology and a water balancing process.

Melbourne Water's leakage and loss rate is about 1%.

MANAGING OUR CURRENT SUPPLIES

Dealing with drought

The chronically dry conditions led to further reductions in environmental flows in the Yarra River and Thomson River to ensure continuing supplies of drinking water.

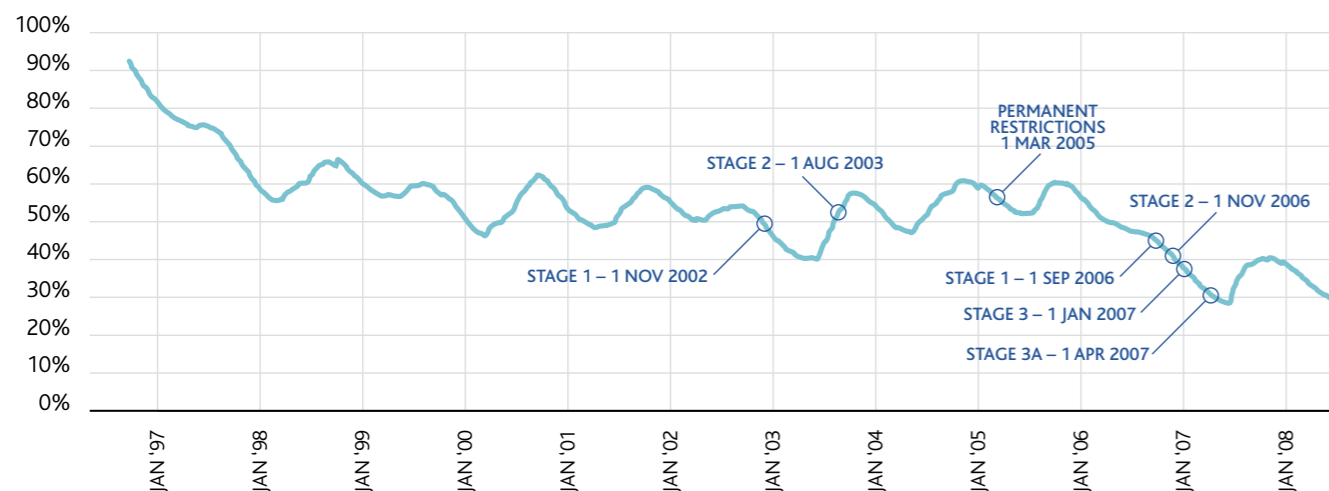
An additional 10,000 million litres of water a year from each river was made available to augment water supplies as part of emergency drought contingency planning.

Heading into summer, this meant environmental flows in the Yarra River downstream of the Yering Gorge pumping station were reduced to 200 million litres a day. Stringent environmental safeguards are in place to monitor the health of the Yarra and Thomson rivers.

Swingler Weir, normally under water in the Thomson Reservoir, has been rehabilitated and is diverting water flows in the Thomson River to help manage drought conditions. The weir is upstream of the Thomson Reservoir dam wall and was submerged in 1998 before being exposed by dropping water levels.

The weir diverts water flow from the Thomson River directly to the Upper Yarra Reservoir. This gives greater flexibility to balance Thomson and Upper Yarra storage levels and manage transfer flow rates during continued drought conditions.

WATER IN STORAGE – MELBOURNE



WATER STORAGE DATA FOR 2007/08

RESERVOIR	CAPACITY (AT FULL SUPPLY)	1 JULY 2007		30 JUNE 2008		YEARLY DIFFERENCE (%)
		VOLUME (ML)	% FULL	VOLUME (ML)	% FULL	
THOMSON	1,068,000	209,933	19.7%	193,962	18.2%	-1.5%
UPPER YARRA	200,000	100,953	50.5%	95,980	48.0%	-2.5%
O'SHANNASSY	3,000	2,626	87.5%	2,458	81.9%	-5.6%
MAROONDAH	22,000	8,474	38.5%	5,472	24.9%	-13.6%
SUGARLOAF	96,000	23,433	24.4%	15,712	16.4%	-8.0%
YAN YEAN	30,000	5,292	17.6%	4,591	15.3%	-2.3%
GREENVALE	27,000	17,684	65.5%	22,277	82.5%	17.0%
SILVAN	40,000	35,652	89.1%	35,869	89.7%	0.5%
CARDINIA	287,000	145,101	50.6%	147,205	51.3%	0.7%
TOTAL	1,773,000	549,148	31.0%	523,526	29.5%	-1.5%

As part of emergency drought contingency planning, we have prepared and tested two major portable pumps for extracting water from the Thomson Reservoir below the intake point, and prepared aerators for use in the Upper Yarra Reservoir to maintain water quality under low-level conditions.

In December, the Government agreed to a temporary qualification of the Southern Rural Water (SRW) Thomson/Macalister Bulk Entitlement, allowing SRW's Thomson drought reserve to be transferred via the Melbourne water supply system to supply drought-affected irrigators in the Werribee and Bacchus Marsh irrigation districts.

We are also working with the Department of Sustainability and Environment and the retail water businesses to oversee two new Smart Water Fund studies into the socio-economic costs of water restrictions, and alternative forms of restrictions.

Maintaining high quality water supply

Melbourne Water consistently meets stringent requirements in the distribution of safe, high quality drinking water.

The water supply system is managed according to the Hazard Analysis and Critical Control Point system, which uses audits and accreditation to ensure quality management from collection, treatment and distribution to customers.

This year we supplied 381,097 million litres of drinking water to the retail water businesses. This compares with 411,747 million litres in 2006/07, and 444,365 million litres in 2005/06.

For 2007/08, Melbourne Water met requirements for water pressure, microbiological standards, and disinfection by-products. Targets were not met for turbidity and aluminium.

The turbidity issues were caused by heavy storms in late June 2007 across the Upper Yarra catchment, which was very dry after record low rains during 2006. In July 2007, water entering the reservoir contained high levels of suspended matter washed off hard dry ground and scoured from exposed silt beds in shallow streams.

Turbidity levels in the reservoir increased and boil water notices were issued to Upper Yarra communities, as water from the Upper Yarra Reservoir is unfiltered and the turbidity had the potential to affect disinfection processes.

We worked closely with Yarra Valley Water and the Department of Human Services to manage community concerns and impacts, and boil water notices were lifted in August when turbidity levels dropped.

To prepare for any future incidents we have constructed five small filtration plants to ensure safe water supply to Upper Yarra communities.

To protect the wider Melbourne water supply, we restricted distribution of water through the Upper Yarra conduit, which caused sediment to settle in the pipe. This was later cleared through maintenance cleaning operations.

In November, two drinking water samples taken from the Whittlesea Main exceeded Bulk Water Supply Agreement levels of 0.1 milligrams per litre for aluminium. The samples recorded aluminium levels of 0.14 and 0.21 milligrams per litre. The second sample was slightly above the Australian Drinking Water Guidelines limit for aesthetic water quality of 0.2 milligrams per litre. Aluminium at these levels can cause aesthetic issues, such as cloudiness in water. No customer complaints were attributable to these results.

It has not been possible to identify the cause of these higher than normal results. No elevated aluminium was recorded in the source water from the Winneke water treatment plant, and all other relevant operational conditions were normal at the time.

Melbourne Water also worked with City West Water to develop an improvement plan following several taste and odour complaints from City West Water customers.

Algal bloom in Tarago Reservoir

A blue-green algal bloom in Tarago Reservoir was detected in late January as a result of routine algal monitoring of water samples.

Increased reservoir inspections identified surface scum caused by the algae and a small number of dead fish, and an incident was declared on 6 February 2008.

Melbourne Water supplies Gippsland Water with water from the reservoir for the nearby township of Neerim South, and also releases water from the reservoir into the Tarago River for Southern Rural Water customers.

Further monitoring was undertaken to identify the extent of the bloom and the presence of the toxin, *microcystin*. Algal numbers at six of the seven monitoring sites exceeded the 5000 cells/mL level for a notifiable incident, and the highest reading was 68,000 cells/mL.

Extensive sampling of the reservoir and downstream in the Tarago River found that the algae seemed to be confined to the reservoir. Melbourne Water worked closely with the Department of Sustainability and Environment, the Department of Human Services, Southern Rural Water and Gippsland Water, and determined that it was not appropriate to dose the reservoir, nor was it necessary to interrupt supply to Neerim South.

Analysis of water samples continued, with algae levels dropping towards the end of March. The incident was closed on 15 April.

Protecting the catchments

With low rainfall and extended hot weather, Melbourne Water was on full alert again this year to protect our water supply catchments from bushfire.

A total of 112 firefighters were in place for the 2007/08 fire season, with 50 casuals and 30 volunteers supplementing 32 permanent staff based at Healesville, Warburton, Wallaby Creek and Thomson Reservoir.

The Melbourne Water-funded helicopter began operation in November, along with fire prevention programs such as road clearing, road grading and fuel break slashing.

Melbourne Water attended pre-season fire meetings organised by the Country Fire Authority, the Department of Sustainability and Environment and local municipalities, and about 300 kilometres of fire breaks protecting Melbourne Water catchments were completed along the Thomson and Upper Yarra catchment boundaries.

At the end of the prescribed burning season, Melbourne Water firefighters took part in a training program with the Department of Sustainability and Environment, Country Fire Authority and Parks Victoria to improve their skills and expertise in operational firefighting and fire planning.

We began a \$1 million, five-year research program with Melbourne University to examine the potential impacts of bushfire in our water supply catchments and the best ways to protect them. Scientists will test how bushfires within the catchment might move under different conditions, and how various mitigation strategies would work.

Melbourne Water and Parks Victoria began a culling program to reduce numbers of sambar deer in Melbourne's water supply catchments. The results of more than five years' research into the environmental and potential health impact of deer were used to support an application for a permit to cull up to 400 deer over 12 months.

Catering for growth

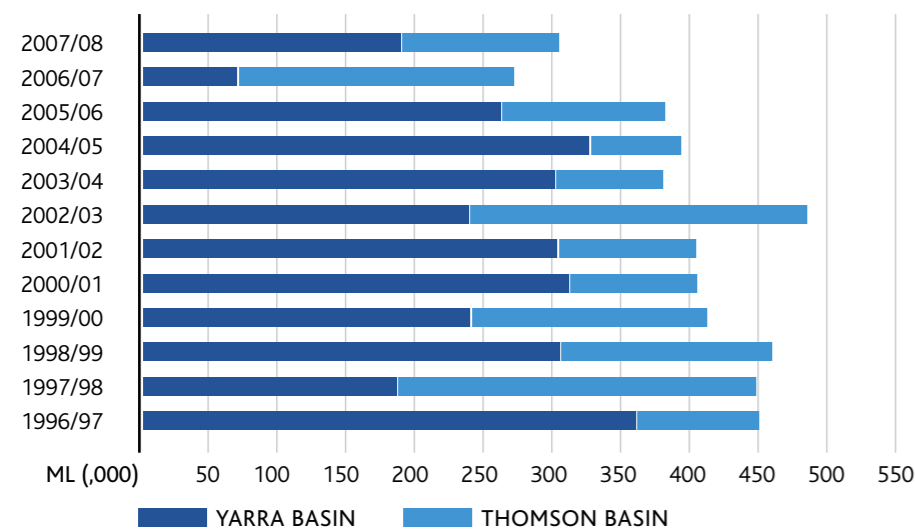
Melbourne Water has identified actions to increase efficiency and effectiveness in supplying Melbourne's water. Planning continues to ensure the water supply infrastructure needs are met for growing areas, particularly west of Melbourne. This includes planning for significant upgrades to transfer systems.

We began construction work on a new 2.6-kilometre water main in St Albans in January, and are on schedule to complete the project in the latter half of 2008. The work is one of several improvements to the St Albans-Werribee water supply system, which will increase the capacity of Melbourne Water's supply system and service Wyndham, the fastest growing municipality in Victoria. These works followed the development of a strategy with City West Water.

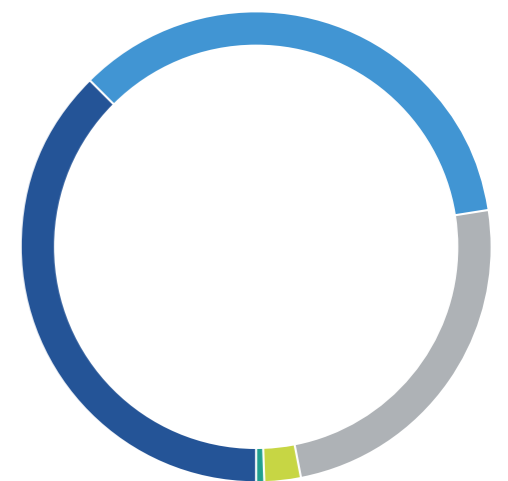
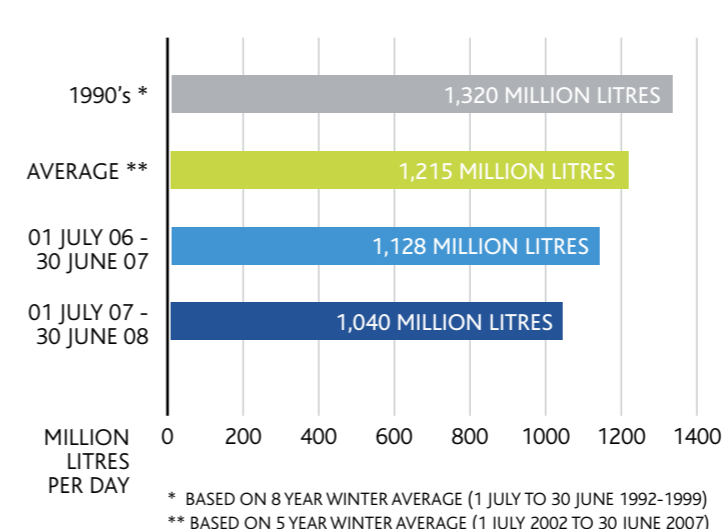
Major renewal projects included replacement of a 100-year-old cast iron water main from Preston to North Essendon, and upgrade of steel water storage tanks at St Albans, Sydenham, Yuroke and Somerton to address corrosion of the floor plates.

We are also investing considerable effort into identifying leakage points in the water supply network, including reviewing 40 steel water tanks and using new technology to detect leaks on large diameter trunk water mains.

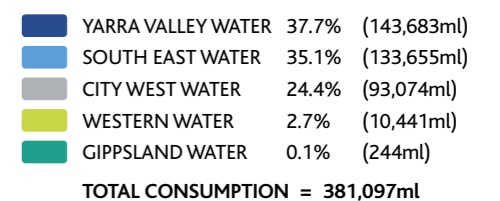
WATER SOURCED FROM CATCHMENT BASINS 1996/97 – 2007/08



DAILY WATER USE FOR MELBOURNE



WATER SUPPLIED TO RETAILERS 07/08



CORPORATE WATER CONSUMPTION

Water-efficient dishwashers and other fittings, as well as shower timers, were installed this year at selected sites to encourage water efficiency. This follows the introduction of dual-flush toilets and waterless urinals in our head office at East Melbourne.

However, we were unable to achieve our target of 7800 litres per FTE (Full Time Equivalents) per year for our office water use. Our result was 8600 litres per FTE per year, also higher than last year's figure of 7942 litres per FTE. A leaking cooling tower during summer compromised this result.

Another issue arose from encouraging our people to use more sustainable modes of transport to get to work, such as bicycles and walking. Inevitably this meant that our people showered at work.

This result is only for water use at our head office at 100 Wellington Parade, East Melbourne. The average number of FTEs at this office during the year was 352 – about 40% of Melbourne Water's total.

Water was used for toilet flushing, showers, drinking and washing dishes, as well as fire services.

FTEs include all our employees plus all contractors, consultants, trainees, secondees and any other people who utilise a Melbourne Water site.

Separate metering for office water was installed at six Melbourne Water sites in December (Maroondah, Yan Yean, Olinda, Silvan, Thomson and Devilbend).

In 2008/09, other office water consumption is being collated, along with water bill information for Warburton, Preston, Upper Yarra and Healesville, and metering information for the administration building at the Eastern Treatment Plant, to form an expanded set of sites for the office water baseline. Other investigations will also occur next year to determine the capacity for office water metering at other Melbourne Water sites.



KEY PERFORMANCE INDICATORS – WATER

	2006/07		2007/08		TARGET MET
	TARGET	RESULT	TARGET	RESULT	
PRODUCTION/STORAGE					
OPERATE WATER SUPPLY SYSTEM WITHIN ENVIRONMENTAL REQUIREMENTS – % COMPLIANCE	100	99.58	100	100	✓
CONTRIBUTE TO THE GOVERNMENT'S 15% WATER CONSERVATION TARGET (%)	2.5	2.8	2.9	4.2	✓✓
WATER TRANSFER					
REDUCE SYSTEM LOSSES AS A PERCENTAGE OF WATER SUPPLIED TO RETAIL WATER BUSINESSES (%)	0.76	1	<1	0.98	✓✓
COMPLIANCE WITH RETAIL WATER BUSINESS PRESSURE REQUIREMENTS AS SET OUT IN THE BULK WATER SERVICE AGREEMENTS (%)	99.6	99.9	99.6	100	✓✓
WATER QUALITY COMPLIANCE WITH BWSA WATER QUALITY REQUIREMENTS (%):					
MICROBIOLOGICAL STANDARDS (E.COLI)	99.99	100	99.99	100	✓✓
DISINFECTION BY-PRODUCTS	100	100	100	100	✓
AESTHETICS (TURBIDITY)	86.8	91.7	86.8	79.4*	✗
AESTHETICS (ALUMINIUM)	99.9	99.2	99.9	99.75**	✗

✓ Target met ✓✓ Target exceeded ✗ Target not met

* Target was not achieved mainly due to high turbidity in the source water from Upper Yarra Reservoir caused by the June 2007 storm event.

** Target was not achieved due to two results from the Yan Yean supply to Whittlesea in which the pH stabilisation exceeded BWSA standards. Plant operations were reviewed and no reasons for the higher aluminium level were identified. However, the higher results could be connected with the shutdown of the plant, where a residual volume of water remains in the tank until the next time the reservoir starts up.

Case study: An innovative partnership

Reconnection of the Tarago Reservoir to the Melbourne and Westernport water supply systems is three months ahead of schedule, thanks to a cooperative and innovative approach by a collaborative partnership building the treatment plant at Drouin West.

The Tarago Reservoir is expected to deliver 15,000 million litres of water a year, and a water treatment plant is necessary to ensure high quality, reliable supplies.

Our construction partners in the project – Baulderstone Hornibrook and United Group Joint Venture, GHD Pty Ltd, and Sinclair Knight Merz – began earthworks and roadworks in October, and began work on the treatment plant in January.

Project Manager Andrew Ackerman, of Baulderstone Hornibrook, said the partnership approach allowed rapid response and valuable sharing of ideas.

"Bringing the ideas and experience from four organisations working together as one team on one job gives us the ability to move quickly and introduce new ideas and innovative ways of working," Andrew said.

By the end of June 2008 the construction program had achieved a major milestone – completion of the base and walls of the 72-metre diameter concrete tank for holding 20 million litres of treated water.

The benefits of sharing knowledge and expertise with our alliance partners were demonstrated through an innovative method of constructing the tank walls.

Steel cables were fitted in pre-stressed concrete panels, which were tightened after concrete pours, to create watertight seals. This proved to be fast and cost effective compared with traditional steel tank construction. The panels were manufactured offsite, increasing safety by reducing working hours and plant movements onsite and minimising the risk of weather delays.

A critical element of the construction program has been keeping the community and neighbours well informed about construction activities such as night works and noise (see Our relationships, page 54).

SEWERAGE

Goals related to sewerage

- › Deliver safe sewage transfer, treatment and disposal
- › Improve river health and the marine environment
- › Minimise waste disposal and maximise resource recovery
- › Develop and implement efficient capital investment and operations programs
- › Ensure stringent regulatory obligations are met

Key achievements

- › The upgrade of the Eastern Treatment Plant entered a new phase with the beginning of trials to determine the preferred technology for tertiary treatment as initial ammonia reduction works were completed
- › Construction works began on a major new sewerage pipeline in Melbourne's northern suburbs that will cater for growth and protect local waterways
- › The sludge drying pans at the Eastern and Western treatment plants were upgraded to improve drying efficiency, biosolids quality, environmental compliance and safety
- › We continued working on the *Metropolitan Sewerage Strategy* as well as other planning and investigation projects for the Eastern and Western treatment plants to meet future challenges, including consideration of climate change as a key driver for adaptation.

Disappointments

- › Despite extensive research, work with regulators and business case development, little progress was made towards meeting our targets for beneficial use of biosolids
- › A grassfire started by a power fault burned for almost 24 hours in a decommissioned sludge drying pan at the Western Treatment Plant at a time of extreme bushfire danger.
- › Managing the impacts of lower average inflows at our treatment plants as a result of the drought and climate change
- › Managing the impacts of higher peak flows in the future at Western Treatment Plant due to the impacts of catchment growth and wet weather spill reduction works in the sewerage transfer system
- › Identifying opportunities for beneficial uses of biosolids at the Eastern and Western treatment plants

Challenges

- › Resolving the future of the ocean outfall from the Eastern Treatment Plant
- › Preparing the treatment plants to meet the likely impacts of climate change such as storm intensity, wet weather flows, sea level rise and the implications of rising average temperatures on concrete corrosion and odour
- › Balancing the need to reduce the environmental impact of the discharge from the Western Treatment Plant with the role the discharge plays in providing nutrients for shorebird habitat
- › Implementing and optimising additional odour control at the Western Treatment Plant to minimise impacts at the adjacent River Walk development.

Odour Control Facility,
Western Treatment Plant

OVERVIEW

Melbourne Water's sewerage system includes the city's major treatment plants – the Eastern Treatment Plant at Bangholme and the Western Treatment Plant at Werribee – as well as 399 kilometres of sewers and three major pumping stations.

The retail water businesses collect sewage and trade waste from households and businesses, which is sent for treatment at Bangholme or Werribee. They also manage pollutants in industrial sewage through trade waste agreements with industry.

In 2007/08, an average of 312 million litres a day of sewage flowed to the Eastern Treatment Plant and 415 million litres a day of sewage flowed to the Western Treatment Plant.

Melbourne Water treated a total of 266,105 million litres of sewage at these plants (down 2.5% on last year and 11.3% on 2005/06) due to water restrictions and conservation measures increasing greywater reuse.

SEWAGE AS A RESOURCE

Melbourne Water regards sewage as a resource, not a waste product. Our two sewage treatment plants play an important role in achieving our sustainable water vision and meeting the challenge of climate change. Both these plants produce recycled water of a high enough quality for use in agriculture and horticulture. A proportion of the effluent is further treated to make it suitable for use in residential and commercial developments (see Recycled water, page 38).

A potential risk of climate change is significant rises in sea levels combined with storm tides, which would cause infrastructure and operational issues for the Eastern and Western treatment plants. Melbourne Water is investigating implications for planning, management and operation of these major assets.

Metropolitan Sewerage Strategy

Climate change is also a key focus of the *Metropolitan Sewerage Strategy*, a joint initiative with the retail water businesses that is due to be completed by September 2009.

The strategy is designed to identify principles and actions to help build a robust and flexible sewerage system for the future, and contribute to integrated water cycle planning for Melbourne. The strategy is considering possible changes to climate, urban growth, population and living standards over the next 50 years.

This year, significant advances were made in finalising the methodology, consulting with stakeholders and developing scenarios for the strategy.

A workshop with CSIRO found the main issues resulting from climate change were likely to be storm intensity and wet weather flows, and the implications of rising average temperatures on concrete corrosion and odour. CSIRO is to further examine these issues and sea level rises for input into the strategy.

New way of working

Melbourne Water formed the Sewage Treatment and Pump Station Alliance in June 2008 to reduce capital delivery risks in a tight labour market.

The alliance with our project partners enables us to work more efficiently and promote innovation, new ideas and new technologies.

The five-year alliance covers Melbourne Water's sewage treatment plants and pumping stations, and is expected to include a total of about 100 employees, contractors and design consultants by the end of 2008 (see Business efficiency, page 68).

EASTERN TREATMENT PLANT

The Eastern Treatment Plant typically treats about 40% of Melbourne's sewage and services about 1.5 million people in Melbourne's south-eastern and eastern suburbs.

The vast majority of inflows – which have fallen significantly during the drought – come from households and commercial businesses.

An increasing amount of fully treated effluent is recycled and the rest flows via the 56-kilometre South Eastern Outfall pipeline to the Mornington Peninsula where it is discharged into Bass Strait at Boags Rocks under an EPA Victoria licence.

New opportunities for reuse

A new phase in the evolution of the Eastern Treatment Plant has begun with the construction of a facility to trial tertiary treatment technologies.

In February, Melbourne Water began the 12-month trials, which are the first stage and a vital part of the plant's major upgrade to tertiary treatment.

The trials are determining the best possible treatment method, and will help to design the works and refine the cost of the upgrade, which is due to be commissioned in late 2012.

The trials will enable Melbourne Water to test technologies for filtration, advanced treatment and disinfection of recycled water, and will enable intensive monitoring and analysis of results using online instruments and an onsite laboratory. More than 10 treatment trains or sequences are being tested with detailed sampling plans and operational conditions.

Under our Works Approval with EPA Victoria, Melbourne Water is due to decide the preferred technology in early 2009. We will also make a recommendation to implement additional advanced treatment as part of the tertiary upgrade in the context of decisions around extension of the South Eastern Outfall.

The upgrade, which was announced by the Victorian Government in October 2006, means that the plant will produce Class A (rather than the current Class C) recycled water.

Environmental improvements

Reducing ammonia in the effluent

Melbourne Water completed works during the year to upgrade the six existing aeration tanks. Construction of additional tanks will be completed by 2010.

The upgrade is the first stage of a significant and complex project to reduce the level of ammonia in the treated effluent being discharged into the marine environment at Boags Rocks. The plant is now reducing ammonia in the effluent by 75%.

Previous studies examining the effect of treated effluent on the marine environment have found that ammonia levels were having a detrimental impact on the marine environment. Reducing the level of ammonia is reducing the impact of effluent at the outfall and ensuring that Melbourne Water meets our EPA Victoria licence requirements for the plant.

Environmental monitoring

Monitoring around the ocean outfall at Boags Rocks commissioned by Melbourne Water assesses the environmental impacts of the discharge from the plant and likely impacts of upgraded treatment and other effluent management options.

The long-term monitoring program, requested by EPA Victoria, began in 1999. Outcomes of the monitoring, together with the tertiary treatment trials, are helping to guide future management options.

This year, Melbourne Water gained a deeper understanding of the ecology of the rock platform and flora and fauna at the discharge point. Studies show that loss of the alga *H Banksia* on the Boags Rocks platform may be due to ammonia toxicity near the outfall but the effects further away may be due to competition by other species favoured by elevated nutrients.

In a report to EPA Victoria, Melbourne Water proposed future monitoring to detect changes arising from improvements in effluent quality arising from ammonia removal, reduced nutrients, reduced solids following filtration, and reduced discharge flow caused by increased water recycling.

Improving the plant's performance

Construction began during the year on a biofilter to treat the air from the inlet works, which is currently vented direct to the atmosphere. This work is in addition to recent modifications to the existing return activated sludge channel biofilter.

Together these initiatives will significantly reduce odour emissions from the site to help meet EPA Victoria licence requirements.

Three stages of works are associated with the plant's odour reduction strategy, which was based on odour sampling and analysis, modelling, odour complaints history, design standards and a cost-effective works program to meet these standards.

The next stage of works includes covering the primary sedimentation tanks and settled sewage channels and treating the air from under the covers. The final stage is an odour control plant on a ventilation stack associated with the South Eastern trunk sewer.

Further works to upgrade the sludge drying precinct were completed. These works have improved environmental compliance, drying and harvesting efficiency, the quality of biosolids harvested and the safety of drying operations while reducing operational risks.

The sludge drying pans were refurbished, which involved removing unsuitable clay material, restoring the clay liner and placing recycled crushed concrete over the pans as a wear layer to enable the movement of heavy machinery.

The supernatant collection system was improved, and temporary pipework replaced by buried pipes in the sludge delivery system. Both these measures have reduced the risk of contaminated run-off to local waterways and improved operational efficiency.

MELBOURNE WATER'S SEWERAGE SYSTEM



Extended power outage

A fire on an electricity pole owned by our distributor cut power to the plant for 16 hours in July. The duty shift team started generators and equipment in order of priority to prevent a spill from the sewerage system and then restore as much of the treatment process as possible.

The available power from the generators enabled the plant's immediate essential operation to be restored. All possible flows were diverted to the Western Treatment Plant.

Subsequent analysis showed that the treated effluent complied with the requirements of the EPA Victoria discharge licence and Class C recycled water.

The fire was started by a build-up of dust on the pole and rain, which caused tracking (arcing) between the conductors.

WESTERN TREATMENT PLANT

The Western Treatment Plant treats about 52% of Melbourne's sewage and services about 1.6 million people in the central, northern and western suburbs.

Internationally recognised wetlands at the 11,000-hectare site are listed under the Ramsar Convention and protected by detailed conservation plans.

In recent years, Melbourne Water completed environmental upgrades that complement the natural processes in the plant's lagoon systems with new technology. Nitrogen discharges to Port Phillip Bay fell to 1239 tonnes this year, a reduction of 67% since 2000/01, exceeding targets set in the Port Phillip Bay Environmental Study.

Sedimentation tank, Eastern Treatment Plant



Protecting the environment

Mixing zone study

Melbourne Water continued work to improve understanding of the way the discharge from the Western Treatment Plant disperses into Port Phillip Bay, and how to retain the benefits of the discharge while reducing environmental impacts in the mixing zone.

In 2007/08, Melbourne Water worked with research partners in two areas, identifying target areas for detailed examination by assessing likely parameters of concern in the mixing zone, including a substantial effluent toxicity testing program, and undertaking trials to improve delivery of effluent to the valuable migratory shorebird habitat on the shoreline.

As a result of this work, we will be focusing our efforts in 2008/09 on improving our understanding of the role played by particulate organic carbon in helping to sustain the high shorebird populations, and on the fate of nitrogen from the discharge.

Using this work, Melbourne Water will develop an action plan for management of the mixing zone. The plan will aim to reduce the impact of the discharge on the marine environment without compromising the benefit of the discharge to the shorebird habitat and to other conservation values.

Improving performance

Undercover desludging

Sludge that builds up in the lagoons can affect the efficiency of the anaerobic reactors in processing sewage and reduce the amount of biogas produced that is used to help power the Western Treatment Plant. Odour and safety concerns do not allow removal of the covers to desludge the lagoons.

Undercover sludge removal trials have been undertaken and two contractors prepared proposals for a full-scale undercover sludge removal program for the 25 West anaerobic reactor. It is anticipated that a contract for the construction and commissioning of the undercover desludging system will be awarded in late 2008 with full-scale desludging of the reactor to begin in July 2009.

Managing odour

A risk assessment completed in June 2007 recommended a staged program of further works to prevent odour reaching the plant boundary.

Major improvement works include chemical dosing at the Hoppers Crossing pumping station, decommissioning of the main eastern carrier, and replacement and extension of the 55 East lagoon cover.

The new cover will have an innovative design, which will allow removal of small segments to enable open areas of the lagoon to be desludged using conventional methods such as dredging. Previously desludging could be carried out only when large sections of the cover were removed, which released odorous gases. The cover will be replaced by the end of 2010.

Upgrading drying pans

Construction of 24 sludge drying pans, covering about 50 hectares, was completed during the year and the pans were brought into operation. The pans enable sludge to be dried and harvested efficiently, reducing odour risk from the treatment processes and creating opportunities for beneficial use of biosolids.

The pans, which have an impermeable clay liner and a lime stabilised earth floor, are designed to dry 20,000 tonnes a year of sludge.

Fire flares in sludge

Sparks from a fault in a powerline started a grass fire at a remote decommissioned sludge drying pan at the Western Treatment Plant in January.

The fire occurred on a day of total fire ban, with a more severe fire risk forecast the following day. It ignited the sludge, which flared and smouldered, producing thick smoke visible for many kilometres.

Melbourne Water employees and contractors and Country Fire Authority firefighters worked throughout the day to contain the blaze, which took almost a full day to extinguish.

An abandoned pipeline was recommissioned, enabling a significant amount of recycled water to be pumped onto the burning sludge during the evening and overnight.

SEWERAGE TRANSFER

Landmark sewer projects begin

Works began on a five-year sewerage project that will cater for substantial growth in Melbourne's northern suburbs and protect and improve local waterways from sewage spills that can occur after heavy rain.

The \$650 million Northern Sewerage Project involves the construction of 13 kilometres of deep tunnel sewers along the Merri Creek Valley from Coburg to Reservoir and the Moonee Ponds Creek at Pascoe Vale.

Construction is in two stages, with the first managed by Melbourne Water and the second by Yarra Valley Water. Work began on Stage 1 in August and Stage 2 the following month. The project is scheduled to be completed in mid-2012.

Most construction is taking place 15 to 64 metres below ground. Tunnel-boring machines are being used to build the tunnels, which are then lined to create the sewer pipes.

This year, construction began at all five Stage 1 shaft sites: Brearley Reserve near Bell Street in Pascoe Vale; De Chene Reserve, Coburg; Carr Street, North Coburg; Vanberg Road, Essendon; and Bass Street, Pascoe Vale South.

The De Chene Reserve shaft was completed in May and the first of two Stage 1 tunnel-boring machines was launched and began tunnelling towards Carr Street (see Our relationships, page 54).

Melbourne Water is replacing a section of the 110-year-old Melbourne Main Sewer to meet increased capacity of the central business district and the Docklands.

A new 2.4-kilometre sewer is being built from the Docklands to Swallow Street in Port Melbourne, where it will connect to the Hobsons Bay main sewer. The project includes a crossing of the Yarra River upstream of the Charles Grimes Bridge.

To build the sewer, six shaft sites, between 10 and 15 metres deep, will be excavated. The shaft sites will enable the use of tunnel-boring machine technology and pipe-jacking methods.

Construction is due to begin in August 2008 and is scheduled to be completed in 2012 (see Our relationships, page 54).

Managing odour

Melbourne Water conducted an odour risk assessment across the sewerage transfer system, with sites ranked according to criteria including odour complaint history, hydrogen sulphide monitoring, corrosion data and ventilation status.

The assessment identified several priority sites requiring risk mitigation works. These are at Box Hill South, Carlton, Port Melbourne, Footscray and East Brighton. Odour control and treatment facilities will be constructed at these sites over the next five years.

REDUCING WASTE – BENEFICIAL USE OF BIOSOLIDS

Melbourne Water's strategy for the beneficial use of biosolids is to focus on energy recovery for biosolids produced and stored at the Western Treatment Plant, geotechnical fill applications for biosolids stored at the Eastern Treatment Plant and land application for biosolids produced in future, provided the quality of the biosolids is acceptable.

A feasibility study into energy recovery for the stored biosolids at the Western Treatment Plant continued during the year. The study confirmed the suitability of the stored biosolids as a fuel, scoped the necessary equipment and associated costs for processing facilities, and identified the need for pilot trials to demonstrate the effectiveness of the proposed technologies.

At the Eastern Treatment Plant, Melbourne Water progressed the concept for use of biosolids as a geotechnical fill in road construction and other civil works.

Melbourne Water has worked with EPA Victoria to develop guidelines for environmental management of projects using biosolids as a fill, and will proceed once these guidelines have been finalised.

An extensive sampling and analysis program was completed at the Eastern Treatment Plant. Data collected will be used to assess the acceptability of Melbourne Water's biosolids for various recycling schemes.

Assisting Barwon Water

Melbourne Water also agreed to extend its memorandum of understanding with Barwon Water in relation to biosolids management until June 2011. Barwon Water biosolids have been stored and dried at the Western Treatment Plant (for subsequent beneficial use) for the past three years until a permanent biosolids processing facility is built at its Black Rock Treatment Plant. Management practices have ensured that no significant odour impacts have been detected at the Western Treatment Plant boundary.

In May, Barwon Water began transporting dried biosolids to two farms in the Balliang area for use as fertiliser.

KEY PERFORMANCE INDICATORS – SEWERAGE

	2006/07		2007/08		TARGET MET
	TARGET	RESULT	TARGET	RESULT	
WESTERN TREATMENT PLANT TREATMENT/DISPOSAL EPA VICTORIA LICENCE COMPLIANCE:					
COMPLIANCE WITH DISCHARGE LICENCE REQUIREMENTS (%)	100	100	100	100	✓
- OFFENSIVE ODOURS BEYOND THE BOUNDARY (NUMBER)	0	0	0	0	✓
- NITROGEN DISCHARGED TO PORT PHILLIP BAY (TONNES)	3100	1560	3100	1239	✓✓
EASTERN TREATMENT PLANT TREATMENT/DISPOSAL EPA VICTORIA LICENCE COMPLIANCE:					
COMPLIANCE WITH DISCHARGE LICENCE REQUIREMENTS	100	100	100	100	✓
- AMMONIA DISCHARGED (MILLIGRAMS PER LITRE)	30	12	5	2.4	✓✓
- OFFENSIVE ODOURS BEYOND THE BOUNDARY (NUMBER)	0	0	0	0	✓
- NO LITTER	0	0	0	0	✓
SEWERAGE TRANSFER EPA VICTORIA STATE ENVIRONMENT PROTECTION POLICY COMPLIANCE FOR SEWERAGE SYSTEM SPILLS:					
SYSTEM FAILURE – ZERO SPILLS DUE TO SEWERAGE SYSTEM FAILURE (NUMBER)	0	0	0	1*	✗
HYDRAULIC DEFICIENCY – PROGRESSIVELY ACHIEVE ZERO SPILLS DUE TO STORM EVENTS OF A SEVERITY OF UP TO 1-IN-5 YEARS BY 2011 (NUMBER)	0	0	0	0	✓
COMPLAINTS RELATING TO TRANSFER SYSTEM ODOUR (NUMBER) (CUMULATIVE)	16	11	11	8	✓✓
BIOSOLIDS MANAGEMENT MAXIMISE SUSTAINABLE REUSE OF BIOSOLIDS					
% OF BIOSOLIDS REUSED ANNUALLY AT ETP	100	0	100	0**	✗
% OF BIOSOLIDS REUSED ANNUALLY AT WTP	33	0	33	0**	✗
TRADE WASTE WORK WITH RETAIL WATER BUSINESSES TO IMPROVE TRADE WASTE MANAGEMENT:					
NUMBER OF HIGH RISK NON-COMPLIANT TRADE WASTE DISCHARGES TO MELBOURNE WATER'S SEWERAGE SYSTEM	N/A	N/A	0	0***	✓

✓ Target met ✓✓ Target exceeded ✗ Target not met

* Target was not achieved due to the failure of an air valve at Mordialloc No. 1 pump station in April 2008. Scheduled maintenance has been arranged for all air valves on the rising main.

** Targets were not achieved. The non-typical properties of Melbourne Water biosolids, such as clay at the Eastern Treatment Plant and heavy metal contamination at the Western Treatment Plant, constrain the opportunities for sustainable use. It is anticipated that reuse of biosolids from ETP will proceed upon release of guidelines for the environmental management of projects using biosolids as a fill.

*** This indicator consolidates the two trade waste indicators used in last year's Sustainability Report.



Case study: Managing peak flows

The \$650 million Northern Sewerage Project will bring significant benefits for Merri and Moonee Ponds Creeks, protecting them from sewage spills during heavy rain.

At the other end, Melbourne Water is designing an upgrade to the Western Treatment Plant at Werribee to ensure the plant can cater for increased peak flows, especially in wet weather, when the Northern Sewerage Project comes on line.

Melbourne Water planners are evaluating three options to enable the plant to deal with greater volumes of sewage as a result of the project.

Planned works will increase the capacity of the southern carrier, one of three channels that distribute sewage to treatment lagoons at the plant. The options are to raise the height of the channel walls, build a duplicate channel or install a new pipeline.

Once this extra capacity has been built, the two other channels (the eastern carrier and the western carrier) will be decommissioned.

This will deliver social and environmental benefits. The eastern carrier is an open channel and can be a significant source of odour near the plant's eastern boundary and the future River Park (formerly Werribee Field) residential development. The western carrier is susceptible to flooding in extreme rainfall events.

The wet weather upgrade will mean the plant can continue to meet, under increased flow conditions, requirements of the State Environment Protection Policy that it has the capacity to contain a one in five-year rainfall event. The upgrade works are expected to be completed by the end of 2010.



WATERWAYS

Badger Creek, Healesville

Goals related to waterways

- › Improve river health and the marine environment
- › Manage flood risk
- › Improve environmental outcomes from all aspects of our business
- › Engage and inform the community to seek its support for our projects and priorities
- › Develop and implement efficient capital investment and operations programs
- › Ensure stringent regulatory obligations are met

Key achievements

- › Completed extensive work to prepare the five-year *Waterways Water Plan*, which sets out expected investment in waterway health and flood protection across the region. The plan was endorsed by the Essential Services Commission
- › Finalised the *Waterways Water Quality Strategy* to manage effects of stormwater, urban development pressures and rural land management, and improve water quality in the Port Phillip and Westernport region
- › Released the Port Phillip and Westernport Region Flood Management and Drainage Strategy, and began working with councils, emergency service organisations, researchers and the community to implement key actions
- › Preparations and extensive community and stakeholder communications were completed for the introduction of a new waterways and drainage charge in our extended operating area.

