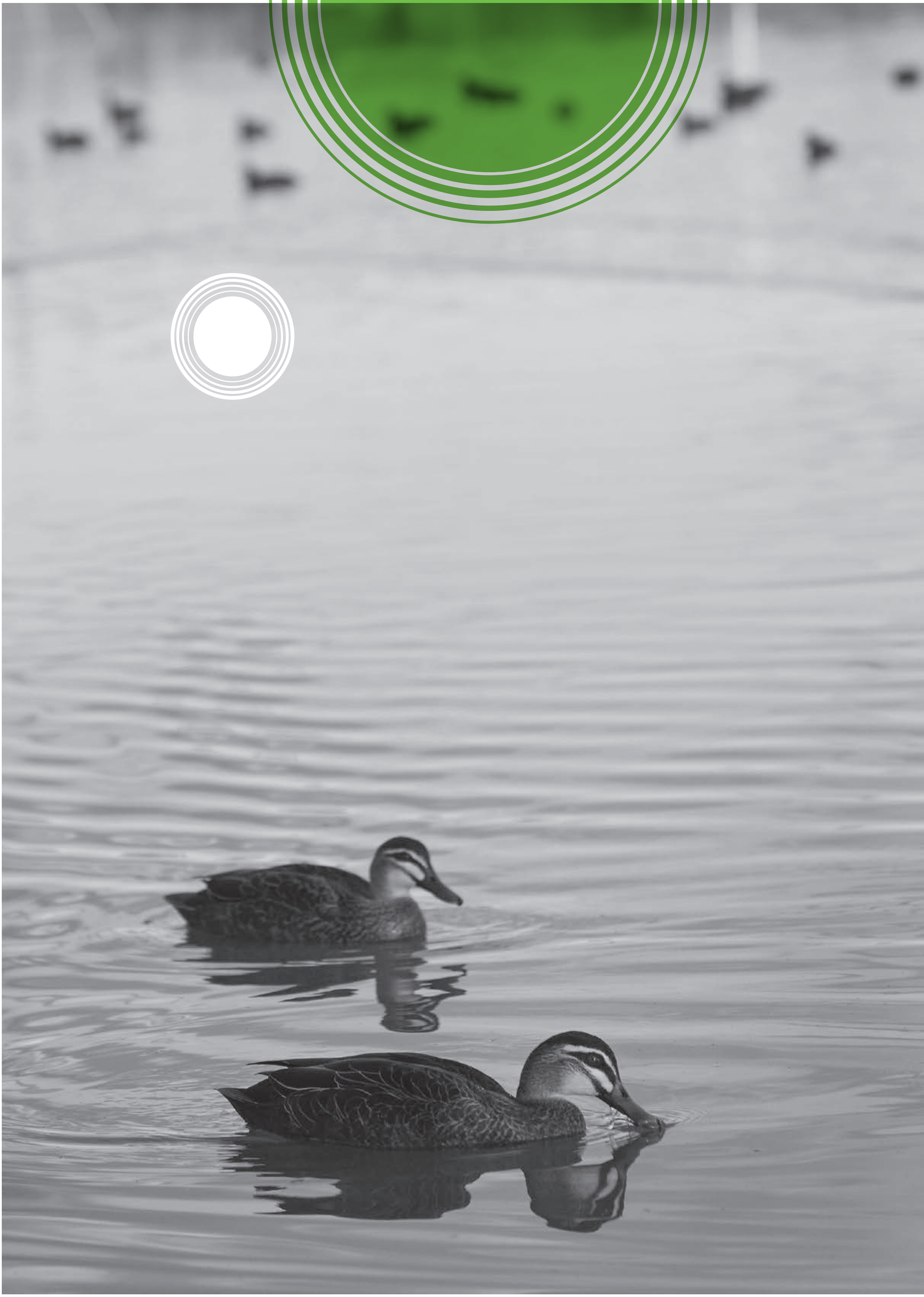
Enhancing life and liveability

Annual Report 2015-16

VICTORIA State Government

Melbourne Water



Contents

Enhancing Life and Liveability

Water is central to life. It sustains the natural environment we live in, the communities we value and the economy we depend upon.

Melbourne Water's vision is "enhancing life and liveability" for the community of Melbourne. We deliver this vision by focussing our services to help create healthy people, healthy places and a healthy environment.

Healthy people - by providing safe, affordable, world-class drinking water and sewage treatment, we protect public health and strengthen the wellbeing of our community.

Healthy places – by managing the impacts of climate change, protecting the region from floods and developing spaces for public use, we create more desirable places to live.

Healthy environment – by being innovative with resource recovery, reducing our emissions and improving the quality of waterways, we enhance biodiversity and help protect our natural assets.

We recognise that there are many stakeholders of these services including water retailers, local and state governments and developers with whom we strive to work collaboratively and in partnership to deliver the best possible outcomes. We engage extensively with the community of Melbourne to understand and embrace their needs.

Every day, Melbourne Water helps to make Melbourne *'the world's most liveable city'*, both now and into the future.

About this report

Melbourne Water's Annual Report 2015-16 describes our activities undertaken between 1st July 2015 and 30th June 2016 to meet our customer needs, regulatory obligations and contribute towards achieving our vision of *Enhancing Life and Liveability*.

Melbourne Water is a Victorian Government owned corporation.

As part of our commitment to sustainability, we will print a limited number of copies of this report. An online version and accessible text format of this report is available at www.melbournewater.com.au. If you would like a copy of this report in a different accessible format, please contact Melbourne Water on 131 722 (in Victoria) or (03) 9679 7100 outside of the state, or email enquiry@melbournewater.com.au

Our Year in Review

Melbourne Water's vision is *Enhancing Life and Liveability* within the greater Melbourne region. In 2015-16 Melbourne Water revised our Strategic Direction to better reflect how we pursue this vision every day with a focus on *Healthy People, Healthy Places and Healthy Environment.*

Report from the Chair

Healthy People

Despite low rainfall, Melbourne continues to enjoy world class drinking water from our catchments. The pressures of population growth and climate change will continue to challenge our organisation and we are proactively managing these risks. In March this year, Melbourne Water helped inform the Government's desalinated water order decision by providing technical and operational advice on the status of our water supply system.

A significant step forward for the state water grid was taken by transferring water to Geelong for the first time. This connection is an important element for the security of Geelong's water supply and arose from long term planning for drought, climate change and population growth. Melbourne Water played a key role in facilitating both the connection and commissioning of the supply, ensuring water was available when and where it was needed.

The growth of Melbourne is also placing pressure on our sewerage system, particularly in Melbourne's west. This year we have completed the first of a three stage, $350M upgrade for the Western Treatment Plant which will enable it to continue to treat Melbourne's sewage to the high standards expected by the community into the future.

Healthy Places

Melbourne Water is the custodian for over 33,000ha of land in the Port Phillip and Westernport region. Supporting the growth of Melbourne's reputation as the 'world's most liveable city' we are opening up our land for community use, where it is safe to do so. A recent example of this work is our role in instigating the 'Greening the Pipeline' project which is revitalising industrial land in Melbourne's west. In 2015-16, we initiated work on the first phase of this important community project to redevelop the Williams Landing site into recreational open space.

Flooding, with a cost to the community of nearly $400M per year, is a focus for risk reduction and impact management. In 2015-16, our capital works program delivered three significant flood risk reduction projects in Aberfeldie, Glenroy and Glen Iris. We also accelerated our retarding basin risk assessment process, completing our evaluation and establishing a risk mitigation program within a six month period. These projects contribute to securing the safety and wellbeing of Melbourne's community.

Healthy Environment

Mitigating the environmental impact of our operations, particularly our contribution to climate change, is a high priority. In addition to replacing the biogas covers at the Western Treatment Plant, we continue to install small hydro power stations across our water supply network to generate renewable energy. At the Western Treatment Plant we anticipate being a net exporter of renewable energy in the near future and have plans to grow renewable energy generation across our entire operations.

In 2015-16 we invested $8.6M in grants to local government and community groups to deliver projects that help protect and improve the environmental management of our waterways. We worked closely with the Environment Protection Authority (EPA) and emergency agencies to clean up the effects of spills and pollution in waterways. We partnered with community stakeholders and groups such as the Yarra Riverkeeper Association and Waterwatch to monitor and protect waterway condition using the best of citizen science. Importantly, Melbourne Water's most recent measure shows that 90% of the community is satisfied with our management of Melbourne's waterways.

We made significant investments in reducing our stockpile of biosolids, a waste product from the sewage treatment process. In 2015-16 we have reduced the stockpile at the Eastern Treatment Plant by more than 225,000tonnes through beneficial reuse, the largest reduction in the 40 year history of the plant.

In May this year, we committed to the United Nations Global Compact, the world's largest corporate sustainability initiative, and we anticipate our growing involvement into the future. In the interim, we are pleased to share many of Melbourne Water's success stories from 2015-16, demonstrating the extent to which we have already committed to this journey.

We are pleased to share many of Melbourne Water's success stories from 2015-16.

John Thwaites

John Thwaites
Chairman

Melbourne Water has completed a very successful year in 2015-16. Our investments in strengthening our business continue to reap rewards for the community of Melbourne and see Melbourne Water thrive as a truly sustainable organisation.

Report from the Managing Director

The three pillars of Healthy People, Healthy Places and Healthy Environment described in our Strategic Direction are supported through the Corporate and Business Plans. This year, we have focussed on delivering these through objectives based on the four themes of Customer Focus, Inspired People, Continuous Improvement and Financial Sustainability.

Customer Focus

From a very solid foundation, our reputation with our customers continued to grow, resulting in an increase in our Reputation Score. Changes in both our customer relationship model and operational delivery have contributed to this outcome with highlights including the creation of customer charters for the developer and local government segments, enhancements to our Customer Service Centre enabling a more responsive service and the rolling out of Customer Service Standards.

Operationally, we have strengthened our customer relationships through better engagement and organisational alignment. A notable example is the creation of Customer Response Officers in each of our Waterways and Land regions, responsible for building relationships and resolving operational issues with local government, community groups and other stakeholders.

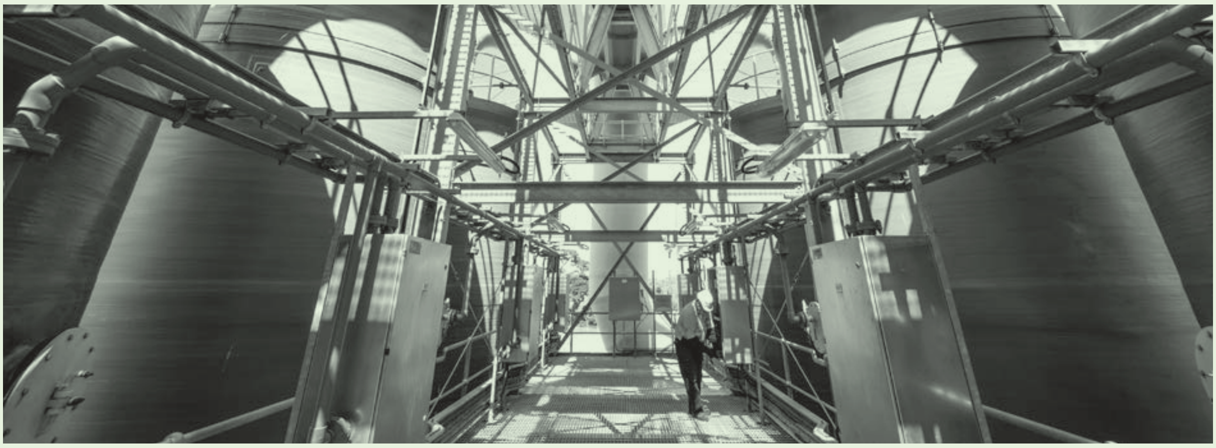
Inspired People

We have been working on our Gender Equity Plan. Our refreshed Plan establishes a clear pathway to strengthen our business through diversity and commits Melbourne Water to a range of actions aimed at attracting, retaining and escalating the career growth of women within the organisation. A recent review of Melbourne Water's salary conditions found no evidence of gender bias across the organisation for equivalent roles. We have also established that 37% of senior roles are currently filled by women. This is an outstanding result and speaks strongly to the existing culture of inclusion within our organisation.

Our first Reconciliation Action Plan (RAP) aims to guide Melbourne Water towards meaningful engagement and reconciliation with the Melbourne Aboriginal and Torres Strait Islander communities. This is a positive first step and yet another reflection of Melbourne Water's commitment to change through community collaboration and engagement.

Continuous Improvement

The safety of our people is a closely held value that we prioritise above all operational needs. This year, our efforts to reduce hazards and halt injuries saw a significant reduction in the Total Recordable Injury Frequency Rate (TRIFR) of more than 30%.



Regular reinforcement of our safety culture and message through our leaders paired with the implementation of Safety Improvement Plans across the business strongly contributed to this result.

Melbourne Water is embracing the opportunities available through digital innovation. Drone technology is now being employed to monitor operations and improve safety of our staff, replacing the need for field trips and asset inspections. Notable this year was the first use of remotely operated submersibles for reservoir inlet inspections, reducing the need for high risk diving operations. We have also taken our community engagement activities into the digital age through the 'Our Place, Your Space' platform that facilitates easier access to Melbourne Water's open space assets.

Financial Sustainability

Melbourne Water delivered strong financial results in 2015-16. While maintaining previously delivered price reductions, we have exceeded our forecast Cash to Government. We achieved this through an ongoing focus on cost control while, importantly, improving customer service.

The 2016 Melbourne Water Price Review continues our commitment to affordability and community value. Melbourne Water has reduced prices for our wholesale water and sewerage services by 11% for 2016-17 resulting in real returns to the community. These results were achieved following substantial customer and community engagement to understand priorities for service and asset investments.

The full Financial Report of our operations is included with this Annual Report, completed in fulfillment of the requirements of the *Financial Management Act, 1994*.

I am pleased to present Melbourne Water Corporation's Annual Report for the year ending 30th June 2016.