Disappointment

- › We did not achieve our cumulative target of reducing nitrogen by 59 tonnes in waterways flowing to Port Phillip Bay through wetlands and other on-ground works. We achieved a 56.1-tonne reduction but are still on track to achieve a 100-tonne reduction by 2010.

Challenges

- › With more than 100,000 properties identified at risk of flooding, an increase in household numbers and possible climate change impacts, flood and drainage management will need to anticipate and adapt to changing circumstances
- › Managing the potential impacts of climate change on river health such as increased average and summer temperatures, reduced rainfall and more intense storms
- › Working with water users to protect environmental flows in our rivers and creeks

- › Protecting existing environmental values and river health while providing services for urban growth associated with projected population growth of 800,000 people by 2030
- › Understanding and responding to the needs and expectations of diverse communities in a region with 3.8 million people and 38 councils.

OVERVIEW

Our job is to manage rivers and creeks, floodplains and the regional drainage system. In this role we recognise that all land-based activities can affect the health of our rivers, creeks and the bays, and seek to balance social, economic and environmental outcomes.

These outcomes include ensuring that our rivers, creeks and wetlands are healthy, with more native animals and plants; providing a safe level of flood protection for communities; engaging the community in activities to improve our rivers and creeks; managing urban development to protect waterways; meeting targets for water quality; and, using research and monitoring to guide long-term decisions.

This year, waterways experienced continued pressures associated with low flows and dry conditions as we endured our 11th year of drought.

Rainfall was at historically low levels, resulting in less water being available for environmental needs, river diverters and supply to metropolitan Melbourne.

Demands for water have placed further pressures on the Yarra and Thomson rivers through reduced environmental flow entitlements.

At the same time, continued urban growth and possible climate change impacts increasing the likelihood of sudden, intense storms prompted action to raise community awareness of tolerable flood risk and prevention strategies.

Urban growth – with Melbourne’s population increasing by 1200 each week – also raises water quality issues. Shortage of land for constructed urban wetlands means that we need to find new ways to remove nutrients and other pollutants from stormwater to meet long-term water quality targets for nitrogen removal.

We have accelerated our efforts to shift the emphasis away from treating stormwater on a site-by-site basis to a whole-of-catchment approach.

A key focus this year was the development of the *Waterways Water Plan*, which sets out how Melbourne Water will fulfil our responsibilities for waterways, drainage and floodplain management in the Port Phillip and Westernport region over the next five years.

What we manage

Melbourne Water is responsible for five major river catchments within the 12,800 square kilometre Port Phillip and Westernport region – Werribee, Maribyrnong, Yarra, Dandenong and Westernport.

In this region we manage about 8400 kilometres of rivers and creeks, 1439 kilometres of drains, drainage and waterway assets valued at \$2.7 billion, 123 wetlands, 277 monitoring stations on waterways and drains, and 77 urban lakes.

The region is also home to an estimated 3.8 million people, and almost one-quarter of the region is urbanised. Land uses range from high density urban development through to agriculture, and great diversity of high value ecosystems supporting 1860 species of native plants and 600 species of native animals.

The Victorian Government extended our waterways and drainage boundary in November 2005 to cover the whole Port Phillip and Westernport region. The new areas include the Upper Maribyrnong and Werribee catchments and the Mornington Peninsula.

ALLIANCE PARTNERING

Melbourne Water established the Waterways Alliance in June 2008. The alliance will deliver about \$70 million of capital works over the next five years, with about 90 waterways projects and 20 stormwater quality projects to be delivered by 2010.

The alliance with our project partners reduces capital delivery risks in a tight labour market, improves efficiency, and encourages innovation and the use of new technologies (see Business efficiency, page 68).

MANAGING WATERWAYS

A major focus for 2007/08 was the successful development of the *Waterways Water Plan*, which sets out expected investment in river health and flood protection across the region, including in our extended waterways and drainage operating area.

The *Water Plan* covers 2008/09 to 2012/13 and was endorsed by the Essential Services Commission in June.

We also successfully completed an extensive two-year communication program with communities, councils and stakeholders in our extended area to explain the services and benefits we provide.

These services and benefits include funds for the community to improve their rivers and creeks, river health improvements and investigations, stormwater management and water sensitive urban design, urban development planning and approvals to ensure sustainable growth, flood protection and flood warning systems, and drainage maintenance and improvements.

Consistent with the *Water Plan*, these services and benefits will be funded by a waterways and drainage charge from July 2008 for about 170,000 properties in our extended operating area (see Business efficiency, page 68).

Victorian River Health Strategy

To provide clear direction on long-term management of waterways, we refer to a number of important strategies and plans including Melbourne Water’s *Corporate Plan*, *Water Plan*, *Regional River Health Strategy*, *Better Bays and Waterways Plan*, *Waterways Water Quality Strategy*, *Flood Management and Drainage Strategy* and the *Port Phillip and Westernport Regional Catchment Management Strategy*.

Our *Waterways Operating Charter* translates these strategic and policy objectives into actions, and outlines our responsibilities, goals and targets for the next five years as required under our *Statement of Obligations*.

After extensive consultation with customers and stakeholders, the 2008–2013 *Waterways Operating Charter* was approved by our Board in September.

As continued dry conditions place additional stress on waterways, we have developed drought response contingency plans for 18 wetlands supporting significant biodiversity values, along with installation of depth gauges to monitor water levels.

This work, which was carried out with environmental restoration consultants, listed the wetland values, the water requirements of these values, and actions that might be taken to supply water when needed.

During 2007/08, we began to develop 20 Year River Health ‘Vision’ templates, designed to show the typical ‘end state’ that rehabilitation projects should achieve. This will help deliver consistent outcomes across Melbourne Water, and allow Landcare groups and other external parties a better understanding of our goals.

We successfully purchased ownership rights for a section of Mordialloc Creek reserve from two of three industrial landowners, allowing a rehabilitation project to proceed.

An independent study assessed the performance of 20 river health-related projects, comprising capital, maintenance and grants works, and concluded that they generally had a good fit with best practice and were of very good quality.

Managing weeds continued, with a project beginning in the upper Watts River to remove large tracts of highly invasive Mexican woody weed or elegant poison berry.

We are seeking community and stakeholder input to guide a works program that will address the loss of rock beaching along the banks of the lower Maribyrnong River. In recent years, large sections of the rock beaching have deteriorated, and exposed the riverbanks to erosion.

ENVIRONMENTAL FLOWS

A need to increase water storage capacity in Maroondah Reservoir to capture potential spring rain resulted in a staged transfer of water to Sugarloaf Reservoir via the Watts River and the Yarra River, rather than via the Maroondah Aqueduct.

Although this involved additional pumping at Yering Gorge, the staged release of water into the rivers mimicked natural environmental flows, consistent with the 2005 Environmental Flows study. As well as being a much needed addition of water to the system, this provided a valuable opportunity to collect water quality and streamflow data showing how the river behaves under these flows.

This year we completed four new streamflow management plans for the Plenty River, and for the Yarra tributaries Stringybark Creek, Olinda Creek, and Steels, Pauls and Dixons Creeks. These plans seek to balance environmental, social and economic demands on waterways. We have now completed six of the eight plans required by 2010, as set out in the *Operating Charter*.

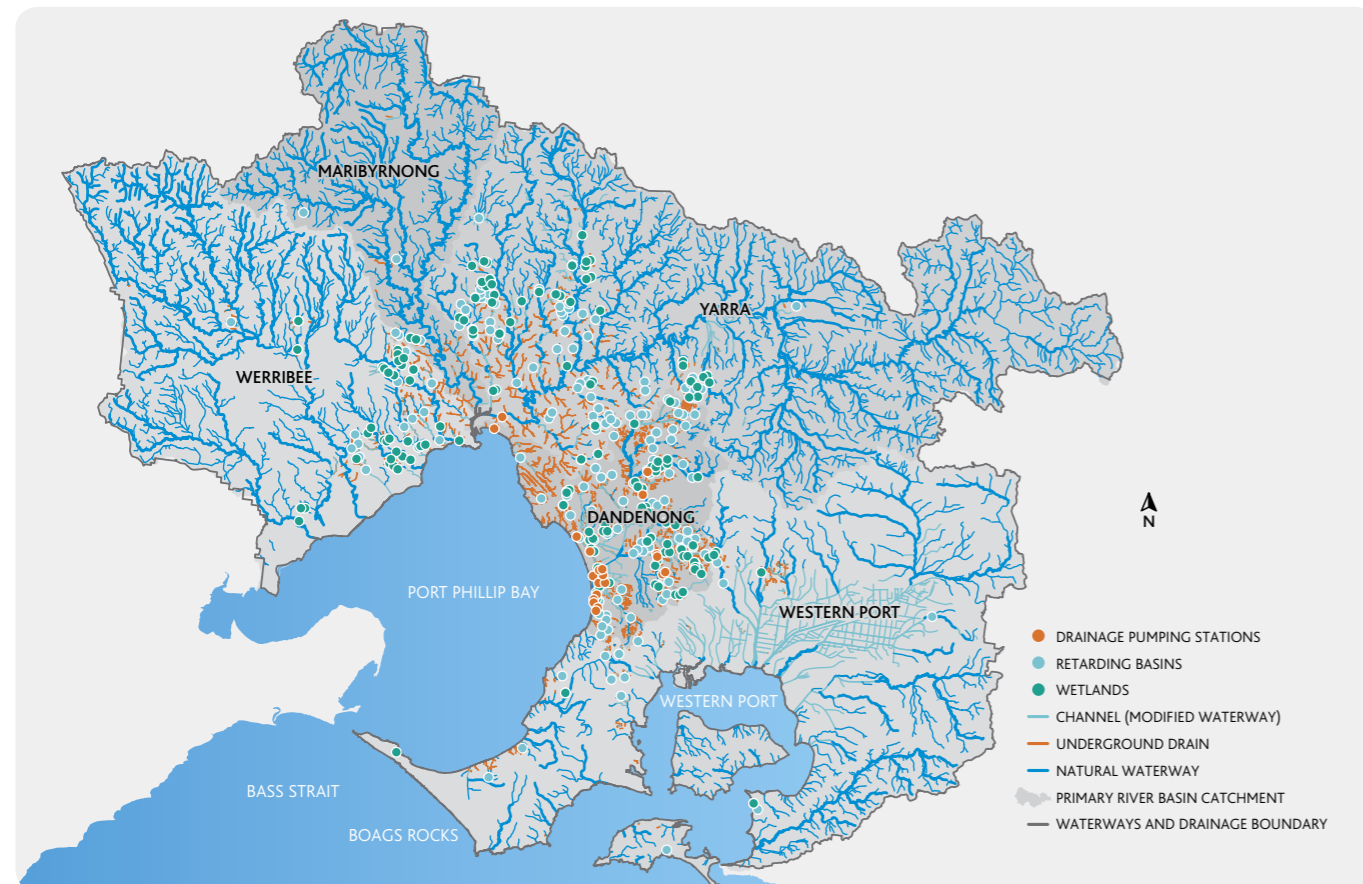
The Victorian Government reduced environmental flows in the Yarra River and Thomson River by 10,000 million litres a year. This is a temporary measure brought about by extreme drought and record low inflows to reservoirs.

The Environmental Emergency Contingency Plan now includes an annual review of the impact on the rivers’ environmental health. We undertook additional monitoring of Yarra River habitat and water quality, and this data will be used to assess the impact of low flows on river health.

With Southern Rural Water, we reviewed bulk water entitlements and environmental flows for the Maribyrnong River to more accurately reflect low flow situations. Under the proposed regime, environmental flows will be released occasionally to reflect natural flushing events, rather than a constant flow that depletes Southern Rural Water’s reserves.

River diverters faced their toughest year in 2007/08, with diversions banned from nine waterways and another two on restrictions. Very serious conditions have led to an increased number of compliance issues, with formal warnings issued and prosecutions underway. A strawberry farmer in Cockatoo was successfully prosecuted by Melbourne Water for stealing water from Cockatoo Creek, and fined \$5000.

WATERWAYS AND DRAINAGE



Our new Customer Charter for Diversion Services sets out the rights and obligations for diversion customers and Melbourne Water, and specifies the relevant standards and conditions of service to be met relating to diversion licensing activities. The charter was approved by the Essential Services Commission and came into effect in March.

Melbourne Water and the Department of Sustainability and Environment are trialling an innovative streamflow management plan tender process. Under this process, farmers submit a tender price they would be willing to receive in return for surrendering all or part of their water allocation or agreeing to be managed to new (higher) environmental flow rules.

FLOOD MANAGEMENT AND DRAINAGE

This year we released the *Port Phillip and Westernport Region Flood Management and Drainage Strategy*, and began working with councils, emergency service organisations researchers and the community to implement key actions.

A central part of the discussion paper was the introduction of debate about tolerable and intolerable flood risks, which seeks to help the community understand that like bushfire, flooding cannot be prevented in all instances, and that awareness and preparation are effective ways to reduce risks.

For Melbourne, predicted climate change effects include increases in temperature, reduced annual rainfall and more intense storm events rather than normal winter and spring rain, resulting in sudden large volumes of run-off and increased risk of flash flooding.

A pilot flood education and awareness program has begun in the City of Maroondah, and the cities of Manningham and Darebin have started work on pilot flood management plans with support from Melbourne Water and the State Emergency Service.

We are also working with the Victoria State Emergency Service to develop a community education and awareness program in the Port Phillip and Westernport Region. The program will build on existing FloodSmart and StormSmart programs recently developed in other Victorian regional centres.

A research agreement with RMIT University will improve our understanding of social or intangible impacts of flooding on the community, and we have developed a flood risk assessment framework with input from the Department of Sustainability and Environment, Department of Human Services, Victoria State Emergency Service, Insurance Council of Australia, RMIT, and other stakeholders.

For the first time we have developed a 'real time' Yarra River flood forecasting model covering the entire catchment, and we continued our relationship with VicRoads to ensure major roadworks such as Eastlink deliver flood protection benefits.

WATER QUALITY IN WATERWAYS

We completed the *Waterways Water Quality Strategy*, which outlines actions needed to manage the effects of stormwater, urban development pressures and rural land management and improve water quality in the Port Phillip and Westernport region.

The strategy recognises that urban wetlands alone will not cope with expected increases in nutrients carried by stormwater from expanded urban areas, and recommends a range of actions including raingardens in homes, expanded council use of water sensitive urban design, rural water quality treatment, and regulation of development.

The strategy will also inform the *Better Bays and Waterways Water Quality Improvement Plan* for the Port Phillip and Westernport region, which is scheduled to be completed in late 2008. This is a joint project with EPA Victoria and the Federal Department of Environment and Heritage aimed at creating an integrated water quality plan for Western Port, Port Phillip Bay, and the rivers and estuaries within the catchment.

As a result of this work, we are developing a \$5 million Rural Land Management Program across our extended areas. The program will include support for landholders in priority catchments for on-farm water quality improvements as well as the construction of regional water quality wetlands to capture and treat water pollutants and manage flows. These wetlands filter water before it flows to our rivers and creeks, and eventually the bays.

We are working with the Department of Sustainability and Environment (DSE) on EcoTender, a market-based incentive program designed to address salinity, protect biodiversity and improve water quality and river health on private rural land. A pilot program will run in the Westernport catchment later this year, with an initial investment by DSE of \$1.5 million for funding on-ground works, and by Melbourne Water of \$400,000 for program development and on-ground works.

Due to the continued dry conditions in 2007/08 there was a significant increase in applications for the use of stormwater across Melbourne, and we began work on a policy and licensing framework for managing stormwater use.

Managing stormwater quality

In February, the Lower Yarra and Living Rivers Stormwater Quality programs were combined. These programs help to improve waterway water quality through grants and working with councils and other groups to manage stormwater run-off.

The combined \$20 million program is on target and during 2007/08 we spent \$7 million on grants and provided capacity building support from our specialist panel of water sensitive urban design consultants.

For example, we are providing financial and in-kind support to Monash and Melbourne universities for Smart Water Fund projects to develop an innovative pilot stormwater quality project in the Little Stringybark Creek catchment. The project engages residents in competitive bidding to install raingardens and rainwater tanks to reduce stormwater run-off and improve stream health across the catchment.

In May, the City of Melbourne committed to municipality-wide stormwater quality targets, shifting stormwater management emphasis from a site-by-site focus to a whole-of-catchment focus.

We secured \$60,000 funding for phase two of the *Lower Yarra Litter Strategy* from Sustainability Victoria, and our efforts to improve stormwater quality were recognised at the annual Stormwater Industry Association of Victoria Awards for stormwater excellence, with Melbourne Water receiving two awards for projects introducing raingardens into schools (see Community and stakeholder engagement, page 36) and litter prevention initiatives in Victoria Street, Richmond.

We began works to divert polluted low flows from the Prahran Main Drain to sewer, as part of the Yarra Pollution Hot Spot Program. South East Water and Melbourne Water worked together to design and implement the project.

Working with councils to improve water quality is a critical aspect of our activities and we helped the City of Yarra develop and launch its water sensitive urban design guidelines. The guidelines are a blueprint for designing and building a water-sensitive city that will result in cleaner water in the Yarra River and better use of recycled stormwater in parks and open space.

Melbourne Water has also involved 38 councils in an analysis of the assistance councils need to manage stormwater more effectively, and provided recommendations to each council based on the findings.

Our nitrogen reduction program improves water quality in waterways and the bays by removing nitrogen and other pollutants from stormwater. This year we began working on a pilot project that recreates an urban forest in an existing retarding basin in Cornwall Street, Blackburn South. It provides low cost, low maintenance stormwater control and pollution removal.

URBAN GROWTH

Melbourne Water aims to ensure urban development achieves appropriate standards of flood protection while providing infrastructure in new growth areas that can protect water quality and the environment.

During 2007/08, we spent \$32 million to reimburse developers for constructed works on 200 urban development projects.

We worked closely with VicRoads on the EastLink project to complete \$17.6 million in water main, waterway, drain and sewerage alterations. In a world first, stormwater run-off from all 45 kilometres of Eastlink road surfaces is treated through a network of 60 wetlands, raingardens and other treatment measures before reaching local waterways.

A detailed survey of the West Street drain catchment in Hadfield has revealed that about 1000 properties would be subject to inundation to a one in 100-year storm event. Melbourne Water worked closely with the City of Moreland to include this information in the local planning scheme through a Special Building Overlay.

As the planning referral authority across the Port Phillip and Westernport region, we processed 9907 statutory applications (planning permit referrals from councils) compared with 9411 last year.

Our decision to prevent inappropriate development in floodplain areas was tested in the Victorian Civil Administration Tribunal, with the tribunal finding in our favour in relation to Kananook Creek in Frankston, Moonee Ponds Creek in Tullamarine, Darebin Creek in Ivanhoe, and the Yarra River in Toorak.

To improve urban stormwater impacts and reduce flooding risks associated with urban redevelopment, we are working with councils, developers and designers to include stormwater management requirements for residential buildings in the next generation five-star building standards. The proposed standards can be achieved with rainwater tanks or small raingardens.

MONITORING, INVESTIGATIONS AND RESEARCH

Melbourne Water undertakes extensive monitoring, investigations and research to develop a comprehensive information base to support our activities and report on progress to government, stakeholders and the community.

We monitor and investigate water quality, streamflow, fish, threatened and flagship species, weeds, sediments, litter and physical stream condition.

We also research the impacts of climate change and urbanisation in stream ecology, methods of urban stormwater treatment, and understanding links between the catchment and estuarine and marine receiving waters.

Melbourne Water has 136 monitoring sites across our region. Each site is monitored monthly and results are reported to EPA Victoria.

Water quality across the region varies from excellent in the forested headwaters to poor in urban areas. Generally, water quality has improved since regular monitoring began in the early 1970s but has remained relatively stable in the past decade, reflecting the difficulty of dealing with widespread sources of pollution in stormwater run-off across Melbourne.

Case study: Tiny fish a large prize

Two days of netting and electro-fishing around Lancefield in February yielded the prize researchers were after – 157 of the nationally and state-threatened Yarra pygmy perch.

The survey, at six sites along Deep Creek, was commissioned by Melbourne Water freshwater ecologist Rhys Coleman.

"When Melbourne Water's operating area was extended in 2005, it included the upper Maribyrnong River system," he says. "Since then, we have been looking very carefully at the condition of the streams, learning about their values and threats to their health."

It was known that Yarra pygmy perch, *Nannoperca obscura*, had been found in the Lancefield reaches of Deep Creek, an eastern tributary of the Maribyrnong.

Scientists found healthy populations at all six sites. The tiny native fish – usually four to six centimetres long – preferred shallow, calm pools with dense aquatic plants.

Reaches that had been fenced off from cattle contained more fish than those with direct stock access.

Rhys says threats to the species included loss of instream habitat diversity, stock access, vegetation clearing, the predatory habits of mosquitofish and redfin, and prolonged drought.

"Now that we have more information, we can think about our priorities to improve conditions and extend its habitat," he says. "It's an opportunity for us to work with the Deep Creek Landcare Group."

The study recommends improving the quality and diversity of instream plants and habitat, fencing off the streamside banks, removing willows and other weeds, specific plantings on banks and a drought management plan.

Construction of a special offstream billabong would act as a haven and could help reintroduce the species into areas where it was historically found.

During 2007/08 we undertook a range of investigations including geomorphology studies of waterways in our extended operating area; Yarra River environmental flows; Dights Falls fish migration study; frog studies in the Bass River, French Island and Phillip Island; and surveyed platypus populations in the Bass River, Little River, Upper Maribyrnong River and Werribee River catchments.

We carried out pollution tracking surveys in the Stony Creek (Yarraville) and Elster Creek catchments, studied fish populations in the French Island, Mullum Mullum Creek, Tarago River and Bunyip River catchments, and developed an Upper Yarra riparian vegetation management plan.

Using helicopters and GPS-linked cameras, we recorded aerial survey details of about 740 kilometres of waterways within the Bunyip, Lang Lang, Dandenong and Koo Wee Rup catchments. Similar footage captured from previous projects was used to assist in weed mapping, identify erosion sites and fish barriers, for works planning and to locate important drought refuge areas.

COMMUNITY AND STAKEHOLDER ENGAGEMENT

About 600 community groups are actively involved in water and land management across our region.

This year we developed a Waterways Stakeholder Engagement and Communications Framework to provide clear direction on priorities and actions for stakeholder engagement and communication over the next five years.

A new Community Support Program funded by Melbourne Water and the Port Phillip and Westernport Catchment Management Authority will provide nine coordinators to work directly with community and environment groups across the region over the next five years.

Community groups and councils across the Port Phillip and Westernport region shared more than \$3 million in grants to help protect and improve rivers and creeks as part of Melbourne Water's grants program.

The Community Grants, Corridors of Green and Stream Frontage Management Program fund projects including habitat improvement and weed control, and support and promote work undertaken by private and public land managers.

A total of 870 grants valued at \$3.04 million were awarded to private landowners, community groups, councils and other agencies, with 167 kilometres of waterways improved through fencing, weed control and revegetation with more than 333,000 native plants. This compares with \$2.06 million funding for 587 grants improving 117 kilometres of waterways with 307,000 plants last year.

Since 1996, we have invested more than \$8.3 million in the Stream Frontage Management program, helping private landowners with waterway frontages to erect more than 733 kilometres of fencing and plant more than 1.1 million native trees and shrubs.

A Stream Frontage Management Program partnership with GippsDairy planned for the Upper Lang Lang catchment will engage with dairy farmers and help us to understand their waterway management needs.

The Raingardens in Schools Program, which helps students understand the relationship between stormwater and water quality in rivers, creeks and bays, achieved its target of completing 20 raingardens in primary schools in the past year.

Community participation in our Waterwatch water monitoring program increased significantly this year (see Our relationships, page 54).

KEY PERFORMANCE INDICATORS – WATERWAYS

	2006/07		2007/08		TARGET MET
	TARGET	RESULT	TARGET	RESULT	
ACHIEVE 2007 WATERWAYS OPERATING CHARTER PERFORMANCE TARGETS (%)	100	94.7	100	100	✓
DRAINAGE AND FLOOD PROTECTION					
ALL NEW DEVELOPMENT COMPLIES WITH FLOOD PROTECTION STANDARDS (%)	100	100	100	100	✓
PLANNING CONTROLS FURTHER REDUCE THE NUMBER OF FLOOD PRONE PROPERTIES IN REDEVELOPMENT AREAS BY APPROXIMATELY 250 PER YEAR (NUMBER)	250	267	250	450	✓✓
REDUCE FLOOD PRONE PROPERTIES THROUGH EXPENDITURE ON FLOOD MITIGATION WORKS (NUMBER)	36	36	81	79*	✗
STORMWATER QUALITY					
CUMULATIVE REDUCTION IN POLLUTANT/NITROGEN LOADS IN URBAN STORMWATER RUN-OFF IN ACCORDANCE WITH THE ENVIRONMENT MANAGEMENT PLAN FOR PORT PHILLIP BAY (TONNES)	56	54.5	56	56.1	✓
WATERWAYS CONDITION					
% ACHIEVEMENT OF THREE-YEAR IMPLEMENTATION TARGETS ASSIGNED TO MELBOURNE WATER FROM THE REGIONAL RIVER HEALTH STRATEGY	100	100	100	100	✓
LAND DEVELOPMENT					
PROPERTY DEVELOPMENT APPLICATIONS PROCESSED WITHIN SPECIFIED RESPONSE TIMES (%)	100	100	100	100	✓
ALL NEW GROWTH AREAS IN REDEVELOPMENT CORRIDORS TO HAVE DRAINAGE SCHEMES IN PLACE WITHIN THREE YEARS OF SIGNIFICANT SUBDIVISIONAL ACTIVITY COMMENCING (%)	100	100	100	100	✓
CREATE 10 REDEVELOPMENT SCHEMES PER YEAR WITH PRIORITY GIVEN TO AREAS OF HIGH NEW DEVELOPMENT ACTIVITY (NUMBER)	10	14	10	19	✓✓
STREAMFLOW DIVERSIONS					
NUMBER OF STREAMFLOW DIVERTER LICENCES >5 MILLION LITRES/YR METERED OR ASSESSED FOR METERING AT 30 JUNE (NUMBER)	732	704	732	797	✓✓

✓ Target met ✓✓ Target exceeded ✗ Target not met

* Target was not achieved. However, the overall target is to protect 149 vulnerable properties over the three-year Water Plan period since 2005/06. In that time, the number of vulnerable properties protected was 183.

Raingarden at Toorak Primary School





RECYCLED WATER

Sewage treatment lagoon,
Western Treatment Plant

Goals related to recycled water

- › Ensure stringent regulatory obligations are met
- › Develop alternative water resources, including recycled water, that meet our customers' current and future needs
- › Develop and implement effective capital investment and operations programs

Key achievements

- › In partnership with the metropolitan retail water businesses, we recycled 23.2% of the total amount of recycled water in metropolitan Melbourne, exceeding the Government's target of 20% by 2010
- › Began using recycled water to lubricate pumps and cool motors at Hoppers Crossing pumping station. This initiative will save 100 million litres of drinking water a year
- › Established a new permanent standpipe facility for City West Water customers at the Western Treatment Plant
- › Obtained third party certification of our recycled water quality management system at the Western Treatment Plant.

Disappointments

- › Algal blooms in the Western Treatment Plant lagoons resulted in several days of interrupted recycled water supply
- › We were unable to identify a commercially viable way of reducing salinity in recycled water.

Challenges

- › Managing demand for recycled water as sewage inflows to treatment plants decrease, demand for alternative water sources increase, and traditional water sources such as river water and groundwater become limited as a result of drought
- › Meeting customer demand especially during peak summer periods while ensuring quality and reliability of recycled water

- › Building on the success at Hoppers Crossing pumping station, continuing to substitute drinking water with recycled water and other alternative sources in Melbourne Water operations
- › Improving the prevention and management of algal blooms in the Western Treatment Plant lagoons, and reducing the impact of algal blooms on the reliability of recycled water from the plant
- › Reducing salt levels in sewage entering the Western Treatment Plant and recycled water supplied from the plant, especially given a lower dilution of salt due to reduced inflows.

OVERVIEW

Recycled water is a valuable resource and a key tool in achieving our vision of a sustainable water future. Use of recycled water improves the sustainability of our water supplies by conserving drinking water, river water and groundwater. It protects the environment by reducing discharges of treated effluent to our bays and oceans, and frees up water for the environment and economic growth.

However, we face significant challenges to meet increasing demand for recycled water and the need to provide a product suitable for a variety of end uses.

Recycled water can be used for irrigating grazing land and crops, in horticulture, industrial processes, toilet flushing and garden watering in residential dual pipe schemes, and to keep sports grounds and open spaces green.

Melbourne Water and the retail water businesses are working towards the Government's targets of 20% recycling by 2010 and additional substitution of 6200 million litres of recycled water for drinking water by 2015, increasing to 10,000 million litres by 2030.

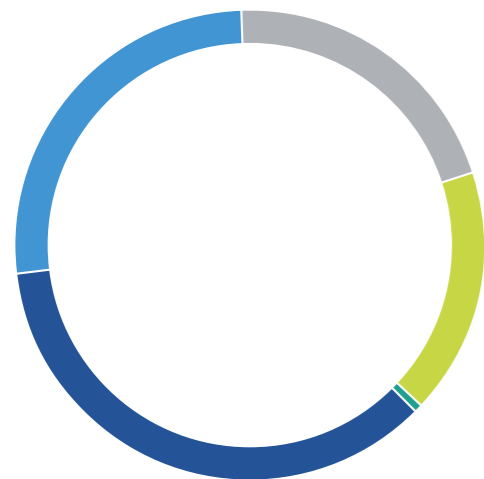
We worked together with the retail water businesses to investigate a number of potential recycling projects to help meet these targets and produce a *Metropolitan Reuse and Recycling Plan*. This plan summarises the priority projects to be included in the next Water Plan for Melbourne, as required by the Victorian Government. Further investigation into the technical details and cost of these potential projects will continue in the coming years.

Recycled water supplied this year

Together with the retail water businesses, we supplied 66,742 million litres of recycled water in metropolitan Melbourne this year. This equates to 23.2% of the sewage treated in Melbourne, exceeding the Government's water recycling target of 20% by 2010. Melbourne Water contributed 61,984 million litres of recycled water to this total, which equates to 21.5 percentage points of the 23.2%.

Demand was slightly higher than last year mainly as a result of the continuing drought and water restrictions, and reduced availability of river and groundwater supplies west of Melbourne.

Melbourne Water also used 15,930 million litres of recycled water for conservation and management of the biodiversity values of the Ramsar-listed habitat at the Western Treatment Plant.



RECYCLED WATER END USES 2007/08 (%)

AGRICULTURE	35.1%
BULK RECYCLED WATER EXPORTS	26.6%
BENEFICIAL ALLOCATION EG. ENV FLOWS	20.4%
WITHIN PROCESS	17.0%
URBAN & INDUSTRIAL	0.3%

RECYCLING WEST OF MELBOURNE

Melbourne Water is using recycled water to lubricate and cool eight large pumps following a \$750,000 upgrade of the Hoppers Crossing pumping station. This is saving more than 100 million litres of drinking water a year, and reducing the site's drinking water demand by 85%.

The upgrade, completed in December, followed extensive testing to ensure the operating efficiency of the pumping station was not compromised by the use of recycled water.

The recycled water comes from the Western Treatment Plant via a distribution network built by City West Water to supply customers in the Werribee Technology Precinct.

The pumping station is the largest recycled water user in the technology precinct, which also includes the Melbourne University Veterinary School.

The precinct will initially use 300 million litres of recycled water a year for industrial purposes, irrigation and commercial washdown.

Works have begun on a new interface point for the Werribee Tourist Precinct. Melbourne Water currently supplies tourist precinct customers directly but they will soon be transferred to Southern Rural Water after the interface point works are completed. Flow monitors at the interface point will be solar powered.

Tourist precinct customers include the Werribee Park Golf Club, the National Equestrian Centre, the Werribee Open Range Zoo and Werribee Park and Mansion.

Managing and improving water quality

HACCP certification

The quality management framework for the supply of Class A recycled water from the Western Treatment Plant introduced in 2006/07 was third party certified under Lloyds Register HACCP (Hazard Analysis and Critical Control Point) assessment criteria following a detailed audit.

The HACCP system identifies potential risks to recycled water quality and the critical points in the treatment process at which these risks must be controlled. It covers all aspects of the sewage and recycled water treatment processes, transparently assessing, monitoring and verifying control points and validating water quality limits. A similar system was introduced at the Eastern Treatment Plant in 2004/05.

The certification provides further assurance of water quality to meet the stringent requirements of customers and Government legislation and guidelines.

As part of the ongoing third party certification of the system, Lloyds will conduct process surveillance audits every six months to ensure the systems are being maintained and optimised. The latest audits, conducted in April, found no issues of concern.

Managing salinity

Significant work has been undertaken by the retail water businesses in the past few years to reduce the level of salt in recycled water produced at the Western Treatment Plant.

Salt-reduction treatment is at this stage prohibitively expensive, so it is important to actively manage the discharge of salt into sewage entering the plant. The retail water businesses have made significant efforts to implement cleaner production programs to reduce the salt entering the treatment plant in sewage from trade waste customers. Despite these efforts, the salinity of untreated sewage and recycled water at the Western Treatment Plant has increased over the past three years.

This is primarily a result of a reduction in sewage inflows of about 12%, caused by the drought, water conservation measures and water restrictions. This has led to a reduction in the dilution of salt in the recycled water previously achieved from higher domestic (low salt) sewage inflows.

The EPA Victoria licence limit of 1250 milligrams per litre for the salt concentration in untreated sewage entering the plant will be reduced to a median of 1000 milligrams per litre in 2009.

Southern Rural Water is working with growers in the Werribee Irrigation District to examine options for mitigating the impacts of salinity in recycled water as part of the Western Irrigation Futures Study, which will be carried out over the next two years.

Melbourne Water will support Southern Rural Water during the study, which aims to develop a long-term strategy for the Werribee and Bacchus Marsh irrigation districts.

Supplying salt-reduced water to West Werribee

Melbourne Water is working closely with City West Water on the early stages of its design of a small treatment plant to supply salt-reduced Class A recycled water from the Western Treatment Plant to residential customers in the West Werribee dual pipe scheme.

City West Water is considering the use of reverse osmosis membrane technology to reduce salt levels in the recycled water. This design work will continue in 2008/09. Once complete, the scheme will enable 9000 homes to use recycled water for garden watering and toilet flushing. Water will also be supplied for some open space irrigation in the area.

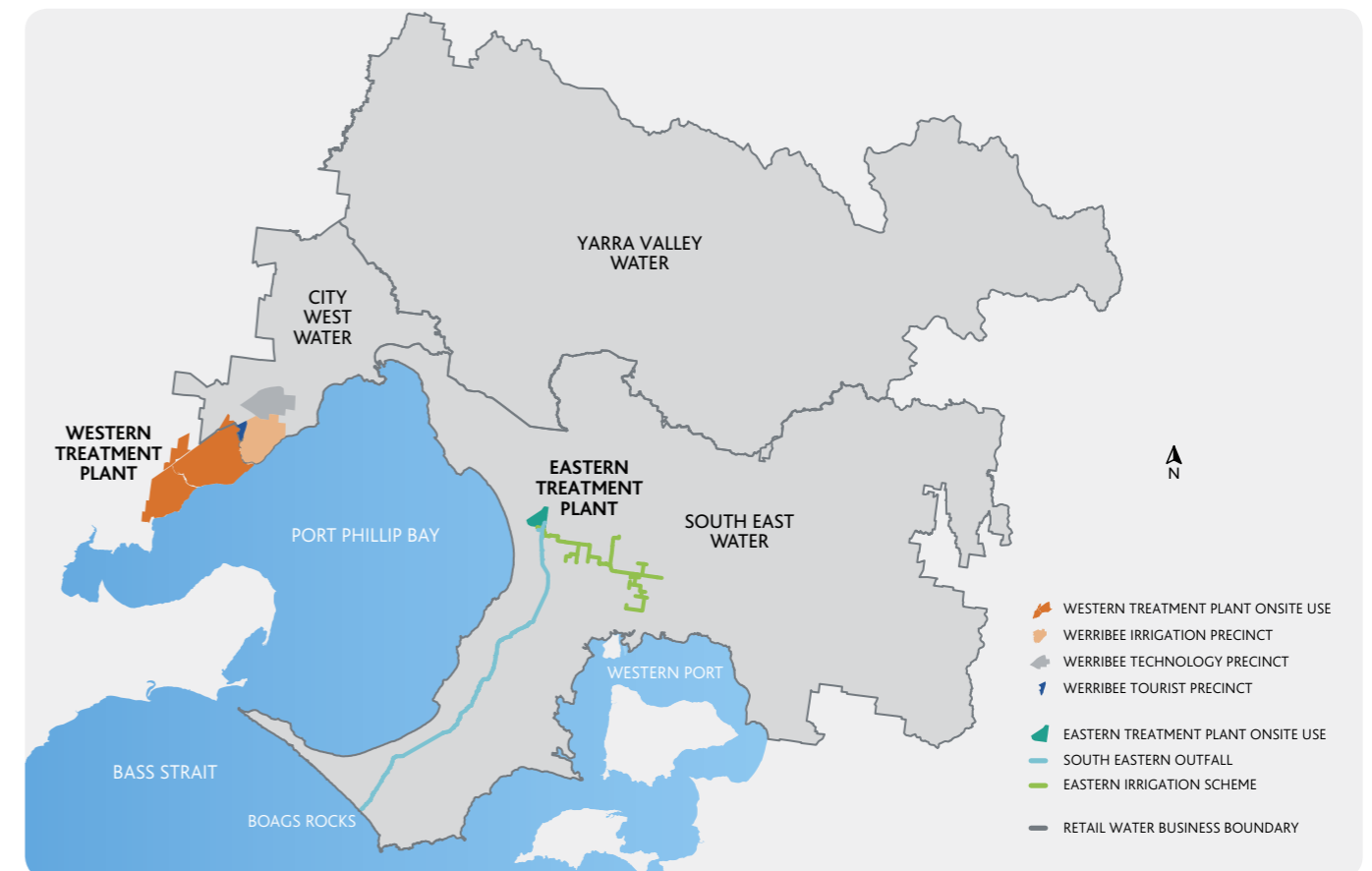
Algal blooms interrupt supply

Class A recycled water produced at the Western Treatment Plant begins as Class C water sourced from the 25 West and 55 East lagoons and is then further treated (disinfected) with UV and chlorine.

For the UV disinfection plant to operate properly, the turbidity of the Class C source water must be very low. The supply of Class A water also requires low levels of algal cells to ensure water quality standards required for irrigation are maintained.

Algal blooms have been an annual problem at the Western Treatment Plant and in late December, blooms developed in both lagoons at the same time. Blue-green algal cell counts in 25 West were above the toxicity-based threshold for Class A recycled water. Green algal cell counts in 55 East, while not toxic, caused the turbidity threshold of the UV plant to be exceeded. Recycled water could not be supplied for four days, and supplies were intermittent in the following six days.

MAJOR RECYCLING SCHEMES IN MELBOURNE



Management protocols were put in place, including targeted sampling and customer notifications. As turbidity and blue-green algae levels continued to improve, uninterrupted supply of Class A recycled water was resumed.

It is believed the blue-green algal bloom was caused by a combination of high nutrient loads, warm weather and periods of stagnation in the lagoon water, and the green algal bloom by high ammonia levels in the lagoon water and warm weather.

Melbourne Water and Southern Rural Water are working on contingency plans as part of mitigating the risk of blue-green algal blooms including:

- › Increased monitoring of algae levels to investigate the correlation between algal growth and other water treatment quality parameters
- › Installation of online ammonia monitoring to improve treatment process stability
- › Field trials of ultrasonic algae control devices to prevent algal growth.

Melbourne Water, City West Water and Southern Rural Water established a recycled water reliability working group to prepare supply contingency plans for the 2008/09 season, and develop long-term reliability improvements.

A risk assessment of the recycled water system was performed, including an assessment of operational events at the Western Treatment Plant that could interrupt recycled water supplies, combined with contingency planning for summer periods when the demand and supply risk are both at their highest.

Expanded monitoring program

Monitoring of Class A recycled water at the Western Treatment Plant has been expanded to about 240 water quality parameters. A wide range of metals, synthetic and natural organic chemical contaminants, disinfection by-products and pharmaceuticals and personal care products were included in the monitoring program this year. Many of these are not traditionally monitored in recycled water.

The program forms part of a two-year quantitative risk assessment being managed by Melbourne Water. Results are being analysed by technical experts and will improve our understanding of the potential risks associated with the range of end uses for recycled water in the future.

We continued working with the National Health and Medical Research Council to develop the *Australian Guidelines for Water Recycling*. We are represented on the working group for two of the three new guideline modules.

Werribee Irrigation District

Southern Rural Water continues to receive large volumes of recycled water from the Western Treatment Plant for growers in the Werribee Irrigation District.

More flexible supply arrangements were established to meet the increased demand of growers, who faced low river water allocations and groundwater bans due to the drought. For the second season in a row, Melbourne Water supplied higher recycled water volumes than are contractually required by Southern Rural Water, to provide Werribee farmers with drought relief. A total of 12,519 million litres was supplied to Southern Rural Water for existing and new customers compared with 10,964 million litres in 2006/07.