Melbourne Water has completed a very successful year in 2015-16.

Michael Wandmaker
Managing Director

Healthy People

432GL

HIGH QUALITY DRINKING WATER

DELIVERED TO CUSTOMERS AND THE COMMUNITY

Informing the Government's desalinated water order decision by providing technical and operational advice.

309GL

OF SEWAGE

REMOVED AND TREATED

Embracing innovation through planning and design of the Western Treatment Plant upgrade to service a growing Melbourne.

21,000

PEOPLE PARTICIPATED IN OUR EDUCATION AND CITIZEN SCIENCE PROJECTS WITH A SATISFACTION RATING OF

>98%

Lead role in the development of the WSAA Climate Change Adaptation Guidelines. Delivered the Water Industry Climate Change Adaptation Seminar.

100%

COMPLIANCE

achieved

DEPARTMENT OF HEALTH AUDIT FOR WATER SUPPLY

Enabled connection of Barwon Water's system to the Melbourne Water supply network.

$83.0M IN WATER SUPPLY CAPITAL EXPENDITURE

$144.6M IN SEWERAGE AND RECYCLED WATER CAPITAL EXPENDITURE

As Melbourne grows, the community continues to receive safe, secure, affordable, world-class drinking water. We safely treat our sewage to protect public health and enhance environmental outcomes.

Adapting our services to an increasingly variable climate, we are proactive in ensuring all our water resources are smartly managed and supported by our protected catchments. We support Melburnians to live healthy lifestyles.

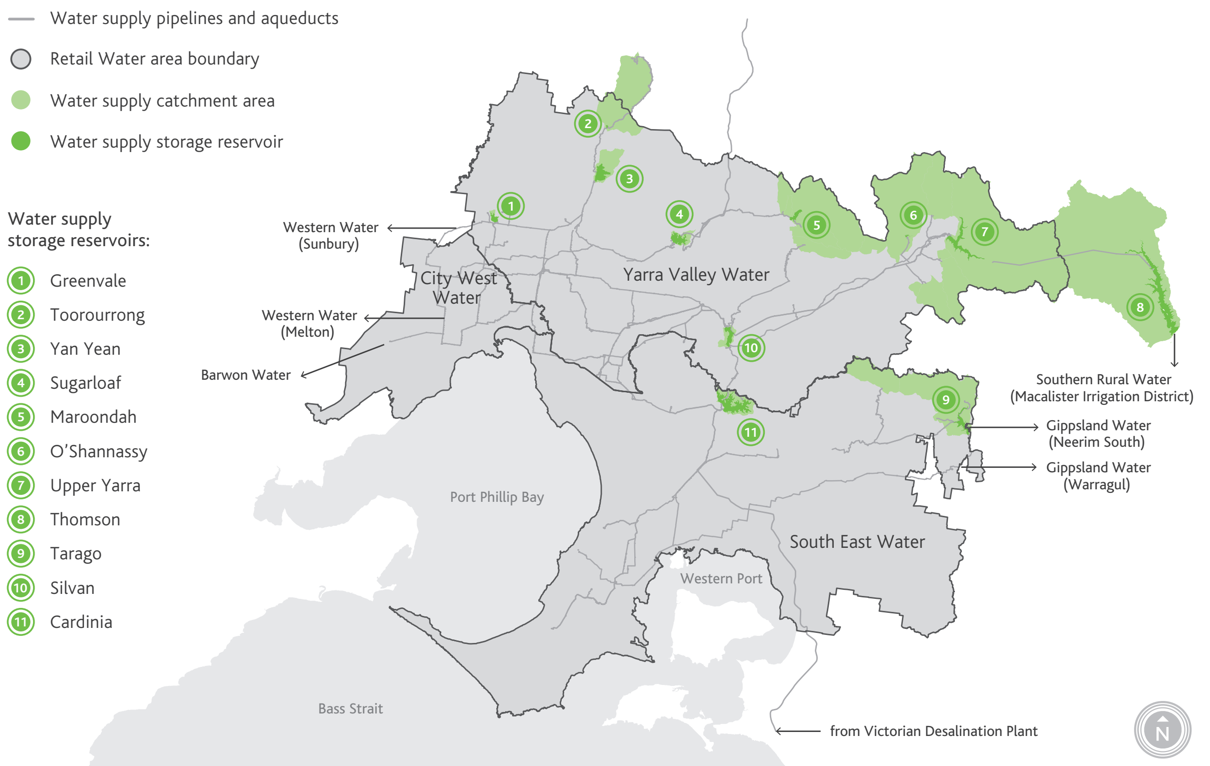
As a large land and waterway manager, Melbourne Water is increasing community wellbeing by improving access to nature and recreational facilities. We closely engage the community to ensure we provide the best services.

Water Supply

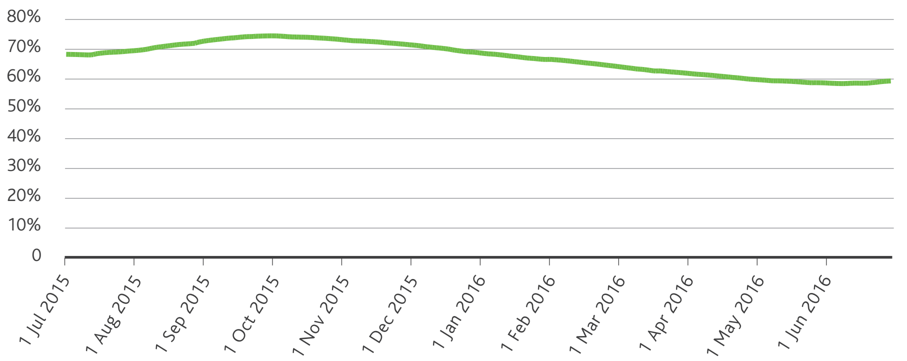
To ensure Melbourne's water supply remains secure, we manage our water storages to meet the needs of a growing city and are prepared for drought, flood, bushfires and other events.

The storages started the year (in July) at 68.3% full and finished (June) at 59.4%, a net decline of 8.3%. They reached a maximum of 74.5% in September and a minimum of 58.4% at the beginning of June. The decline over the year reflects the dry conditions experienced in a year influenced by El Nino conditions. Storages have been trending down for the past two years however they remain well above the low of 26% experienced in 2009.

Melbourne water supply system

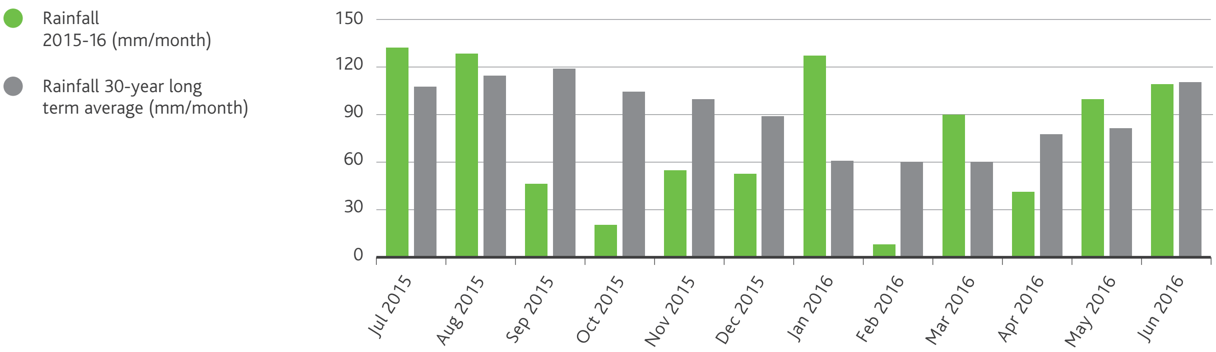


Melbourne water storage



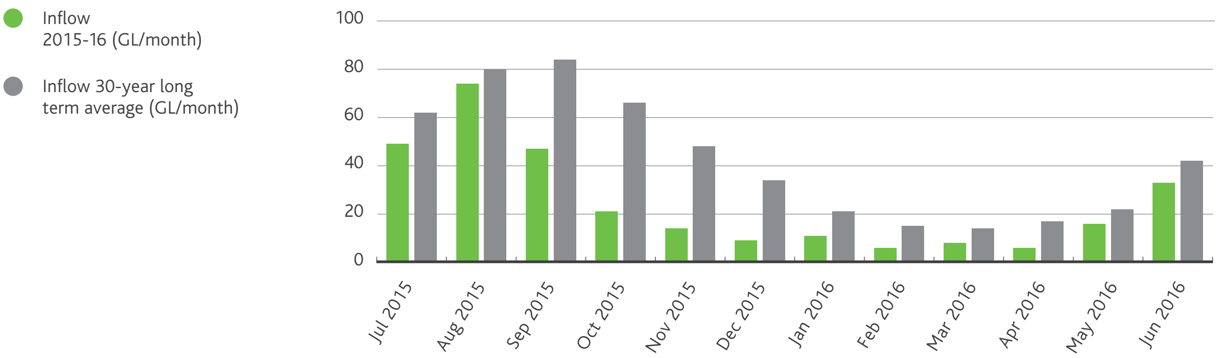
Monthly rainfall across Melbourne's storage catchments varied between a low of 8mm (in February) and a high of 132mm (in July). The total rainfall, slightly more than 900mm, was more than 15% below the 30 year average.

Monthly average rainfall at Melbourne's major harvesting reservoirs

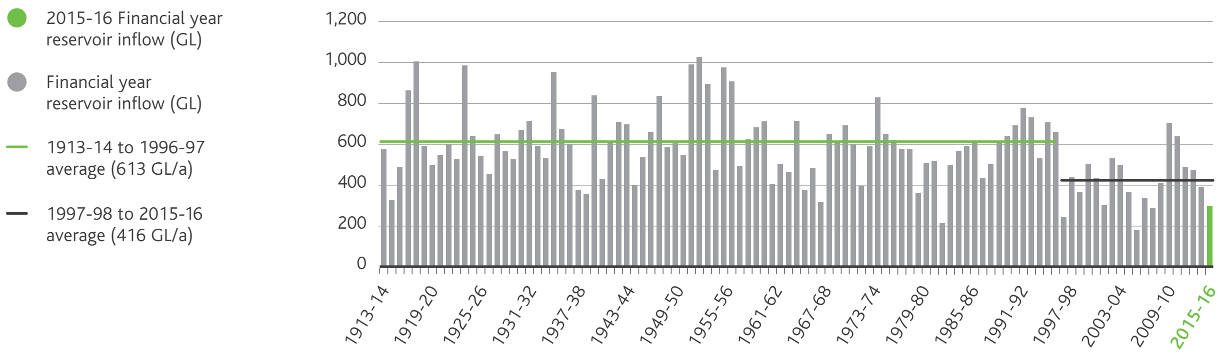


Due to the lower average rainfall, the monthly inflow into the reservoirs varied between a low of 6GL[1] (in February) and a high of 74GL (in August). The total inflow of 296GL was more than 40% below the long term average.

Monthly average inflow at Melbourne's major harvesting reservoirs



Inflow to Melbourne's major harvesting storages (Upper Yarra, Maroondah, O'Shannassy reservoirs)



1 GL is a unit of volume – gigalitres – equivalent to 1 billion litres of water.

Water order from the Victorian Desalination Plant

In March 2016, the Victorian Government placed an order for 50GL of water from the Victorian Desalination Plant. Melbourne Water and Melbourne's three water retailers helped inform the Government's desalinated water order decision by providing technical and operational advice. Consideration is given to current and forecast storage conditions, expected water demands, Bureau of Meteorology outlooks and costs to customers. The advice was supported by detailed analysis using a range of streamflow scenarios to examine risks to future water storage volumes.

During the 2015 calendar year Melbourne's water storages dropped by 8.4% of capacity (152GL) which followed a decline of 3.5% (64GL) in 2014. The main factor in this decline was the low inflow (114GL less than 2014). The order of 50GL provides a balance between managing for the drought resilience of the water supply system and cost to customers.

Supplying our customers

Melbourne Water supplied between 31GL (in July) and 45GL (in December) of water per month to our retail customers. In total, we supplied 432GL of water across the year, 7.6% more than last year with no interruptions to service.

2015-16 Retail water consumption

CASE STUDY

Securing Melbourne's water supply

Melbourne Water has delivered water services to the community of Melbourne for over 125 years. From its origins in 1891, the planning of Melbourne's water supply and sewerage systems have remained innovative and future focussed. Melbourne's pristine, closed catchments and gravity fed supply and sewerage systems remain leading innovations that continue to deliver benefits for Melbourne.

In an era of decreasing rainfall paired with increasing population, environmental pressure and agricultural, industrial and recreational demands, Melbourne Water continues to plan for secure and affordable services for the future. Building on the foundation of closed catchments and water storages, we are developing and implementing a broad range of strategies to maximise the water available for potable consumption. These include the harvesting and use of stormwater, the reuse of treated effluent from our treatment plants, the use of water from the desalination plant, increasing connectivity across the water supply system and ongoing contributions to community education and knowledge about the water cycle.

An example of this work in 2015-16 is the development of the Mid Yarra Catchment Management Plan. The mid-Yarra is an important source of drinking water for Melbourne and feeds the Sugarloaf Reservoir from a pump station at Yering Gorge. However, while the receiving waterways are priority management areas and support a range of aquatic habitats and values, it is not a 'declared' water supply catchment.

Melbourne Water has developed a draft Catchment Management Plan to articulate key objectives and water quality service requirements for the catchment. By developing a clear vision for catchment management, Melbourne Water hopes to secure the long term health of the catchment and its ongoing suitability for water supply. Consultation with local government, farmers and the broader community begins on this draft strategy in 2016-17.

Melbourne Water, delivering on the Sustainable Development Goals - Clean Water and Sanitation

Connecting Barwon Water to the grid

In April 2016 the Melbourne to Geelong pipeline was switched on for the first time, commencing the transfer of water from Melbourne Water to Barwon Water to relieve pressure on the drought stricken region's water supplies. The 59km pipeline connects Geelong's Lovely Banks storage basins with Melbourne Water's Cowies Hill Reservoir in Tarneit, west of Werribee, and will see 6GL of water transferred over the next 12 months. Our water supply operations teams worked collaboratively with Barwon Water's planning and operations teams for more than three months to ensure we were ready to commence water supply.