Standpipes relocated

Since December 2006, Class A recycled water has been supplied to businesses and organisations from two temporary standpipes at the Western Treatment Plant, primarily as a drought relief measure. Under a process managed by City West Water, recycled water is transported by tankers and used for open space watering, and dust suppression in road construction.

This year, Melbourne Water undertook earthworks and roadworks to establish a new filling area with two permanent standpipes at the Western Treatment Plant. The project will be commissioned early in 2008/09.

The move was in response to safety risks associated with traffic along the old filling site on Farm Road, deterioration of the adjacent roadway, and the opportunity to establish more permanent and advanced access to recycled water at the site.

Tankers supplied 158 million litres of recycled water from the standpipes (compared with 88 million litres in 2006/07), with up to 60 tankers a day using the site at peak summer times.

RECYCLING EAST OF MELBOURNE

A total of 21,136 million litres of recycled water was used at or near the Eastern Treatment Plant during 2007/08. This volume included 13,255 million litres that was used in operating the plant. If recycled water was not available, Melbourne Water would have had to use drinking water for these process operations.

The Eastern Treatment Plant currently produces Class C recycled water. The plant will be upgraded in 2012 to enable all sewage that enters the plant to be treated to Class A quality. Trials to determine the

preferred technology for this tertiary treatment upgrade began during the year. The upgrade will enable the plant to produce up to 135,000 million litres a year of high quality Class A recycled water suitable for use in new housing estates, irrigation and industry (see Sewerage, page 22).

Eastern Irrigation Scheme

The Eastern Treatment Plant has been instrumental in providing recycled water to customers on the Mornington Peninsula. This has helped assess the extent to which recycled water can substitute for other water sources for irrigation, residential developments and industry in the area.

The proliferation of golf courses, council reserves and agricultural areas south-east of Melbourne presents a significant opportunity for recycled water schemes.

One such example is the Eastern Irrigation Scheme. Under this scheme, Melbourne Water delivers Class C recycled water from the Eastern Treatment Plant to a private sector operator, TopAq, which then carries out further treatment of the water using ultrafiltration membranes and chlorine to produce Class A recycled water ready for supply to customers.

TopAq delivers the Class A recycled water to a range of horticultural, recreational and residential customers via 50 kilometres of transfer and distribution pipelines.

Melbourne Water supplied 6577 million litres of Class C water to TopAq compared with 8296 million litres in 2006/07. The decline was due to reduced demand from TopAq customers.

This year, TopAq began installing additional membranes to increase the capacity of its Class A treatment plant. Commissioning is expected in early 2008/09.

Dual pipe schemes

TopAq supplies South East Water with Class A recycled water for its customers in the Sandhurst Club and the Hunt Club Estate. These are the first residential estates in Victoria to have access to recycled water.

Class A recycled water supply via a dual pipe reticulation system was launched in December to about 600 houses in the Sandhurst Estate at Skye. Recycled water is used for toilet flushing, garden watering and open space irrigation.

South East Water also continued to supply Class A recycled water to about 200 houses at the Hunt Club Estate near Cranbourne.

A total of 123 million litres of recycled water originating from the Eastern Treatment Plant was supplied to these schemes via TopAq's treatment plant.

Victorian Government legislation has mandated the supply of recycled water to all future residential developments in the Cranbourne and Pakenham growth corridors.

Pipeline customers

There are now 42 South East Water customers who take Class C recycled water from the South Eastern Outfall pipeline, which transports treated effluent from the Eastern Treatment Plant to Boags Rocks on the Mornington Peninsula.

These customers used 1304 million litres of recycled water for agricultural and horticultural activities, including watering golf courses and sports fields, for root crop irrigation, flower growing and drip irrigation of vineyards.

Three new South East Water customers, recycling an additional 80 million litres a year, were signed up in 2007/08.

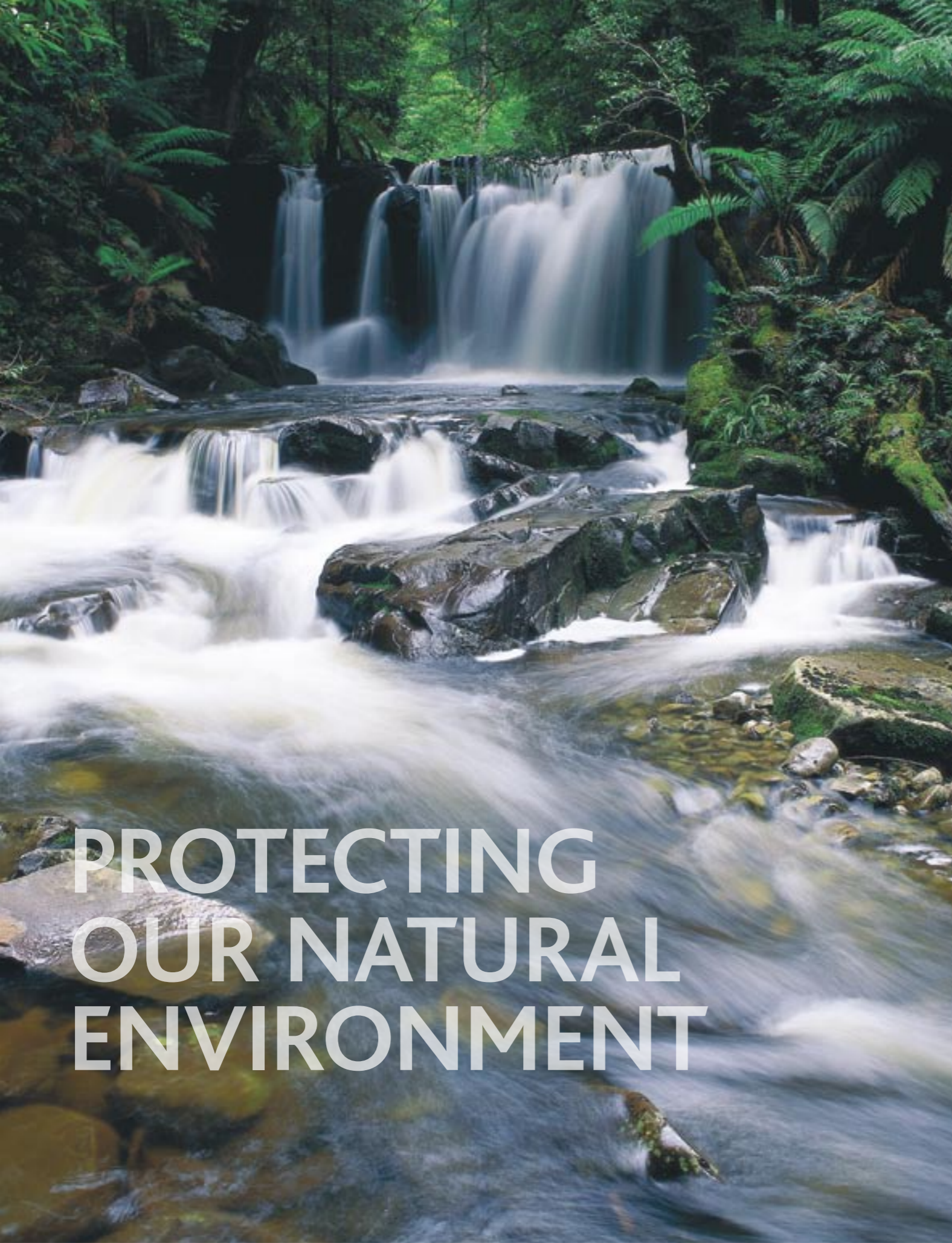
	ACTUAL 2006/07		ACTUAL 2007/08		TARGET 2007/08		OWOF* TARGET 2010	
	ML	%	ML	%	ML	%	ML	%
WESTERN TREATMENT PLANT								
ONSITE RECYCLING	26,317	9.799	27,831	10.556	37,000	11.5	37,000	11.3
WERRIBEE TOURIST PRECINCT	220	0.082	203	0.077	340	0.1	500	0.2
WERRIBEE TECHNOLOGY PRECINCT	0	0	106	0.040	190	0.1	0	0
WEST WERRIBEE DUAL PIPE PROJECT	0	0	0	0	470	0.1	0	0
MACKILLOP COLLEGE	13	0.005	31	0.012	0	0	0	0
DROUGHT RELIEF TANKERS	88	0.033	158	0.060	0	0	0	0
WERRIBEE IRRIGATION DISTRICT	10,946	4.076	12,519	4.749	3500	1.1	8500	2.6
WTP TOTAL	37,584	13.995	40,848	15.494	41,500	12.9	46,000	14.1
EASTERN TREATMENT PLANT								
ONSITE RECYCLING	13,054	4.861	13,255	5.028	13,800	4.3	13,800	4.2
EASTERN IRRIGATION SCHEME	8296	3.089	6,577	2.495	4,802	1.5	5000	1.5
SOUTH EASTERN OUTFALL	2128	0.792	1304	0.494	1,700	0.5	1700	0.5
ETP TOTAL	23,478	8.742	21,136	8.017	20,302	6.7	20,500	6.2
TOTAL	61,062	22.737	61,984	23.511*	61,802	19.5	66,500	20.3
WASTEWATER DISCHARGE	268,556ML		263,642ML					
ENVIRONMENTAL FLOW AT WTP	13,856	5.159	15,930	6.042				

Victorian Government's *Our Water Our Future* program ML = million litres
*Figure represents percentage of recycled water supplied from the total volume of sewage treated at WTP and ETP

KEY PERFORMANCE INDICATORS – RECYCLED WATER

	2006/07		2007/08		TARGET MET
	TARGET	RESULT	TARGET	RESULT	
CONTRIBUTE 19.6% TO THE GOVERNMENT'S 20% WATER RECYCLING TARGET (%)	18.9	20.9	19.6	21.5	✓✓

✓✓ Target exceeded



PROTECTING OUR NATURAL ENVIRONMENT

Goals related to natural environment

- › Improve environmental outcomes from all aspects of our business
- › Meet planned reductions in greenhouse emissions and increased use or export of renewable energy
- › Maximise resource efficiency
- › Improve biodiversity
- › Minimise waste disposal and maximise resource recovery.

Key achievements

- › Exceeded our target of a 40% reduction in greenhouse gas emissions from the 2000/01 baseline
- › Commissioned the first of six new mini-hydro generators and began producing power and greenhouse gas offsets.

Disappointments

- › Failing to meet our targets for renewable energy due to drought impacts
- › Increased energy consumption due to increased pumping requirements associated with managing drought conditions
- › The Eastern Green Energy Project delivered lower than expected electricity generation due to gas compressor reliability issues, power station engine breakdowns and operational interruptions as part of the commissioning process.

Challenges

- › Considering and minimising greenhouse gas emissions and energy use in all new projects and activities, particularly major new projects such as the Sugarloaf Pipeline and the Tarago water treatment plant
- › Achieving our targets in an environment where energy use is increasing to deliver services to Melbourne, such as additional pumping requirements
- › Managing existing infrastructure so that it is operated in the most energy-efficient manner
- › Finding new ways to maximise the renewable energy potential of sewage treatment (biogas) and water supply distribution (hydro)

- › Managing native vegetation and sites of biodiversity significance in dry years
- › Maintaining environmental flows in dry years
- › Investigating beneficial use of biosolids from the Eastern and Western treatment plants and water treatment residuals from Winneke and Tarago water treatment plants.

OVERVIEW

Many complex challenges face Melbourne Water in fulfilling its role of protecting the natural environment.

In 2007/08 we experienced extended drought, shifting rainfall patterns, low waterway flows, higher temperatures and intense storms. Looking ahead we can expect increases in energy costs, continued population growth and competing demands for resources.

To protect the natural environment while continuing to deliver services to Melbourne, we set targets to reduce greenhouse emissions and increase our use or export of renewable energy, and to improve biodiversity.

We use formal processes to assess and understand the potential impacts of our actions, projects and activities, and work to ensure that appropriate steps are taken to eliminate or minimise risks to the natural environment.

These processes include our community environment public health assessment checklist to assess and plan for potential impacts of major works, such as infrastructure projects. It ensures we are managing impacts, identifying solutions, including and informing relevant people and groups, and reviewing capital works, operations and policy.

The checklist covers potential impacts on the natural environment including land, water, air, Aboriginal, cultural and archaeological heritage, material use and waste management, biodiversity, risk management and public safety, and community and stakeholder issues.

Our environmental and public health management system guides our management of environment and public health risks (except drinking water quality) and helps us comply with the International Standard for Environmental Management Systems ISO14001. This standard requires us to meet all environmental legislative requirements and achieve continual improvement in our environmental performance.

We achieve this through:

- › Our environment policy, supported by *Sustainable Water – A Strategic Framework*
- › An aspects and impacts register that identifies and ranks all positive and negative environmental impacts from our activities
- › Meeting legislative and other requirements
- › Defining environmental improvement programs within our *Corporate Plan* and *Water Plan*
- › Developing systems for competence, training and awareness, and regular monitoring, reporting and audits of environmental impacts.

GREENHOUSE GAS EMISSIONS

Melbourne Water is among the top 15 energy users in Victoria and among the top 300 energy users in Australia, and produced 284,500 tonnes of greenhouse gas emissions (CO₂ equivalent) this year.

We use energy primarily for treating and pumping sewage and water, and meet our energy needs by buying electricity from the grid, using fuels such as natural gas and diesel, and generating renewable energy from our own activities.

In 2007/08, Melbourne Water used 1.368 million gigajoules of energy compared with 1.248 million gigajoules the previous year – an increase of 9.6%.

The increase in energy consumption is due to the additional pumping requirements associated with pumping water from the Yarra River at Yering Gorge and treating water at the Winneke water treatment plant to ensure security of water supply.

Melbourne Water spent \$15.7 million this year on energy (3.9% of operating expenditure) compared with \$16.2 million (5% of operating expenditure) last year.

We have made significant progress in reducing greenhouse gas emissions and generating renewable energy since 2000.

At our Eastern and Western sewage treatment plants we create renewable energy by capturing and using biogas – a by-product of the sewage treatment process – to generate electricity. In the water supply network, we harness water flow and pressure to generate hydro-electricity.

This year we exceeded our target of a 40% reduction in greenhouse gas emissions. We reduced greenhouse gas emissions by 50.4% compared with our baseline year of 2000/01.

However, we failed to meet our target of 50% of renewable energy used or produced, with 41.3% of our energy needs being supplied from renewable sources.

Our ability to produce renewable energy was affected mainly by drought impacts restricting hydro-electricity generation at the Thomson and Cardinia power stations (see page 48).

Melbourne Water decided not to buy Renewable Energy Certificates to achieve the renewable energy target because we had already exceeded the more critical greenhouse gas emission reduction target and because of financial considerations.

Energy consumption is expected to rise in the coming years due to drought recovery, tertiary treatment at the Eastern Treatment Plant, energy required for pumping in the Sugarloaf Pipeline project and the Tarago water treatment plant.

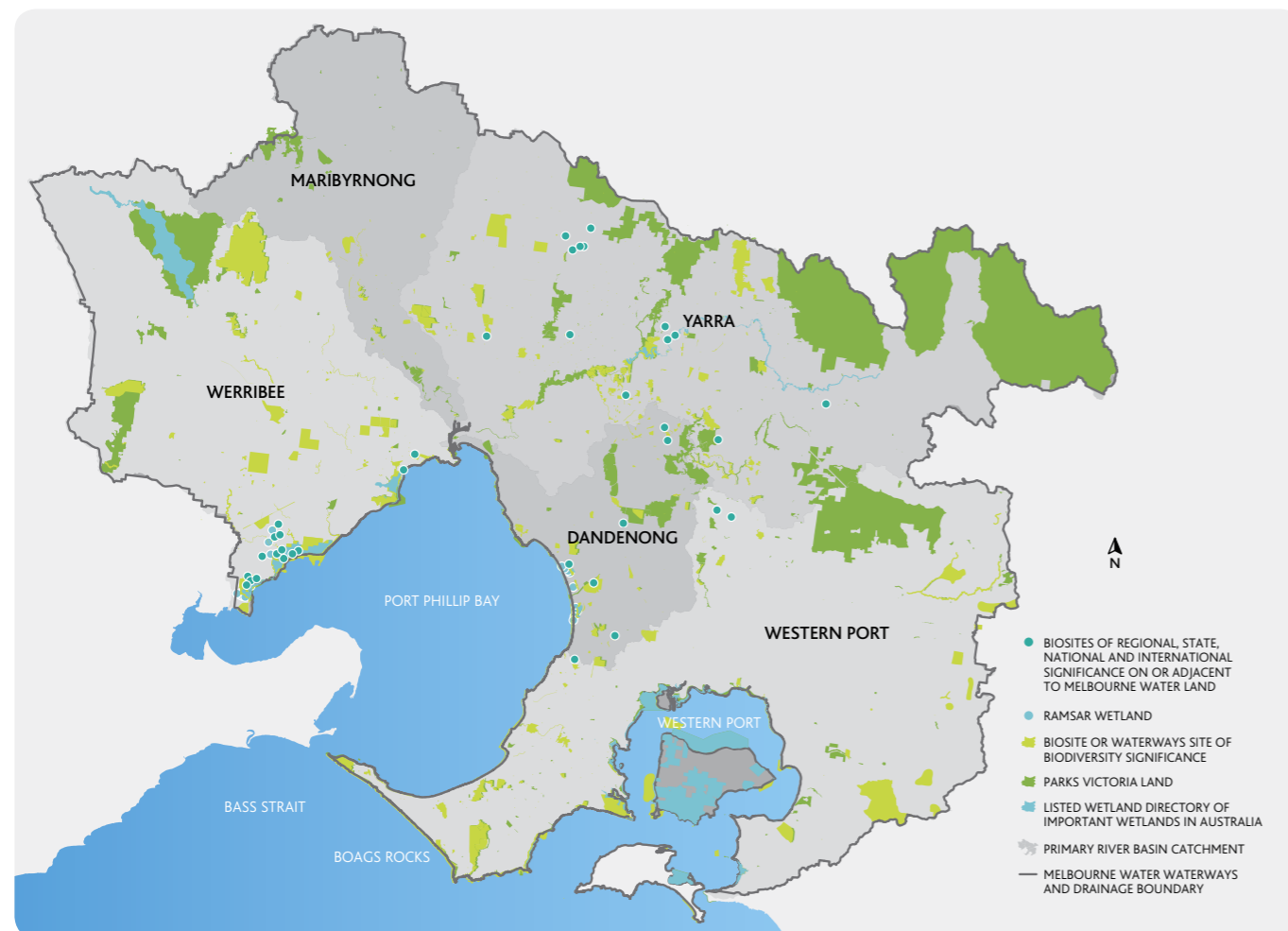
To help address these issues and meet our long-term target of 100% renewable energy by 2018, we began developing a greenhouse emissions reduction and renewable energy use strategy. The strategy is due to be completed in April 2009.

Actions to reduce emissions

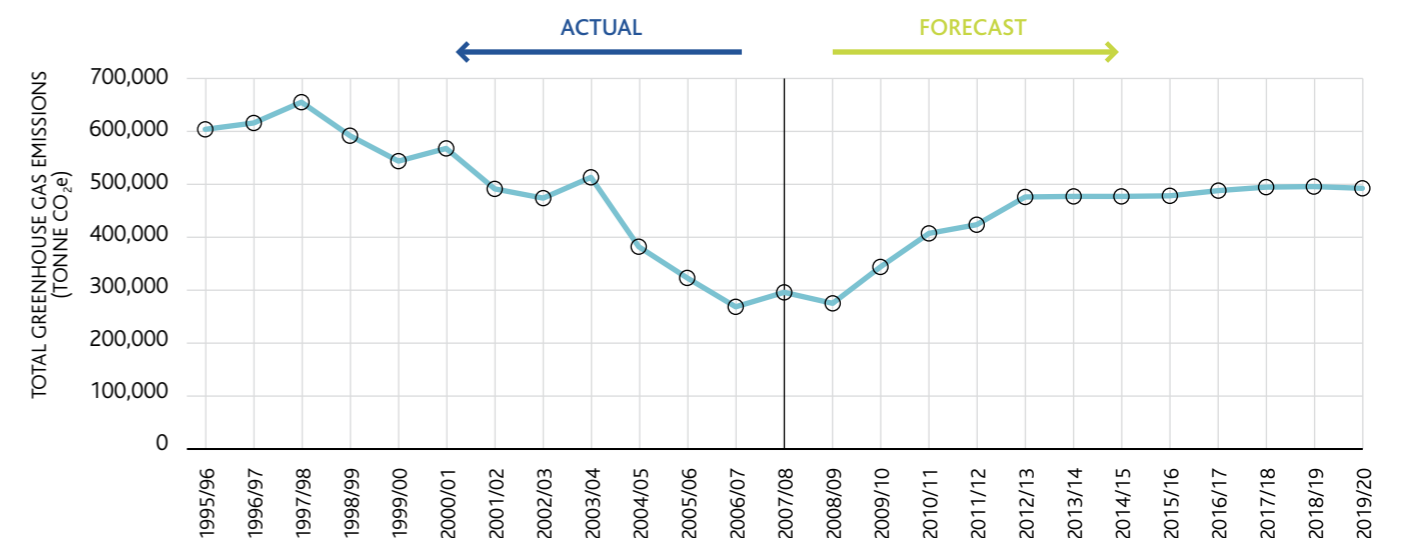
Since 2000/01, significant reductions in our greenhouse gas emissions were achieved from the following:

ACTIONS (USING A BASELINE YEAR 2000/01)	EMISSIONS REDUCTION (TONNES PER YEAR)
CAPTURING METHANE AT THE WESTERN TREATMENT PLANT	225,859
REDUCED PURCHASED ELECTRICITY	83,505
REDUCED DIESEL USE AT THE EASTERN TREATMENT PLANT	4,991
INTRODUCTION OF HYBRID CARS	147
TOTAL	314,502

PROTECTING OUR BIODIVERSITY



FORECAST GREENHOUSE GAS EMISSIONS (EXCLUDING DESALINATION)



Renewable power from biogas

Melbourne Water uses biogas produced during the sewage treatment process to fuel electricity generators, reducing greenhouse gas emissions by importing less grid electricity and diesel fuel oil. The electricity generated is used to help power treatment processes.

This year we experienced minor technical problems affecting biogas generation facilities at the Eastern and Western treatment plants.

Despite these issues, we maintained our production of renewable energy from biogas, producing a total of 565 gigajoules.

At the Western Treatment Plant, a power generation facility run by AGL in partnership with Melbourne Water generates electricity using biogas captured in the treatment process.

The biogas generators produce about 70% of energy needs at the Western Treatment Plant, generating more than 50 gigawatt hours a year of renewable energy.

Lower sewage flows associated with the drought reduced the amount of biogas generated by the covered lagoons, and replacement of an AGL generator destroyed by fire in December 2006 was not brought online until September 2007.

Our Eastern Treatment Plant completed the Eastern Green Energy Project. The project is expected to produce about 50% of the plant's energy needs, reducing electricity imported from the grid by about 28 gigawatt hours per year, and cut greenhouse gas emissions by about 32,000 tonnes a year.

However, the project delivered lower than expected electricity generation this year due to gas compressor reliability issues, power station engine breakdowns, and operational interruptions required as part of the commissioning process.

Renewable power from hydro

Hydro-electricity is playing an increasingly important role in providing renewable energy for Melbourne Water, with six new mini-hydro systems expected to be operational by 2009.

However, power generation from existing hydro plants at the Thomson Reservoir and the Silvan-Cardinia pipeline was well down this year due to low reservoir levels associated with the prolonged drought resulting in failure to meet our renewable energy target.

The Thomson hydro plant was online for only two months, producing just 946 megawatt hours (MWh) of electricity compared with about 15,000 MWh in a normal year.

The Cardinia hydro operated all year, but at reduced levels, producing 11,350 MWh compared with about 14,000 MWh in a normal year.

Investigating new sources of green energy

Melbourne Water has set ambitious targets for 2018 of zero net greenhouse gas emissions and 100% renewable energy used or exported. Sourcing renewable energy substitutes for grid-supplied electricity is the key to achieving these targets.

A consultant's report identified limited options to increase the amount of renewable energy produced through our own resources. These options included:

- › Producing biogas from crops and plants (biomass) grown onsite or imported from offsite
- › Increased production of biogas at sewage treatment plants through process improvements
- › Constructing additional mini hydro-electric power stations
- › Wind power, if suitable sites could be located.

Melbourne Water is working with several companies to develop sources of biomass for conversion to fuels and biogas for use in existing biogas electricity generators. A promising source of biomass is the nutrient-rich water at sewage treatment plants, which can be used to grow algae, and a pilot project is expected to be established at the Western Treatment Plant in 2008/09.

We also investigated the feasibility of installing wind turbines, and during 2008/09 we will conduct more detailed wind resource studies as a first step in confirming the suitability of using wind turbines at promising locations.

Operational efficiency initiatives

Energy consumption reviews at our largest pumping stations – Hoppers Crossing, Brooklyn, Yering Gorge and inflow pumps and aeration blowers at the Eastern Treatment Plant – have delivered savings through optimised operations. These facilities combined are responsible for more than 60% of our electricity use.

We are also involved with several Government initiatives aimed at conserving energy, waste and water across our operations.

Our membership of the Commonwealth Greenhouse Challenge Plus program has enabled us to establish a strong foundation for future reporting under the Commonwealth's National Greenhouse and Energy Reporting System.

We develop water management action plans (waterMAPs), which require major industrial, commercial and institutional water-using organisations to assess their water use, identify inefficiencies, prepare an action plan to implement water conservation activities and report on these activities annually.

We also started to develop Environment and Resource Efficiency Plans, which include self-assessments about how to reduce energy, water and waste footprints, at three sites.

We are part of the Commonwealth Government's Energy Efficient Opportunities program, which requires large energy-using businesses to examine factors that influence energy use and identify, evaluate and report publicly on cost-effective energy savings opportunities.

PROTECTING AND IMPROVING BIODIVERSITY

With Melbourne entering its 11th year of drought, and climate change impacts being felt in changed rainfall patterns, higher temperatures, and more intense storms, the pressure is increasing on sites of high biodiversity value.

As a significant landholder and waterways manager within the Port Phillip and Westernport region, Melbourne Water plays a leading role in managing, protecting and improving biodiversity.

This region is home to a diverse range of important ecosystems, comprising extensive terrestrial and marine habitats and supporting more than 1860 species of native plants and 600 species of native animals. In these ecosystems 296 flora species and 128 fauna species are considered threatened.

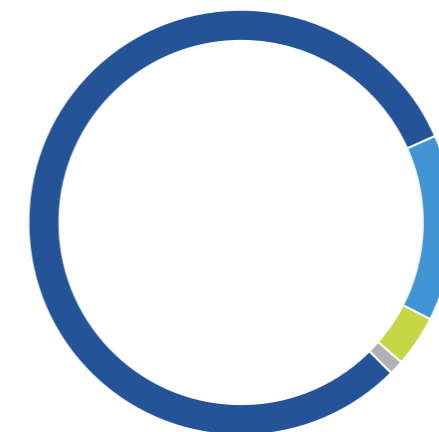
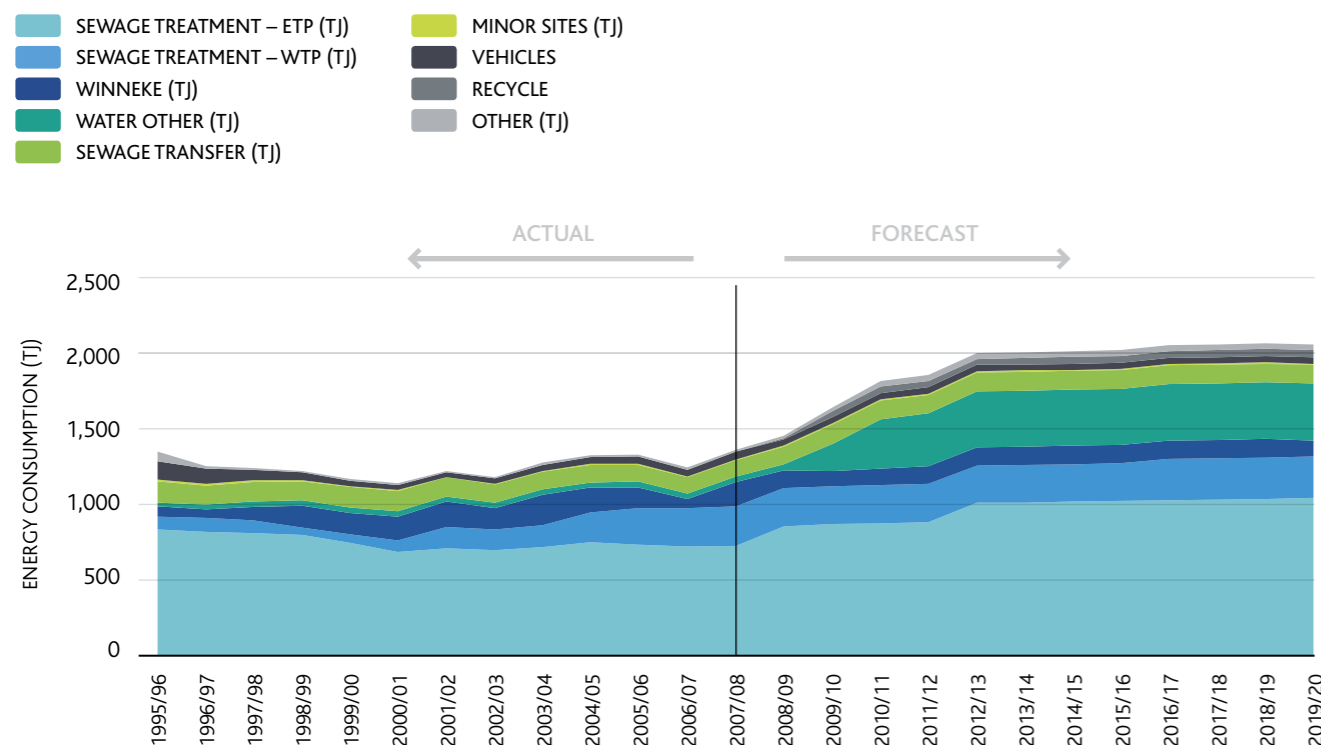
The biodiversity values of the natural assets under our control vary widely. BioSites are sites of high biodiversity value and include internationally recognised wetlands, pristine mountain ash forests in protected water supply catchments, and the upper forested reaches of many waterways.

Victorian Biodiversity Strategy

The *Victorian Biodiversity Strategy* is an overarching strategy covering objectives related to the conservation and management of biodiversity. The *Regional River Health Strategy*, Melbourne Water's *Biodiversity Strategy* and the Waterways Sites of Biodiversity Significance Program provide a strategic approach for biodiversity management in areas under our management.

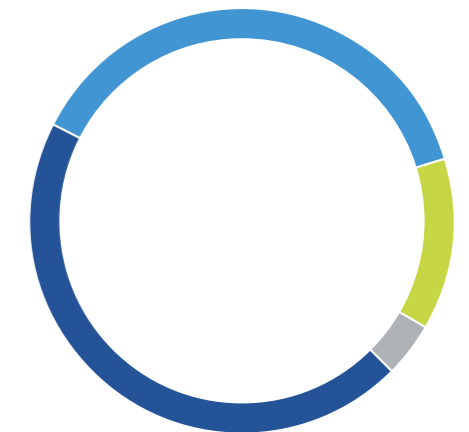
Our *Biodiversity Strategy* coordinates biodiversity management actions across all groups and natural assets, defines biodiversity values on Melbourne Water properties and sets priorities for management of these values.

FORECAST ENERGY CONSUMPTION



ENERGY BY USE 2007/08

SEWAGE	81%
WATER	14%
VEHICLES	4%
OTHER	1%



ENERGY BY SOURCE 2007/08

IMPORTED ELECTRICITY	81%
BIOGAS	14%
NATURAL GAS	4%
VEHICLE FUELS	1%
SHAFT DIESEL	0%

Developing a detailed understanding of biodiversity values and collecting additional data on natural assets will help Melbourne Water demonstrate the extent to which effective biodiversity management contributes to an overall improvement of healthy ecosystems, vegetation communities and wildlife habitat.

Net Gain guidelines

Melbourne Water supports the Victorian Government's native vegetation management framework. The framework introduced a 'net gain' goal as an outcome for native vegetation, where overall gains are greater than overall losses and individual losses are avoided where possible.

During 2007/08 we developed Melbourne Water's draft Net Gain guidelines, which will help us deliver a net gain in native vegetation on land under our management through avoiding vegetation clearance, minimising impacts through design and management, and offsetting any losses.

These guidelines will play a key role in managing impacts of construction of the Sugarloaf Pipeline, which will connect the Melbourne water supply system with the Goulburn River.

Any loss of vegetation, habitat or biodiversity values associated with the pipeline construction will be offset through purchase and ongoing protection of land with high biodiversity value, such as land adjoining state or national parks.

First BushBroker trade

As a participant in the Victorian Government's BushBroker Scheme, we traded native vegetation 'credits' to help meet the net gain target.

Native vegetation credits arise through a gain in the extent and quality of a specified area of native vegetation. This credit can then be traded with someone who has no choice but to destroy native vegetation.

In August, Melbourne Water sold some of the native vegetation credits as a test case. We had retained these credits with the transfer of freehold land around Devilbend Reservoir to the Government.

Green paper on climate change

Melbourne Water provided a detailed submission to the Victorian Government's Green Paper, *Land and Biodiversity in a Time of Climate Change*, in June.

The paper will set direction for Victorian Government policy and investment priorities in natural resource management, land health and biodiversity for the next 20 to 50 years.

Managing data

We continued work on our biodiversity condition and heritage system, which is designed to improve the collection, accuracy and management of biodiversity condition and heritage values of natural assets under Melbourne Water management.

Key aspects of the project this year involved determining how best to integrate the system into our wider IT Systems, and ways to make information available to external stakeholders such as government departments, councils, research agencies, catchment management authorities, developers and community groups.

This database provides detail on the diverse habitat types, plants and animals found on Melbourne Water property, and will contribute to the Geographical Information System layers managed by the Department of Sustainability and Environment.

Pest animal guidelines

Historical pest animal management guidelines have been reviewed and updated to create two pest animal documents – one for internal use and the other for contractors undertaking pest animal management activities on behalf of Melbourne Water.

These guidelines help reduce the risk of water quality issues associated with pest animal management, and ensure that these management programs are safe, humane, environmentally sound and economically feasible. Management actions aim to prevent new and emerging pests from having significant impacts on natural and productive resources.

The guidelines, which were finalised in late 2007, address pest animals such as foxes, rabbits, cats and dogs in protected catchments, reservoirs and land under our management.

BioSite surveys

Melbourne Water manages 36 sites with high biodiversity values through the Sites of Biodiversity Significance Program.

This program protects and improves the regional, state and national biodiversity values of these sites.

Consistent with the *Biodiversity Strategy*, we engaged natural environment consultants to undertake flora and fauna surveys to establish BioSite condition, and provide a baseline for future monitoring.

During 2007 we began a survey of the Cardinia Reservoir BioSite, based on the high risk of invasion by environmental weeds. The site has been divided into three stages with the second survey area completed in June 2008. Results will assist planning for weed management.

The survey involved a general fauna species survey, mapping and assessment of native vegetation, and mapping of weed invasions. Fauna surveys involved trapping, spotlighting, call playback and active searching during the day and night. Mapping and assessment of habitat was also undertaken.

Biodiversity conservation at the Western Treatment Plant

This program oversees conservation actions at the Western Treatment Plant to protect the extensive Ramsar-listed wetlands of international importance and other areas of high biodiversity significance.

Melbourne Water spent \$586,000 this year on biodiversity conservation at the plant, including research to better understand the complex wetland and intertidal ecosystem, and on-ground management such as weed, fox and cat control, fencing and water depth manipulation on conservation ponds.

An important management aim is to boost the number of filter-feeding ducks using the wetlands. This involved drawing down water levels in Lake Borrie to allow placement of fallen timber to create perches and habitat, and encourage vegetation growth to support the birds' invertebrate prey.

An audit and review of the program's compliance with the Commonwealth *Environment Protection and Biodiversity Conservation Act* scored 64 out of a possible 66.

Drought response, conservation and research

Drought response planning for 18 wetlands supporting significant biodiversity values continued with the development of contingency plans for each site, and installation of depth gauges and monitoring to record and assess impacts.

A population of the only Victorian wingless stonefly (*Riekoperla darlingtoni*) living in an ephemeral spring near the summit of Mt Donna Buang has declined drastically as a result of the drought. Work has begun to install a water tank to drip irrigate the bed of the spring and keep it damp – a condition critical for the survival of this species. This work is being done in collaboration with Parks Victoria.

The Western Treatment Plant Biodiversity Conservation Program may help protect the critically endangered orange-bellied parrot by improving waterbird habitat and restoring coastal saltmarsh.

Melbourne Water undertook a fish survey at the Western Treatment Plant's Lake Borrie. The survey aims to protect biodiversity values, identify exotic and native fish species, and determine patterns and relationships to waterbird health.

Pipeline works

Melbourne Water and the Sugarloaf Pipeline project team have developed and adopted bio-security protocols for protecting the environment and biodiversity values on the project.

The protocols were developed in conjunction with the Department of Sustainability and Environment to work with landowners, land managers and others to prevent the transmission of plant and animal diseases as a result of works associated with the project.

WASTE ASSESSMENT

Waste is produced by our sewage treatment plants and our water treatment facilities, and collected in stormwater litter and sediment traps.

Sewage treatment plant waste

Waste from our treatment plants includes:

- › Treated effluent – sewage that has been treated to a high standard at our sewage treatment plants and discharged into Port Phillip Bay or Bass Strait or further treated for water recycling

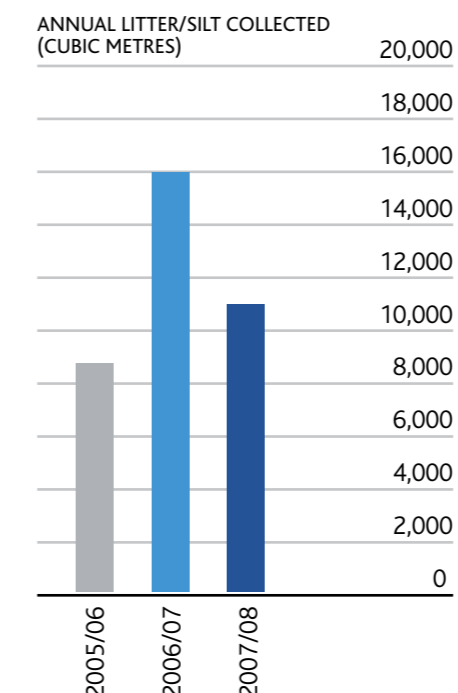
- › Biosolids – a by-product of the sewage treatment process
- › Grit and screenings – litter, gravel, sand and other non-biodegradable material collected by screens and grit-removal tanks in a pre-treatment facility.

A total of 112,990 million litres of treated effluent was discharged into Bass Strait from the Eastern Treatment Plant compared with 108,128 million litres last year, while 80,868 million litres was discharged from the Western Treatment Plant into Port Phillip Bay compared with 122,816 million litres last year.

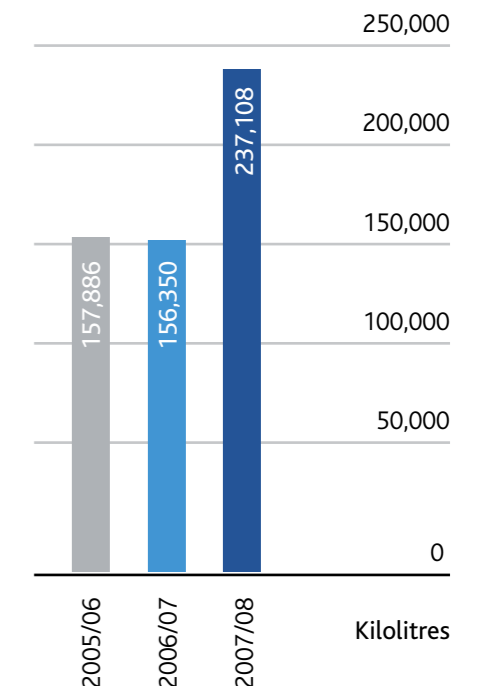
Some 44,400 cubic metres of biosolids were generated at the Eastern Treatment Plant, contributing to the 1.19 million cubic metres stored onsite, and 5840 tonnes of grit and screenings were collected and sent to landfill for disposal, at a total cost of \$494,210.

The Western Treatment Plant generated 17,000 dry tonnes of biosolids (the same as last year), bringing total biosolids stockpiled at the plant to 1.37 million dry tonnes. We continued to explore options for using biosolids as a resource (see Sewerage, page 22).

LITTER/SILT REMOVAL



ANNUAL WINNEKE SLUDGE DISCHARGED



Water treatment plant waste

Waste from our water treatment plants are called water treatment residuals, or sludges, and are a by-product of the water treatment process. They generally consist of clay minerals, organic matter, nutrients, hydroxides of aluminium and polyelectrolytes.

In 2007/08, Melbourne Water produced 237 million litres of water treatment residuals, mostly from Winneke water treatment plant, with about 1% produced from small local water treatment plants. This compares with 156.4 million litres last year.

The increase in water treatment residuals this year is due to a return to full operations at Winneke following temporary reductions in treatment levels in 2006/07 to accommodate a power supply upgrade, cleaning of the Winneke-Preston pipeline and commissioning of a new clarifier and two new filters.

The Yan Yean water treatment plant also produces water treatment residuals, which are stored in drying pans onsite.