Water quality

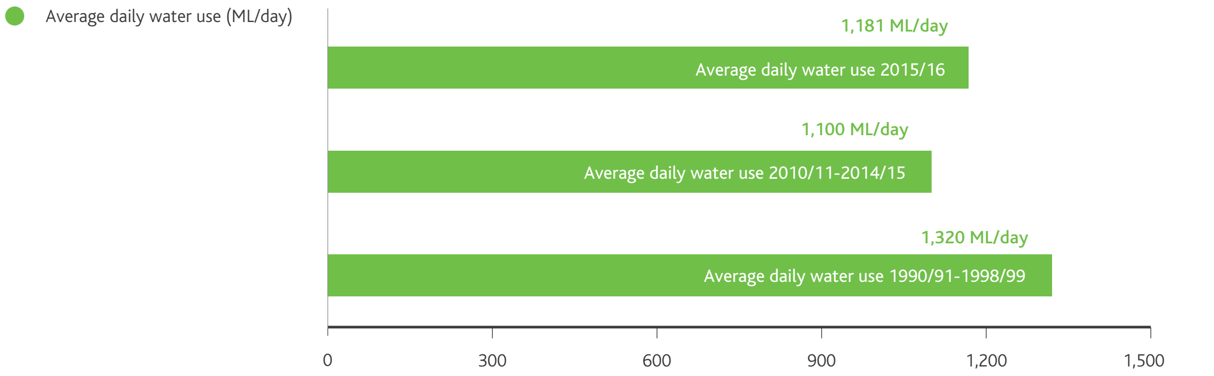
Melbourne Water provides the community of Melbourne with high quality, safe and reliable drinking water to protect their public health. This service is underpinned by an independently certified drinking water quality management system. In 2015-16, we achieved all water quality targets including those for E. *coli*, turbidity, colour, taste and odour.

A significant achievement in 2015-16 was the strong outcome of our regulatory audit under the *Safe Drinking Water Act 2003*. We passed this audit with no substantive negative findings and only a small number of opportunities for improvement, yet another signal of the quality of Melbourne's water supply and the attention Melbourne Water gives to delivering quality drinking water.

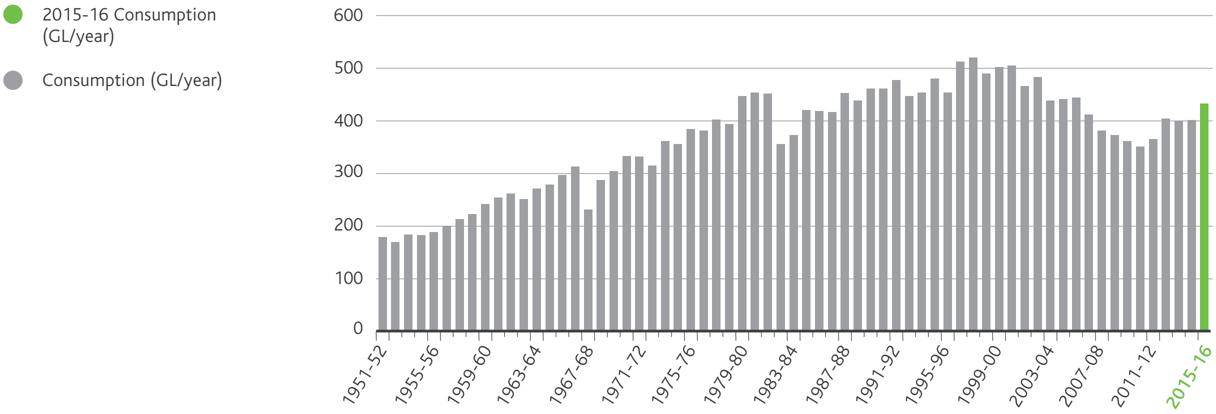
Water consumption

The community of Melbourne used an average of 1,181ML[1] of water per day during the year, which is 12% more than the five year average. Peaks experienced in December were nearing levels rarely experienced over the previous decade. In part, this increase can be explained by the dry conditions experienced during the 2015-16 year and also by an increase in population of Melbourne of approximately 10% over the last five years. Further, while water consumption has been slowly increasing in recent years, it remains below the levels experienced in the 1990s.

Average daily water use for Melbourne



Financial year consumption



1 ML is a unit of volume – megalitre – equivalent to 1 million litres

Supporting growth and reducing risk

In 2015-16, Melbourne Water has delivered $83.0M in capital works to sustain the water supply system for the community of Melbourne, both now and into the future.

Significant investments of more than $51.0M were made to renew water transfer assets, the largest of these being the Essendon to Footscray pipeline ($16.8M). Additional investments were made to meet population growth predictions, particularly the St Albans to Werribee pipeline ($11.2M).

Risk reduction was also a substantial driver for our capital program and 2015-16 saw the completion of several significant projects including:

- The replacement of gaseous chlorination at Greenvale with liquid chlorination, resulting in substantially lower risk and significantly improved community safety.
- The replacement of the bundled high voltage cables at Winneke between the treatment plant and the electricity sub-station, substantially reducing the bushfire risk.

CASE STUDY

Creating opportunity

Melbourne Water's strategic intent to maintain a workforce of 'Inspired People' extends across all staff, including our skilled operators and technicians. Melbourne Water offers traineeships and apprenticeships to provide ongoing professional learning and provide career pathways for our technical staff. We recently established 35 trainee positions across the business with three in newly created roles for Wholesale Services (water supply and sewerage) to train as water operators.

The opportunity to grow professionally was what attracted Tabatha to a role as trainee Water Supply Operator. Having worked across a number of areas of Melbourne Water operations, Tabatha was looking for new opportunities and experiences that would give her exposure to a part of the business she hadn't yet seen.

Now stationed at Tarago Reservoir, she is enjoying the stimulation of a new role and learning the intricacies of managing a water supply system. As a trainee, Tabatha has access to both formal and on-the-job training, opening up a new career path for her within Melbourne Water.

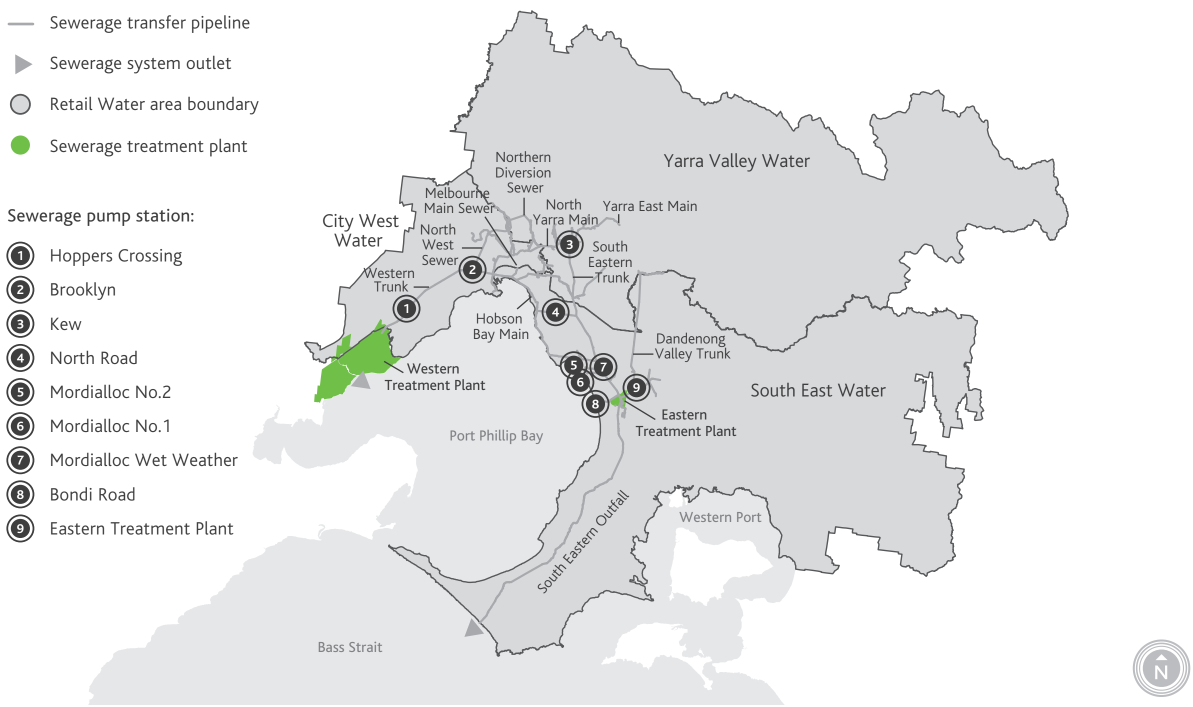
Melbourne Water, delivering on the Sustainable Development Goals – Decent work and economic growth

Sewerage

Melbourne's sewage treatment system consists of two main treatment plants – the Western Treatment Plant (WTP) at Werribee and the Eastern Treatment Plant (ETP) at Bangholme – and more than 400km of pipes and pumps that transfer waste from the networks of the metropolitan retailers to our treatment facilities.

In 2015-16, these systems continued to operate to customer and regulatory standards. Melbourne Water's ongoing investments in capital works, more than $144.6M in 2015-16, places us in a strong position to continue this service standard into the future.

Melbourne Water's sewerage system



Western Treatment Plant

The WTP, beginning operation in 1897, was Melbourne's first large scale sewage treatment facility, treating all of Melbourne's sewage until the opening of the ETP in 1975. Today, the WTP continues to treat more than 50% of Melbourne's sewage, primarily from the northern and western suburbs. It uses a system of lagoons which gradually treat the sewage by using bacteria to break down organic matter in the water. It's an approach to treatment that is very low in energy consumption and, when combined with onsite methane power generation and the use of recycled water for irrigation, makes the WTP one of the lowest cost treatment plants in the world.

In 2015-16, the WTP continued to meet customer and regulatory outcomes, successfully treating 186GL of sewage and delivering nearly 22GL of recycled water.

The WTP is currently at capacity and being augmented to meet expected growth in Melbourne. To address the capacity shortage, a three stage program of works has been progressively rolling out since 2012, with the first stage of works completed in 2015-16.

The first stage of the upgrade was the construction of two pumping stations which reduce ammonia discharged to Port Phillip Bay, give Melbourne Water much greater control over the effluent from the treatment process, increase the amount of recycled water available to our customers and enhance biodiversity values.

As a direct result of the works undertaken, close operational management and favourable weather conditions, the WTP has met its license conditions for ammonia for the 2015-16 year.

Stage two of the expansion was recently approved by the Melbourne Water Board and the Victorian Government and is now moving into a construction phase.

CASE STUDY

Innovating for better infrastructure

The second stage of expansion works at the WTP involves the installation of a nitrogen removal plant. Design began in 2012 with a feasibility study of the available treatment processes and their associated construction and operation costs. The study identified several innovative and conventional treatment processes that could be adopted at the WTP. The challenge for the Melbourne Water team was identifying the best solution for conditions at the WTP, Melbourne Water and the community of Melbourne. The choice carried significant risk with potentially millions of dollars difference in the construction and operation costs and uncertainties in the efficacy of the treatment processes.

In response, the project team established an innovative design testing environment. Under commercial conditions, the Melbourne Water project team selected three suppliers from an open market process, each trialing and developing the design for their own treatment process solution at the WTP.

The trial yielded significant benefits for Melbourne Water including:

- The opportunity to better understand the unique conditions at the WTP including uncertainties in wastewater variabilities and to put forward ideas to Melbourne Water to optimise design solutions.
- Allowing Melbourne Water and the selected suppliers to gain confidence in the solutions being proposed through an extended testing and demonstration period.
- Refinement of Melbourne Water's functional requirements through challenge processes with each team as part of design development. This has increased the likelihood of a safer, fit for purpose and cost effective new asset.

By taking a fresh approach to the design phase at the WTP, Melbourne Water is now well placed to make an informed decision when selecting the most appropriate treatment method.

Melbourne Water, delivering on the Sustainable Development Goals – Industry, innovation and infrastructure

Melbourne Water participated in a state-wide pilot of a soft-regulation concept called 'Earned Autonomy'. Approximately 30 sites across Victoria that had already demonstrated strong environmental performance were invited to participate in the trial, a first by the EPA. The pilot investigated the benefits and logistics of a regulatory framework that rewards excellence in environmental performance.

Our research program is also contributing to the knowledge base relating to sludge drying pans at the WTP. The project aims to improve the amount of sludge that each pan can process supporting deferral or limiting the size of future drying pan costs.

Eastern Treatment Plant

The ETP, built in 1975, sits on 1,100ha of land and treats sewage from Melbourne's eastern suburbs. Making use of leading technology available at the time of construction, the ETP uses an active mechanical and chemical approach to treating sewage. Beginning in 2006, the ETP continues to undergo significant upgrade to improve the quality of the available recycled water and to improve the effluent discharged at Boags Rocks.

In 2015-16, the ETP continued to successfully operate and deliver both customer and environmental regulatory outcomes, successfully treating 123GL of sewage and delivering more than 17GL of recycled water.

In 2015-16, our discharge met all EPA license requirements. As a result of the strong performance at the ETP, the EPA has recently awarded Melbourne Water an Accredited License for this site. This is a substantial achievement for the ETP and recognises the significant environmental improvements that have been made in recent years.

The 2015-16 year also saw the ongoing progressive renewal of mechanical and electrical components which are reaching the end of their asset lives. Other major works included renewal of the sludge drying pan and odour reduction works.