Water treatment residuals from the Winneke water treatment plant are discharged to sewer under a trade waste agreement with Yarra Valley Water. Melbourne Water is reviewing options for reusing the sludge with the aim of ending disposal to sewer.

Stormwater litter and sediment trap waste

Litter and sediment are collected in traps located in the drainage, waterways and wetlands systems.

In addition to constructed litter and sediment traps, we regularly collect debris from about 5000 sites including road culverts, drainage grilles and grates, and other known litter 'hotspots'. Debris comprises 75% to 80% organic litter, with the rest rubbish and litter (usually plastics).

All debris/litter is taken to standard landfill facilities. Silt is tested for contaminants to determine whether it can be reused as clean fill or taken to a contaminated landfill facility. About one-quarter of silt material is contaminated.

This year, we collected 7000 cubic metres of litter from 130 litter traps, and a further 4000 cubic metres of silt from 346 silt traps in wetlands, with a total disposal cost of \$1.96 million. Last year, total disposal costs were \$2 million for 13,500 cubic metres of silt and 2500 cubic metres of litter.

Managing e-waste

Melbourne Water recognises the environmental problems and loss of valuable resources associated with the global increase in e-waste – unwanted, metal-rich electrical consumer goods, including mobile phones, screens and computers.

We donate useful end-of-life computers to not-for-profit charities. This year we engaged a recycling and asset disposal business to dispose of computing equipment unsuitable for reuse. No equipment was disposed to landfill.



Case study: Harnessing the power of water

Melbourne Water commissioned our first new mini hydro-electricity plant near the Preston Reservoir in May.

The two-megawatt plant provides enough clean power for 5000 homes and emits no greenhouse gases because it uses the natural energy of water flowing downhill.

Five more will be built at Upper Yarra, Silvan, Olinda, Mount View and Notting Hill reservoirs. Together they will produce about 40,000 MWh per year of clean electricity, which will be fed back into the Victorian electricity grid.

This will offset up to 52,400 tonnes of carbon dioxide emissions each year and is an important step towards Melbourne Water achieving our renewable energy target of 100% renewable energy used and/or generated by 2018.

The mini-hydros work on a simple principle: harnessing the energy of water, which is gravity-fed from the large dams in the Yarra Ranges to storages around Melbourne.

Ian Royston, who has been managing the project for two years, says until now, the energy or 'hydraulic head' of water reaching the reservoirs had been reduced with pressure-reducing valves or energy dissipaters.

"The beauty is that we're capturing energy that's been there since the dams were built, but until now has simply been dissipated and wasted," he says. "This will boost our already significant progress with greenhouse gas emissions reductions and renewable energy generation."

Melbourne Water will look at further possible hydro-electricity generating sites. We are investigating the possibility of constructing a mini hydro-plant on the downstream end of the Sugarloaf Pipeline from the Goulburn River to Sugarloaf Reservoir.

KEY PERFORMANCE INDICATORS – NATURAL ENVIRONMENT

	2006/07		2007/08		TARGET MET
	TARGET	RESULT	TARGET	RESULT	
ENERGY AND GREENHOUSE					
% REDUCTION ON 2000/01 GREENHOUSE GAS EMISSIONS	38	53	40	48	✓✓
RENEWABLE ENERGY PRODUCED AS % OF TOTAL ENERGY USED	45	45	50	41*	✗

✓ Target met ✓✓ Target exceeded ✗ Target not met

* The target was not met because of low generation at Thomson and Cardinia hydro-electric power stations due to drought effects, loss of production of biogas at the Western Treatment Plant due to a fire in the AGL generator, and low electricity generation at the Eastern Treatment Plant due to commissioning problems of the Eastern Green Energy Project.



OUR RELATIONSHIPS

Cherry Lake, Altona

Goals related to stakeholder engagement and community relations

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

Key achievements

- › Continued to work closely with the retail water businesses to help improve the quality of water supplied to consumers
- › Developed services and relationships with key stakeholders in our extended areas
- › Continued to increase community participation through education, tours and community engagement programs such as *Making Connections*
- › Began engagement with the community and key stakeholders in relation to our *Flood Management and Drainage Strategy*
- › Completed the Melbourne Water *Cultural Heritage Strategy* to help us manage cultural issues and sites of significance.

Disappointments

- › We did not understand early enough the most effective media communication channels for rural communities about issues concerning the Sugarloaf Pipeline
- › We were unable to reduce the volume of cases allocated from the Energy and Water Ombudsman's office, underlining the need for us to continue to focus on our customer service delivery.

Challenges

- › Continuing to build responsive, informative and inclusive relationships with our key stakeholders
- › Communicating the impacts and effects of operating in an environment characterised by low inflows and environmental issues associated with prolonged drought and potential climate change impacts

- › Managing and communicating issues associated with major water supply construction projects including the Sugarloaf Pipeline
- › Helping the community to understand the need for flood preparation and awareness in a time of drought
- › Continuing to build understanding of community impacts on river health, and initiatives that people can take to reduce stormwater pollution.

OVERVIEW

Melbourne Water builds partnerships and relationships with key stakeholders and informs and educates the community to help achieve our vision. Our success in creating a sustainable water future depends on our ability to develop strong relationships with others.

Key stakeholders include the Victorian Government, retail water businesses, other water corporations, councils and the land development industry.

Keeping communities, councils and industry informed about the planning, scope and likely effects of our operations and infrastructure works requires timely and factual information.

Where necessary, this information is translated into community languages, and where possible, we provide community members and organisations with the opportunity and means to provide feedback or contact our employees or contractors for more information, or raise any concerns.

This year we have seen significant increases in community demand for information and participation in relation to water, waterways and major capital works projects such as the \$750 million Sugarloaf Pipeline and the reconnection of Tarago Reservoir.

This interest has been driven by increased awareness of possible climate change impacts, environmental effects of extended drought conditions and the need to continue to conserve water.

Where possible and practical, we provide community members and local stakeholders with input into our decision-making processes through consultative committees at our major facilities such as the Eastern and Western treatment plants and through alliance teams.

We have developed a community engagement plan with regional water authorities and councils to ensure local communities are engaged and informed during the construction of the Sugarloaf Pipeline and the reconnection of Tarago Reservoir.

PRESERVING OUR CULTURAL HERITAGE

Our *Cultural Heritage Strategy* was completed and approved by our Board in May.

The strategy, which will be implemented over the next three years, outlines our interaction with indigenous and non-indigenous heritage and the management of numerous sites of significance on Melbourne Water property.

A focus group was established to guide our approach, and we are working with indigenous representatives to develop protocols that will support the completion of key projects while respecting the ways of the indigenous communities in which we work.

OUR METROPOLITAN RETAIL WATER PARTNERS

Melbourne Water works closely with the retail water businesses – City West Water, South East Water and Yarra Valley Water – that supply water to Melbourne homes and industry and collect sewage and trade waste from households and industry.

Our relationships include supporting and jointly funding the Victorian Government's *Our Water Our Future* program and working together to improve the quality of water supplied to consumers.

In July and August, we worked closely with Yarra Valley Water and the Department of Human Services to manage community concerns regarding boil water notices issued as a precaution against high turbidity levels in the Upper Yarra Reservoir.

The problems were caused by heavy rain impacting on dry catchment areas. We worked with Yarra Valley Water to construct five mini-filtration plants to improve water quality delivered to Upper Yarra communities (see *Water*, page 12).

KEEPING THE COMMUNITY AND STAKEHOLDERS INFORMED

Early engagement with the community and other key stakeholders is an important approach for Melbourne Water on the way to establishing constructive relationships and raising awareness about our activities.

We liaise closely with residents, businesses, community groups, key Government agencies, public transport authorities, councils and the retail water businesses.

Major projects that involve community and stakeholder liaison include the Northern Sewerage Project in Melbourne's northern suburbs.

Updates are provided regularly to Moreland and Moonee Valley councillors and residents, along with community forums. In addition to a dedicated 24-hour community telephone line, a Northern Sewerage Project website has been established (www.nsp.net.au). This year, two large acoustic enclosures were installed to contain noise at worksites at Brearley Reserve in Pascoe Vale, and De Chene Reserve in Coburg.

Another critical project is the Melbourne Main Sewer replacement project, which involves a new sewer being built from the Docklands to Port Melbourne.

The project includes a crossing of the Yarra River upstream of the Charles Grimes Bridge. Construction will be staged, enabling two-thirds of the river to remain open at all times. Communication with river users will seek to minimise the impacts of these works.

As part of this project, Melbourne Water developed in-principle agreements during the year with key stakeholders including VicRoads, EPA Victoria, City West Water, the City of Melbourne and City of Port Phillip to minimise community disruption through strong working relationships and open and timely communication.

As a result of feedback from residents, the construction site compound at Swallow Street, Port Melbourne, has been reduced to maintain parking for local residents (see *Sewerage*, page 22).

Community engagement is also an integral part of the construction of the Tarago water treatment plant, the new St Albans water main, and the Sugarloaf Pipeline (see *Water*, page 12).

Melbourne Water is responsible for funding and constructing the Sugarloaf Pipeline, which will link the Goulburn River near Yea to the Sugarloaf Reservoir in Melbourne's north-east.

Stakeholder briefings, meetings with individual landowners and information sessions are some of the ways that Melbourne Water has connected with the community potentially affected by proposed pipeline routes. Information packs and bulletins are distributed regularly throughout the region, along with a regular column in the local press.

GETTING TO KNOW COMMUNITIES IN OUR EXTENDED AREAS

The Victorian Government extended our waterways and drainage boundary by more than 5000 square kilometres in November 2005 to cover the whole Port Phillip and Westernport region.

The new areas include the Upper Maribyrnong and Werribee catchments and the Mornington Peninsula. We continue to develop our knowledge of these areas through a coordinated program of investigation, research, information collection and consultation.

This involves building relationships with councils, retail water businesses, communities, landholders, Landcare and farming groups and other stakeholders. This also helps us understand and meet community expectations by establishing required service levels.

This work has played a critical role in helping the communities in the extended areas understand our new waterways and drainage charge (see *Business efficiency*, page 68).

Making connections

Strong relationships have also been built through our *Making Connections* events, which develop new ways of working with organisations, groups and individuals with an interest in the future protection and management of waterways in specific catchments.

In April, the second such event was held in the Maribyrnong catchment at Sunbury, two years after the initial one. Many people who attended the first event returned, confirming the strength and durability of the networks and relationships.

The ability to review what had changed in the intervening time at Maribyrnong provides a strong foundation for assessing the success of the *Making Connections* model.

ONLINE VISITOR NUMBERS ON THE RISE

One of our priorities is to provide fast, easy access to relevant information for all stakeholders, and Melbourne Water's websites play a key role in providing accessible information to meet diverse community needs and cater for a growing volume of e-business.

Traffic to our websites continues to increase dramatically. In 2007/08 there were more than 5.2 million visits to our websites compared with about 3.3 million last year – an increase of more than 57%.

In July 2007 we received 773,399 visits – the highest recorded in a month, and almost double the previous monthly record of 365,186 set in May 2007.

The increase in online traffic is driven by a new awareness of water and a search for information, with water storages, rainfall and river level data and weekly water update pages on our main website consistently receiving the highest number of visits.

Most visits were to melbournewater.com.au (3.98 million compared with 2.33 million last year). People also accessed water conservation information by visiting melbournewater.com.au/conservation (403,858 visits compared with 275,980 in 2006/07) and our land development manual, melbournewater.com.au/ldm (118,302 visits compared with 85,500 last year).

We continue to upgrade our websites by designing content and structure to meet user needs. Planning has begun on a major redesign and restructure of our main website.

Case study: Pipeline a high profile and demanding project

The Sugarloaf Pipeline project has been a particularly high-profile and controversial one for Melbourne Water during the year, and for our delivery partners within the Sugarloaf Pipeline alliance.

A lot of effort has gone into liaising with landowners along the likely route of the pipeline, to explain the potential impacts and negotiate access to their property for survey work.

We've also provided key community members with detailed information on environmental compliance to help address their concerns.

As well as being a key part of the Victorian Government's *Our Water Our Future* plan, the pipeline is of significant interest to many groups in its own right, and so its delivery will be held to an exceptionally high standard. Our challenge, and our intention, is to meet this standard.

EDUCATING AND INFORMING

Melbourne Water continued to build on our successful education programs, many of which are carried out in partnership with the retail water businesses, community and environment groups.

The second Melbourne Water Yarra River youth conference was held in June, repeating and improving on the success of the inaugural event. The conference provided an opportunity for young people and schools across the Port Phillip and Westernport region to build networks and learn more about the impact our everyday activities have on river health, and on the plants and animals that rely on waterways.

More than 300 students and teachers attended from 40 schools, with 17 schools making presentations on waterways and river health in their area.

A long-term behavioural change campaign aimed at encouraging the community to enjoy, value and protect Melbourne's waterways was launched in June.

The *I Love Living Here* river health advertising campaign uses native wildlife (growling grass frog, platypus, blackfish and barking owl) to engage the community in understanding that most stormwater pollution comes from suburban streets and impacts river health and the health of wildlife that live in and around our rivers and creeks.

Of the 400 people surveyed about the campaign, 91% viewed the campaign as important and valuable in the information it provided, and most said they would be likely to change their actions as a result of the advertising.

Our external magazine, *The Source*, moved online as part of the push towards minimising our ecological footprint. *The Source* continues to examine issues relating to the water cycle with a focus on how we can ensure a sustainable water future.

More than 9409 people, including schoolchildren and overseas visitors, took part in tours of the Eastern and Western sewage treatment plants. Most visits were to the Western Treatment Plant (7682). The Eastern Treatment Plant open day was not held this year due to construction activities associated with the tertiary treatment upgrade program.

The 1407 visits to the Eastern Treatment Plant included Government and technical inspections of the new sewage treatment and biogas and energy generation technology. There were 1094 visitors to the Winneke water treatment plant.

We continued our partnership with *The Age* newspaper's education unit to produce posters on drought, the water cycle and climate change for the community and schools, including a Yarra River super poster and another titled *Our Water Future*.

And our association with the Melbourne Zoo and the National Gallery of Victoria, through the Melbourne Water Discovery Program at the Zoo and the gallery's educational Water Trail, provided stormwater and river health education for schools and the community.

Melbourne Water continued to distribute flood education resources such as the animated multimedia interactive web-based Melbourne Water Floods Explorer and *Water Water Everywhere*, a secondary education textbook produced in partnership with the Geography Teachers Association of Victoria.

WORKING WITH THE COMMUNITY

Community participation in our Waterwatch water monitoring program increased significantly this year. Waterwatch involves local people and schools in monitoring activities associated with river health, and reinforces community connections with local waterways.

A new group, Werribee Plains Waterwatch, was launched during the year, and a total of 53,445 people participated in the program in 2007 (over 13,000 more than last year). Some 2097 Waterwatch activities were conducted, and 412 sites (almost 100 more than last year) were monitored for water quality.

The popular Melbourne Water Frog Census community education program is being revamped to take advantage of new digital recording technologies commonly available in mobile phone and some digital cameras. It is expected to be relaunched in spring/summer 2008/09.

Monitoring and protecting platypus populations in our waterways continued through our survey partnership with the Australian Platypus Conservancy. This year four platypus including a juvenile female were found during a survey of Cardinia Creek, which indicates the creek is developing a self-sustaining population. No platypus had been found in the creek since the Ash Wednesday bushfires of 1982/83.

Melbourne Water is conducting two major community surveys to determine community perceptions of waterways, and to discover levels of awareness of current water issues.

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, initiated through our Customer Service Centre, to ensure prompt response to all complaints received from the Ombudsman's office. Supporting the investigation process, we consider the underlying customer liaison issues relating to the complaint and possible improvements in the way we service our customers.

Melbourne Water responded to 17 cases this year, four more than last year. Inquiries covered a range of issues including planning approvals, flood management, compliance with the *Water Act*, building overlays, wetland construction, drainage rates and diversion licences.

One complaint that was ongoing from last year involved flood levels in a local creek, and this was resolved during the year. At 30 June 2008, one complaint, relating to stream frontage works, was still to be resolved.

Students at the Yarra River Youth Conference



KEY PERFORMANCE INDICATORS – OUR RELATIONSHIPS

	2006/07		2007/08		TARGET MET
	TARGET	RESULT	TARGET	RESULT	
CUSTOMERS					
NUMBER OF COMPLAINTS ESCALATED TO THE ENERGY AND WATER OMBUDSMAN OF VICTORIA	3	13	3	17*	✘
COMMUNITY					
% SATISFACTION WITH COMMUNITY COMMITTEE PROCESSES	80	83	80	91	✓✓
EFFECTIVENESS OF EDUCATION PROGRAMS (%)	90	93.5	80	91	✓✓

✓ Target met ✓✓ Target exceeded ✘ Target not met

* Target was not achieved due to the occurrence of 17 cases. The figure for last year also relates to the number of complaints (rather than inquiries), so is a useful comparison. Melbourne Water has been discussing this target with the Essential Services Commission, and is seeking to establish a KPI more appropriate to our business as part of our next Water Plan submission in November 2008.

OUR PEOPLE, OUR WORKPLACE



Goals related to our people, our workplace

- › Attract and retain a diverse, motivated, skilled and experienced workforce
- › Provide a safe and enjoyable work environment which brings out the best in people
- › Encourage our people to develop and share knowledge gained from each other and stakeholders
- › Reward employees' performance against the delivery of our business objectives
- › Foster a Melbourne Water culture that encourages sustainable behaviour
- › Ensure that sustainability principles underpin our workplace policies and practices
- › Encourage and recognise innovation and ideas for sustainability improvements

Key achievements

- › A second survey of Melbourne Water's culture found significant improvement in constructive behaviour in the workplace since the first survey in November 2005
- › 36 senior leaders and our leadership team completed our leadership development program to drive further improvements in our preferred culture program
- › Completed our first international secondment exchange, with Yorkshire Water, enhancing the relationship and providing skill development opportunities
- › Achieved our target of reducing office paper use by 4% (per full-time equivalent employee, contractor or other external staff)
- › Developed a safety improvement plan for the next three years that included 65 actions.

Disappointments

- › A poor safety performance, with a Melbourne Water employee and a contractor seriously injured in separate incidents
- › Not meeting our office-based sustainability targets for water, waste and energy consumption.

Challenges

- › Reinvigorating our health and safety focus throughout Melbourne Water and among our contractors
- › Continuing our work towards a preferred culture at a time of increased pressure on our people dealing with the challenges presented by the drought, climate change and a large capital works program
- › Measuring data and achieving corporate targets relating to paper, water, energy and waste at all office sites.

Wes Turnbull (Melbourne Water) and Pat O'Donovan (Tyco), working together on the Sugarloaf Pipeline project

OVERVIEW

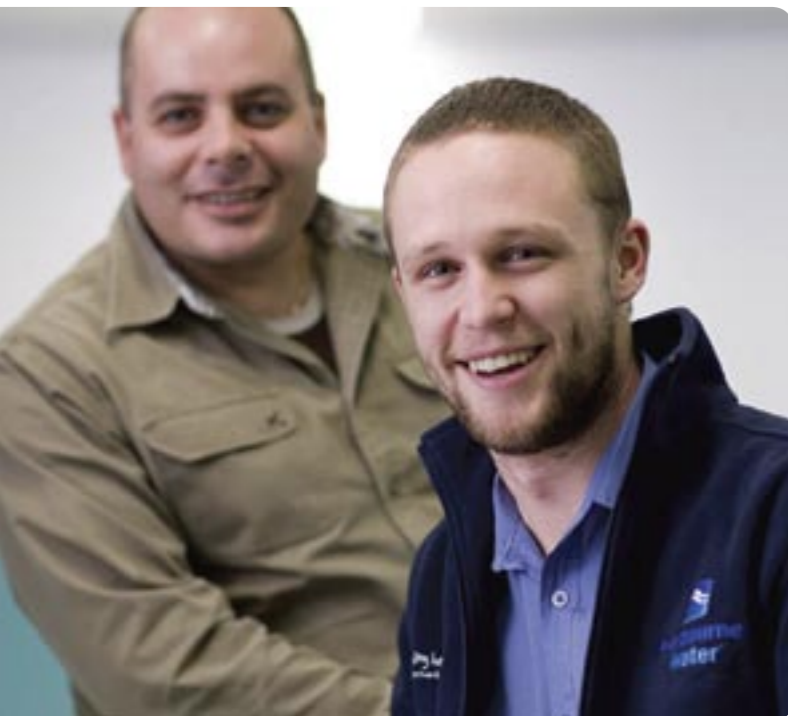
Melbourne Water faces challenging times with the drought, climate change, skill shortages, higher costs and a large capital program creating demanding circumstances.

The talent, expertise, passion and focus of our people determine how well we meet those challenges, and whether we deliver our business objectives and achieve our sustainability vision.

Our *Human Resources Strategy* is based on developing strong working relationships with employees, consultants and contractors. A key is creating a constructive organisational workplace and culture in which everyone is part of the solutions, and everyone knows that their talents are appreciated and being put to best use.

The strategy aims to continue building Melbourne Water's reputation as an employer of choice, enabling us to attract and retain high calibre people, while managing the risks of our activities, especially those relating to health and safety.

Pat Barba (John Holland) and Matt van der Peet (Melbourne Water), part of the Sugarloaf Pipeline Alliance



HEALTH AND SAFETY

Poor safety performance

Melbourne Water's safety performance in 2007/08 was very disappointing, with a relatively high number of serious health and safety incidents compared with previous years.

The worst incident was at our Brooklyn pumping station in February when an electric arc explosion occurred as one of our people, system controller George Vagias, reinstated a high voltage circuit breaker.

George suffered severe burns to 60% of his body, some permanent hearing loss as well as a broken leg, resulting in hospitalisation for about three months. Upon discharge in May, he began a comprehensive rehabilitation program including laser treatment of his burns and was still off work at 30 June 2008. Melbourne Water offered him, his family and colleagues every possible support and we will continue to do so. He is due to return to work well before the end of 2008.

Investigations into the cause of the incident included power industry experts, but no explanation had been established at 30 June 2008. Further detailed investigation workshops are scheduled for July 2008.

Immediately after the incident, all similar Melbourne Water circuit breakers were examined. We modified our procedures to ensure that all of them are double-isolated before they are operated.

We did not achieve our goal of zero lost time injuries (LTIs) for 2007/08, with two LTIs affecting our employees – however, this is one less than last year.

Of major concern to Melbourne Water were also serious contractor incidents. Our contractors had four LTIs – double the number of last year. These included an incident at Prospect Hill retarding basin, Narre Warren, where a contractor working in a manhole suffered a broken leg.

In each case, Melbourne Water worked closely with the contract company to investigate the incident and instigate required changes. We have included systemic improvements in our Health and Safety Improvement Plan (see below).

Our combined LTI frequency rate (taking into account employees and contractors) increased from 2.8 at the end of June 2007 to 3.6 at the end of June 2008. Operations were able to continue without significant disruption.

Improvement plan

A 2008-10 Health and Safety Improvement Plan was developed after a survey of employee and management representatives (including our maintenance partners) identified specific areas for improvement.

The survey found that a general improvement was required to reinvigorate our health and safety focus in the face of significant business challenges over the coming years.

A workshop was held in April involving members of all our Health and Safety Committees and including representatives from our major contractors. Some 65 improvement actions were identified.

These actions, which took into account an analysis of the incidents in early 2008, included:

- › Holding people to their health and safety accountabilities
- › Improving hazard identification assessment and control
- › Developing additional measures of our health and safety performance, with action plans to address trends
- › Ensuring that our alliance partners are able to meet or exceed our own health and safety standards
- › Providing appropriate information, education and training in health and safety
- › Increasing positive recognition for people who report incidents and hazards.

Surveillance audit

Melbourne Water's safety management system, The Safe Way, includes policy, safety monitoring, management procedures, performance standards and task-based instructions and forms.

The system was introduced in 2006/07 and aligns with the Victorian WorkSafe auditing tool, SafetyMAP. Lloyd's undertook a surveillance audit of Melbourne Water in April, and found no non-conformances. It followed the three-year SafetyMAP recertification achieved in June 2007.

CONSTRUCTIVE CULTURE

Melbourne Water is committed to the employment and conduct principles outlined in the *Public Administration Act 2004*. We adopt the principles of merit and equity in the appointment and management of our people. These principles are reflected in our focus on continuing to build our constructive culture where all people enjoy respectful collaborative relationships and are recognised for their contributions. Our workplace culture, policies and practices seek to ensure our workplace is free from discrimination and ensure that our people have access to a fair issue resolution process.

The challenging environment facing Melbourne Water demands innovative and positive behaviour in the workplace. An analysis of the workplace culture in 2005 found that Melbourne Water people wanted to work more constructively with each other and their stakeholders.

Workshops were held to discuss the results of this analysis. Then programs were initiated to develop leadership styles, actions and ideas that drive constructive behaviour. In addition, constructive behaviour has been incorporated in performance and development plans, and the new Enterprise Agreement.

A second workplace culture analysis of Melbourne Water people was carried out in November 2007. The extent of the improvement in the perception of constructive behaviour in this re-test put Melbourne Water in the top five of the many organisations that have participated in similar programs in Australia and New Zealand.

Key focus areas for our people and their teams in 2008/09 include improving and maintaining customer service, improving clarity of role and purpose, alignment with Melbourne Water's results and efficiency improvements.

Taking the lead

A key aspect of creating a constructive culture has been the development and implementation of a leadership program based on the principles of learning, building relationships and experience.

The leadership program, developed with the Australian Graduate School of Management, includes components such as driving efficiency and delivering results; attracting, developing and retaining people; strategy development; giving and receiving feedback; and, influencing skills.

The program, launched in June 2007, included teams working on business-related projects and examines workplace issues such as innovation, delegation, risk taking, knowledge sharing, efficiency, attracting and retaining people, and supporting people, work groups and project teams. It comprised five learning modules over nine days.

This year, 36 senior leaders undertook the program. In 2008/09, it will be extended to our team leaders.

LEARNING AND DEVELOPMENT

This year our investment in learning and development initiatives for our people was significant. On average, we spent \$3000 per person for programs identified in individual development plans including learning and development planning outcomes, job-specific training, the leadership development program and part-time study support.

First international exchange

Melbourne Water participates in secondment exchanges to develop the skills of our people and bring expertise and different perspectives to projects. This year we completed our first international secondment.

Melbourne Water land management coordinator Adrian Murphy spent three months working with Yorkshire Water on improving water quality in a particular catchment.

"For three weeks, myself and the catchment manager walked pretty much every part of the drainage network in the catchment to get a hands-on feel for the area," he said. "I feel like my work made a real contribution not only to Yorkshire Water, but to the relationship between Yorkshire Water and Melbourne Water."

Nicola Richardson, from Yorkshire Water, worked with Melbourne Water over the same period, reviewing Melbourne Water's strategic direction on drinking water quality.

Another secondment exchange with Yorkshire Water is planned for 2009.

Environmental scholarship

Water supply operator Brian McNeil spent two weeks on the Great Barrier Reef working on a research project as part of Melbourne Water's Ambassadors for the Environment scholarship.

The scholarship, a partnership with the Earthwatch Institute, is designed to provide our people with development opportunities, help them continue working towards sustainability and demonstrate constructive behaviour.

The Queensland Parks and Wildlife research project involved the Hawksbill turtle, which is critically endangered due to the harvesting of eggs and degradation of nesting and foraging habitats. Brian's work included catching, measuring, weighing and tagging the turtles and entering data.

Graduate program

Melbourne Water's structured graduate program continued to develop, with 22 graduates working in a variety of roles across the three years of the program. We recruit eight graduates a year. This year we provided two secondment opportunities – at Sydney Water and Sinclair Knight Mertz (SKM).

Reward and recognition

Some 313 Melbourne Water people were recognised through our Great Work, Great People reward and recognition program. The program provides formal and informal methods of recognition for individual, team and community contributions, and enables employees to nominate their peers.

Among our people recognised this year were Kate Wilson, for her sustained work to develop and document a strategy for improving the grit and screening area of the Eastern Treatment Plant; and KS Tan, for his initiative and innovation in developing a model to improve assessments of water resource options.

ENCOURAGING SUSTAINABLE BEHAVIOUR

LivingSmart

Melbourne Water's LivingSmart program is designed to educate and involve our people in living and working sustainably.

A review of the program carried out this year found that 89% of employees surveyed said their personal sustainability performance had improved through Melbourne Water's education and influence. This figure was unchanged from last year.

Our people completed EPA Victoria's ecological footprint for the third year in June 2008. The ecological footprint is a measure of the resources used by individuals. The average ecological footprint was recorded at 5.7 global hectares. This compares with 6.3 in June 2007 and 6.9 in June 2006. Some 170 of our people undertook the survey this year, slightly less than last year.

Office-based initiatives

This year, our focus was on sustainability in the office following the introduction of corporate targets (key performance indicators) for reducing our consumption of paper, water, energy and waste. The paper consumption target was included in our employees' Enterprise Agreement this year. Water, energy and waste will be in the Enterprise Agreement from 2008/09 and our performance in meeting these targets will be considered when determining salary increases.

For information on our corporate water consumption, see Water, page 12.

Teams of volunteer employees ran education campaigns to build awareness and provide leadership in our efforts in each of these four consumption areas.

We met our corporate target for paper but disappointingly, we didn't achieve our targets in other areas including water use, despite effective systems being in place.

From this year, all greenhouse gas emissions from office energy use and travel were offset. Some 7900 tonnes CO₂e of offsets were purchased in the form of New South Wales Greenhouse Abatement Certificates.

Paper

Total paper consumption was 8893 reams (A4 equivalent), a slight increase from the 8248 reams used last year. But on a full-time equivalent (FTE) basis, we achieved a result of 10.3 reams of paper/FTE/year compared with 10.7 reams last year.

Calculations for Full Time Equivalents (FTEs) include all our employees plus all contractors, consultants, trainees, secondees and any other people who utilise resources at a Melbourne Water site.

Energy

We introduced a range of measures to reduce our office-based energy consumption including automatic shutdown of computers at 8pm and office lights at 7.30pm, but failed to improve on our 2006/07 result of 4.4 megawatt hours per FTE or meet our target of 4.3 megawatt hours per FTE per year. Our result was 4.6 MWh per FTE per year.

We undertook an energy audit of our East Melbourne office to look for areas of improvement. Recommendations are being reviewed from this audit and further audits of other selected Melbourne Water sites are planned for 2008/09.

Waste

We commissioned three waste audits at our sites this year. Two-thirds of total waste was recycled compared with 73% last year. However, 92.5% had the potential to be reused or recycled using systems in place at Melbourne Water. We improved our signage as one of several measures to improve recycling and reduce waste to landfill.

From the audits, about 60.3kg of total waste was produced per FTE (55kg last year), and waste to landfill was 19.5kg per FTE per year, well above our target of 14.4 kg/FTE/year.

The 2006/07 baseline was calculated as a result of a one-day audit in June 2006. Increased auditing this year has enabled a more comprehensive assessment of Melbourne Water's office waste practices, leading to a new and higher baseline for 2008/09 and beyond.

Transport

This year, our people (excluding contractors and consultants) used 1.13 million litres of unleaded, LPG and diesel fuels, equivalent to 3,136 tonnes of CO₂e.

Our people travelled a total of 9.62 million kilometres, equivalent to 13,577 kilometres per FTE per year. This is a moderate reduction from last year when employees travelled a total of 9.67 million kilometres (15,000 kilometres per FTE).

Melbourne Water has 331 vehicles in our fleet, including 30 Toyota Prius fuel-efficient hybrid cars, which are used mostly in the field.

This year we worked on increasing the safety profile of our fleet by encouraging our people to choose vehicles with a higher safety rating from the Australasian New Car Assessment Program.

Purchasing

We continued our membership of ECO-Buy, a Victorian Government-funded organisation established to encourage the purchasing of green products, and continued to focus on sustainable procurement of products, materials and services purchased by Melbourne Water. Members of Melbourne Water's supply team took part in a training workshop with ECO-Buy, and a review of our *Sustainable Procurement Policy* has begun.

We have introduced more sustainable purchasing and production practices into our communication and marketing activities, selecting suppliers on their sustainable practices and selecting only paper and other merchandise products that are highly recyclable or made from recycled materials. We also ensure there is a business need for such products before making the decision to produce them.

Incentives for alliances

Sustainability performance is one of five key result areas that Melbourne Water is introducing in an incentive system for our Pipelines Alliance. This performance will be based on several factors including site condition before and after construction, and resources used in construction.

The other key result areas are delivery (meeting project specifications), value, stakeholder engagement and culture. High levels of environmental and safety performance can also attract bonuses.

It is intended to introduce the incentive system to all four alliance programs in 2008/09.

OUR WORKFORCE

At 30 June 2008, our total workforce was 729, which represented a 13% increase in employees in the year since 1 July 2007 (see Recruitment and turnover, page 66).

The proportion of women in the organisation increased from 23% in 2003/04 to 30% in 2007/08. A Water Services Association of Australia report released in March indicates that the urban water industry average is 27%.

The average age of Melbourne Water employees at the end of 2007/08 was 41.2 years, a slight increase from last year (41 years). The average age of new starters was 33, virtually the same as new starters in 2006/07. Throughout the organisation, 13.5% of our employees are aged 55 years or more, a decrease from 15% last year.

In the past year, we have responded to the challenges of our ageing workforce by:

- › Maintaining our commitment to the engagement of trainees. We engaged two trainees and since 2000, we have engaged 26 trainees, offering employment to 15 (58%) at the end of their traineeship
- › Identifying people who plan to retire and recruiting replacements before their departure. This approach, which was used for a range of roles across the organisation, significantly helps skill and knowledge transfer
- › Maintaining our strategy of job rotations within and between teams or groups to promote skill and knowledge transfer and development
- › Making available flexible working arrangements for people who want to continue working but not necessarily full time. Part-time work and 48/52 arrangements are among the options available
- › Continuing our structured graduate program
- › Introducing additional flexibility for primary carers.

Attraction and retention

A report commissioned by the Water Services Association of Australia has predicted that the urban water industry will face a 44% shortfall of skilled employees by 2017.

The report, published in March, highlighted five key areas to help the industry attract and retain skilled employees:

- › Remaining at the forefront of developments in science and technology
- › Environmental sustainability
- › Technical skills such as environmental engineering and process technology in water quality, wastewater and biosolids
- › Leadership and people skills
- › Strategic thinking, business planning and risk management.

Melbourne Water is taking a variety of actions in those areas to attract and retain skilled employees. Our initiatives include introducing rotations as part of our graduate development program, providing traineeships to attract people to our operation-based activities, building capability across the organisation through our leadership development program, providing development opportunities outside Melbourne Water such as secondments, and continuing to focus on sustainability throughout the business.

Length of service

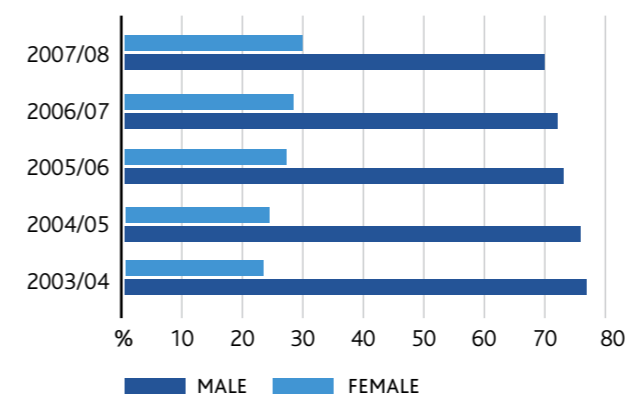
The average length of service was 10.6 years compared with 11 years in 2006/07. This is attributed to continued high levels of recruitment and new starters.

The proportion of our people who have worked for less than five years at Melbourne Water has again increased, from 47% to 53%. This figure has risen steadily over the past few years (from 36% in 2002/03). Much of this increase is due to the volume of recruitment caused by significant growth across the organisation.

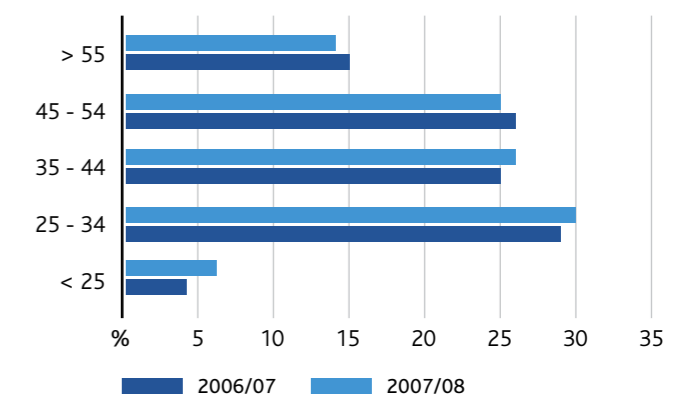
WORKFORCE DISTRIBUTION

	2005/06		2006/07		2007/08	
	MALE	FEMALE	MALE	FEMALE	MALE	FEMALE
EXECUTIVES	39	5	37	4	41	5
TECHNICAL AND PROFESSIONAL	261	128	269	137	283	173
OPERATIONAL	140	2	145	3	167	6
ADMINISTRATION	8	31	12	38	18	36
TOTAL	448	166	463	182	509	220
TOTAL – MALE AND FEMALE	614		645		729	

GENDER DISTRIBUTION



AGE PROFILE



Recruitment and turnover

In 2007/08, we had a significant amount of recruitment. Some 233 roles were filled – 120 Melbourne Water people were appointed to an advertised position, with 113 new starters (compared with 81 last year). Of these new employees, women made up 44%.

Recruitment activity increased across all groups but was highest in Waterways and Infrastructure due to:

- › Increased expenditure and commitments to deliver the capital program
- › Greater business focus on reduction of expenditure, with work moved in-house

- › Extended waterways management boundaries and new regional team structures
- › Increased numbers of part-time staff.

Staff turnover (excluding redundancies and managed departures) was 9.1% compared with 8.6% last year. This is within industry norms (5% to 10%) and Melbourne Water's accepted range.

Enterprise Agreement

A new Enterprise Agreement, covering 90% of Melbourne Water employees, was implemented in October following negotiations between employee and union representatives and management. It will operate until June 2010.

Internal communications survey

Melbourne Water people support the organisation's internal communication processes, according to a survey of 260 people from across the organisation.

More than eight out of ten agreed or strongly agreed that Melbourne Water encourages open and honest communication, and two-thirds agreed that Melbourne Water does a good job of keeping them informed about matters that affect them.

Survey results are being used to improve the effectiveness of face-to-face and intranet-based communication.

KEY PERFORMANCE INDICATORS – OUR PEOPLE, OUR WORKPLACE

	2006/07		2007/08		TARGET MET
	TARGET	RESULT	TARGET	RESULT	
OUR PEOPLE					
NUMBER OF LOST TIME INJURIES: › MELBOURNE WATER PEOPLE	0	3	0	2*	✗
› MAJOR CONTRACTORS	0	2	0	4**	✗
MAINTAIN SAFETY MAP ACCREDITATION	YES	YES	YES	YES	✓
TURNOVER (%)	5-10	9	10	9.1	✓
ABSENTEEISM (DAYS PER PERSON PER YEAR)	2.7	2.4	2.7	2.4	✓
OUR WORKPLACE					
IMPLEMENT A SUSTAINABILITY EDUCATION PROGRAM ACROSS THE ORGANISATION: % OF EMPLOYEES WHO BELIEVE THEIR PERSONAL SUSTAINABILITY PERFORMANCE HAS IMPROVED THROUGH MELBOURNE WATER'S EDUCATION AND INFLUENCE	50	89	80	89	✓
MINIMISE EVERYDAY ENVIRONMENTAL IMPACTS: CUMULATIVE REDUCTION IN OFFICE WATER CONSUMPTION PER FULL-TIME EQUIVALENT (FTE) EMPLOYEE (%)			2% DECREASE	9% INCREASE***	✗
CUMULATIVE REDUCTION IN PAPER USE PER FTE (%)			4% DECREASE	4% DECREASE	✓
CUMULATIVE REDUCTION IN OFFICE WASTE TO LANDFILL PER FTE (%)			2% DECREASE	33% INCREASE****	✗
CUMULATIVE REDUCTION IN OFFICE ENERGY CONSUMPTION PER FTE (%)			2% DECREASE	5% INCREASE*****	✗

✓ Target met ✓✓ Target exceeded ✗ Target not met

* Target was not achieved due to the occurrence of two Lost Time Injuries for Melbourne Water employees

** Target was not achieved due to the occurrence of four Lost Time Injuries for Melbourne Water contractors

*** Target was not achieved because of a leaking cooling tower and an increased proportion of employees taking showers after walking or cycling to work

**** Target was not achieved. The 2006/07 baseline was calculated as a result of a one-day audit in June 2006. Increased auditing this year has enabled a more comprehensive assessment of Melbourne Water's office waste practices over the year, leading to a new and higher baseline for 2008/09 and beyond

***** Target was not achieved despite a range of initiatives. An energy audit will help identify areas for improvement.



Case study: Making a positive difference

Peter O'Bree last worked at Melbourne Water in the old Board of Works days. Returning recently as Team Leader, Northern Operations, he is surprised and delighted by the changes he finds.

"It's communication, the way people talk to each other," he says. "Everyone is more cooperative, on a more equal footing."

"(Managing Director) Rob Skinner, for example, will come out and talk to the water supply operators on an equal level. If someone makes a mistake, they feel no need to try and hide it. They can speak up and work through how to rectify it without reprisal."