The sludge drying pans use sun and wind to dry the biosolids from the sewage treatment process to prepare them for beneficial reuse. The renewal of the drying pans involved reinstating the original clay liner that protects the groundwater. A capping layer was also installed to prevent further erosion of the liner during drying operations. This $35M project made savings through smart procurement practices and reusing available material. The delivery strategy for this project also allowed for the fast tracked addition of another two pans within the year. The project was delivered with a 'safety first' mindset, resulting in a strong result in the Melbourne Water Safety Culture survey.

Odour reduction works are currently focused on treating emissions from a single access point, located at the confluence of three inlet pipes. Ventilation at this point is required to protect assets from corrosion. This discharge currently accounts for 25% of the ETP odour emissions and treatment is expected to reduce this contribution to less than 1%.

Sewage transfers

Melbourne Water operates and maintains 400km of large diameter pipes that convey sewage from our retail customers to our two treatment plants. These pipes frequently traverse dense residential and commercial precincts and sensitive waterways. Corrosion and odour are key asset management challenges which arise from the impact of sewage quality on our concrete pipes.

In 2015-16, Melbourne Water refreshed our corrosion and odour strategy to consider both immediate and long term solutions to these issues. Our engagement with several research organisations to find effective ways to improve the management of concrete corrosion continues and we initiated several projects to reduce the causes of sewer corrosion. We began a collaborative project with our water retailer customers, Yarra Valley Water, South East Water and City West Water to develop a specification for the quality of trade waste. We anticipate that the specification will help control the quality of the sewage delivered to our networks and therefore reduce the corrosive elements in the networks.

We delivered $46M of capital works to rehabilitate the sewerage transfer assets and continue successful customer service. Major capital work projects include Carlton, North Yarra, Moonee Ponds, Western Trunk and Merri Creek sewers.

Engaging with the community and industry

Melbourne Water works closely with the community and water professionals to increase understanding of the water cycle.

We have three main programs, each targeted at different sectors of the community:

Waterwatch is a citizen science program that encourages communities to help with monitoring, protecting and enhancing the health of our local rivers and creeks. Over 2015-16 nearly 9,000 people participated in Waterwatch activities including the Frog Census, Platypus Census, Waterbug Census and stream water quality testing. This year, our Waterwatch teams played key roles in successfully protecting the endangered Pygmy Perch, discovering additional habitat for the Sherbrooke Amphipod (also endangered), creating community art and deepening community commitment to citizen science.

Clearwater is a leading capacity building program that equips the water industry with the knowledge, tools and skills to drive the implementation of Integrated Water Management (IWM) practices. The Clearwater program completed a market analysis and strategic review in July 2015 and results confirm that the program is a highly regarded source of knowledge, information and advice. We continue to deliver in-house skills based training at local councils and run industry tours and project site visits. We delivered technical training courses in partnership with Monash University and University of Melbourne, launched a new series of networking events in partnership with Stormwater Victoria and presented at key industry events nationally and internationally. In the 2015-16 year Clearwater completed 23 capacity building activities including 13 public engagement activities attracting more than 300 participants.

Education – our education program works across the full spectrum of education – primary, secondary and tertiary – and the wider community. In addition to providing a 'hands on' immersive experience of our facilities through our guided tours, we also provide age-appropriate resources that are linked to the Victorian curriculum to further the learning outcomes. In 2015-16 we guided more than 12,000 people through our operations at the ETP, WTP and the Edithvale-Seaford Wetlands Education Centre. We also ran seven professional development events for our partners including for Kids Teaching Kids and Geography Teachers Association of Victoria, among others.

CASE STUDY

From awareness to resilience

Victorians have long understood the value of water and the effects of both drought and flood. As the dual impacts of a growing population and changing climate escalate the pressure on our water resources, we will need our entire community to move from being simply aware of their impact on the water cycle to being active participants in the resilience of our water systems.

Creating this new generation of highly aware Melburnians is no small task but is one that Melbourne Water has wholeheartedly embraced. For over a decade we have been actively working to increase the level of 'water literacy' across our city, by educating the community about our water supply, sewerage and natural water networks.

Through physical tours of our infrastructure, we are connecting with and educating many thousands of Melburnians each year. By pairing these tours with award winning resources that are directly linked with the Victorian education curriculum and pitched across both primary and secondary levels, we are able to significantly extend the learning and understanding for each student.

In 2015-16, our highly popular tours of the WTP and ETP provided exposure to over 12,000 visitors who frequently left with strong impressions:

"...physically walking the expansive property and learning about the process at the sewerage plant and its by-products, through a total sensory approach." Jacinta Mahony, Doncaster CRT Network

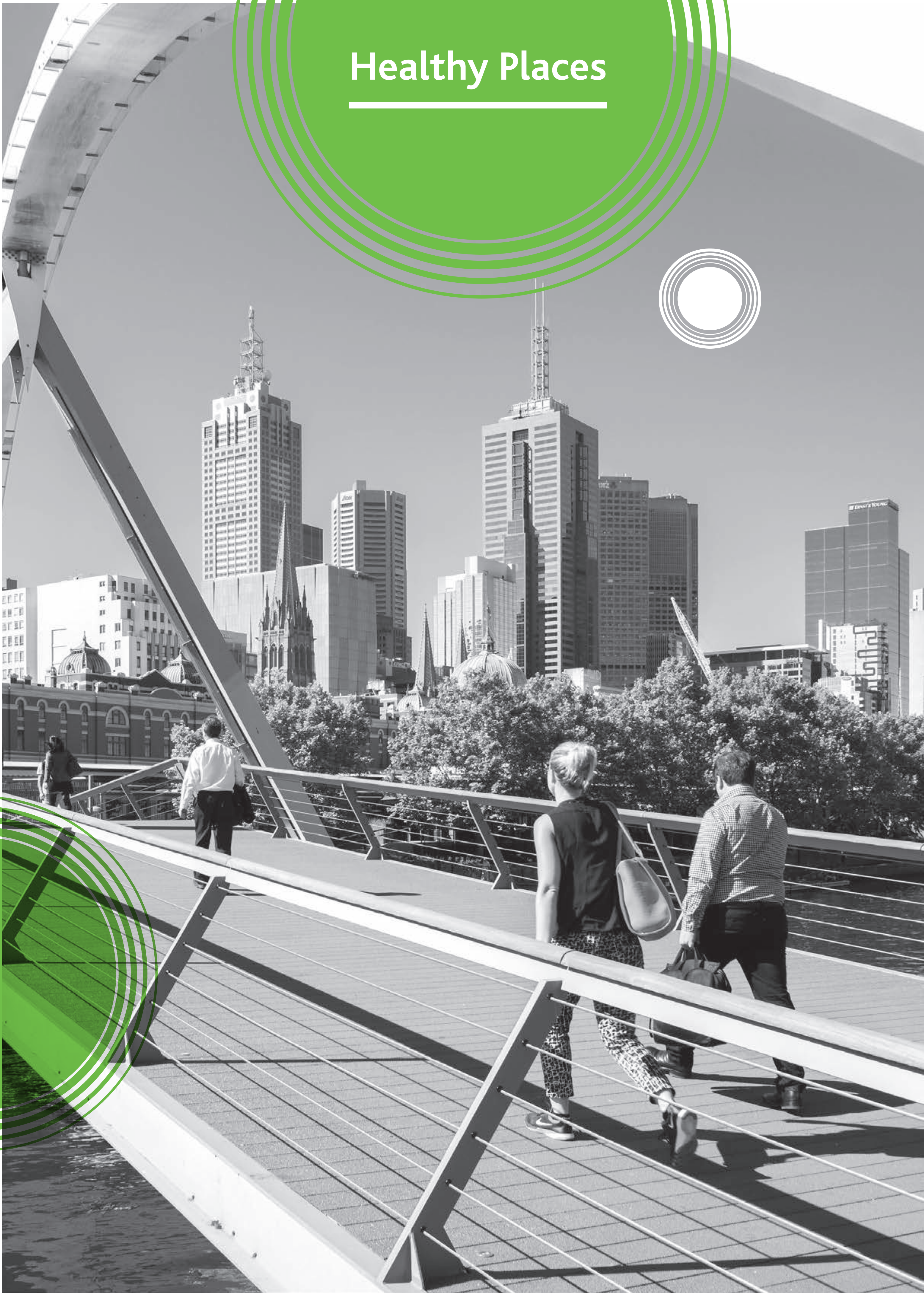
"....it was fascinating to see what happens at each stage as the sewage moves from the first stage through to Class A water." Lauren Stute, Avila College