Peter puts this down to an improved workplace culture. He describes Melbourne Water as a positive and constructive place to work.

Joanne Hand (pictured), a River Health Program Leader, has noticed a real difference in the two years she has worked for Melbourne Water.

"I have seen the benefits colleagues can get from behaving constructively, both personally and professionally," she says.

"We work more closely together and really help each other along. For our team, this has meant that we move through tasks more quickly, with high quality finished products because they have been developed as a collective group. It has been a great opportunity for people to get to know each other and feel confident and supported enough to share new and different ideas."

"It has helped me to develop my leadership skills and better understand not only the strengths in my personality, but also the areas I need to work on."

Joanne says that the preferred culture program has given her an opportunity for personal and professional development, and its importance is recognised throughout the organisation.

"It is also great to be able to more formally recognise the development of this culture through performance and development plans," she says.



BUSINESS EFFICIENCY

Kayaking on Patterson's river

Goals related to business efficiency

- › Increase business value through innovation and efficiency
- › Balance investments and levels of service and risk
- › Maximise resource efficiency
- › Ensure investment decisions are sustainable
- › Deliver planned shareholder returns
- › Provide efficient and effective capital planning processes and maintenance programs
- › Develop and implement efficient capital investment and operations programs

Key achievements

- › Introduced a system of alliance contracting to deliver a significantly increased capital program
- › Introduced a capital management system to monitor and control our extensive capital works program and align it with business plans
- › Established a range of information technology upgrades to improve business efficiency
- › Performed strongly in sustainability benchmarking comparing national and international utility leaders' economic, environmental and social performance
- › Completed preparations to transfer to a new emergency management system, which will improve alignment with the water industry, emergency services and government agencies.

Disappointment

- › Our net profit after tax was halved to \$67.6 million due to higher operating expenditure including employee and borrowing costs to support our significantly increased capital works program, depreciation and a writedown of superannuation assets due to market conditions and employee defined benefit obligations.

Challenges

- › Delivering our significantly increased capital program on time and within budget through the new alliance contracting system
- › Delivering cost efficiencies in an environment of increasing costs
- › Continuing to integrate risk management systems and triple bottom line assessment across the business
- › Working with the retail water businesses to reduce industry costs in shared services
- › Continuing to maintain rigorous business contingency and emergency response plans.

OVERVIEW

Melbourne Water manages water supply, sewerage and drainage assets valued at \$8.7 billion.

Water supply and sewage treatment charges, trade waste charges and drainage rates generate our annual operating revenue of more than \$500 million.

This funds our operations and infrastructure projects including water, sewerage and drainage upgrades and water recycling schemes, as well as works to protect and improve waterways, wetlands and the bays.

We meet the challenges of population growth, climate change impacts, changing land use patterns and the need to secure new water sources by focusing on business efficiency, long-term planning and risk management.

SOLID FINANCIAL PERFORMANCE

This year, we made payments to the Victorian Government of \$114.6 million, comprising a dividend of \$99.4 million, income tax equivalent payments of \$6.3 million, a financial accommodation levy of \$5.8 million and local government rate equivalents of \$3.1 million. We also made payments to Government of \$26.1 million in land tax and \$2.9 million in payroll tax.

We invested \$417.8 million (\$226.7 million last year) in capital works. Operating revenue was \$600.3 million, which was \$27.3 million below plan.

Operating expenditure was \$405.9 million, which was \$16.8 million below plan. Net profit after tax was \$67.6 million compared with \$133.5 million last year.

Total assets increased from \$3979 million last year to \$4436.3 million. Borrowings increased by \$305 million to support our increased capital works program.

We achieved a return on equity of 3.4% compared with our plan of 5.1%.

At 30 June 2008, the total book value of our interest-bearing liabilities was \$1629.2 million. Our gearing ratio of 45.1% (41.3% last year) was within our target range.

TRANSFORMING OUR CAPITAL DELIVERY

Melbourne Water introduced sweeping changes to the way we work with our business partners in the sustainable delivery of new infrastructure.

To manage significantly increased capital expenditure, Melbourne Water established alliance contracts that align the values and objectives of project partners and provide commercial incentives for superior performance.

The contracts, which involve Melbourne Water and our partners working together as a single team, are based on shared responsibility. They help the organisation attract a skilled and motivated workforce, and retain and develop our people in times of labour shortages in the water sector.

The collaborative approach enables us to achieve more with greater efficiency, obtain value for money through economies of scope and scale, secure resources and promote innovation, new ideas and new technologies.

We selected key alliance partners to work with us on the Sugarloaf Pipeline and established five-year alliance programs to deliver major works on sewage treatment and pumping stations, waterways and stormwater quality, water supply and pipelines (sewerage and drainage).

SECURITY AND EMERGENCY MANAGEMENT

In 2007/08, water and sewerage services were declared essential services in relation to the *Terrorism (Community Protection) Act 2003*. As an operator of declared essential services, Melbourne Water is required to prepare a risk management plan for preventing and responding to a terrorist attack, and prepare and participate in a training exercise at least once a year to test the plan. We are analysing our systems and processes, identifying any gaps and developing a compliance action plan.

Melbourne Water completed preparations to transfer our emergency management process (PERforM) to a new process called General Emergency Management System from 1 July 2008.

This process is based on the Australasian Inter-agency Incident Management System, which is the new standard for the water industry. The change will improve our system alignment and ability to exchange information with the water industry, emergency services and government agencies.

Training workshops on the new process were conducted in April, May and June for Melbourne Water people. It will be tested in 2008/09 as part of an industry emergency exercise that supports compliance with the Act.

In October, we hosted the Water Services Infrastructure Assurance Advisory Group meeting in Melbourne. This is a valuable forum for sharing information relating to national water industry security, business resilience and emergency management in the water sector. Presentations covered pandemic planning, emergency and incident management, and security.

UPGRADING INFORMATION TECHNOLOGY

A key element of optimum business performance is delivering information technology systems that improve efficiency, manage information and data, and provide robust, reliable service.

Our Information Technology Strategy includes development of an IT asset management plan, secure storage through data warehouse services, upgraded SCADA system capabilities, upgrades to the desktop operating environment, electronic document management and an expanded telecommunications microwave network.

We completed the first phase of Livelink, an electronic records management system project, which has replaced the existing paper-based records management system.

Introduction of mobile computing capabilities has enabled more efficient work practices for key water and sewerage operations people, and new data communications services have been provided to Melbourne Water locations including Mt Waverley, Warburton and Maroondah.

SUSTAINABILITY BENCHMARK

Global sustainability benchmark results released this year confirm that Melbourne Water ranks among national and international water industry leaders in economic, environmental and social performance.

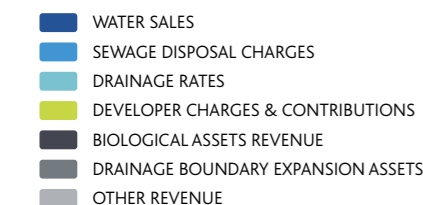
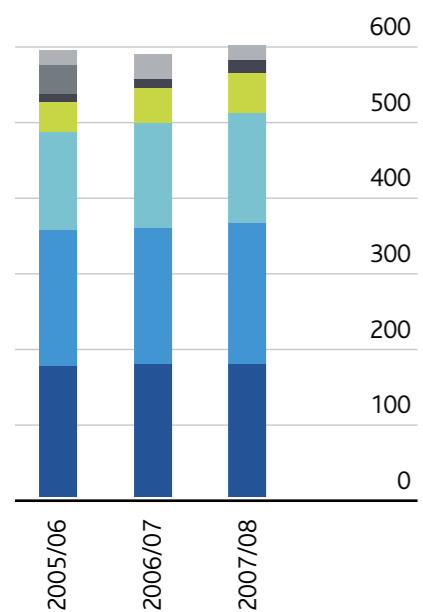
The Sustainable Asset Management Group (SAM) manages the Dow Jones Sustainability World Indexes (DJSI), which identify global sustainability leaders on the basis of financial, environmental and social criteria. SAM research is also the basis for the Australian SAM Sustainability Index 'AuSSI'.

The 2006/07 international and national sustainability benchmarking exercise highlighted that Melbourne Water's score increased from the previous year from 69% to 71%, while the leading water utility company increased from 70% to 74% – this placed us a mere 3% behind the leader.

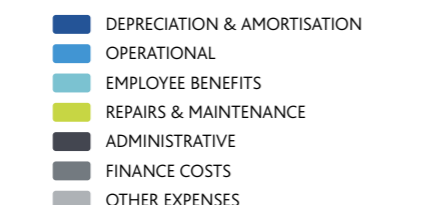
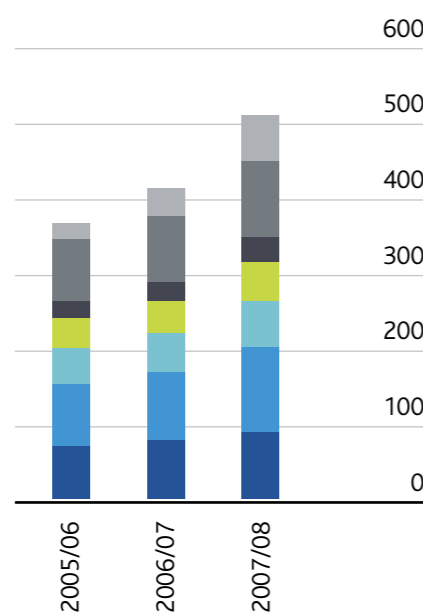
On the Australian Sustainable Asset Management Sustainability Index for 2006/07, Melbourne Water increased its score from 69% in 2005/06 to 71% in 2006/07, while the best scoring Australian utility company rose from 73% in 2005/06 to 76% in 2006/07. This placed us only 5% behind the leader.

These assessments were the most recent as of 30 June 2008.

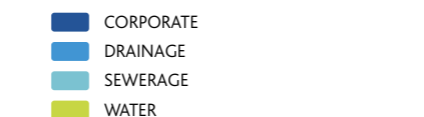
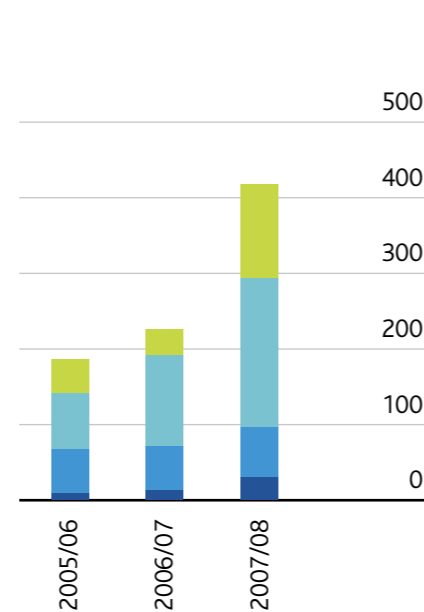
OPERATING REVENUE (\$M)



OPERATING EXPENDITURE (\$M)



CAPITAL EXPENDITURE (\$M)



AGRIBUSINESS AT THE WESTERN TREATMENT PLANT

Melbourne Water invited private sector agribusiness organisations to tender expressions of interest and ideas for running a mixed primary production enterprise on 5000 hectares of land at the Western Treatment Plant.

This land is currently managed by Melbourne Water as part of a buffer zone that surrounds the sewage treatment and designated conservation areas.

Following a change to sewage treatment processes at the site, we developed and endorsed a land use strategy for the property based on sustainability principles in 2006.

Using a triple bottom line assessment, the strategy recommends a land use system that maximises sustainability, protects conservation values and allows for future agriculture development opportunities. The economic component of the assessment cannot be confirmed until the exact mix of agricultural activities and financial outcomes are confirmed by field trials and market assessment.

An investigation has begun to review the strategy and define the onsite recycled water requirements for salinity and soil management to stabilise soil degradation and improve biological health for onsite environmental requirements. The findings from these investigations will be confirmed when field trials are finalised with input from the private sector partner.

The potential impacts from the agricultural scenarios under consideration are being discussed with environmental regulators.

Expressions of interest from potential operators were assessed in June. A shortlist will be determined in late 2008.

The selected organisation will have the capability and capacity to operate an agriculture enterprise on a concession basis. Options for the enterprise and its sustainability benefits could include reduced greenhouse gas emissions through less livestock and more sequestration activities, and increased biodiversity across the site through a greater mix of crops, fodder and agro-forestry.

NEW WATERWAYS CHARGE

Melbourne Water has introduced a new waterways and drainage charge. The charge will be applied to about 170,000 properties in our extended waterways and drainage operating areas, and replaces the drainage rate that applied to 1.5 million properties in other parts of the Port Phillip and Westernport region.

The new charge provides funds to support river health, stormwater management and water sensitive urban design, urban development planning and approvals, flood protection, and drainage maintenance and improvements.

In June, the Essential Services Commission approved the charge, which comes into effect from July 2008 and is collected for Melbourne Water by the retail water businesses and other water authorities.

KEY PERFORMANCE INDICATORS – FINANCIAL

	2006/07		2007/08		TARGET MET
	TARGET	RESULT	TARGET	RESULT	
MAINTAIN FINANCIAL VIABILITY					
BEVA (BUSINESS ECONOMIC VALUE ADDED) MARGIN (%)	-0.7	0.5	1.1	-1.8*	✘
MEET REGULATED WATER PLAN OPERATING EXPENDITURE (\$M)	186.8	178.6	221.1	228.0**	✘
EARNINGS BEFORE INTEREST AND TAXES INTEREST COVER – ACTUAL (TIMES)	2.9	3.0	2.3	1.9***	✘
CASH RETURNS TO GOVERNMENT (DIVIDEND + TAX + FINANCIAL ACCOMMODATION LEVY + LOCAL GOVT RATE EQUIVALENT) (\$M)	126.9	117.4	145.0	114.6****	✘
GEARING (INTEREST-BEARING DEBT/INTEREST-BEARING DEBT + EQUITY) – ACTUAL (%)	43.1	41.3	51.2	45.1	✔
RETURN ON EQUITY – ACTUAL (%)	6.0	7.1	5.1	3.4*****	✘

✔ Target met ✔✔ Target exceeded ✘ Target not met

* Target was not achieved due to lower than expected operating profit as a result of lower operating revenue and higher operating expenses.

** Target was not achieved following an \$18.3 million reduction in surplus relating to Melbourne Water's defined benefit superannuation fund. This expense was not included in the plan. If \$18.3 million was excluded from the actual result, the KPI would have been achieved.

*** Target was not achieved due to lower than expected profit before interest and tax of \$44.1 million as a result of lower operating revenue (\$27.8 million) of which \$19.7 million relates to lower water, sewerage and drainage revenue, and higher operating expenses (\$10.1 million).

**** Target was not achieved due to the deferral of payment of the interim dividend of \$43.6 million in accordance with advice from the Department of Treasury and Finance. (The target would have been achieved if the interim dividend was paid in April 2008).

***** Target was not achieved due to lower than expected net profit after tax (of \$26 million). This was largely as a result of reduced water and sewerage income, and unplanned superannuation adjustment.

Case study: New system streamlines capital management

A major IT development is improving efficiency and strengthening governance of Melbourne Water's capital program.

Our new capital management system will enhance control and reporting of capital projects by improving access to information, including linking projects back to the Corporate Plan and Water Plan.

The two-stage capital management system project began by reviewing and redesigning business processes. The system was developed to support these new business processes and provides a consistent interface (portal) that integrates the organisation's finance system, electronic document management system and other systems.

The capital management system will reduce the time required to track, monitor and report on projects throughout their lifecycle.

It will also:

- › Clarify processes (commensurate with the level of risk), roles and responsibilities, and ensure that the delivery process is documented and auditable
- › Provide a consistent view of all capital projects (commensurate with the level of risk), enabling projects to be consolidated into planning and delivery programs, and outcomes reviewed against the Corporate Plan and Water Plan
- › Clearly define and automate the project approval process
- › Improve accessibility to information and transactions to reinforce accountability and collaboration.

Corporate governance and risk management

ETHICS AND VALUES

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

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

Policies and procedures exist for directors and employees in relation to the identification of actual and potential conflicts of interest. The Corporate Secretary maintains a register of 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.

OUR GOVERNANCE PROCEDURES

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

Initiatives to improve Board and management processes include continued development of the Board Extranet so that Board members can have fast and convenient access to all Board documents and Melbourne Water information. The Extranet also makes electronic Board and Committee papers available to leadership team members.

Melbourne Water's internal auditor, Deloitte Touche Tohmatsu, completed the third year of its three-year assignment to assist the Board in assessing its performance. A number of areas for possible improvements were identified by Deloitte Touche Tohmatsu including:

- › Strategy direction setting and understanding the impact of Government policy
- › Seeking opportunities for Melbourne Water to gain more benefit from strategy sessions
- › Improvement of the depth of understanding of risk management

- › Re-consideration of the charter and required frequency of meetings of the Environment and Public Health Committee
- › An increase in preparedness of the Board to challenge the status quo.

Current initiatives to improve governance arrangements include:

- › Ongoing monitoring and improvement of governance arrangements where alliance agreements have been entered into, including the Sugarloaf Pipeline alliance and the four program alliances
- › Continuing work to improve Melbourne Water's legislative compliance systems.

RISK MANAGEMENT

Melbourne Water adopts a balanced approach to risk management which considers our commercial, social and environmental responsibilities having regard to short and long-term goals. Risk management is utilised to ensure Melbourne Water understands our business risks and that they are managed in a consistent manner. The effective and efficient management of risk is central to the achievement of our sustainability vision.

We adopt a 'whole of business' approach by considering risks in the following focus areas:

- › Infrastructure and resource management
- › Stakeholder relations
- › People
- › Public health
- › Environment
- › Reputation and image
- › Corporate governance
- › Commercial
- › Information management
- › Economic regulation.

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

- › The likelihood or probability of a risk occurring
- › The consequence of a risk occurring
- › The effectiveness of mitigating strategies in place to manage risks.

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

To assist in the strategic management of risks at an organisational level, Melbourne Water has identified 14 key strategic risks (see diagram below) and assessed each risk based on the current risk level (likelihood + consequence) and our current assessment of control effectiveness.

MELBOURNE WATER STRATEGIC RISK PROFILE

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

INSURANCE AND INCIDENT MANAGEMENT FRAMEWORK

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

As part of this framework, Melbourne Water has developed comprehensive emergency management and contingency plans, which are regularly tested and reviewed. In addition to local emergency management arrangements, Melbourne Water has assisted in the development of industry response plans and protocols in conjunction with the retail water businesses and government departments/agencies that prescribe roles and responsibilities in the event of a large-scale incident.

AUDITS AND RISK REVIEWS

Melbourne Water seeks to continually reassess its risk profile through external reviews by subject matter specialists and a comprehensive risk-based internal audit program. In addition to these reviews, Melbourne Water undertakes a formal self-assessment annually to assess the current management of risks and the identification of new or emerging risks and opportunities. The results of these reviews are presented to the Board via the Audit and Corporate Risk Committee, which actively oversees risk management at Melbourne Water.

STATEMENT OF OBLIGATIONS

The *Statement of Obligations* was issued by the former Minister for Water, Environment and Climate Change effective from 28 July 2004, and formalises Melbourne Water's obligations to government, not generally prescribed in other legislation or licences. The *Statement of Obligations* formalises obligations in the following areas:

- › *Water Plan*
- › Governance and risk management
- › Planning and service delivery
- › Environmental management
- › Waterways and drainage
- › Reporting
- › Compliance.

Melbourne Water's Board monitors compliance with the *Statement of Obligations* and will report any non-compliance to the Minister.

The *Statement of Obligations* was amended in June 2008 to implement the Victorian Government's August 2007 announcement that an interim real price increase of 14.8% would apply for one year from 1 July 2008.

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

(Minister for Finance Standing Direction 4.5.5 Risk Management Compliance)

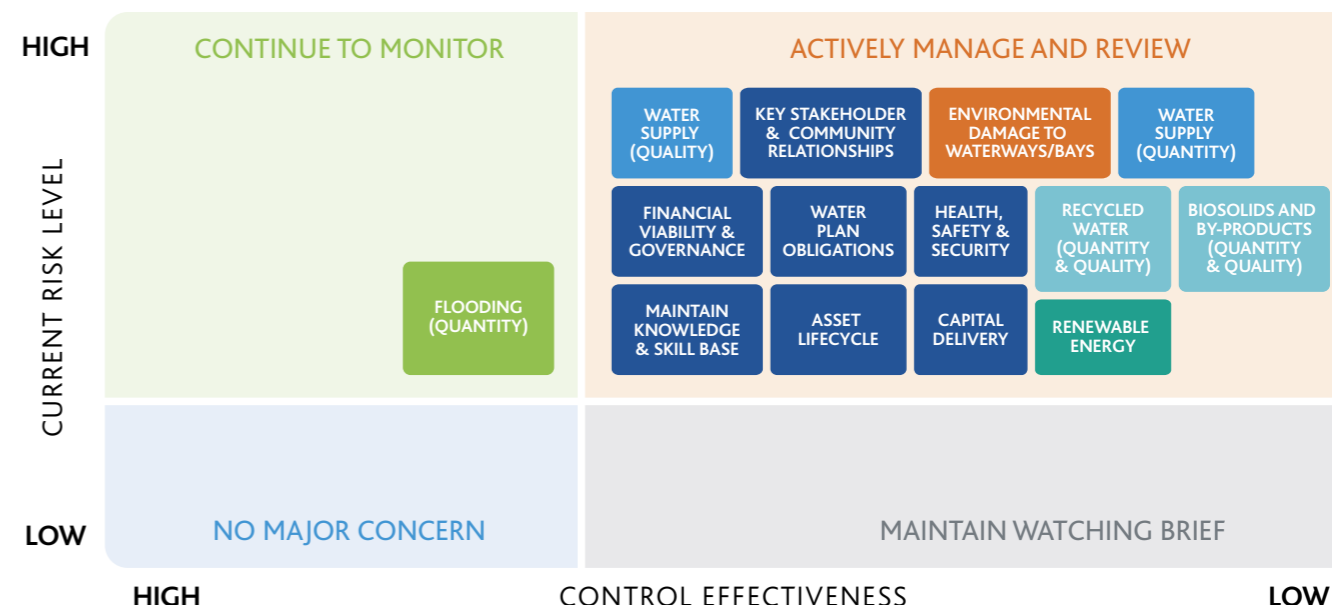
I, Cheryl Batagol, certify that:

- Melbourne Water has risk management processes in place consistent with the Australian/New Zealand Risk Management Standard; and
- an internal control system is in place that enables the executive to understand, manage and satisfactorily control risk exposures; and
- the risk profile of Melbourne Water has been critically reviewed within the last 12 months; and
- the Audit and Corporate Risk Committee verifies this assurance.



Cheryl Batagol
Chairman
Melbourne Water Corporation

MELBOURNE WATER STRATEGIC RISK PROFILE



BOARD OF DIRECTORS

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

The Minister for Water, in consultation with the Treasurer, appoints our directors for terms of up to four years and the Victorian Government sets their remuneration. Directors are eligible for reappointment for subsequent terms. In making new appointments to the Board, the Government ensures the Board has the necessary combination of skills and experience.

The Managing Director is appointed by the Board, subject to the approval of the Minister in consultation with the Treasurer, for a term of up to five years. Annual reviews are conducted of the performance of the Board as a whole and of individual members. 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 the *Statement of Obligations* issued by the Minister, the outcomes of the performance review are reported to the Treasurer and Minister. The Board of Directors currently comprises a non-executive Chairman, seven non-executive directors and the Managing Director.

Cheryl Batagol Chairman

Cheryl Batagol was appointed Chairman on 1 January 2004. Ms Batagol has more than 30 years' experience in the waste management industry, including commercial, industrial and trade waste management and treatment. She is Deputy Chair of Sustainability Victoria and was previously Chair of EcoRecycle Victoria and a director of City West Water and Southern Rural Water. Ms Batagol is a member of the Victorian Catchment Management Council, a member of the Australian Industry Group Victorian Branch Council, a trustee of the Sustainable

Melbourne Fund and a director of Tintern Schools. Ms Batagol has also been on EPA Victoria's Environment Council Board and the Board of the Cooperative Research Centre for Pollution Control and Management.

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

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

Bruce Cohen LL.B (Hons), M.Comm (Hons), PhD (Pub Pol) Director

(Resigned effective from 21 August 2007)

Bruce Cohen was appointed to the Board on 1 January 2007. Dr Cohen is a barrister and a principal in private practice in the area of public policy. He is a director of VicTrack, and was previously a director of VENCORP and Snowy Hydro Limited.

Peter Darvall AO, BE (Hons) Melb, MS Ohio State MSE MA PhD Prin. DipEd FIE Aust. FTSE HonLLD 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 Cooperative 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. A practising barrister, Ms Hartley has been a director of several government corporations in the maritime and energy sectors. Before joining the Bar in 1997, Ms Hartley was a partner in a national law firm where she practised in insurance and health law.

Terry Larkins PSM Director

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

Carolyn Schultz BSc (Hons), PhD Director

Carolyn Schultz was appointed to the Board on 1 January 2000. Dr Schultz is a researcher and educator in plant-based agri-food sciences, based at Adelaide University, and a graduate of the Australian Institute of Company Directors.

Peter Vines Director

Peter Vines was appointed to the Board on 1 October 2005. He has extensive experience in senior executive positions within the energy and infrastructure sector, holding directorships in various utility companies in Australia and internationally.

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 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 of Dandenong Valley and Western Port Authority, and Chief Executive, Coode Island Review Panel.

Melbourne Water's Board at the De Chene Reserve shaft site for the Northern Sewerage Project. (L to R) Jane Denton, Terry Larkins, Mary Anne Hartley, Rob Skinner (Managing Director), Carolyn Schultz, Peter Darvall and Cheryl Batagol (Chairman). (Absent: Merran Kelsall and Peter Vines)

POWERS AND ACCOUNTABILITY

Until 1 July 2007, the Board operated under the provisions of the *Melbourne Water Corporation Act 1992 (Vic.)*.

From 1 July 2007, Melbourne Water has operated under the *Water Act 1989*. Melbourne Water has two current by-laws, *Water Supply Protection No 1 (2006)* and *Waterways and Drainage Protection No 2 (1998)*.

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

During 2007/08, the following Ministers were responsible for Melbourne Water. The Honourable John Thwaites was Minister for Water, Environment and Climate Change until 29 July 2007, the Honourable John Brumby was Minister for Water, Environment and Climate Change from 30 June 2007 to 2 August 2007, and the Honourable Tim Holding was Minister for Water from 3 August 2007.

We work with officials in the Department of Sustainability and Environment, together with those in the Department of Treasury and Finance. They receive statutory and other reports covering our performance against objectives and performance indicators in the *Corporate Plan*.

PRIMARY RESPONSIBILITIES

Melbourne Water's Board 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 prepared a Statement of Corporate Governance outlining Melbourne Water's corporate governance framework and arrangements.

This statement includes details of Melbourne Water's policy framework, which specifies that Board approval is required for 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 has formal Board meetings 11 times a year, undertakes site visits and participates in business strategy workshops with Melbourne Water's leadership team
- › Monthly updates on Board activities are made available to all employees
- › Regular strategy workshops are held with relevant stakeholder groups
- › A structured induction program exists for new Board and committee members
- › Board papers are available to all directors seven days before meetings in hard copy or electronically
- › Conflicts of interest are declared and a director does not participate in decisions where such a conflict exists
- › Directors have the right to seek independent professional advice, at Melbourne Water's expense, in connection with their duties and responsibilities
- › Declarations of pecuniary interest by directors are made annually, with procedures for updating that information between declarations
- › There is an annual review of Board performance.

COMMITTEES

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

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

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 2008, 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.

Human Resources and Safety Committee

This committee assists the Board in fulfilling its responsibilities relating to human resource issues, remuneration, and workplace health and safety. For details of directors' and executives' remuneration, refer to notes 25 and 26 of the Financial Statements.

At 30 June 2008, 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 biennially.

Environment and Public Health Committee

This committee assists the Board in fulfilling its responsibilities relating to environmental sustainability and public health. The committee encourages continuous improvement of, and monitors adherence to, Melbourne Water's environmental and public health policies and procedures at all levels.

At 30 June 2008, the committee comprised Mary Anne Hartley (Chairman), Cheryl Batagol, Rob Joy (independent member) and Carolyn Schultz. A report about the activities of the committee in fulfilling its charter is prepared biennially.

Capital Planning and Delivery Committee

This committee assists the Board in fulfilling its governance responsibilities relating to the planning and delivery of capital projects.

At 30 June 2008, the committee comprised Peter Darvall (Chairman), Terry Larkins and Peter Vines. A report about the activities of the committee in fulfilling its charter is prepared annually.



ORGANISATIONAL STRUCTURE

On 1 May, Melbourne Water introduced a new organisational structure to ensure strategic planning and efficiency drives our performance and the delivery of our long-term vision.

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

THE BOARD OF MELBOURNE WATER

MELBOURNE WATER'S LEADERSHIP TEAM

	MANAGING DIRECTOR ROB SKINNER		
	GENERAL MANAGER BEN FURMAGE <i>(FROM JULY 2008)</i>	STRATEGIC PLANNING	Responsible for strategies and long-term projects to achieve sustainable outcomes for the organisation and community including corporate strategy, pricing and regulation and major planning strategies across water and sewerage systems, energy and greenhouse management and the adoption of innovative technologies and scientific research.
	GENERAL MANAGER PAUL PRETTO <i>(FROM MAY 2008)</i>	ASSET PLANNING	Responsible for planning for the assets and systems required to meet the medium to long-term business objectives and strategies established by Strategic Planning. This includes capital investment prioritisation for the creation of new assets to meet growth, compliance and risk management objectives, and the requirements and parameters for managing our existing asset base.
	GENERAL MANAGER DAVID MORSE <i>(FROM APRIL 2008)</i>	CAPITAL DELIVERY	Responsible for the delivery of our capital works program including the management of the program alliances to ensure delivery on time, on budget and functionality of our capital works.
	GENERAL MANAGER TONY ANTONIOU	OPERATIONS & MAINTENANCE	As the custodian of our existing assets, responsible for the operation and maintenance of our water, sewerage, waterways and drainage assets in accordance with public health, environmental, safety and regulatory obligations consistent with community expectations.
	GENERAL MANAGER CHRIS CHESTERFIELD	WATERWAYS	Responsible for managing stormwater and floodplains to protect the environment and provide a safe level of flood protection for communities; planning infrastructure to service urban development; and programs to protect and improve the health of the region's rivers, creeks and wetlands.
	GENERAL MANAGER MALCOLM HAYNES	BUSINESS SERVICES	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, property, legal services (including Board support) and the management of the Werribee Agriculture business.
	GENERAL MANAGER LEIGH KEATH <i>(FROM DEC 2007)</i>	HUMAN RESOURCES	Responsible for strategies, policies and procedures in health and safety, culture and leadership and delivering a great experience for employees. Also responsible for payroll, recruitment, training, graduate and traineeship programs, internal communications, and reward and recognition schemes.
	GENERAL MANAGER ANNE RANDALL <i>(FROM AUG 2007)</i>	COMMUNICATIONS & COMMUNITY RELATIONS	Responsible for developing and implementing communication programs including policy, community education, media relations, website development and publications.

GRANT WILSON WAS GENERAL MANAGER, STRATEGY AND PLANNING, UNTIL MARCH 2008
EAMONN KELLY WAS GENERAL MANAGER, INFRASTRUCTURE, UNTIL MARCH 2008

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Five-year financial summary

Income Statement For the year ended 30 June	2004 \$M	2005 \$M	2006 \$M	2007 \$M	2008 \$M
Revenue and other income	503.8	525.6	592.6	588.3	600.3
Profit from continuing operations before income tax expense	179.5	192.7	227.7	177.4	93.5
Less: Income tax expense	56.1	61.3	59.0	43.9	25.9
Net profit	4.0	131.4	168.7	133.5	67.6
Dividends paid	95.7	41.3	97.0	86.6	99.4
Balance Sheet As at 30 June	2004 \$M	2005 \$M	2006 \$M	2007 \$M	2008 \$M
Current assets	44.3	53.2	51.3	56.3	66.6
Non-current assets	3,087.5	3,579.5	3,717.4	3,912.6	4,369.7
Total assets	3,131.8	3,632.7	3,768.7	3,968.9	4,436.3
Current liabilities	367.6	302.3	247.2	382.2	542.3
Non-current liabilities	1,355.0	1,523.1	1,681.4	1,700.6	1,907.1
Total liabilities	1,722.6	1,825.4	1,928.6	2,082.8	2,449.4
Net assets	1,409.2	1,807.3	1,840.1	1,886.1	1,986.9
Total equity	1,409.2	1,807.3	1,840.1	1,886.1	1,986.9

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

Following adoption of Australian equivalents to International Financial Reporting Standards (AIFRS), financial information disclosed from the financial year ended 30 June 2005 has been prepared in accordance with AIFRS Accounting Standards. Accordingly, financial information disclosed prior to the financial year ended 30 June 2005 has been prepared in accordance with Australian Accounting Standards (AGAAP).

Directors' Report

Directors

The Directors of the Corporation in office, at the date of this report, are:

Cheryl Batagol (Chairman)	Terry Larkins
Merran Kelsall (Deputy Chairman)	Carolyn Schultz
Peter Darvall	Peter Vines
Mary Anne Hartley	Robert Skinner (Managing Director)

Particulars of the Directors' qualifications, experience and special responsibilities are set out on pages 76, 77 and 78 of this report.

Directors' meetings

During the financial period, the Corporation held 11 meetings of Directors. Attendance at meetings of the Board and its Committees were:

	PRINCIPAL BOARD		AUDIT & CORPORATE RISK COMMITTEE		HUMAN RESOURCES & SAFETY COMMITTEE		ENVIRONMENT & PUBLIC HEALTH COMMITTEE		CAPITAL PLANNING & DELIVERY COMMITTEE	
	ATTENDED	MAXIMUM POSSIBLE	ATTENDED	MAXIMUM POSSIBLE	ATTENDED	MAXIMUM POSSIBLE	ATTENDED	MAXIMUM POSSIBLE	ATTENDED	MAXIMUM POSSIBLE
CHERYL BATAGOL	10	11	4*	5	2	3	2	2	4*	4
MERRAN KELSALL	6	11	4	5	2	3	–	–	4*	4
BRUCE COHEN [#]	2	2	–	–	–	–	–	–	–	–
PETER DARVALL	11	11	5	5	–	–	–	–	4	4
MARY ANNE HARTLEY	10	11	–	–	–	–	2	2	–	–
TERRY LARKINS	11	11	5	5	3	3	–	–	4	4
CAROLYN SCHULTZ [†]	5	11	–	–	–	–	1	2	–	–
PETER VINES	10	11	–	–	–	–	–	–	4	4
ROBERT SKINNER	9	11	3*	5	3*	3	0*	2	3*	4

* ATTENDED BY INVITATION # RESIGNED AS BOARD MEMBER FROM 21 AUGUST 2007 † GRANTED LEAVE OF ABSENCE JULY TO DECEMBER 2007

Director benefits

No Director has received or become entitled to receive a benefit (other than a benefit included in notes 38a and 38b 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 2008 or at any other time) with:

- the Corporation; or
- 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 a 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 willful 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 Notes 38a and 38b to the Financial Statements.

Principal activities

The Corporation is owned by the Victorian Government. The Corporation manages Melbourne's water supply catchments, removes and treats most of Melbourne's sewage, and manages rivers, creeks and major drainage systems throughout the Port Phillip and Westernport region. The Corporation also provides water and sewerage services to Melbourne's three retail water businesses: City West Water Ltd, South East Water Ltd and Yarra Valley Water Ltd.

Operating results and dividend

The Corporation's net profit, after providing for income tax, was \$67.6 million. The proposed interim and final dividend for 2007/08 is \$57.8 million, which is subject to final determination by the Treasurer of Victoria, after consultation with the Corporation's Board of Directors and the Minister for Water. The proposed dividend has not been booked as a provision as at 30 June 2008.

Review of operations

The Directors' review of the Corporation's operations during the financial period ended 30 June 2008, and the results of those operations, are set out in the Managing Director's overview on page 11 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 2008.

Environmental regulation

The Corporation is subject to significant environmental regulation in respect of managing its sewage treatment plants, maintaining environmental flow requirements and managing Ramsar wetlands. Information on these topics is included in Melbourne Water's 2007/08 Sustainability Report.

Sewage treatment plants

The Corporation'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. The other discharge licence requirements were met during the year.

The Corporation commenced a 12 month trial of tertiary treatment options in February 2008 under a EPA Victoria Research and Development Approval. A decision on the final treatment process will be made when the trial is completed. The requirement to achieve an annual median ammonia of less than 5 mg/L was achieved during the year with the successful commissioning of the new ammonia reduction process.

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, Water, Heritage and the Arts has approved a detailed Compliance Plan to manage environmental values at the Plant, while works to meet the EPA Victoria discharge licence were implemented. Actions taken during the year complied with the plan. The Plan's five year audit and review was conducted and a revised Plan has been developed.

The Edithvale-Seaford Wetlands Management Plan was developed in 2000 to ensure that site activities are managed within parameters of the Ramsar International Convention's "wise use" test. Actions required under the Plan were completed during the year and a review of the Plan was started as required. It is expected the review will be completed during 2008.

Dandenong Treatment Plant

The Corporation is rehabilitating the former Dandenong Treatment Plant site for redevelopment in partnership with VicUrban for both residential and industrial purposes. An EPA Victoria Works Approval for the proposed Capped and Lined Mound (CALM) was received during the year and works relating to this have commenced. It is expected that the stockpiled contaminated soils and biosolids will be placed in the CALM and the project completed during 2008/09.

Environmental flow requirement – bulk entitlements

The Corporation has bulk entitlements to water from the Thomson, Maribyrnong and Yarra Rivers. During the year, the Minister for Water qualified the environmental flow requirements due to drought conditions and the qualified requirements were met.

Environmental incidents

In August 2007, the Melbourne Magistrates' Court required Melbourne Water to pay \$150,000 to environment projects in Western Port Bay and the City of Whittlesea after Melbourne Water pleaded guilty to two separate charges of pollution of water under the Environment Protection Act. These charges related to incidents at the Winneke Treatment Plant in 2005 and at Cardinia Treatment Plant in 2006. In light of Melbourne Water's good environmental management record, no conviction was recorded.

Implementation of the Victorian Industry Participation Policy (VIPPP)

In accordance with the Victorian Industry Participation Policy Act 2003, the following VIPPP contracts commenced or were completed during the financial year:

Contracts commenced to which the VIPPP applied:

During the financial year 2007/08, the Corporation commenced 22 contracts totalling \$611.5 million in value to which VIPPP applied. The number and value of these relate to 20 Metropolitan contracts and 2 Regional Victoria contracts.

The commitments by contractors under VIPPP included:

- › An overall level of local content of 88 per cent of the total value of the contracts.
- › 1788 full time equivalent jobs.
- › The benefits to the Victorian economy in terms of skills and technology transfers will be derived from the following:
 - computerised scanning equipment for tank floor corrosion mapping, scanning and data evaluation;
 - increase in construction skills of all personnel relating to the unusual harnessing of surplus energy relating to the Mini Hydro project;
 - new skills developed in machine, mobile equipment, crane operating pipe mill electronics and pipe mill maintenance;
 - new skills developed in plant operating pipe laying and use of GPS for the refurbishment of sludge drying pans;
 - training for personnel on all aspects of infrastructure where new or modified maintenance is required for the odour control program at ETP;
 - providing experience in working on new infrastructure water mains in built up areas with heavy traffic flow;
 - providing knowledge in the use and application of post-tensioned concrete and mobile formwork shuttering;
 - providing training and knowledge in the use of laser screening and pre-tied steel reinforcement mats;
 - design of 70km of water transfer system including tunnelling, steep terrain, river and road crossings;
 - providing training on pipe laying techniques in varying terrains;
 - providing training on specialist welding required to weld pipes;
 - providing training on heavy steel fabrication and large bore pipe work manifolds.

Contracts completed to which the VIPPP applied:

During the financial year 2007/08, the Corporation completed 15 contracts totalling \$105.2 million in value to which VIPPP applied.

The number and value of these relate to 15 Metropolitan contracts. There were no Regional Victoria contracts.

The outcomes reported by contractors under VIPPP included:

- › An overall level of local content of 93.7 per cent of the total value of the contracts.
- › 308 full time equivalent jobs.
- › All committed skills and technology transfer were achieved for these contracts. These skills included training in:
 - introducing subcontractors and electricians to the latest water treatment works technologies;
 - training Melbourne Water staff in the operation of Mini Hydro technology;
 - plant operators received competency certificates in the operation of dump trucks, compactors and scrapers;
 - training in polyfusion welding;
 - employees and subcontractors received training in plant operation, pipe laying and use of GPS;
 - employees and subcontractors were introduced to the floor replacement process and manway access skills;
 - training for staff in working on new infrastructure water mains in built up areas with heavy traffic flows.

Cheryl Batagol
Chairman

Robert Skinner
Managing Director

Income Statement

For the year ended 30 June 2008	Notes	2008 \$000	2007 \$000
Revenue from continuing operations	3(a)	589,307	566,076
Other Income	3(b)	10,978	22,206
Depreciation and amortisation expense	4	(87,497)	(77,380)
Operational expense	4	(112,998)	(89,967)
Employee benefits expense	4	(60,858)	(50,475)
Repairs and maintenance expense	4	(50,828)	(42,868)
Administrative expense		(33,431)	(25,851)
Finance costs		(100,838)	(86,634)
Other expenses	4	(60,324)	(37,685)
Net result from ordinary activities before tax		93,511	177,422
Income tax expense	5	(25,869)	(43,913)
Profit for the year	26	67,642	133,509

The above Income Statement should be read in conjunction with the accompanying notes.

Balance Sheet

As at 30 June 2008	Notes	2008 \$000	2007 \$000
ASSETS			
Current assets			
Cash and cash equivalents	6, 27	350	203
Trade and other receivables	7(a), 27	48,906	41,070
Other current assets	8	6,266	5,689
Other financial assets	10	483	511
Current tax assets	5(c)	1,320	–
Biological assets	11	9,162	8,515
		66,487	55,988
Non-current assets classified as held for sale	9	94	275
Total current assets		66,581	56,263
Non current assets			
Biological assets	11	11,467	13,274
Property, plant and equipment	12(a)	4,342,672	3,863,694
Intangible assets	12(b)	2,372	4,133
Other receivables	13	37	23
Defined superannuation benefit asset	36	13,169	31,519
Total non-current assets		4,369,717	3,912,643
Total assets		4,436,298	3,968,906
LIABILITIES			
Current liabilities			
Trade and other payables	15, 27	187,712	143,522
Interest bearing liabilities	16, 27	315,756	200,655
Provisions	17, 34	38,876	35,919
Other financial liabilities	18, 27	–	34
Current tax liability	5(c)	–	2,096
Total current liabilities		542,344	382,226
Non current liabilities			
Trade and other payables	20, 27	8,530	11,155
Interest bearing liabilities	21, 27	1,313,443	1,126,899
Provisions	22, 34	10,071	24,176
Net Deferred tax liabilities	23	575,031	538,302
Total non-current liabilities		1,907,075	1,700,532
Total liabilities		2,449,419	2,082,758
Net assets		1,986,879	1,886,148
EQUITY			
Contributed equity	24	591,567	600,147
Reserves	25	164,323	23,827
Retained profits	26	1,230,989	1,262,174
Total equity		1,986,879	1,886,148

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

Cash Flow Statement

For the year ended 30 June 2008	Notes	2008 \$000	2007 \$000
Cash flows from operating activities			
Receipts from Customers (inclusive of goods and service tax)		568,240	528,651
Payments to suppliers and employees (inclusive of goods and service tax)		(368,760)	(259,021)
Income tax paid		(6,270)	(23,745)
Interest received	3(a)	45	44
Interest and other costs of finance paid	4	(97,357)	(85,444)
Other revenue	4	67,719	66,059
Net cash inflow from operating activities	41	163,617	226,544
Cash flows from investing activities			
Payment for property, plant, equipment and works in progress		(367,799)	(213,277)
Proceeds from sale of property, plant and equipment		2,084	6,187
Net cash (outflow) from investing activities		(365,715)	(207,090)
Cash flows from financing activities			
Proceeds from borrowings		841,200	382,687
Repayments of borrowings		(536,200)	(311,987)
Repayments for outstanding finance lease liability		(3,355)	(3,617)
Dividends paid	31	(99,400)	(86,600)
Net cash inflow / (outflow) from financing activities		202,245	(19,517)
Net increase/(decrease) in cash held		147	(63)
Cash and cash equivalents at the beginning of the financial year		203	266
Cash and cash equivalents at end of the financial year	6	350	203

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2008	Notes	2008 \$000	2007 \$000
Total equity at the beginning of the financial year	24, 25, 26	1,886,148	1,840,112
Net increment/(decrement) in contributed equity	24	(8,580)	(24,632)
Asset revaluation reserve			
Revaluation increment/(decrement) on non-current assets	4	154,749	27,107
Revaluation reserves transferred to retained profits on derecognition of asset	4	(573)	–
Deferred tax on revaluation	25	(13,714)	(3,315)
Cash flow hedges			
Gain/(loss) taken to equity	25	34	(33)
Net income recognised directly in equity		131,916	(873)
Retained Profits			
Transfer from asset revaluation reserve	26	573	–
Profit for the year	26	67,642	133,509
Total recognised income and expense for the year		200,131	132,636
Dividends paid	26, 31	(99,400)	(86,600)
Total equity at the end of the financial year		1,986,879	1,886,148

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Notes to the Financial Report

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

(i) General

This financial report of Melbourne Water Corporation is a general purpose financial report that consists of an Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and Notes accompanying these Statements. The general purpose financial report complies with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the requirements of the Financial Management Act 1994 and applicable Ministerial Directions.

This financial report has been prepared on an accrual and going concern bases.

(ii) Accounting policies

Unless otherwise stated, all accounting policies applied are consistent with those of the prior year. Where appropriate, comparative figures have been amended to accord with current presentation and disclosure made of material changes to comparatives.

(iii) Classification between current and non-current

In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be realised or paid. The asset or liability is classified as current if it is expected to be turned over within the next twelve months, being the Corporation's operational cycle – see Note 1(k) for a variation in relation to employee benefits.

(iv) Rounding

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

(v) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain classes of property, plant and equipment, biological assets and financial instruments.

(vi) Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Corporation's accounting policies. Areas involving a high degree of estimates and assumptions which can materially impact the financial statements relate to the actuarial assumptions used to determine the Corporation's defined superannuation benefit asset and employee benefit provisions. These assumptions and their related carrying amounts are discussed in Notes 1(k), 17, 22 and 35.

(b) Revenue Recognition

(i) Water sales and sewage disposal charges

Water sales 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.

The Essential Services Commission regulates the prices and service standards for the provision of water and sewage services. The Commission's general regulatory powers are set out in:

- › the Essential Services Commission Act 2001;
- › Part 1A of the Water Industry Act 1994; and
- › a Water Industry Regulatory Order made under section 4D of the Water Industry Act.

(ii) Drainage rates

Drainage rate revenue is recognised in the year for which the rate is levied. Rates are levied quarterly, based on property valuations as at 30 June 1990. Drainage revenue is collected by various retail water businesses on behalf of the Corporation. The Corporation engages the Victorian Auditor-General's Office to undertake an annual audit of collection processes and procedures by each of the retailers to ensure timely billing and collection. A lien is held over each property to ensure that any outstanding amounts are recovered upon sale of the property.

(iii) Developer charges and contributions

Developer charges and contributions consist of assets received free of charge or for nominal consideration and are recognised as revenue at fair value on completion of works and their acceptance by the Corporation. Cash contributions are recognised when received.

(iv) Interest receivable

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

(v) Net gain from disposal of property, plant and equipment

Property sales are recognised on signing of an unconditional contract of sale. Debtors are provided with commercial terms and are recognised in the Income Statement on a net basis of sale proceeds less costs.

(vi) Government grants and contributions

Grants from the Government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Corporation will comply with all attached conditions.

Government grants relating to costs are included in non-current liabilities as deferred income and are recognised in the Income Statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase or construction of property, plant and equipment are included in non-current liabilities as deferred income and are recognised in the Income Statement on a straight line basis over the expected lives of the related assets.

(c) Finance Costs

Finance costs are recognised as expenses in the period in which they are incurred. Finance costs include interest on short-term and long-term borrowings, finance lease charges, financial accommodation levy and Treasury Corporation of Victoria administration fee.

(d) Property, Plant and Equipment

(i) Recognition and Measurement of Assets

Property, plant and equipment represent non-current assets comprising land, buildings, water, sewerage and drainage infrastructure, plant and equipment assets used by the Corporation in its operations. Items with a cost or value in excess of \$500 and a useful life of more than one year are recognised as an asset. All other assets acquired are expensed.

(ii) Repairs and maintenance

Routine maintenance, repair costs and minor renewal costs are expensed as incurred. Where the repair relates to the replacement of a component of an asset and the cost exceeds the capitalisation threshold, the cost is capitalised and depreciated.

(iii) Valuation of non-current physical assets

Land and buildings are shown at fair value – refer to Note 12(a) for details. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

The fair value of land and buildings is determined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. Crown land is measured with regard to the property's highest and best use after due consideration is made for any legal or constructive restrictions imposed on the asset.

Infrastructure assets and property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges on foreign currency purchases of plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

All assets are tested for indication of impairment on an annual basis. Such assets are tested to ascertain whether the carrying amount exceeds their recoverable amounts. At 30 June 2008, no indicators of impairment were present.

(iv) Revaluations

Revaluation increments are credited directly to equity in the revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of the same asset previously recognised as an expense in determining the net result, the increment is recognised as revenue in determining the net result.

Revaluation decrements are recognised immediately as expenses in the net result, except that, to the extent that a credit balance exists in the revaluation reserve in respect of the same class of asset, they are debited to the revaluation reserve.

(v) Non-current assets held for sale

Non-current assets are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell, as their carrying amount will be recovered principally through a sale transaction, rather than through continuing use. The Corporation considers that the sale is highly probable and the asset is available for immediate sale in its present condition. Non-current assets are not depreciated or amortised while they are classified as held for sale and are presented separately from other assets in the Balance Sheet.

(e) Depreciation and Amortisation of Non-Current Assets

Where assets have separate identifiable components that have distinct useful lives and/or residual values, a separate depreciation rate is determined for each component.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, commencing from the time the asset is held ready for use. The assets residual values and useful lives are reviewed annually, and adjusted if appropriate, at each balance sheet date.

Major depreciation and amortisation periods used are listed below and are consistent with the prior year, unless otherwise stated:

- › Buildings and leasehold improvements 5 to 80 years
- › Plant and equipment 3 to 50 years
- › Infrastructure assets 20 to 150 years
- › Intangible assets 3 to 5 years

(f) Leased Assets

(i) Finance leases

Leases of property, plant and equipment, where the Corporation has substantially all the risks and rewards incidental to ownership, are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in the Balance Sheet. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance lease is depreciated on a straight line basis over the estimated useful life of the asset.

(ii) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight-line basis over the period of the lease, in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

(iii) Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a basis which reflects the time pattern in which economic benefits from the leased asset are consumed.

Notes to the Financial Report

1. Summary of Significant Accounting Policies continued

(iv) Leasehold improvements

Leasehold improvements are recognised at cost less accumulated depreciation and accumulated impairment losses and are amortised over the unexpired period of the lease or the estimated useful life of the improvement, whichever is the shorter.

(g) Cash and Cash Equivalents

For the purposes of the Cash Flow Statement, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Bank overdrafts are shown within interest bearing liabilities on the Balance Sheet.

(h) Receivables

All receivables are recognised at the amounts receivable less any allowance for doubtful debts. Collectibility of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written-off. A provision for doubtful debts is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Income Statement.

(i) Inventories

(i) Stores

Stores and materials are used in the construction of new works and for the repair and maintenance of existing assets. All stores are valued at the lower of cost and net realisable value.

(j) Payables

(i) Trade and Other Payables

Payables are recognised when the Corporation becomes obliged to make future payments resulting from the purchase of goods and services.

(ii) Creditors and accruals

These amounts represent liabilities for goods and services provided to the Corporation prior to the end of the financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition or in accordance with contract terms.

(iii) Interest payable

Interest is accrued in accordance with the terms and conditions of the underlying financial instruments or other contract.

(k) Employee Benefits

(i) Salaries and annual leave

Liabilities for salaries, including non-monetary benefits expected to be settled within 12 months of the reporting date, are recognised in employee benefit liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled, at their nominal values. Employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the entity, in respect of services rendered by employees up to the reporting date.

Regardless of the expected timing of settlements, provisions made in respect of employee benefits are classified as a current liability, unless there is an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date, in which case it would be classified as a non-current liability.

(ii) 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 non-vesting benefits.

(iii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future salary levels, experience of employee departures and periods of service. Expected future cash payments are discounted using interest rates attached to national government guaranteed securities as at the reporting date with terms to maturity that closely match the estimated future long service cash outflows. Provisions made for unconditional long service leave are classified as a current liability, where the employee has a present entitlement to the benefit. The non-current liability represents long service leave entitlements accrued for employees with less than 7 years of continuous service.

(iv) Superannuation

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

Defined benefit plans

A liability or asset in respect of the Equisuper defined superannuation benefit plan is recognised in the provision for employee benefits and is measured as the difference between the present value of employees' accrued benefits at the reporting date and the net market value of the superannuation plan's assets at that date. The present value of accrued benefits is based on expected future payments which arise from membership of the plans to the reporting date. Consideration is given to expected future salary levels, experience of employee departures and periods of service. Expected future payments are discounted using rates of national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The amount brought to account in the Income Statement in respect of superannuation represents the contributions made to the superannuation plan, adjusted by the movement in the defined benefit plan liability or surplus.

(v) Termination benefits

Liabilities for termination benefits are recognised when a detailed plan for the termination has been developed and a valid expectation has been raised in those employees affected that the terminations will be carried out. The liabilities for termination benefits are recognised as payables in the provision for employee benefits.

Liabilities for termination benefits expected to be settled within 12 months are measured at the amounts expected to be paid when they are settled. Amounts expected to be settled more than 12 months from the reporting date are measured as the estimated cash outflows, discounted using market yields at the reporting date on national government bonds with terms to maturity that matches as closely as possible, the estimated future cash outflows.

(vi) Employee benefit on-costs

Employee benefit on-costs, including payroll tax and worker's compensation are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(vii) Performance payments

Performance payments for the Corporation's employees are based on a percentage of the annual salary package provided under their contracts of employment. A liability is recognised and is measured as the aggregate of the amounts accrued under the term of the contracts to balance date.

(viii) WorkCover

The Corporation 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 an independent actuarial assessment, a provision of \$5.1 million (\$4.7 million in 2006/07) has been made for outstanding claims incurred and not settled, and for claims incurred but not reported at 30 June 2008. Other claims incurred and settled during the period are charged to the Income Statement.

In accordance with Section 146(5)(a) of the Accident Compensation Act 1985, the Corporation must provide a bank guarantee to the Victorian WorkCover Authority as part of its WorkCover self insurance commitments. The value of this bank guarantee at 30 June 2008 is \$7.7 million (\$7.1 million in 2006/07).

(ix) Workers compensation

The Corporation continues to be liable for workers compensation claims incurred prior to the introduction of WorkCare (now WorkCover) in 1985. Based on an independent actuarial assessment, a provision of \$0.7 million (\$0.5 million in 2006/07) has been made for all outstanding workers compensation claims at 30 June 2008.

(l) Build, Own and Operate (BOO) Schemes

The Corporation entered into contractual arrangements with AGL Ltd in February 2000 to build, own and operate a power generation plant at the Western Treatment Plant in exchange for a stream of payments.

(m) Segment Information

A business segment is identified for a group of assets and operations engaged in providing services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when services are provided within a particular economic environment subject to risk and returns that are different from those of segments operating in other economic environments.

Segment information is reported on the basis of business segments, which is water, sewerage, waterways and drainage, as the Corporation's risks and returns are affected predominately by differences in the services provided through those segments, rather than geographical segments as the Corporation operates solely within the Port Phillip and Westernport catchments.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of receivables, prepayments, stores, biological assets, property, plant and equipment and intangible assets. Segment liabilities consist primarily of trade and other creditors, accruals and provisions.

(n) Taxation

The Corporation is subject to the National Tax Equivalent Regime (NTER), which is administered by the Australian Taxation Office. The essential difference between the NTER and the Commonwealth legislation is that the tax liability is to be paid to the State Government and not the Commonwealth Government.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national corporate income tax rate of 30%, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rate expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantially enacted.

The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences if they arose in a transaction, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Notes to the Financial Report

1. Summary of Significant Accounting Policies continued

(o) Dividend Policy

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 before tax. An obligation to pay a dividend only arises after consultation with the relevant Minister and the Treasurer and a formal determination is made by the Treasurer.

(p) Smart Water Fund

The Smart Water Fund was established by the Victorian Government and is managed by the Corporation and the three retail water businesses for the purpose of providing grant funding to support the development of sustainable water use projects. Each water business has a 25 per cent interest in the fund.

Contributions made to the Smart Water Fund are initially recognised as prepayments in the Corporation's Balance Sheet. Expenses are subsequently recognised by the Corporation when incurred by the Fund.

(q) Goods and Services Tax

Revenues, expenses and assets are recognised net of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation 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 expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Balance Sheet. Cash flows arising from operating activities are disclosed in the Cash Flow Statement on a gross basis i.e. inclusive of GST. The GST component of cash flows arising from investing and financing activities which is recoverable or payable to the taxation authority is classified as operating cash flows.

(r) (i) Intangible Assets

Intangible assets represent identifiable non-monetary assets without physical substance. Intangible assets are recognised at cost. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the Corporation.

Amortisation is allocated to intangible assets with finite useful lives on a systematic basis over the asset's useful life. Amortisation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each annual reporting period. In addition, an assessment is made at each reporting date to determine whether there are indicators that the intangible asset concerned is impaired. If so, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount.

(ii) Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from a development project is recognised only if all of the following conditions are met:

- › an asset is created that can be identified (such as software and new processes);
- › it is probable that the asset created will generate future economic benefits; and
- › the development cost of the asset can be measured reliably.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

(s) Biological Assets

Livestock, including cattle and sheep are held in connection with operating the Corporation's Werribee Agriculture Operations.

Determination of net increment / decrement of fair value less estimated point-of-sale costs

Livestock is measured at fair value less estimated point of sale costs. The fair value of trading livestock is determined with reference to market prices at each balance date. The fair value of non trading livestock is determined by independent valuation at balance date.

Changes to the fair value of livestock assets are recognised as a gain or loss, in the Income Statement in the period in which it arises.

(t) Interest Bearing Liabilities

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

The Corporation's borrowings currently comprises of floating rate note (FRN) loans, fixed interest loans and an overnight loan facility. FRN loans are fixed term loans with a margin that is reset to a variable interest rate every ninety days. Generally, these notes are issued with maturity terms between three and five years. Fixed interest loans are interest only loans with the full face value repaid at maturity or refinanced for a new term. Most have maturity terms set between 5 and 10 years. The overnight loan facility interest rates are negotiated on a daily basis depending on cash flow needs.

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost.

Borrowings are classified as current liabilities unless the Corporation has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(u) Foreign Currency Translation

(i) Functional and presentation currency
The functional and presentation currency of the Corporation is the Australian dollar.

(ii) Transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction.

(v) Cash Flow Hedges

In order to hedge the effect of foreign exchange rate movements on the fair values of assets purchased, the Corporation occasionally enters into forward foreign exchange contracts. These hedges are classified as cash flow hedges with the associated gains or losses recognised directly in equity. As the hedged firm commitment results in the recognition of an asset, the associated gains/losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost. These are accounted for at settlement date. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

At any point in time, any cumulative gain or loss on the cash flow hedge is retained in equity until the forecast transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

(w) Provisions, Contingent Assets and Contingent Liabilities

Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

Contingent assets and contingent liabilities are not recognised in the financial statements but are only disclosed by way of a note, and if quantifiable are measured at nominal value.

(x) Contributed Equity

Appropriations for additions/reductions to net assets are designated as contributed capital when approved by the Minister for Finance. Other transfers that are in the nature of contributions or distributions have also been designated as contributed equity.

(y) New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Corporation's assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8.

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009.

AASB 8 will not result in a significant change as the Corporation's current approach to Segment reporting is consistent with the "management approach" to financial reporting. The segments selected are in line with the categories reported to regulatory authorities and are the basis for future pricing decisions.

(ii) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 and AASB 138 and Interpretations 1 & 12].

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and, when adopted, will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The Corporation is currently assessing the impact of the changes.

Notes to the Financial Report

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Financial risk management objectives

The objectives of the Corporation's financial risk management programs are to:

- (i) Manage the daily and long term liquidity needs of the organisation;
- (ii) Optimise cash resources, in such a way as to minimise net financing costs and maximise the repayment of debt within acceptable levels of risk;
- (iii) Ensure that all financial and treasury management operational exposures are fully identified, quantified, planned, approved and managed;
- (iv) Safeguard the financial resources by maintaining appropriate resources, operational controls (including credit guidelines) and infrastructure in corporate treasury functions.

These objectives are consistent with the corporate risk management policy of the Corporation, the Treasury Management Guidelines issued by the Department of Treasury and Finance and the Victorian Public Sector Debt Management Objectives.

(b) Financial risk management strategy

The Corporation manages financial risk by maintenance of approved debt portfolio structure and strategic targets. This includes:

- (i) **Portfolio composition** (i.e. fixed, floating, indexed exposure): The Corporation's debt portfolio is managed within the bands of:
 - › Floating interest rate borrowings: 10%-40%
 - › Fixed interest rate borrowings: 60%-90%
- (ii) **Physical maturity profile:** Debt maturity of fixed and floating interest rate borrowings (excluding working capital) is not to exceed 20% of the total debt portfolio in any year.
- (iii) **Interest rate risk profile:** Fixed and floating interest rate borrowings to be re-priced within one year do not exceed 40% of the total debt portfolio.

Forward rate agreements are used occasionally where it is perceived that a lower interest rate can be achieved. The purchase of forward agreements is limited in terms of volume and time, and is subject to a maximum term of 18 months forward.

(c) 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 Treasurer of Victoria issues annual approval permitting new borrowings and the refinancing of all loan maturities for that year. All funding is sourced from the Treasury Corporation of Victoria.

The Corporation's total maximum borrowing of \$2,010.7 million was not exceeded at any stage throughout 2007/08.

(d) Capital Management

The Corporation controls its capital in order to maintain a satisfactory debt to equity ratio, to provide adequate returns, maintain its current credit rating and to ensure that it can fund its operations as a going concern.

There has been no changes to the strategy adopted by the Corporation to control its capital during the year. The current gearing levels are considered appropriate given Melbourne Water's current and future funding requirements.

The only externally imposed capital requirements of the Corporation are:

- › that financial accommodation does not exceed the approval limits set by the Treasurer of Victoria pursuant to the Borrowing and Investment Powers Act 1987; and
- › that the Corporation, with the exception of a trading account with overdraft facilities, is required to borrow exclusively with the Treasury Corporation of Victoria.

The gearing ratio for 30 June 2008 was 45.1% (2007 41.3%).

Gearing is one of a number of commercial benchmarks that are considered by the Board when considering the capital structure and are approved via the Corporate Plan.

(e) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

It is the Corporation's policy to hedge the effect of foreign currency exchange rate movements on the fair values of any assets purchased in excess of AUD\$100,000. The Corporation's policy requires all hedging to be undertaken through the Treasury Corporation of Victoria in the form of forward foreign exchange contracts.

Forward rate agreements are used occasionally where it is perceived that a lower interest rate can be achieved. The purchase of forward agreements is limited in terms of volume and time, and is subject to a maximum term of 18 months forward.

At 30 June 2008, the Corporation does not have any material forward exchange contracts.

(ii) Price risk

The Corporation is not exposed to any material commodity price risk.

(iii) Interest rate risk sensitivity analysis

Exposures arise predominately from liabilities bearing variable interest rates as the Corporation intends to hold fixed rate liabilities to maturity. At 30 June 2008, if interest rates had changed by +/- 50 basis points from the year end rates with all other variables held constant, pre-tax profit would have been \$2.3million higher/lower (2007 \$1.2million).

(f) Credit risk

Credit risk is the risk of financial loss to the Corporation as a result of a customer or counterparty to a financial instrument failing to meet its contractual obligations. The Corporation's exposure to credit risk is influenced by the individual characteristics of each customer.

All receivables are recognised at the amounts receivable less any allowance for doubtful debts. Collectibility of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written-off. A provision for doubtful debts is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of receivables.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Income Statement.

As Trade Debtors are made up predominantly by the metropolitan retail water businesses, the Corporation's exposure to credit risk is minimal. These debts are invoiced monthly and paid within seven days.

The major exposure to credit risk arises from Other Receivables, which have been recognised net of any provision for doubtful debts. The receivable balance consists of a

large number of residential and business customers which are spread across a diverse range of industries. Receivable balances are monitored on an on-going basis to ensure that exposure to bad debts is not significant. The Corporation has in place a policy and procedure for the collection of overdue receivables.

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

(g) Liquidity risk

The Corporation manages liquidity risk by maintaining and conducting efficient banking practices and account structures, sound cash management practices and regular monitoring of the maturity profile of assets and liabilities, together with anticipated cash flows.

The Corporation obtains annual approval from the Treasurer of Victoria for new borrowings, borrowings to refinance maturing and non-maturing loans and temporary purpose borrowing facilities.

Notes	2008 \$000	2007 \$000
3 Income Statement – Revenue and Other Income Disclosures		
(a) Revenue from continuing operations		
Sales revenue		
Water sales	175,496	175,417
Sewage disposal charges	187,842	181,387
Drainage rates	147,410	140,054
	510,748	496,858
Other revenue		
Developer charges and contributions	52,569	46,363
Interest received / receivable	45	44
Biological assets	16,002	11,563
Licence fees received	2,173	2,222
Miscellaneous	7,770	9,026
	78,559	69,218
Total revenue	589,307	566,076
(b) Other income		
Net gain/(loss) on disposal of property, plant and equipment	41	(491)
Government grants*	3,777	2,112
Gains/(loss) arising from changes in fair value less estimated point of sale costs of biological assets	(935)	4,513
Gains/(loss) arising from initial recognition of agricultural produce	7,417	1,337
Net gain from defined benefit superannuation plan	36	14,735
Total other income	10,978	22,206

*Government grants

Government grants of \$3.8 million (2006/07: \$2.1 million) were recognised as Other Income by the Corporation during 2007/08 for various projects including the \$10M Stormwater project, Water Watch program and Water Sensitive Urban Design program.

All conditions attached to Government grants have been satisfied prior to their recognition in the Income Statement. The recognition of Government grants with unfulfilled conditions have been recognised as Deferred Income in the Balance Sheet.

Notes to the Financial Report

	Notes	2008 \$000	2007 \$000
4. Income Statement – Expense disclosures			
Depreciation and amortisation expense			
Depreciation			
Buildings	12(c)	943	568
Leasehold improvements	12(c)	427	426
Plant and equipment	12(c)	5,190	3,982
Infrastructure assets	12(c)	77,420	68,853
		83,980	73,829
Amortisation			
Infrastructure assets under finance leases	12(c)	1,621	1,622
Intangible assets	12(c)	1,896	1,929
Total amortisation	12(c)	3,517	3,551
Total depreciation and amortisation expense		87,497	77,380
Operational expense			
Materials, chemicals and laboratory expenses		10,871	7,708
Energy expenses		15,699	16,174
Agricultural expenses		26,606	21,277
External expenses		3,944	3,614
Transport expenses		6,022	5,702
Grants and contributions expenses		10,656	7,189
External professional services expenses		12,882	6,216
Other expenses		26,318	22,087
Total operational expense		112,998	89,967
Employee benefits expense			
Salary expenses		43,340	37,978
Post employment benefits		3,244	2,465
Annual, long service and shift leave expenses		5,999	4,566
Other employee expenses		8,275	5,466
Total employee benefits expense		60,858	50,475
Other expenses			
Government rates and taxes		24,233	21,160
Rental and lease expenses		4,031	3,205
Bad and doubtful debt expenses		2	4
Decrement arising from asset revaluation	12(c)	272	685
Assets written off / written down	41	11,652	10,623
Defined Benefit Superannuation expense	36	18,350	–
Other expenses		1,784	2,008
Total other expenses		60,324	37,685

	2008 \$000	2007 \$000
5. Income tax		
(a) Components of tax expense		
Current Tax	2,949	15,904
Deferred Tax relating to temporary differences	21,956	27,247
Adjustments for current tax of prior periods	964	762
	25,869	43,913
(b) Numerical reconciliation of income tax to prima facie tax payable		
Profit before income tax expense	93,511	177,422
Tax at the Australian tax rate of 30%	28,053	53,227
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Adjustment in respect of income tax of previous year	964	762
Non assessable and non deductible for income tax purposes	2,124	449
Deductible expenses not booked	(2,823)	(3,914)
Asset allocation to Government	(2,059)	(6,161)
Research and Development concession	(390)	(450)
Income tax as reported in the Income Statement	25,869	43,913
(c) Income Tax Receivable		
Current Tax Receivable/(Payable)	1,320	(2,096)
	1,320	(2,096)

Notes to the Financial Report

	Notes	2008 \$000	2007 \$000
6. Current assets – Cash and cash equivalents			
Cash on hand		16	15
Cash at bank		291	178
Cash advances		43	10
Total current assets – cash and cash equivalents	27	350	203

7. Current assets – Trade and other receivables

(a) Current assets – Trade and other receivables

	Notes	2008 \$000	2007 \$000
Trade debtors	27	18,357	22,182
Other receivables	27	30,552	18,892
Less: provision for impaired receivables		(3)	(4)
		30,549	18,888
Total current assets – trade and other receivables		48,906	41,070

Ageing Analysis of Receivables

All receivables are recognised at the amounts receivable less any allowance for impaired receivables. Collectibility of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written-off.

A provision for impaired receivables is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Income Statement.

30 June 2008	Notes	Current		Past Due but not Impaired			Impaired \$000	Total \$000
		0-30 days \$000	31-60 days \$000	61-90 days \$000	91 days + \$000			
Receivables								
Trade debtors	7(a)	6,360	8,832	3,163	2	–	18,357	
Other receivables	7(a), 13	23,839	6,708	36	6	(3)	30,586	
Total Receivables		30,199	15,540	3,199	8	(3)	48,943	

30 June 2007	Notes	Current		Past Due but not Impaired			Impaired \$000	Total \$000
		0-30 days \$000	31-60 days \$000	61-90 days \$000	91 days + \$000			
Receivables								
Trade debtors	7(a)	7,618	9,168	5,396	–	–	22,182	
Other receivables	7(a), 13	18,662	187	31	35	(4)	18,911	
Total Receivables		26,280	9,355	5,427	35	(4)	41,093	

	Notes	2008 \$000	2007 \$000
8. Current assets – Other current assets			
Prepayments		1,836	1,270
Stores		4,430	4,419
Total current assets – other current assets		6,266	5,689

9. Current assets – Non-current assets classified as held for sale

	Notes	2008 \$000	2007 \$000
Property, plant and equipment – held for sale*		94	275
Total current assets – non-current assets classified as held for sale		94	275

* The Corporation currently holds five parcels of surplus land for sale. These lots were auctioned during the 2007/08 financial year but were passed in. As at 30 June 2008, the land is still on the market and an active program is underway to locate a buyer.

10. Current assets – Other financial assets

	Notes	2008 \$000	2007 \$000
Forward foreign exchange contracts		483	511
Total current assets – financial assets	27	483	511

In order to hedge the effect of foreign currency exchange rate movements on the fair values of assets purchased, the Corporation entered into a number of forward exchange agreements to facilitate payments to a supplier in Euro dollars.

These forward contracts are hedging a highly probable forecast purchase. The contracts are timed to mature when payments for assets are scheduled to be made. However, the timing of payment is dependent on delivery of the assets. At 30 June 2008, only one foreign purchase payment is outstanding as the asset has not been fully delivered.

As at 30 June 2008, payment is forecast as follows:
31 July 2008 (EUR 255,272)

No foreign exchange gain was transferred to the Income Statement and \$33,505 (2006/07: \$35,259) was recognised in equity during the reporting period.

Notes to the Financial Report

11. Current and Non-current assets – Biological assets

(a) Nature of Biological assets

The Corporation's Werribee Agriculture team, operates an agricultural trading operation managing 21,749 cattle (2006/07: 19,686) and 21,119 sheep (2006/07: 77,695) at 30 June 2008. This operation is based principally at the Western Treatment Plant with a small number of satellite properties to support its breeding herd.

(b) (i) Reconciliation of fair value of biological assets for 2007/08

Biological Assets	Cattle \$000	Sheep \$000	Total \$000
Fair value at beginning of period	16,851	4,892	21,743
Increases due to purchases	7,475	580	8,055
Gain arising from changes in fair value less estimated point of sale costs attributable to physical changes	2,451	11	2,462
Gain/(loss) arising from changes in fair value less estimated point of sale costs attributable to price changes	(447)	(592)	(1,039)
Increases attributable to births	2,319	1,011	3,330
Decreases attributable to sales	(10,477)	(3,610)	(14,087)
Decreases attributable to death	(530)	(138)	(668)
Fair value at end of period	17,642	2,154	19,796

(b) (ii) Agricultural produce – wool and hay/crops

	2008 \$000	2007 \$000
Fair value at beginning of period	45	201
Fair value less estimated point of sale costs of agricultural produce harvested during the period	1,624	1,336
Gain/(loss) arising from changes in fair value less point of sale costs attributable to price changes	105	42
Decreases attributable to sales	(1,257)	(1,534)
Increases due to purchases	316	–
Fair value at end of period	833	45

(c) (i) Reconciliation of fair value of biological assets for 2006/07

Biological Assets	Cattle \$000	Sheep \$000	Total \$000
Fair value at beginning of period	13,469	6,126	19,595
Increases due to purchases	6,111	493	6,604
Gain arising from changes in fair value less estimated point of sale costs attributable to physical changes	3,486	625	4,111
Gain/(loss) arising from changes in fair value less estimated point of sale costs attributable to price changes	(966)	(470)	(1,436)
Increases attributable to births	728	1,067	1,795
Decreases attributable to sales	(5,772)	(2,702)	(8,474)
Decreases attributable to death	(204)	(247)	(451)
Fair value at end of period	16,852	4,892	21,744

(d) Representing Biological Assets:

	2008 \$000	2007 \$000
Current Biological Assets	9,162	8,515
Non-current Biological Assets	11,467	13,274
Total Biological Assets	20,629	21,789

(e) Significant Assumptions

Market values for each herd type are determined after assessing a number of key independent market indicators to ensure the values determined are representative of the full herd.

Cattle:

Breeding cattle

Prices for these cattle generally reflect a more stable longer term price and as such are less volatile than movements in the spot cattle prices evident with trading cattle. These breeders were independently valued at 28 June 2008.

Trading cattle

Prices for these cattle generally reflect the shorter term spot prices available in the market place. Relevant market indicators include the carcass weight rates published by the Meat and Livestock Australia Ltd (MLA).

Sheep:

Breeding Sheep

Prices for these sheep generally reflect a more stable longer term price and as such are less volatile than movements in the spot sheep prices evident with trading sheep. These breeders were independently valued at 28 June 2008.

Trading sheep

Prices for these sheep generally reflect the shorter term spot prices available in the market place. Relevant market indicators include the carcass weight rates published by MLA.

Herd numbers	2008	2007
Cattle		
Breeding	6,510	7,460
Trading	15,239	12,226
Sheep		
Breeding	15,052	17,145
Trading	6,067	60,550
TOTAL	42,868	97,381

Notes to the Financial Report

	2008 \$000	2007 \$000
12. Non-current assets – Property, plant and equipment		
(a) Classes of property, plant and equipment		
Land		
*Crown land at fair value	93,410	80,670
*Freehold land at fair value	834,857	693,403
Total land	928,267	774,073
Buildings		
Buildings at fair value	18,947	18,150
Less: accumulated depreciation	943	–
Total buildings	18,004	18,150
Leasehold improvements		
Leasehold improvements at cost	6,355	6,355
Less: accumulated depreciation	4,800	4,373
Total leasehold improvements	1,555	1,982
Plant and equipment		
Plant and equipment at cost	50,309	44,331
Less: accumulated depreciation	37,949	33,008
Total plant and equipment	12,360	11,323
Infrastructure assets		
Infrastructure assets at cost	4,014,464	3,781,404
Less: accumulated depreciation	1,149,655	1,080,363
Sub total infrastructure assets	2,864,809	2,701,041
Infrastructure assets under finance lease	40,105	40,105
Less: accumulated amortisation	12,710	11,089
Sub total infrastructure assets under finance lease	27,395	29,016
Total infrastructure assets	2,892,204	2,730,057
Capital works in progress at cost	490,282	328,109
Total non-current assets – property, plant and equipment	4,342,672	3,863,694
* Land and buildings are shown at fair value based on an independent valuation undertaken by the Valuer General Victoria as at 1 July 2004. Subsequent revaluations have been undertaken using an indices based process revaluing assets to 30 June 2008.		
(b) Intangible assets		
Intangible assets at cost	15,468	17,713
Less: accumulated amortisation	13,096	13,580
Total non-current assets – intangible assets	2,372	4,133

12. Reconciliation of movement in property, plant and equipment

(c) (i) Reconciliation of movement in property, plant and equipment for 2007/08

	Crown Land at fair value \$000	Freehold land at fair value \$000	Buildings at fair value \$000	Leasehold improvements at cost \$000	Plant and equipment at cost \$000	Infrastructure assets at cost \$000	Infrastructure assets under finance lease at cost \$000	Works in progress at cost \$000	Intangible assets at cost \$000	Total \$000
2007/08										
Carrying amount at 1 July 2007	80,670	693,403	18,150	1,982	11,323	2,701,041	29,016	328,109	4,133	3,867,827
Additions	–	10,052	797	–	6,408	252,556	–	–	135	269,948
Disposals	(392)	(10,269)	–	–	(10)	(11,394)	–	(317)	–	(22,382)
Depreciation/amortisation	–	–	(943)	(427)	(5,190)	(77,420)	(1,621)	–	(1,896)	(87,497)
Transfers between classes	348	(203)	–	–	(171)	26	–	–	–	–
Assets classified as held for sale	–	181	–	–	–	–	–	–	–	181
Revaluation increments	12,785	141,964	–	–	–	–	–	–	–	154,749
Revaluation decrements	(1)	(271)	–	–	–	–	–	–	–	(272)
Capital expenditure	–	–	–	–	–	–	–	417,809	–	417,809
Capitalisation of works in progress	–	–	–	–	–	–	–	(255,319)	–	(255,319)
Carrying amount at 30 June 2008	93,410	834,857	18,004	1,555	12,360	2,864,809	27,395	490,282	2,372	4,345,044

(c) (ii) Reconciliation of movement in property, plant and equipment for 2006/07

	Crown Land at fair value \$000	Freehold land at fair value \$000	Buildings at fair value \$000	Leasehold improvements at cost \$000	Plant and equipment at cost \$000	Infrastructure assets at cost \$000	Infrastructure assets under finance lease at cost \$000	Works in progress at cost \$000	Intangible assets at cost \$000	Total \$000
2006/07										
Carrying amount at 1 July 2006	78,436	648,189	15,302	2,408	7,186	2,631,533	30,638	253,755	3,955	3,671,402
Additions	1,206	54,643	1,470	–	9,284	144,976	–	–	1,796	213,375
Disposals	(1,241)	(32,321)	(283)	–	(702)	(6,149)	–	(2,083)	–	(42,779)
Depreciation/amortisation	–	–	(568)	(426)	(3,982)	(68,853)	(1,622)	–	(1,929)	(77,380)
Transfers between classes	12	607	(1)	–	(463)	(466)	–	–	311	–
Assets classified as held for sale	–	350	–	–	–	–	–	–	–	350
Revaluation increments	2,257	22,556	2,294	–	–	–	–	–	–	27,107
Revaluation decrements	–	(621)	(64)	–	–	–	–	–	–	(685)
Capital expenditure	–	–	–	–	–	–	–	226,707	–	226,707
Capitalisation of works in progress	–	–	–	–	–	–	–	(150,270)	–	(150,270)
Carrying amount at 30 June 2007	80,670	693,403	18,150	1,982	11,323	2,701,041	29,016	328,109	4,133	3,867,827

Notes to the Financial Report

	Notes	2008 \$000	2007 \$000
13. Non-current assets – Other receivables			
Other receivables		37	23
Total non-current assets – other receivables	27	37	23

	Notes	2008 \$000	2007 \$000
14. Non-current assets – Defined superannuation benefit asset			
Defined superannuation benefit asset		13,169	31,519
Total non-current assets – defined superannuation benefit asset	36	13,169	31,519

	Notes	2008 \$000	2007 \$000
15. Current liabilities – Trade and other payables			
Creditors	27	34,349	47,851
Interest payable	27	26,056	23,083
Other accruals	27	25,119	20,730
Capital accruals	27	99,060	49,790
Advances	27	3,128	2,068
Total current liabilities – trade and other payables		187,712	143,522

	Notes	2008 \$000	2007 \$000
16. Current liabilities – Interest bearing liabilities			
* Lease liabilities	27, 29(d)	3,456	3,355
* Borrowings	27	312,300	197,300
Total current liabilities – interest bearing liabilities		315,756	200,655

* Current interest bearing liabilities are unsecured.

	Notes	2008 \$000	2007 \$000
17. Current liabilities – Provisions			
Employee benefits	35	17,160	15,578
Insurance claims	34	634	1,123
Remediation works	34	19,065	17,518
Other provisions	34	2,017	1,700
Total current liabilities – provisions		38,876	35,919

	Notes	2008 \$000	2007 \$000
18. Current liabilities – Other financial liabilities			
Financial liabilities	27	–	34
Total current liabilities – financial liabilities		–	34

	Notes	2008 \$000	2007 \$000
19. Current liabilities – Current tax liability			
Income tax		–	2,096
Total current liabilities – current tax liability		–	2,096

	Notes	2008 \$000	2007 \$000
20. Non-current liabilities – Trade and other payables			
Creditors	27	244	811
Advances	27	8,286	10,344
Total non-current liabilities – trade and other payables		8,530	11,155

	Notes	2008 \$000	2007 \$000
21. Non-current liabilities – Interest bearing liabilities			
* Lease liabilities	27, 29(d)	8,443	11,899
* Borrowings	27	1,305,000	1,115,000
Total non-current liabilities – interest bearing liabilities		1,313,443	1,126,899

* Non current interest bearing liabilities are unsecured.

	Notes	2008 \$000	2007 \$000
22. Non-current liabilities – Provisions			
Employee benefits	35	6,560	5,556
Insurance claims	34	323	643
Remediation works	34	3,188	17,977
Total non-current liabilities – provisions		10,071	24,176

23. Net Deferred tax liabilities

The balance comprises temporary differences attributable to:

Amounts recognised in the Income Statement

	2008 \$000	2007 \$000
Property, plant and equipment	538,795	508,263
Employee entitlements	(5,298)	(4,759)
Developer contributions	22,814	25,481
Finance lease	2,394	1,826
Defined benefit obligation	3,951	9,456
Provisions	(1,901)	(1,811)
Revenue in advance	(2,831)	(3,359)
Other	78	(110)
	558,002	534,987

Amounts recognised directly in equity

	2008 \$000	2007 \$000
Revaluation of property, plant and equipment	17,029	3,315
Net deferred tax liability	575,031	538,302

Movements:

	2008 \$000	2007 \$000
Opening balance at 1 July	538,302	510,126
(Credited)/debited to the Income Statement	21,956	24,861
Credited/(debited) to equity	13,714	3,315
Prior Year Correction	1,059	–
Closing balance at 30 June	575,031	538,302

	2008 \$000	2007 \$000
Net Deferred tax liabilities to be recovered after more than 12 months	578,596	543,000
Net Deferred tax liabilities to be recovered within 12 months	(3,565)	(4,698)
Total non-current liabilities – Deferred tax liabilities	575,031	538,302

24. Contributed equity

	2008 \$000	2007 \$000
Opening balance	600,147	624,779
Adjustment relating to the transfer of Crown Land to the Government	(8,580)	(24,632)
Total contributed equity at the end of year	591,567	600,147

Notes to the Financial Report

	Notes	2008 \$000	2007 \$000
25. Reserves			
Asset revaluation reserve			
Opening balance		23,792	–
Revaluation increment/(decrement) on non-current assets	12(c)	154,749	27,107
Revaluation reserves transferred to retained profits on derecognition of asset		(573)	–
(Increment)/decrement on deferred tax revaluation	23	(13,714)	(3,315)
Closing balance		164,254	23,792
The asset revaluation reserve is used to record asset revaluation increments and decrements in the value of non-current physical assets.			
Cash flow hedge			
Opening balance		35	68
Gain/(loss) taken to equity		34	(33)
Closing balance		69	35
The cash flow hedge reserve represents the gain or loss on conversion to Australian dollars of the cash flow hedge.			
Total reserves at the end of year		164,323	23,827

26. Retained profits

Retained profits at the beginning of the year		1,262,174	1,215,265
Net profit for the year	41	67,642	133,509
Transfer from asset revaluation reserve	25	573	–
Dividends paid	31	(99,400)	(86,600)
Retained profits at the end of year		1,230,989	1,262,174

27. Financial instruments

(a) Interest rate exposure

At 30 June 2008, the Corporation has no significant interest-bearing assets. As such, the Corporation's income and operating cash flows are not materially exposed to changes in market interest rates.

For 2007/08, the Corporation is exposed to interest rate risk on outstanding interest bearing liabilities. The mix of floating and fixed rate debt is managed strategically within a range of Board approved parameters, in order to minimise exposure to fluctuations in variable rates and to minimise the long-term net cost of funding.

30 June 2008	Notes	Weighted avg. annual effective interest rate %	Floating interest rate \$000	Fixed interest rate maturing 1 year or less \$000	1 to 5 years \$000	over 5 years \$000	Non interest bearing \$000	Total \$000
Financial assets								
Cash	6	6.81	350	–	–	–	–	350
Trade debtors	7a		–	–	–	–	18,357	18,357
Derivatives	10	4.22	–	483	–	–	–	483
Other receivables	7a, 13		–	–	–	–	30,586	30,586
Total financial assets			350	483	–	–	48,943	49,776
Financial liabilities								
Creditors, accruals & interest payable	15, 20		–	–	–	–	(184,828)	(184,828)
Lease liabilities	16, 21		–	–	–	–	(11,899)	(11,899)
Derivatives	18		–	–	–	–	–	–
Advances	15, 20		–	–	–	–	(11,414)	(11,414)
Borrowings:								
11am Cash	16, 21	7.42	(172,300)	–	–	–	–	(172,300)
Floating Rate Notes	16, 21	7.59	(275,000)	–	–	–	–	(275,000)
Fixed Interest	16, 21	6.20	–	(100,000)	(400,000)	(670,000)	–	(1,170,000)
Total financial liabilities			(447,300)	(100,000)	(400,000)	(670,000)	(208,141)	(1,825,441)
Net financial liabilities			(446,950)	(99,517)	(400,000)	(670,000)	(159,198)	(1,775,665)

Notes to the Financial Report

27. Financial instruments continued.

30 June 2007	Notes	Weighted avg. annual effective interest rate %	Floating interest rate \$000	Fixed interest rate maturing 1 year or less \$000	1 to 5 years \$000	over 5 years \$000	Non interest bearing \$000	Total \$000
Financial assets								
Cash	6	6.14	203	–	–	–	–	203
Trade debtors	7a		–	–	–	–	22,182	22,182
Derivatives	10	4.1	–	511	–	–	–	511
Other receivables	7a, 13		–	–	–	–	18,911	18,911
Total financial assets			203	511	–	–	41,093	41,807
Financial liabilities								
Creditors, accruals & interest payable	15, 20		–	–	–	–	(142,265)	(142,265)
Lease liabilities	16, 21		–	–	–	–	(15,254)	(15,254)
Derivatives	18		–	(34)	–	–	–	(34)
Advances	15, 20		–	–	–	–	(12,412)	(12,412)
Borrowings:								
11am Cash	16, 21	6.42	(37,300)	–	–	–	–	(37,300)
Floating Rate Notes	16, 21	6.32	(175,000)	–	–	–	–	(175,000)
Fixed Interest	16, 21	6.12	–	(100,000)	(415,000)	(585,000)	–	(1,100,000)
Total financial liabilities			(212,300)	(100,034)	(415,000)	(585,000)	(169,931)	(1,482,265)
Net financial liabilities			(212,097)	(99,523)	(415,000)	(585,000)	(128,838)	(1,440,458)

Notes to the Financial Report

(b) Fair value

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

	2008 Book value \$000	2008 Net fair value* \$000	2007 Book value \$000	2007 Net fair value* \$000
On balance sheet				
Financial assets				
Cash	350	350	203	203
Trade debtors	18,357	18,357	22,182	22,182
Derivatives	483	482	511	511
Other receivables	30,586	30,586	18,911	18,911
Total financial assets	49,776	49,775	41,807	41,807
Financial liabilities				
Creditors, accruals & interest payable	(184,828)	(184,828)	(142,265)	(142,265)
Lease liabilities	(11,899)	(11,899)	(15,254)	(15,254)
Derivatives	–	–	(34)	(34)
Advances	(11,414)	(11,414)	(12,412)	(12,412)
Borrowings:				
11am Cash	(172,300)	(173,084)	(37,300)	(37,504)
Floating Rate Notes	(275,000)	(277,633)	(175,000)	(175,476)
Fixed Interest	(1,170,000)	(1,144,433)	(1,100,000)	(1,087,987)
Total financial liabilities	(1,825,441)	(1,803,291)	(1,482,265)	(1,470,932)

* 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 the Treasury Corporation of Victoria.

28. Segment information

(a) Description of segments

Business segments:

The Corporation is organised into the following business segments:

The **water segment** includes the harvesting, storing, treating and transfer of water to the metropolitan retail water businesses for delivery to end users.

The **sewerage segment** includes the transfer, treating and disposal of sewage and trade waste collected from the metropolitan retail water businesses.

The **waterways and drainage segment** includes regional drainage and flood protection services, waterways management for achieving healthy rivers, creeks and floodplains and stormwater quality protection.

Geographical segments:

The Corporation operates in one geographical area.

(b) Business segment reporting for 2007/08

Business segments	Water \$000	Sewerage \$000	Waterways & Drainage \$000	Consolidated \$000
Revenue				
External revenue/income	178,338	215,364	206,538	600,240
Unallocated revenue/income				45
Total segment revenue/income				600,285
Results				
Segment result	59,837	42,298	92,169	194,304
Unallocated revenue less unallocated expenses				(100,793)
Profit before income tax				93,511
Income tax expense				(25,869)
Profit for the year				67,642

Business segments	Water \$000	Sewerage \$000	Waterways & Drainage \$000	Consolidated \$000
Assets				
Segment assets	1,571,974	1,699,897	1,162,757	4,434,628
Unallocated assets				1,670
Total assets				4,436,298
Liabilities				
Segment liabilities	33,910	128,222	57,000	219,132
Unallocated liabilities				2,230,287
Total liabilities				2,449,419

Other segment reporting information	Water \$000	Sewerage \$000	Waterways & Drainage \$000	Consolidated \$000
Depreciation and amortisation	23,208	44,393	19,896	87,497
Acquisition of property, plant and equipment and intangible assets.	63,171	138,113	68,664	269,948

(c) Business segment reporting for 2006/07

Business segments	Water \$000	Sewerage \$000	Waterways & Drainage \$000	Consolidated \$000
Revenue				
External revenue/income	183,593	210,775	193,870	588,238
Unallocated revenue/income				44
Total segment revenue/income				588,282

Business segments	Water \$000	Sewerage \$000	Waterways & Drainage \$000	Consolidated \$000
Results				
Segment result	89,226	69,402	105,384	264,012
Unallocated revenue less unallocated expenses				(86,590)
Profit before income tax				177,422
Income tax expense				(43,913)
Profit for the year				133,509

Business segments	Water \$000	Sewerage \$000	Waterways & Drainage \$000	Consolidated \$000
Assets				
Segment assets	1,407,063	1,520,064	1,041,576	3,968,703
Unallocated assets				203
Total assets				3,968,906

Business segments	Water \$000	Sewerage \$000	Waterways & Drainage \$000	Consolidated \$000
Liabilities				
Segment liabilities	23,548	119,336	48,839	191,723
Unallocated liabilities				1,891,035
Total liabilities				2,082,758

Other segment reporting information	Water \$000	Sewerage \$000	Waterways & Drainage \$000	Consolidated \$000
Depreciation and amortisation	20,377	37,358	19,645	77,380
Acquisition of property, plant and equipment and intangible assets.	50,757	95,938	66,680	213,375

Notes to the Financial Report

	2008 \$000	2007 \$000
29. Commitments		
(a) Capital commitments		
Total capital expenditure contracted for the construction of water, sewerage and waterways and drainage infrastructure at balance date but not provided for in the accounts:		
Property, plant and equipment payable:		
Within one year	357,367	101,827
Later than one year but not later than five years	361,186	23,972
Total capital commitments	718,553	125,799
Capital commitments by segment groups:		
Water capital commitments	133,099	25,660
Sewerage capital commitments	488,526	93,068
Waterways and drainage capital commitments	96,928	7,071
Total capital commitments by segment groups	718,553	125,799
(b) Operating lease commitments		
(i) Melbourne Water as lessee		
The Corporation's East Melbourne building is held under a non-cancellable operating lease expiring on 15 June 2012. The Corporation also leases five other buildings under non-cancellable operating leases expiring from 31 May 2010.		
These building lease agreements have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.		
The Corporation also leased land, photocopiers and motor vehicles under non-cancellable operating leases.		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	8,169	6,100
Later than one year but not later than five years	12,371	12,564
Later than five years	164	265
Total operating lease commitment	20,704	18,929
Lease incentives on non-cancellable operating leases included in trade creditors is as follows:	337	430
Representing operating lease liability:		
Current (part of note 15)	93	93
Non-current (part of note 20)	244	337
Total operating lease liability	337	430
(ii) Melbourne Water as lessor		
Operating leases relate to land owned by the Corporation with lease terms generally for a period of 10 years. All operating lease contracts contain market review clauses. The lessee does not have an option to purchase the land at the expiry of the lease period.		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	940	1,156
Later than one year but not later than five years	1,720	2,642
Later than five years	400	727
Total operating lease commitment	3,060	4,525

(c) Smart Water Fund

The Corporation has a commitment to the Victorian Government's Smart Water Fund in the amount of \$2.8 million over the next 3 years (2006/07: \$3.6 million, 4 years). The timing of such payments cannot be reliably estimated and as such have not been disclosed in yearly bands.

(d) Finance lease commitments

The Corporation has finance lease agreements with Yan Yean Water and TopAq Pty Ltd. The agreement with Yan Yean Water involves the construction of a water treatment plant, commencing on 1 October 1994 for a term of 15 years. The agreement with TopAq Pty Ltd involves the development of a water recycling project that uses effluent sourced from the Corporation's Eastern Treatment Plant. This effluent is further treated to produce and supply Class A Water to customers in the project area, commencing on 29 April 2005 for a term of 25 years.

	2008 \$000	2007 \$000
The carrying amount of the finance lease is:		
Commitments in relation to finance lease are payable as follows:		
Within one year	4,691	4,915
Later than one year but not later than five years	5,753	9,241
Later than five years	8,217	9,420
Minimum lease payments	18,661	23,576
Less: Future finance charges	(6,762)	(8,322)
Total finance lease liability	11,899	15,254
Representing finance lease liability:		
Current (refer to note 16)	3,456	3,355
Non-current (refer to note 21)	8,443	11,899
Total finance lease liability	11,899	15,254

(e) 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	4,633	2,411
Later than one year but not later than five years	12,229	3,637
Later than five years	149	159
Total other commitments	17,011	6,207

(f) Build, Own and Operate (BOO) commitments

On 25 February 2000, the Corporation signed a Build, Own and Operate (BOO) contract with Australian Gas and Light Ltd (AGL) to purchase a minimum of 21.2 GWh of electricity generated from biogas per year for a period of 10 years. AGL has a contractual obligation to supply the minimum amount.

Under this contract, AGL will build, own and operate the power generation plant which has been constructed on land owned by the Corporation at Western Treatment Plant. This arrangement became fully operational on 1 July 2003. On 1 January 2006, this was replaced by a contract with a new term of 15 years.

This new agreement requires AGL to expand generation at its plant to approximately 51GWh of electricity generated from biogas per year for the period of the contract.

The minimum obligation (excluding the effect of inflation) for the term of the arrangement is \$31.4 million at 30 June 2008.

This calculation has been based on best estimates of volume throughput, peak and off peak electricity consumption and other relevant variables as detailed in the contract.

Future minimum obligations

Fixed costs, payable within:

Not later than one year	2,166	2,098
Later than 1 year but not later than 5 years	9,309	9,047
Later than 5 years	19,922	22,350
Total value of future minimum obligations	31,397	33,495

(g) Food Bowl Modernisation Commitment

The Corporation is contributing \$300 million towards Phase 1 of the Government's \$1 billion Food Bowl Modernisation Project, which will modernise irrigation infrastructure across the Goulburn Murray systems.

Not later than one year	85,000	-
Later than 1 year but not later than 5 years	205,000	-
Later than 5 years	10,000	-
Total commitment	300,000	-

Notes to the Financial Report

	2008 \$000	2007 \$000
30. Contingent assets and liabilities		
(a) Contingent assets		
As at 30 June 2008, there were no contingent assets recognised.	–	–
(b) Contingent liabilities		
Details and estimates of maximum amounts of contingent liabilities for which no provision is included in the accounts, are as follows:		
Claims or possible claims against the Corporation arising out of various matters connected with the Corporation's business dealings.	10,659	3,054

31. Dividends

Interim dividend paid (relating to previous financial year)	48,500	38,600
Final dividend paid (relating to previous financial year)	50,900	48,000
Total dividends paid	26	86,600

The proposed interim and final dividend payable in relation to the 2007/08 financial year is \$57.8 million. This amount is subject to final determination by the Treasurer after consultation with the Corporation's Board of Directors and the Minister for Water and consequently has not been booked as a provision as at 30 June 2008.

32. Events occurring after balance sheet date

No matters or circumstances have arisen since the end of the reporting period which 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 financial years.

33. Remuneration of auditors

During the reporting period, the following fees were paid or payable for services provided by the Victorian Auditor General's Office:

Audit of financial statements	118	109
Annual Drainage Review	25	24
Total amount paid / payable	143	133

34. Provisions

(i) Insurance Claims

The amount represents a provision for public liability, motor vehicle and property claims. The amount classified as current is expected to be settled within 12 months. The amount classified as non-current is expected to be settled later than 12 months. The provision amounts are based on an independent assessment of claim costs.

(ii) Remediation Works

The amount represents a provision for remediation works at the Dandenong Treatment Plant. The amount classified as current represents the expected completion of works within the next 12 months. The amount classified as non-current represents works expected to be completed later than 12 months.

(iii) Other Provisions

The amount represents other provisions that satisfy the recognition requirements of AASB 137 Provisions, Contingent Liabilities and Contingent Assets. The amount is based on legal advice and is expected to be settled within 12 months.

(iv) Movements in Provisions

Movements in each class of provision during 2007/08, other than employee benefits, are set out below:

Notes	Insurance Claims \$000	Remediation Works \$000	Other Provisions \$000	Total \$000
Carrying amount at start of year	1,766	35,495	1,700	38,961
Additional provisions recognised	71	–	405	476
Amounts utilised during the year	(880)	(13,242)	(88)	(14,210)
Carrying amount at end of year	957	22,253	2,017	25,227

	2008 \$000	2007 \$000
35. Employee Benefits		
Current: Accrued salaries (part of note 15)	1,543	1,081
Current: Short-term employee benefits, that fall due within 12 months after the end of the period measured at nominal value (part of note 17)	6,345	5,573
Current: Long-term employee benefits that do not fall due within 12 months after the end of the period measured at present value (part of note 17)	10,815	10,005
Non-current: Other employee benefits (part of note 22)	4,903	4,392
Non-current: Long service leave representing less than 7 years of continuous service measured at present value (part of note 22)	1,657	1,164
Total employee benefits liability	25,263	22,215

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: (see Note 36).

Notes to the Financial Report

36. Defined superannuation benefit

Defined benefit superannuation

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

Defined contribution superannuation

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 (or other funds) at a self-nominated rate or amount. The minimum employer contribution to the fund, pursuant to the Superannuation Guarantee Charge was 9.0 per cent in 2007/08 (9.0 per cent in 2006/07).

	2008 \$000	2007 \$000
Employer contributions		
Employer contributions to defined contribution funds	3,662	2,889
Employer contributions to employee nominated funds	405	283
Total employer contributions	4,067	3,172

Reconciliation of the Present Value of the Defined Benefit Obligation

Balance at the beginning of the year	69,185	74,068
Current service cost	1,663	1,962
Interest cost	3,708	3,575
Contributions by plan participants	1,060	1,050
Actuarial (gains)/losses	6,040	(5,950)
Benefits paid	(4,923)	(5,307)
Taxes and premiums paid	(224)	(213)
Present value of the defined benefit obligation at the end of the year	76,509	69,185

Reconciliation of the Fair Value of Plan Assets

Balance at the beginning of the year	100,704	90,852
Expected return on Plan assets	6,788	6,119
Actuarial (gains)/losses	(13,727)	8,203
Employer contributions	-	-
Contributions by plan participants	1,060	1,050
Benefits paid	(4,923)	(5,307)
Taxes and premiums paid	(224)	(213)
Fair value of Plan assets at the end of the year	89,678	100,704

Reconciliation of the Assets and Liabilities Recognised in the Balance Sheet

Present value of the defined benefit obligation	76,509	69,185
Less fair value of plan assets	89,678	100,704
*Net superannuation liability/(asset)	(13,169)	(31,519)

* The Corporation has recognised an asset in the Balance Sheet in respect of its defined superannuation benefit arrangements. If a surplus exists in the Plan, the Corporation may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Plan's actuary. The Corporation has elected to do this during 2007/08.

The Corporation may at any time by notice to the Trustee terminate its contributions. The Corporation has a liability to pay the contributions due prior to the effective date of the notice, but there is no requirement for the Corporation to pay any further contributions, irrespective of the financial conditions of the Plan.

	2008 \$000	2007 \$000
Expense Recognised in the Income Statement		
Service cost	1,663	1,962
Interest cost	3,708	3,575
Expected return on Plan assets	(6,788)	(6,119)
Actuarial loss/(gain) recognised in year	19,767	(14,153)
Total superannuation expense/(income)	(Note 4) 18,350	(14,735)

Categories of Plan assets

The percentage invested in each asset class at the balance sheet date was:

Australian Equity	35%	37%
International Equity	22%	24%
Fixed Income	13%	15%
Property	14%	13%
Alternatives/Other	8%	4%
Cash	8%	7%
Total	100%	100%

Fair Value of Plan Assets

The fair value of Plan assets includes no amounts relating to:

- any of the Corporation's own financial instruments
- any property occupied by, or other assets used by, the Corporation.

Expected Rate of Return on Plan Assets

The expected return on Plan assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for the correlations of the investment returns between asset classes. The returns used for each asset class are net of investment tax and investment fees. An allowance for administration expenses has also been deducted from the expected return.

Actual return on Plan assets	(6,939)	14,322
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Principal Actuarial Assumptions at the Balance Sheet Date

Discount rate (active members)	6.2% pa	5.3% pa
Discount rate (pensioners)	6.8% pa	6.2% pa
Expected return on Plan assets (active members)	7.0% pa	7.0% pa
Expected return on Plan assets (pensioners)	7.5% pa	7.5% pa
Expected salary increase rate	4.0% pa	4.0% pa
Expected pension increase rate	3.0% pa	3.0% pa

Historical Information	2008	2007	2006	2005
Present value of defined benefit obligation	76,509	69,185	74,068	70,279
Less fair value of Plan assets	89,678	100,704	90,852	80,625
(Surplus)/deficit in Plan	(13,169)	(31,519)	(16,784)	(10,346)
Experience adjustments (gain)/loss – Plan assets	13,727	(8,203)	(6,308)	(3,172)
Experience adjustments (gain)/loss – Plan liabilities	6,227	(5,455)	3,380	(775)

Expected Contributions

Expected employer contributions for defined benefit members during the financial year ending 30 June 2009 are expected to be nil.

Notes to the Financial Report

37. Related party transactions

(a) Parent entities

The Department of Sustainability and Environment (DSE) leads and directs the Corporation in the implementation of the framework for achieving the State's responsibilities for sustainability of the natural and built environment.

(b) Entities with significant influence – Department of Treasury and Finance

The Department of Treasury and Finance (DTF) administers the Water Act 1989 and the Financial Management Act 1994, which the Corporation is required to comply. DTF is also responsible for protecting the shareholder's interest in respect of corporate business plans, appointment of directors and capital project approvals above \$5 million.

(c) Other related parties

The following entities have the same controlling entities as the Corporation, and therefore are considered to be related parties of the Corporation.

City West Water Ltd, South East Water Ltd, Yarra Valley Water Ltd, Western Water and Gippsland and Southern Rural Water

City West Water Ltd, South East Water Ltd, Yarra Valley Water Ltd, Western Water, Gippsland and Southern Rural Water are Government owned water authorities. City West Water Ltd, South East Water Ltd and Yarra Valley Water Ltd have bulk water and sewerage supply agreements with the Corporation. Western Water has a bulk water supply agreement with the Corporation. Gippsland and Southern Rural Water has a bulk recycled water supply agreement with the Corporation. These agreements operated on normal terms and conditions during the reporting period.

Environment Protection Authority Victoria

The Environment Protection Authority Victoria (EPA) is responsible for environmental regulation. It issues licences which set environmental discharge standards for the Corporation's sewerage treatment plants. The standards cover discharges to water, land and air. EPA is also responsible for issuing works approvals for capital works that may include a public consultation process. The Corporation has developed a Memorandum of Understanding with EPA which assists in establishing a working relationship in respect of the operations of the sewerage system.

Treasury Corporation of Victoria

The Treasury Corporation of Victoria provides financial accommodation (loans to the Corporation), executes financial arrangements (derivatives) and provides / arranges the provision of financial services to the Corporation.

Department of Primary Industries

The Department of Primary Industries (DPI) promotes the sustainable development of primary industries, including agriculture and energy within Victoria. DPI uses a collaborative approach to influence improvements in industry performance and to encourage the adoption of new technologies and development practices.

State Revenue Office

The State Revenue Office (SRO) is the Victorian Government's major tax collection agency. The SRO is a service agency of DTF, which falls within the portfolio responsibilities of the Treasurer of Victoria. The SRO administers Victoria's taxation legislation and collects a range of taxes, duties and levies.

Victorian Urban Development Authority

Victorian Urban Development Authority (VicUrban) is the Victorian Government's sustainable urban development agency. The Corporation is involved with VicUrban in commercial arrangements associated with the development of land at the Dandenong Treatment Plant and surplus land at Werribee.

Sustainability Victoria

Sustainability Victoria is a Government owned agency that encourages and supports government, business and communities to promote environmental sustainability.

Parks Victoria

Parks Victoria is a Government owned agency that is the custodian of a diverse estate of significant parks in Victoria and of the recreational management of Port Phillip Bay, Western Port and the Yarra and Maribyrnong rivers.

Vic Roads

Vic Roads is a Government owned agency that is primarily responsible for managing the Victorian arterial road network and its use as an integral part of the overall transport system.

VicWater

VicWater is a Government owned agency that contributes to and influences the development and implementation of Government policies relating to water and wastewater services within Victoria.

2008
\$000

2007
\$000

(d) Transactions with related parties

Receipts from related parties

Department of Sustainability and Environment	9,306	6,953
Other related parties		
City West Water Ltd	127,351	123,262
South East Water Ltd	181,385	176,452
Yarra Valley Water Ltd	200,555	195,209
Western Water	4,776	4,928
Gippsland and Southern Rural Water	1,659	1,370
Victorian Urban Development Authority	4,419	1
Sustainability Victoria	101	220
Vic Roads	30	3,139
VicWater	16	-

Payments to related parties

Department of Sustainability and Environment	8,882	3,528
Department of Treasury and Finance	18,589	32,162
Department of Primary Industries	384	646
Other related parties		
City West Water Ltd	2,819	2,603
South East Water Ltd	3,912	3,081
Yarra Valley Water Ltd	5,150	4,005
Western Water	351	13
State Revenue Office	28,989	6,501
Environment Protection Authority Victoria	1,743	930
Treasury Corporation of Victoria	89,964	78,870
Victorian Urban Development Authority	409	716
Sustainability Victoria	23	19
Parks Victoria	345	684
Vic Roads	1,381	16
VicWater	44	53

Dividend expense

Department of Treasury and Finance	99,400	86,600
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Equity contributions (transfer of crown land)

Department of Sustainability and Environment	8,580	24,632
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Notes to the Financial Report

(e) Outstanding balances arising from sales / purchases of goods and services

The following balances are outstanding at the reporting date in relation to transactions with related parties:

Current receivables

Department of Sustainability and Environment	6,448	13
Other related parties		
City West Water Ltd	5,243	6,267
South East Water Ltd	6,231	7,829
Yarra Valley Water Ltd	7,238	10,757
Western Water	376	250
Environment Protection Authority Victoria	544	-
Victorian Urban Development Authority	170	-
Sustainability Victoria	-	-

Current payables

Department of Sustainability and Environment	910	171
Department of Treasury and Finance	1,752	1,260
Other related parties		
City West Water Ltd	583	138
South East Water Ltd	83	82
Yarra Valley Water Ltd	210	304
Western Water	73	-
State Revenue Office	1,488	10,000
Environment Protection Authority Victoria	17	10
Treasury Corporation of Victoria – Borrowings	338,362	220,391
Sustainability Victoria	-	580

Non current payables

Department of Sustainability and Environment	7,263	9,229
Treasury Corporation of Victoria	1,305,000	1,115,000
Other related parties		
City West Water Ltd	100	100
Yarra Valley Water Ltd	25	50
Environment Protection Authority Victoria	110	111
Sustainability Victoria	56	63

(f) Terms and conditions

Transactions relating to dividends are subject to final determination by the Treasurer after consultation with the Corporation's Board of Directors and Minister for Water.

Transactions relating to equity contributions are determined by the Department of Sustainability and Environment in consultation with the Corporation.

Transactions relating to trading activities of the Corporation including sale of bulk water, sale of sewage services and collection of drainage rates are based on normal commercial terms and conditions.

Outstanding balances are unsecured and are repayable in cash.

(g) Guarantees

There are no guarantees given or received for the current payables, current receivables and borrowings.

38. Responsible persons related party disclosures

(a) Responsible persons

The names of persons who were responsible persons at anytime during the financial year were:

› The Hon. John Thwaites MP, Minister for Water, Environment and Climate Change (1 July 2007 to 3 August 2007)		
› The Hon. Timothy Holding MP, Minister for Water (3 August 2007 to 30 June 2008)		
› Board Members:		
Chairman	Cheryl Batagol	1 July 2007 to 30 June 2008
Deputy Chairman	Merran Kelsall	1 July 2007 to 30 June 2008
Director	Bruce Cohen	1 July 2007 to 21 August 2007
Director	Peter Darvall	1 July 2007 to 30 June 2008
Director	Mary Anne Hartley	1 July 2007 to 30 June 2008
Director	Terry Larkins	1 July 2007 to 30 June 2008
Director	Carolyn Schultz	1 July 2007 to 30 June 2008
Director	Peter Vines	1 July 2007 to 30 June 2008
Managing Director	Rob Skinner	1 July 2007 to 30 June 2008

Remuneration of responsible persons

Remuneration paid to the Minister is reported in the Annual Report of the Department of Premier and Cabinet. Other relevant interests are declared in the Register of Members' Interests which each member of the parliament completes.

Remuneration received, or due and receivable by the Managing Director in connection with the management of the Corporation during the reporting period was in the range of \$370,000 – \$379,999.

Remuneration of directors

The number of responsible persons whose remuneration from the Corporation was within the specified bands were as follows:

Total Remuneration Income Band (\$)	2008 Number	2007 Number
0 – 9,999	1	-
10,000 – 19,999	-	1
20,000 – 29,999	1	-
30,000 – 39,999	-	-
40,000 – 49,999	5	6
70,000 – 79,999	-	-
80,000 – 89,999	1	1
360,000 – 369,999	-	1
370,000 – 379,999	1	-
Total numbers	9	9
	\$000	\$000
Total amount	707	722

Notes to the Financial Report

38. Responsible persons related party disclosures

(b) Other related party transactions

› There were no amounts paid by the Corporation in connection with the retirement of responsible persons of the Corporation during the financial year.

› There were no loans in existence by the Corporation to responsible persons or related parties during the financial year.

› Related party transactions involving Board Members are as follows:

	2008 \$000	2007 \$000
(i) The Chairman, Cheryl Batagol, is the Deputy Chairman of Sustainability Victoria, a Government owned agency, which provides services to the Corporation. All dealings with this agency were on normal terms and conditions during the reporting period.		
Total revenue received from Sustainability Victoria was:	101	283
Total payments made to Sustainability Victoria was:	23	10
(ii) A Director, Terry Larkins, is the Chairman of Western Water and the Victorian Water Industry Association (VicWater).		
Western Water is a Government owned water authority, which has a bulk water supply agreement with the Corporation that was operative on normal terms and conditions during the reporting period.		
VicWater is the peak industry association for water businesses and influences the development and implementation of Government policies relating to water and wastewater services. All dealings with this agency were on normal terms and conditions during the reporting period.		
Total revenue received from Western Water was:	4,776	4,928
Total payments made to Western Water was:	351	13
Total revenue received from VicWater was:	16	–
Total payments made to VicWater was:	44	53
(iii) A Director, Mary Anne Hartley, is a Director of Port of Melbourne Corporation (PoMC), a Government owned agency responsible for commercial shipping in the waters of the Port Phillip Bay, Port Melbourne and Williamstown. All dealings with this agency were on normal terms and conditions during the reporting period.		
Total revenue received from PoMC was:	–	–
Total payments made to PoMC was:	–	1
(iv) The Deputy Chairman, Merran Kelsall, is the Chairman of the audit committee of Darebin City Council, which provides local government for a large municipality north of the central business district. All dealings with this agency were on normal terms and conditions during the reporting period.		
Total revenue received from Darebin City Council was:	2	2
Total payments made to Darebin City Council was:	66	48

› All other transactions with related party entities were made on normal terms and conditions during the financial year.

39. Remuneration of executives

The numbers of executive officers, other than responsible persons (as defined in *FRD 21A Responsible Person and Executive Officer Disclosures in the Financial Report*) whose remuneration (total and base) falls within the specified bands above \$100,000 are as follows:

(Base remuneration is exclusive of bonus payments, long-service leave payments, redundancy payments and retirement benefits).

Income Band (\$)	Total Remuneration		Base Remuneration	
	2008 Number	2007 Number	2008 Number	2007 Number
100,000 – 109,999	–	–	–	1
110,000 – 119,999	–	1	–	2
120,000 – 129,999	–	3	2	4
130,000 – 139,999	1	1	6	9
140,000 – 149,999	4	6	11	7
150,000 – 159,999	4	8	2	4
160,000 – 169,999	5	6	5	–
170,000 – 179,999	6	3	2	2
180,000 – 189,999	7	–	–	1
190,000 – 199,999	–	1	4	1
200,000 – 209,999	1	1	1	2
210,000 – 219,999	1	2	1	1
220,000 – 229,999	2	–	–	–
230,000 – 239,999	1	2	–	1
240,000 – 249,999	2	1	–	–
260,000 – 269,999	–	1	1	–
300,000 – 309,999	1	–	–	–
310,000 – 319,999	–	–	–	1
330,000 – 339,999	–	1	–	–
Total numbers	35	37	35	36*
	\$000	\$000	\$000	\$000
Total amount	6,444	6,393	5,612	5,674

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

40. Key management personnel compensation

Key management personnel (as defined in *AASB 124 Related Party Disclosures*) includes the Managing Director and selected executive officers who have the authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly, during the financial year.

	2008 \$000	2007 \$000
Short-term employment benefits	1,858	1,773
Post-employment benefits	–	–
Other long-term benefits*	355	492
Termination benefits	–	–
Share-based payment	–	–
Total amount	2,213	2,265
Total numbers	8	7

* Other long-term benefits represents long service leave.

Notes to the Financial Report

	Notes	2008 \$000	2007 \$000
41. Reconciliation of net cash provided from operating activities to net profit			
Net profit	26	67,642	133,509
Depreciation	4	87,497	77,380
Provision for impaired receivables	7(a)	(1)	4
Net (gain)/loss on sale of non-current assets	3(b)	(719)	491
Assets written off / written down	4	11,652	10,623
Asset revaluation decrements	4	272	685
Defined benefit expense	4	18,350	-
Value of works taken over from developers		(14,079)	(10,151)
Changes in operating assets and liabilities:			
Decrease (increase) in trade receivable and other receivables		(8,343)	(8,345)
Decrease (increase) in other assets		599	(13,570)
Decrease (increase) in current tax assets	5	(1,320)	-
(Decrease) increase in trade creditors and payables		(7,704)	31,551
(Decrease) increase in provisions	17, 22	(11,148)	(15,802)
(Decrease) increase in current tax liabilities	19	(2,096)	(4,693)
(Decrease) increase in deferred tax liabilities	23	23,015	24,862
Net cash provided by operating activities		163,617	226,544

Melbourne Water Corporation 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 2008 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 15th day of August 2008.

On behalf of the Board:



Cheryl Batagol
Chairman



Robert Skinner
Managing Director



Malcolm Haynes
Chief Finance Officer

INDEPENDENT AUDITOR'S REPORT

To the Board Members of the Melbourne Water Corporation

The Financial Report

The accompanying financial report for the year ended 30 June 2008 of Melbourne Water Corporation which comprises of an income statement, balance sheet, statement of changes in equity, cash flow statement, a summary of significant accounting policies and other explanatory notes to and forming part of the financial report, and the statement by Directors and Chief Finance Officer has been audited.

The Board Members Responsibility for the Financial Report

The Board Members of the Melbourne Water Corporation are responsible for the preparation and the fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the financial reporting requirements of the *Financial Management Act 1994*. This responsibility includes:

- establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

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Independent Auditor's Report (continued)

Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial statements published in both the annual report and on the website of the Melbourne Water Corporation for the year ended 30 June 2008. The Board Members of Melbourne Water Corporation are responsible for the integrity of the web site. I have not been engaged to report on the integrity of the web site. The auditor's report refers only to the statements named above. An opinion is not provided on any other information which may have been hyperlinked to or from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on the Melbourne Water Corporation web site.

Independence

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

Auditor's Opinion

In my opinion, the financial report presents fairly, in all material respects, the financial position of Melbourne Water Corporation as at 30 June 2008 and its financial performance and cash flows for the year then ended in accordance with applicable Australian Accounting Standards (including the Australian Accounting Interpretations), and the financial reporting requirements of the *Financial Management Act 1994*.

MELBOURNE
15 August 2008



D D R Pearson
Auditor-General

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STATUTORY INFORMATION

DISCLOSURE INDEX

This Sustainability Report is prepared in accordance with all relevant Victorian legislation. This index was prepared to facilitate identification of compliance with statutory disclosure requirements.

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<i>FINANCIAL MANAGEMENT ACT 1994</i>		

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 \$8.7 billion (written down replacement 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, 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 Part 6 of the Water Act 1989 (Vic) and reports annually to the Minister and Treasurer.

Our vision

Working together to ensure a sustainable water future.

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 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, Our Workplace
- › 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
- › Waterway services, including drainage management, waterway management and water quality protection to the Port Phillip and Westernport catchments. Melbourne Water also administers diversion licences for the Yarra and Maribyrnong catchments
- › Recycled water services to metropolitan retail water businesses and rural water authorities.

Scale of activities

Melbourne Water manages water supply, sewerage, drainage and recycled water assets that service an area of about 13,000 square kilometres. The assets comprise:

- › 156,756 hectares of protected water supply catchments
- › 49 water treatment (disinfection) plants and two major wastewater treatment plants
- › 46 sewage, water and drainage pumping stations
- › 1030 kilometres of water distribution mains, more than 200 kilometres of aqueducts and tunnels, and 399 kilometres of sewers
- › 1500 kilometres of underground drains and 8400 kilometres of waterways.

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, 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, Sustainability Victoria and universities. Research organisations, such as the CSIRO and Cooperative 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 agreements 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, community, employees, occupational health and safety, risk management, accounting, legal and commercial.

View of city from Richmond across Yarra River



KEY PERFORMANCE INDICATORS 2008/09 – 2010/11

INDICATOR	2008/09	2009/10	2010/11
WATER			
PRODUCTION/STORAGE			
OPERATE WATER SUPPLY SYSTEM WITHIN ENVIRONMENTAL REQUIREMENTS – % COMPLIANCE	100%	100%	100%
CONTRIBUTE TO THE GOVERNMENT'S TARGET OF REDUCING PER CAPITA WATER CONSUMPTION BY 15% BY 2010 (ADJUSTED FOR TRANSFER OF SUSTAINABLE WATER PLANS TO COUNCIL)	3.3%	3.7%	N/A
MAINTAIN SYSTEM LOSSES AS A PERCENTAGE OF WATER SUPPLIED TO RETAIL WATER BUSINESSES	<1.0% ¹	<1.0% ¹	<1.0% ¹
WATER TRANSFER			
COMPLIANCE WITH RETAIL WATER BUSINESSES' PRESSURE REQUIREMENTS AS SET OUT IN BULK WATER SERVICE AGREEMENTS	99.6%	99.6%	99.6%
WATER QUALITY			
COMPLIANCE WITH BWSA WATER QUALITY REQUIREMENTS:			
MICROBIOLOGICAL STANDARDS (E.COLI)	100%	100%	100%
DISINFECTION BY-PRODUCTS	100%	100%	100%
AESTHETICS (TURBIDITY)	91.5%	91.5%	91.5%
AESTHETICS (ALUMINIUM)	100%	100%	100%
SEWAGE			
WESTERN TREATMENT PLANT TREATMENT/DISPOSAL			
EPA VICTORIA LICENCE COMPLIANCE COMPLIANCE WITH DISCHARGE LICENCE REQUIREMENTS	100%	100%	100%
- NITROGEN LOAD TO PORT PHILLIP BAY	<3100 TONNES	<3100 TONNES	<3100 TONNES
- OFFENSIVE ODOURS BEYOND THE BOUNDARY	0	0	0
- RAW SEWAGE TDS	<1250 MG/L	<1000 MG/L	<1000 MG/L
EASTERN TREATMENT PLANT TREATMENT/DISPOSAL			
EPA VICTORIA LICENCE COMPLIANCE COMPLIANCE WITH DISCHARGE LICENCE REQUIREMENTS	100%	100%	100%
- AMMONIA LIMIT	5 MG/L	5 MG/L	5 MG/L
- OFFENSIVE ODOURS BEYOND THE BOUNDARY	0	0	0
- LITTER AT BEACH (THAT RESULTS IN A LICENCE BREACH)	0	0	0
- FINAL EFFLUENT TDS	<500 MG/L	<500 MG/L	<500 MG/L
SEWERAGE TRANSFER			
EPA SEPP COMPLIANCE FOR SEWERAGE SYSTEM SPILLS			
SYSTEM FAILURE – ZERO SPILLS DUE TO 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	0	0	0
COMPLAINTS RELATING TO TRANSFER SYSTEM ODOUR	<10	<10	<10
BIOSOLIDS MANAGEMENT			
MAXIMISE SUSTAINABLE REUSE OF BIOSOLIDS: WTP – EQUIVALENT TO 100% OF BIOSOLIDS PRODUCED ANNUALLY BY 2011/12	0	0	0
TRADE WASTE			
WORK WITH RETAIL WATER BUSINESSES TO IMPROVE TRADE WASTE MANAGEMENT: NUMBER OF HIGH RISK NON-COMPLIANT TRADE WASTE DISCHARGES TO MELBOURNE WATER'S SEWERAGE SYSTEM	0	0	0

INDICATOR	2008/09	2009/10	2010/11
WATERWAYS			
ACHIEVE WATERWAYS OPERATING CHARTER PERFORMANCE TARGETS	100%	100%	100%
DRAINAGE AND FLOOD PROTECTION			
ALL NEW DEVELOPMENT COMPLIES WITH FLOOD PROTECTION STANDARDS	100%	100%	100%
CURRENTLY KNOWN INTOLERABLE FLOOD RISKS REDUCED BY 10% BY 2013	0	0	0
STORMWATER QUALITY			
CUMULATIVE REDUCTION IN NITROGEN LOADS IN URBAN STORMWATER RUN-OFF IN ACCORDANCE WITH THE ENVIRONMENT MANAGEMENT PLAN FOR PORT PHILLIP BAY	86 TONNES	100 TONNES	N/A
ACHIEVE WATER PLAN IMPLEMENTATION TARGETS SET OUT IN THE WATERWAYS WATER QUALITY STRATEGY AND REGIONAL RIVER HEALTH STRATEGY	100%	100%	100%
WATERWAYS CONDITION			
ACHIEVE WATER PLAN IMPLEMENTATION TARGETS ASSIGNED TO MELBOURNE WATER FROM THE REGIONAL RIVER HEALTH STRATEGY AND ADDENDUM	100%	100%	100%
LAND DEVELOPMENT			
DEVELOPMENT AND REDEVELOPMENT SERVICES STRATEGIES PREPARED, IMPLEMENTED AND REVIEWED ACCORDING TO THE DEVELOPMENT PLANNING PROGRAM	100%	100%	100%
STATUTORY AND AGREED INDUSTRY RESPONSE TIMES TO BE ACHIEVED FOR ALL REFERRALS	100%	100%	100%
STREAMFLOW DIVERSIONS			
DIVERSIONS TO BE MANAGED: IN ACCORDANCE WITH RULES SPECIFIED IN STREAM FLOW MANAGEMENT PLANS, LOCAL MANAGEMENT RULES OR DROUGHT RESPONSE PLANS	100%	100%	100%
TO MEET THE SERVICE REQUIREMENTS IN MELBOURNE WATER'S RURAL CUSTOMER CHARTER (DIVERSION SERVICES)	100%	100%	100%
COMMUNITY AND STAKEHOLDER ENGAGEMENT			
MAINTAIN AT LEAST 70% TOTAL COMMUNITY SATISFACTION WITH WATERWAYS ²	70%	70%	70%
RECYCLED WATER			
CONTRIBUTE 19.6% TO THE GOVERNMENT'S 20% WATER RECYCLING TARGET BY 2010	19.6%	19.6%	N/A
CONTRIBUTE 964 MILLION LITRES OF RECYCLED WATER TO RETAIL WATER BUSINESSES FOR POTABLE SUBSTITUTION BY 2013	608ML	656ML	736ML
CORPORATE			
SUSTAINABILITY			
ACHIEVE SUSTAINABILITY PERFORMANCE RANKING IN THE TOP QUARTILE AGAINST GLOBAL WATER UTILITIES AND AUSTRALIAN UTILITIES, USING THE DOW JONES SUSTAINABILITY WORLD INDEXES (DJSI)	TOP 25%	TOP 25%	TOP 25%
MAINTAIN FINANCIAL VIABILITY			
MEET REGULATED WATER PLAN OPERATING EXPENDITURE (\$M)	275	297.8	321
INTEREST COVER	1.8	1.7	1.9
CASH RETURNS TO GOVERNMENT (\$M)	76.7	119.2	163.4
GEARING (DEBT/DEBT + EQUITY)	57.6%	63.4%	65.3%
RETURN ON EQUITY	5.1%	5.4%	8.5%

KEY PERFORMANCE INDICATORS 2008/09 – 2010/11

INDICATOR	2008/09	2009/10	2010/11
CORPORATE			
OUR PEOPLE, OUR WORKPLACE			
NUMBER OF LOST TIME INJURIES:	0	0	0
MELBOURNE WATER PEOPLE			
MAJOR CONTRACTORS			
MAINTAIN SAFETYMAP ACCREDITATION	YES	YES	YES
TURNOVER	5-10%	5-10%	5-10%
ABSENTEEISM (DAYS PER PERSON PER YEAR)	2.7	2.7	2.7
IMPLEMENT A SUSTAINABILITY EDUCATION PROGRAM ACROSS THE ORGANISATION:			
% EMPLOYEES WHO BELIEVE THAT THEIR PERSONAL SUSTAINABILITY PERFORMANCE HAS IMPROVED THROUGH MELBOURNE WATER'S EDUCATION AND INFLUENCE	80%	80%	80%
MINIMISE EVERYDAY ENVIRONMENTAL IMPACTS:			
CUMULATIVE REDUCTION IN OFFICE WATER CONSUMPTION PER FTE	3%	4%	5%
CUMULATIVE REDUCTION IN PAPER USE PER FTE	7%	10%	12%
CUMULATIVE REDUCTION IN OFFICE WASTE TO LANDFILL PER FTE	4%	6%	8%
CUMULATIVE REDUCTION IN OFFICE ENERGY USE PER FTE	3%	4%	5%
OFFSETTING GREENHOUSE GAS EMISSIONS FROM OFFICE ENERGY USE AND TRAVEL	100%	100%	100%
RELATIONSHIPS – CUSTOMER, COMMUNITY, STAKEHOLDER			
CUSTOMERS			
NUMBER OF COMPLAINTS ESCALATED TO ENERGY AND WATER OMBUDSMAN OF VICTORIA	3	3	3
COMMUNITY			
EFFECTIVENESS OF COMMUNITY COMMITTEE AND COMMUNITY CONSULTATION PROCESSES	80%	80%	90%
EFFECTIVENESS OF COMMUNITY EDUCATION PROGRAMS	80%	80%	90%
NATURAL ENVIRONMENT			
RENEWABLE ENERGY AND GREENHOUSE			
RENEWABLE ENERGY USED OR EXPORTED AS % OF TOTAL ENERGY USED	54%	58%	61%
% REDUCTION ON 2000/01 GREENHOUSE GAS EMISSIONS	40%	40%	40%
BIODIVERSITY			
FOR THE 9 DSE-DESIGNATED SITES OF HIGH BIODIVERSITY SIGNIFICANCE (BIOSITES), THE NUMBER OF BIOSITES THAT HAVE:			
BEEN SURVEYED (CUMULATIVE)	4	8	9
HAD MANAGEMENT PLANS DEVELOPED (CUMULATIVE)	3	4	8
HAD MANAGEMENT PLANS IMPLEMENTED (CUMULATIVE)	0	2	3

1. Reflects accuracy of estimate and annual variation in volume supplied
2. Performance will be measured every two years

PUBLICATIONS

Consistent with Melbourne Water's sustainability principles, a significant proportion of our newsletters, reports, posters, booklets and flyers were produced this year as online documents.

TITLE	DATE OF PUBLICATION
REPORTS	
DIAMOND CREEK STREAMFLOW MANAGEMENT PLAN ANNUAL REPORT 2006/07	SEPTEMBER 2007
HODDLES CREEK STREAMFLOW MANAGEMENT PLAN ANNUAL REPORT 2006/07	SEPTEMBER 2007
MARIBYRNONG WATERWATCH – ANNUAL REPORT, DATA REPORT	FEBRUARY 2008, APRIL 2008
MAKING CONNECTIONS – OUTCOMES AND FUTURE INITIATIVES	APRIL 2008
LAND DEVELOPMENT MANUAL	APRIL 2008
STRATEGIES AND PLANS	
PORT PHILLIP AND WESTERNPORT FLOOD MANAGEMENT AND DRAINAGE STRATEGY	NOVEMBER 2007
OLINDA CREEK STREAMFLOW MANAGEMENT PLAN	NOVEMBER 2007
STEELS, PAULS AND DIXONS CREEK STREAMFLOW MANAGEMENT PLAN	NOVEMBER 2007
STRINGYBARK CREEK STREAMFLOW MANAGEMENT PLAN	NOVEMBER 2007
PLENTY RIVER STREAMFLOW MANAGEMENT PLAN	NOVEMBER 2007
WATERWAYS WATER QUALITY STRATEGY	MARCH 2008
CUSTOMER CHARTER FOR DIVERSIONS SERVICES	MARCH 2008
PRINCIPLES FOR PROVISION OF WATERWAY AND DRAINAGE SERVICES FOR URBAN GROWTH	JUNE 2008
EDUCATION	
EDSTREAM ONLINE NEWSLETTER	AUGUST 2007, OCTOBER 2007, DECEMBER 2007, FEBRUARY 2008
RIVER HEALTH INFORMATION SESSION FLYER	OCTOBER 2007
PRIMARY SCHOOL CALENDARS – EASTERN TREATMENT PLANT, WESTERN TREATMENT PLANT, WINNEKE WATER TREATMENT PLANT	DECEMBER 2007
LEADERSHIP IN STORMWATER: SEMINAR SERIES FOR LOCAL GOVERNMENT – FLYER (PRODUCED IN CONJUNCTION WITH CLEARWATER, EPA VICTORIA, MUNICIPAL ASSOCIATION OF VICTORIA, STORMWATER INDUSTRY ASSOCIATION OF VICTORIA)	APRIL 2008
GLEN IRIS WETLAND CONCEPT PLAN – POSTER (PRODUCED IN CONJUNCTION WITH THE CITY OF BOROONDARA AND STOCKLAND)	MAY 2008
RIVER HEALTH YOUTH CONFERENCE PROGRAM – BOOKLET	JUNE 2008
COMMUNITY NEWSLETTERS AND BULLETINS	
EASTERN TREATMENT PLANT COMMUNITY LIAISON COMMITTEE	AUGUST 2007
PATTERSON LAKES ADVISORY COMMITTEE	SEPTEMBER 2007, DECEMBER 2007, MAY 2008
NORTHERN SEWERAGE PROJECT – ONE TO THREE WORKS BULLETINS A MONTH, PROJECT UPDATES PRODUCED IN CONJUNCTION WITH YARRA VALLEY WATER	OCTOBER 2007, APRIL 2008
WATERWATCH – DANDENONG REGION	OCTOBER 2007, APRIL 2008
WATERWATCH – WESTERNPORT REGION	DECEMBER 2007, JUNE 2008
MELBOURNE MAIN SEWER REPLACEMENT	DECEMBER 2007
PUDDLES IN THE PLAINS (WERRIBEE PLAINS NEWSLETTER)	MARCH 2008
EXTENDED WATERWAYS AND DRAINAGE OPERATING AREAS – NEWSLETTERS, REPORTS, FACT SHEETS	APRIL 2008 TO JUNE 2008
TARAGO PROJECT	REGULAR UPDATES
SUGARLOAF PIPELINE PROJECT	REGULAR UPDATES
GENERAL	
ONTAP	MONTHLY INTERNAL ONLINE NEWSLETTER
THE SOURCE	ONLINE MAGAZINE (10 ISSUES)
WEEKLY UPDATE	EMAIL INTERNAL NEWSLETTER

CONSULTANTS

During 2007/08, Melbourne Water engaged 17 consultants at less than \$100,000 each to undertake operational and capital works projects at a total cost of \$542,000 (excluding GST).

In addition, Melbourne Water engaged six consultants at more than \$100,000 to undertake the following projects (expenditure excludes GST):

CONSULTANT	PROJECT	TOTAL FEE APPROVED (\$)	EXPENDITURE 2007/08 (\$)	FUTURE EXPENDITURE (\$)
AUSTRALIAN WATER QUALITY CENTRE	DISINFECTION BY-PRODUCT STUDY – STAGE 1	126,157	108,676	-
AUSTRALIAN WATER QUALITY CENTRE	DISINFECTION BY-PRODUCT STUDY – STAGE 2	91,000	30,000	61,000
CH2M HILL AUSTRALIA	REVIEW OF DRINKING WATER QUALITY REQUIREMENTS FOR DESALINATION	113,152	112,911	-
HYDRO TASMANIA	AERATION BLOWER EFFICIENCY	90,690	48,690	-
HYDRO TASMANIA	WIND SITE ANALYSIS	162,783	162,783	-
MWH AUSTRALIA	BLUE CIRCLE BIOSOLIDS TECHNICAL SUPPORT	30,000	21,348	-
MWH AUSTRALIA	DRINKING WATER QUALITY RISKS IN MELBOURNE'S OPEN WATER SUPPLY CATCHMENTS	224,103	195,833	-
MWH AUSTRALIA	MAROONDAH AQUEDUCT	107,088	85,698	21,390
MWH AUSTRALIA	SALT REDUCTION PLANT AND BRINE DISPOSAL	139,940	139,605	-
MWH AUSTRALIA	WINNEKE RESIDUALS MANAGEMENT	245,000	53,791	191,209
SINCLAIR KNIGHT MERZ	VICTORIAN WATER PLAN: WATER QUALITY IMPLICATIONS FOR MELBOURNE	298,000	286,302	-
SINCLAIR KNIGHT MERZ	REVIEW OF SUPPLY AUGMENTATION	10,744	10,080	-
SINCLAIR KNIGHT MERZ	WINNEKE UPGRADE FUNCTIONAL DESIGN	300,000	131,462	168,538
URS AUSTRALIA	EASTERN WATER RECYCLING PROPOSAL RELEASED WATER QUALITY STUDY	200,000	143,841	-
URS AUSTRALIA	SALT REDUCTION PLANT	26,599	26,599	-

NATIONAL COMPETITION POLICY

Melbourne Water will submit our 2009 Water Plan for water, sewerage and recycled water services to the Essential Services Commission (ESC) in November 2008 to enable the ESC to make a price determination for the four-year period commencing 2009/10. The 2009 Water Plan will set out performance relative to the expenditures and outcomes included in the ESC's first determination as well as proposed outcomes, expenditures and prices for the second price determination period.

In December 2007, Melbourne Water submitted its 2008 Water Plan for waterways and drainage services, which enabled the ESC to make a price determination for these services commencing in 2008/09 for a five-year period. These processes are consistent with the pricing and institutional reform objectives of the *National Competition Policy*.

Melbourne Water is corporatised and therefore has an independent Board, with independent and objective performance monitoring. We face equivalent tax treatment, borrowing requirements and regulations as a private business. As outlined above, we also operate in an environment where the ESC determines cost-based pricing. In this regard, our processes are consistent with the requirements of the Competitive Neutrality Policy Victoria.

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: Ms C Batagol
Chairman, Melbourne Water

Authorised officer: Ms J Denton

Freedom of Information Officer,
Melbourne Water

REQUESTS FOR INFORMATION

This year we received 20 requests for access to documents under the Freedom of Information legislation.

We processed these requests as follows:

ACCESS IN FULL	6
ACCESS IN PART	4
ACCESS REFUSED	1
DOCUMENTS NOT LOCATED	7
APPLICANT DID NOT PROCEED	0
NOT FINALISED	2

The applications received related to the following issues:

PERSONAL INJURY	1
WATER QUALITY	4
BUSINESS ADMINISTRATION	6
WATER SUPPLY	6
WATERWAYS MANAGEMENT	2
PROPERTY	0
FLOODING	1

YEAR	NUMBER OF REQUESTS
2003/04	17
2004/05	11
2005/06	14
2006/07	20
2007/08	20

Grounds for refusing release of documents: internal working documents and/or documents containing sensitive commercial information and/or documents affecting personal privacy and/or Cabinet documents.

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 3002

Each application must clearly identify the documents sought and be accompanied by the required application fee, currently \$22.70. General inquiries concerning Freedom of Information can be made by telephoning the Freedom of Information Officer on (03) 9235 7184 between 9am 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 in this report.

CATEGORIES OF DOCUMENTS

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

PRICING

Consistent with the Essential Services Commission's 2008 Water Price Review, Melbourne Water's water and sewerage prices will increase by an average of 23.5% in real terms (excluding inflation) for 2008/09. As discussed above, Melbourne Water will submit its 2009 Water Plan for water and sewerage services to enable the ESC to make a price determination for the four-year period commencing 2009/10.

This reflects the ESC's assessment of the efficient cost of delivering customer, government and regulatory requirements over that period. Further information on bulk water and sewerage charges as well as the waterways and drainage charges is available at melbournewater.com.au

BULK ENTITLEMENTS

The metropolitan retail water businesses hold bulk entitlements to the water resources of the Yarra River, Thomson River and Silver/Wallaby Creeks (Goulburn River Basin). The entitlements were established as a collective 'pool' and transferred to the metropolitan retail water businesses on 30 October 2006. Before then, Melbourne Water held the bulk entitlements.

The data below represents the bulk entitlement reporting requirements for 2007/08.

Reporting obligations common to Yarra River, Thomson River and Silver/Wallaby Creek (Goulburn River) entitlements

TOTAL MELBOURNE WATER SUPPLY SYSTEM	
THE LONG-TERM AVERAGE ANNUAL BULK ENTITLEMENT DIVERSION LIMIT	555,000 MILLION LITRES
THE 15-YEAR ROLLING AVERAGE ANNUAL DIVERSION TAKEN FROM THE YARRA, THOMSON AND GOULBURN BASINS FOR THE MELBOURNE SUPPLY SYSTEM	438,100 ¹ MILLION LITRES
ANNUAL DIVERSION FROM THE YARRA, THOMSON AND GOULBURN SYSTEMS FOR 2007/08	330,810 MILLION LITRES
TOTAL ANNUAL CONSUMPTION IN 2007/08	381,100 MILLION LITRES

¹ Compliance against the bulk entitlement diversion limit has been reported as the 15-year rolling average annual diversion from the combined Yarra, Thomson and Silver/Wallaby Creek systems.

The metropolitan retail water businesses have established a Management Agreement and Management Rules as required by the bulk entitlement order.

Individual entitlement reporting obligations

Thomson Basin	
THE LONG-TERM AVERAGE ANNUAL BULK ENTITLEMENT DIVERSION LIMIT	171,800 MILLION LITRES
THE 15-YEAR ROLLING AVERAGE ANNUAL DIVERSION TAKEN FROM THE THOMSON RIVER BASIN UNDER THIS ENTITLEMENT	144,100 ² MILLION LITRES
ANNUAL DIVERSION FROM THE THOMSON RIVER BASIN FOR 2007/08	124,500 MILLION LITRES
STORAGE VOLUME IN THE RETAIL WATER BUSINESSES' SHARE OF THE RESERVOIR AT 30/06/08	184,300 MILLION LITRES
FLOW INTO THE RETAIL WATER BUSINESSES' SHARE OF THE RESERVOIR	139,600 MILLION LITRES
ENVIRONMENTAL RELEASES FROM THE RETAIL WATER BUSINESSES' SHARE OF THE RESERVOIR	38,600 MILLION LITRES
COMPLIANCE WITH RECOMMENDED ENVIRONMENTAL FLOW REGIME	NO ³
NUMBER OF PERMANENT TRANSFERS	NIL
VOLUME OF PERMANENT TRANSFERS	0
NUMBER OF TEMPORARY TRANSFERS	NIL
VOLUME OF TEMPORARY TRANSFERS	0
AMENDMENT TO BULK ENTITLEMENT	NIL

² Compliance against the bulk entitlement diversion limit has been reported as the 15-year rolling average annual diversion from the Thomson system.

³ In October 2007 there was a minor non-compliance with minimum flow requirements in the Thomson River at Coopers Creek gauging station. The minimum flow was 214 ML/day compared with a required minimum of 225 ML/day. While this was within the required operational tolerance of 15 ML/day, the operational tolerance requiring the seven-day total recorded flow to equal the seven-day total minimum required flow of 1575 ML was not met. The seven-day totals for 21 and 22 October 2007 were 1559 ML and 1570 ML respectively. Corrective action was undertaken to reduce the potential for this non-compliance to recur.

Temporary qualification of rights – bulk entitlement (Thomson River – Environment) 2005

On 23 March 2007, the then Minister for Water agreed to relax the operating tolerance placed on the achievement of minimum environmental flows downstream of Thomson Dam until Stage 2 water restrictions are lifted in Melbourne.

On 20 December 2007, the Minister for Water further qualified environmental flows on the Thomson River. This qualification reduced the environmental entitlement by 10,000 million litres on 31 December 2007 and annually thereafter by 8000 million litres.

Yarra Basin

THE LONG-TERM AVERAGE ANNUAL BULK ENTITLEMENT DIVERSION LIMIT	400,000 MILLION LITRES
THE 15-YEAR ROLLING AVERAGE ANNUAL DIVERSION TAKEN FROM THE YARRA SYSTEM UNDER THIS ENTITLEMENT	288,500 ⁴ MILLION LITRES
ANNUAL DIVERSION FROM THE YARRA RIVER BASIN FOR 2007/08	205,200 MILLION LITRES
STORAGE VOLUME IN THE RETAIL WATER BUSINESSES' SHARE OF STORAGE AT 30/06/08	329,600 MILLION LITRES
FLOW INTO THE RETAIL WATER BUSINESSES' SHARE OF STORAGE	278,600 MILLION LITRES
ANNUAL VOLUME OF WATER SUPPLIED TO WESTERN WATER AS A PRIMARY ENTITLEMENT HOLDER	10,400 MILLION LITRES
TOTAL ENVIRONMENTAL RELEASES AND SPILLS FROM RETAIL WATER BUSINESSES' SHARE OF STORAGE	37,200 MILLION LITRES
COMPLIANCE WITH WATER HARVESTING CAPACITY	YES ⁵
COMPLIANCE WITH RECOMMENDED ENVIRONMENTAL FLOW REGIME	YES ⁶
NUMBER OF PERMANENT TRANSFERS	NIL
VOLUME OF PERMANENT TRANSFERS	0
NUMBER OF TEMPORARY TRANSFERS	1
VOLUME OF TEMPORARY TRANSFERS	300 MILLION LITRES ⁷
AMENDMENT TO BULK ENTITLEMENT	NIL

⁴ Compliance against the bulk entitlement diversion limit has been reported as the 15-year rolling average annual diversion from the Yarra system.

⁵ Harvesting was undertaken up to the capacity of the infrastructure existing at the time of conversion of the bulk entitlement order.

⁶ Temporary Qualification of Rights – Yarra River Environmental Entitlement 2006

On 20 October 2007, the Minister for Water agreed to reduce the Yarra River environmental entitlement by 10,000 million litres a year on average for the period until the earlier of construction of Melbourne's desalination plant is complete or Melbourne is no longer subject to restrictions more severe than Stage 2. From this time, the environmental flow rules in place prior to the granting of the Yarra River environmental entitlement in October 2006 will apply until Stage 2 restrictions are lifted. These include the environmental flow rules set out in Schedule F7 (Waters of the Yarra Catchment) of the *Victorian State Environment Protection Policy*. Compliance with revised environmental flows under the qualification was achieved.

⁷ On 26 June 2007, the Minister for Water approved the temporary transfer of up to 500 million litres of water to Goulburn Valley Water. The transfer will cease when a total of 500 million litres has been transferred, or Kilmore and Wandong/Heathcote Junction are no longer subject to Stage 4 restrictions, whichever comes first. A total of 300 million litres was transferred to Goulburn Valley Water under this transfer arrangement in 2007/08.

Goulburn Basin (Silver and Wallaby Creeks)

THE THREE-YEAR ROLLING ANNUAL TOTAL BULK ENTITLEMENT DIVERSION LIMIT	66,000 MILLION LITRES
THE THREE-YEAR ROLLING ANNUAL TOTAL TAKEN FROM THE SILVER AND WALLABY SYSTEM UNDER THIS ENTITLEMENT	5640 ⁸ MILLION LITRES
ANNUAL DIVERSION FROM THE SILVER/WALLABY CREEK SYSTEM (GOULBURN BASIN) FOR 2007/08	1110 MILLION LITRES
COMPLIANCE WITH MAXIMUM TRANSFER RATE	YES
NUMBER OF PERMANENT TRANSFERS	NIL
VOLUME OF PERMANENT TRANSFERS	0
NUMBER OF TEMPORARY TRANSFERS	NIL
VOLUME OF TEMPORARY TRANSFERS	0
AMENDMENT TO BULK ENTITLEMENT	NIL

⁸ Compliance against the bulk entitlement diversion limit has been reported as the total harvest from 1 July 2005 to 30 June 2008 from the Silver and Wallaby system.

Maribyrnong Basin

The following table details the annual reporting obligations against the *Bulk Entitlement (Maribyrnong – Melbourne Water) Conversion Amendment Order 2000*. The data is based on the entitlement to water in Rosslynne Reservoir, the major storage in the Maribyrnong Basin.

RELEASES MADE FROM THE RESERVOIR TO SUPPLY LICENCE HOLDERS	0 MILLION LITRES
SHARE OF STORAGE CAPACITY AT 30 JUNE 2008	25 MILLION LITRES
INFLOWS ATTRIBUTED TO MELBOURNE WATER	46 MILLION LITRES
TRANSFERS AND OPERATING LOSSES WITHIN THE SYSTEM	0 MILLION LITRES
MELBOURNE WATER RELEASES TO MEET ENVIRONMENTAL FLOW REQUIREMENTS	37 MILLION LITRES
WATER TAKEN BY LICENCE HOLDERS FROM THE MARIBYRNONG RIVER TO SATISFY ENTITLEMENTS	246 ⁹ MILLION LITRES
TRANSFER OF LICENCES	0
TEMPORARY/PERMANENT TRANSFER OF BULK ENTITLEMENT	NIL
TEMPORARY/PERMANENT TRANSFER OF BULK ENTITLEMENT WHICH MAY ALTER THE FLOW IN THE WATERWAY	NIL
ALTERATION TO VOLUME OF WATER UNDER LICENCES ISSUED BY MELBOURNE WATER	NIL
ALTERATION TO SECURITY OF SUPPLY OF ENTITLEMENTS UNDER LICENCES	NIL
NEW BULK ENTITLEMENT GRANTED TO MELBOURNE WATER TO SUPPLY ENTITLEMENTS UNDER LICENCES	NIL
IMPLEMENTATION OF METERING PROGRAM	YES
FAILURE TO COMPLY WITH ANY PROVISION OF BULK ENTITLEMENT	NIL
DIFFICULTY EXPERIENCED IN COMPLYING WITH BULK ENTITLEMENT AND REMEDIAL ACTION TAKEN/PROPOSED	NIL

⁹ Excludes domestic and stock licences, which are currently unmetred.

BULK ENTITLEMENT AMENDMENT FOR ROSSLYNNE RESERVOIR

The combination of dry consecutive years and the level of releases required from Rosslynne Reservoir to maintain the passing flows in the Maribyrnong River led to the approval by the previous Minister for Water of temporary amendments to the following bulk entitlements:

- › Bulk Entitlement (Maribyrnong – Southern Rural Water) Conversion Order 2000
- › Bulk Entitlement (Maribyrnong – Melbourne Water) Conversion Order 2000
- › Bulk Entitlement (Maribyrnong – Western Water) Conversion Order 2000

The amendment orders were granted on 26 October 2006 and are set to expire on 30 November 2008.

The amendment to Southern Rural Water's bulk entitlement temporarily replaces the requirement to provide constant minimum passing flows at Sunbury with a requirement to release flushes if water quality drops below defined thresholds.

The Melbourne Water and Western Water bulk entitlements were amended to ensure consistency with the revised environmental flow requirements specified under the amended Southern Rural Water entitlement.

PRIVACY LEGISLATION

Melbourne Water is subject to the *Information Privacy Act (2000)* and the *Health Records Act (2001)* and is committed to protecting the privacy of all personal and health information it collects and handles. Melbourne Water 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 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 3002

WHISTLEBLOWERS' PROTECTION AND PROCEDURES

The *Whistleblowers Protection Act 2001* began 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, has established the following procedures and takes the following approach to disclosures of improper conduct:

- › A reporting system was 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
- › The principles of natural justice will be followed in any investigation of a public interest disclosure.

The following appointments were made to manage disclosures of improper conduct:

Protected Disclosure Coordinator

Leigh Keath, Manager, Human Resources

Protected Disclosure Officers

Kevin Woff
Judith Palmer
Linda Duprey
Nicole Latham
Steve Hosking

Melbourne Water has established written procedures, which are contained in this report, at melbournewater.com.au or by contacting a Protected Disclosure Officer or the Protected Disclosure Coordinator at:

Melbourne Water
100 Wellington Parade,
East Melbourne Victoria 3002
Telephone: 03 9235 7297

There were no whistleblower requests this year.

COMPLIANCE WITH BUILDING ACT 1993

Melbourne Water's major premises are compliant with the *Building Act 1993*.

Melbourne Water is currently reviewing remote sites to ensure building compliance.

The office at Silvan Reservoir requires upgrade to achieve compliance and works are scheduled to commence in November 2008. An assessment has been carried out at Devilbend Reservoir and quotes are now being sought for the upgrade works.

Further assessments at Maroondah, Yan Yean and Upper Yarra are scheduled to be carried out prior to the end of November. Melbourne Water also has a number of smaller portable and remote offices which will be assessed prior to 30 June 2009.

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 major sponsorships. 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 2007/08:

Land development

- › Association of Land Development Engineers (ALDE) committees
- › Development Industry – Water Industry Liaison Committee
- › Melbourne Water/VicRoads Liaison Committee
- › Urban Development Institute of Australia Liaison Committee

Floodplain management

- › Victorian Floodplain Managers Forum
- › Victorian Flood Warning Consultative Committee (Met Bureau)
- › State Flood Policy Committee
- › Total Flood Warning System sub-committee
- › Victoria State Flood Strategy Revision Technical Steering Committee

- › Maroondah StormSmart Steering Committee
- › Cardinia Municipal Emergency Management Planning Committee
- › Maribyrnong Municipal Emergency Management Planning Committee – Maribyrnong Township sub-committee
- › Flood Management Planning Framework Steering Committee (Office Emergency Services Commissioner)
- › South West Monitoring Partnership – DSE
- › Gippsland Regional Water Monitoring Partnership – DSE
- › State Hydrographics Technical Working Group – DSE
- › Shire of Nillumbik – Flood Planning sub-committee
- › City of Kingston – Municipal Emergency Management Committee
- › Westernport Greenhouse Alliance Reference Group
- › Casey Coastal Strategy Reference Group

Road construction

- › Southern and Eastern Integrated Transport Authority – environmental effects statement technical reference group, Frankston By-Pass

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

State/national policy/advisory committees or boards

- › Australian Water Association
- › Board of Water Services Association of Australia (WSAA) and associated committees
- › Index of Stream Condition Steering Committee
- › National Codes Reference Group
- › 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
- › 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
- › Water Quality Research Australia
- › e-Water CRC

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
- › Licensing Steering Committee and associated working groups
- › Metropolitan Drought Response Plan Coordination Committee
- › Streamflow Management Plan committees
- › 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

Recycled water

- › Alternative Water Supply Working Group
- › Smart Water Fund
- › Werribee and Bacchus Marsh Irrigation Districts Customer Consultative Committee
- › WSAA Water Recycling Network

Professional organisations

- › Stormwater Industry Association (Victorian Committee)

Wetlands/water quality management

- › Edithvale-Seafood Wetlands Community Liaison Committee
- › Lillydale Lake Landcare Consultative Committee
- › Ruffey Lake Park Advisory Committee
- › Yarra Task Team

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
- › Monbulk Creek Retarding Basin/ Birdland Reserve Working Group
- › Neerim District Landcare 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
- › Waterways and Drainage Advisory Committee
- › Waterway Rehabilitation Working Group
- › Werribee Catchment Committee
- › Westernport Catchment Committee
- › Yarra Catchment Committee
- › Yarra Valley and Dandenong Ranges Environmental Weed Working Group
- › Yarra Valley Environmental Best Practice Working Group

Regional issues

- › 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 (DSE) – Casey Cardinia Growth Corridor
- › Smart Growth (DSE) – 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

Emergency response and fire prevention

- › Bureau of Meteorology/ Victorian State Emergency Service, Melbourne Water Steering Group
- › Emergency Issues Committee
- › Regional Fire Prevention Committees
- › Shire of 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

Waterway 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

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 Act). 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*. 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* began 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 actions 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
- › 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
- › Discrimination, disadvantage or adverse treatment in relation to a person's employment, career, profession, trade or business, including the taking of disciplinary action.

5. Legislation/regulations

Whistleblowers Protection Act 2001

Section 104 details reporting requirements

6. References

Melbourne Water Code of Conduct

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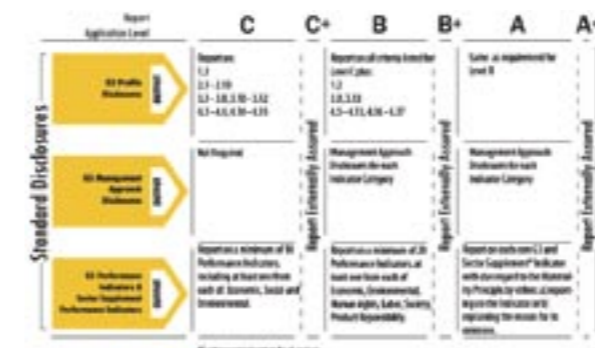
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GRI	INDICATOR	PAGE
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Compliance		
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PA4	Identify the specific goals of the organisation for the aspects listed in PA3	–
PA5	Describe the process by which the aspects and goals in both PA3 and PA4 were set	–
PA6	For each goal, provide the following information: implementation measures; results of assessments of the effectiveness of those measures, targets and key indicators, description of progress, actions and post implementation assessment	–
PA7	Describe the role of and engagement with stakeholders with respect to the items disclosed in PA6	–
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Note: A "-" in the GRI contents table refers to indicators that are not material to Melbourne Water's operations or reporting or have not been relevant to report in this reporting period.



Report Application Levels		2002 In Accordance					
		C	C+	B	B+	A	A+
Standard	Mandatory		✓				
	Optional		Report Externally Assured		Report Externally Assured		Report Externally Assured
	GRI Checked						

INDEPENDENT ASSURANCE STATEMENT

To the Board and Stakeholders of Melbourne Water Corporation:

Melbourne Water commissioned Net Balance Management Group Pty Ltd (Net Balance) to provide independent assurance of the non-financial sustainability information in the *Sustainability Report 2007/2008 and the supporting Social and Environment Data* (together hereafter referred to as the 'report'). The report was prepared by Melbourne Water and outlines their sustainability performance from 1 July 2007 to 30 June 2008. As an independent assurer of the report, the responsibility of Net Balance is to the management of Melbourne Water alone in accordance with the terms of reference. Other stakeholders should perform their own due diligence before taking any action as a result of this statement. Net Balance has provided Melbourne Water with a full assurance statement which is available on the Melbourne Water website at www.melbournewater.com.au.

Assurance Standard

The assurance of the report was undertaken in accordance with the *AA1000 Assurance Standard* and its Principles of Materiality, Completeness and Responsiveness. A detailed description of these Principles can be found in our full assurance statement.

Assurance Objectives and Process

The objective of the assurance process is to provide stakeholders of Melbourne Water with an independent opinion on the quality of the report. This is confirmed through verification of the claims made, and a review of the organisation's underlying systems, processes and competencies in sustainability reporting with respect to the Principles of Materiality, Completeness and Responsiveness. A complementary objective is to ensure continuous improvement in data management systems and reporting processes.

Assurance Level and Limitations

The level of assurance provided to the report is moderate as defined by the scope and methodology described in this assurance statement. A detailed description of the assurance level and limitations is contained in our full assurance statement.

Our Opinion

Based on the scope of the assurance process, the following represents the assurance provider's opinion:

- The findings of the assurance engagement provide confidence in the information contained within the report. The level of data accuracy was found to be within acceptable limits. Data trails selected were easily identifiable and traceable, and the personnel responsible were able to reliably demonstrate the origin(s) and interpretation of data.
- The statements made in the report appropriately reflect environmental and social performance achieved during the period.
- All errors noted by the assurance provider were satisfactorily addressed by Melbourne Water prior to finalising the report.

Overall, the assurance provider is satisfied that the report is an appropriate representation of Melbourne Water's sustainability performance during the reporting period.

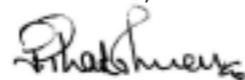
Conclusion and Recommendations

- **Materiality:** Net Balance believes the material environmental, social and broader economic aspects of Melbourne Water's sustainability performance are appropriately addressed in the report.
- **Completeness:** Net Balance found the report to be complete in addressing key environmental and social performance of Melbourne Water's operations using the Global Reporting Initiative's (GRI) G3 as a guide.
- **Responsiveness:** Net Balance found Melbourne Water is responding appropriately to the concerns of its stakeholders and is focusing on improving engagement with stakeholders in the coming year. Opportunities should be taken to report the results of engagement in future reporting.

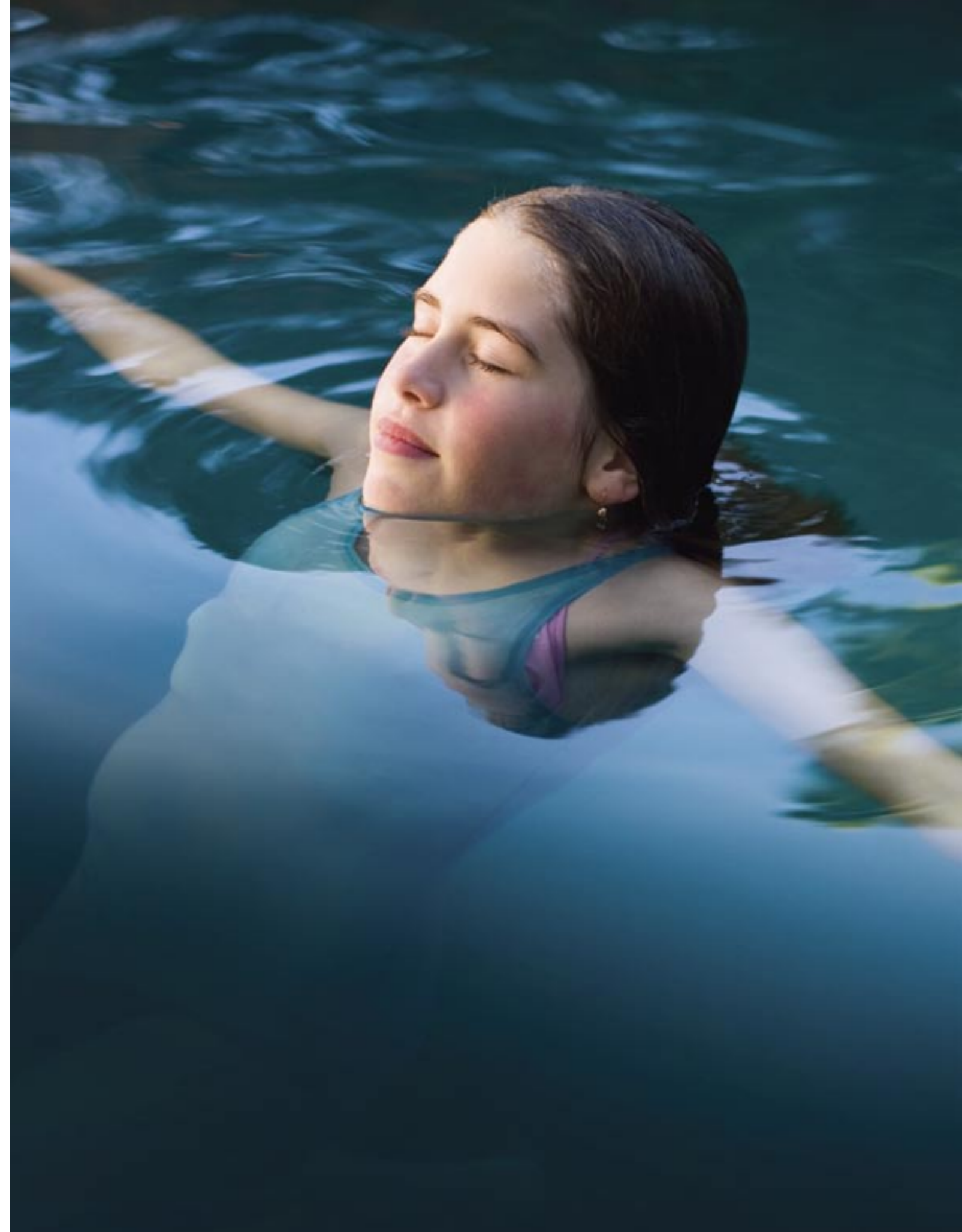
The Way Forward

Melbourne Water's focus on sustainability has resulted in significant management commitment, an increased level of awareness of the organisation's own environmental and social footprint, and an aspiration to lead the sector and influence partners, customers and peers to become more sustainable. To ensure Melbourne Water's reporting performance continues to improve, Net Balance recommends some improvement in the collation and reporting of environmental and social information and data. Specifically better coordination between data generation and production of performance would reduce data transcription and interpretation errors.

On behalf of the audit team
22nd September 2008
Melbourne, Australia



Terence Jeyaretnam
Director, Net Balance & Lead CSAP (IRCA UK)



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