"...Both the sessions were engaging and informative. Students got a lot out of it. Really helpful for Year 12s who got a lot of information that they needed. A nice experience for all of them to see environmental policies in action." Venkata Kalva, Brentwood Secondary College

In the coming years, Melbourne Water has plans to expand our reach by developing a new range of digital experiences.

Melbourne Water, delivering on the Sustainable Development Goals – Quality education

Healthy Places



MAKING OUR LAND AVAILABLE FOR THE

COMMUNITY

Making Melbourne a more liveable city: Our Place, Your Space, Greening the Pipeline, the Western Treatment Plant Future Land Use Study.

SIGNIFICANT

COLLABORATION AND CONSULTATION

Flood strategy - Port Phillip and Westernport establishes future flood mitigation and management.

RAPID DELIVERY OF
RISK REDUCTION PROGRAM FOR
RETARDING BASINS

$77.9M

IN CAPITAL PROJECTS
TO SUPPORT LAND DEVELOPMENT
AND POPULATION GROWTH

INTEGRATED WATER MANAGEMENT FOR SUNBURY, ARDEN MACAULAY, DANDENONG CREEK, DOBSONS CREEK AND STONY CREEK

$57.5M

IN CAPITAL EXPENDITURE
FOR FLOOD
MITIGATION WORKS

Community consultation sets priorities for **$1,067M investment** in waterways and drainage.

nearly

12,000

IN PLANNING PERMIT
AND CERTIFICATION OF PLAN
APPLICATIONS
REVIEWED AND PROCESSED

IMPROVED
FLOOD WARNING

New systems deliver enhanced capability

We continue to make our region more resilient to floods and manage the impacts of climate change and urban development. The urbanisation of Melbourne will increase the demand for valued public open space and natural assets.

We facilitate community access to quality open space. As the climate changes, we partner to deliver a water sensitive city through innovative integrated planning, creating a greener, cooler urban environment. We work with industry and agriculture on sustainable water and land management to advance economic development in our region.

Managing Floods

Flooding is natural and inevitable. Melbourne has approximately 232,000 properties at risk of flooding with an annual damages cost estimated at nearly $400M.

Climate change and urban growth will increase flood risk. While we can't stop floods happening, we can plan for and manage the risk and the consequences for the community.

As the 'Floodplain Manager' for large parts of the Melbourne region we have responsibility for identifying and reducing flood risk to protect the community. In 2015-16 we continued with significant programs designed to further understand and reduce the effects of floods. Notable amongst these was the release of the Flood Management Strategy – Port Phillip and Westernport which is focused on building collaboration among organisations contributing to flood management and guiding investment in flood management into the future. A key achievement of the new strategy was the extent of engagement of the community and other agencies in its scoping and design, resulting in a strategy with much broader ownership.

The risk of flooding across Melbourne is identified through our flood mapping program, which we continued in 2015-16. Additional flood mapping has increased our knowledge of Melbourne's waterways and drainage during flood (see Appendix E for further details) enabling us to focus our efforts on areas of greatest risk.

We also ensure existing flooding risks are being managed. Throughout the year, we worked collaboratively with 21 Melbourne metropolitan councils and the State Emergency Service (SES) to review the implementation of flood management plans. We helped a further seven councils start or complete five yearly reviews of their plans.

In partnership with the SES, Melbourne Water continued to invest in community capacity building as a flood risk reduction measure. This program works closely with the SES to develop information and deliver education and awareness to support community resilience and proactive management of exposure to floods.

In 2015-16 Melbourne Water invested over $57.5M in drainage infrastructure specifically designed to reduce the effects of flooding. Significant among these projects was the completion of drainage capacity increases at key sites in Aberfeldie ($17.6M), Glenroy ($12.3M) and Glen Iris ($9.1M).

Planning controls and amendments are a key element to controlling development and preventing flood impact to properties. This year, we processed amendments to municipal planning schemes in the Cities of Moorabool, Manningham, Bayside, and Stonnington, updating the flood data and planning controls for approximately 22,000 properties.

When floods are imminent, we aim to keep the community, emergency services and other stakeholders informed as early as possible. The 2015-16 year saw the launch of the Flood Integrated Decision Support System that enables us to quickly collate our existing data and information to produce vital intelligence on the potential risk of floods.

We also manage our drainage networks to improve operational efficiency. For example, after a major flood event in the Koo Wee Rup Flood Protection District in June 2012, $4.5M was allocated to the district to improve flood protection. Projects have included drain desilting to improve water flow, replacement of aging floodgates and culverts and major works to stabilise channels.

CASE STUDY

Adapting to a changing climate

For low lying coastal areas such as those in Port Phillip and Westernport Bays, the impact of a changing climate, particularly sea level rise, increases the risk of flooding for the many communities lining the shores. While climate change is an issue that is frequently discussed in the media, it's likely to be several decades before the full impact is felt within the community. Managing climate change requires long term planning and a firm commitment to change to ensure appropriate preparations occur within a reasonable cost framework.

Working in partnership with the Bass Coast Shire Council and West Gippsland Catchment Management Authority, Melbourne Water recently achieved a first for Victoria in planning for climate change adaptation. Using the best available map information paired with the State Coastal Inundation Dataset and the Westernport Local Coastal Hazard Assessment, Melbourne Water was able to assess the impact of a predicted sea level rise of 0.8 metres by 2100.

As a result of this analysis, a planning scheme amendment introduced a Land Subject to Inundation Overlay (LSIO) for areas of the coast potentially impacted by storm surges and sea level rise up to 0.8 metres. While the amendment attracted significant discussion and submissions, the strength of available evidence resulted in the uptake of our original recommendations and the introduction of the LSIO.

The Minister for Planning approved the amendment in May 2016.

Melbourne Water, delivering on the Sustainable Development Goals – Climate action

Improving community safety from floods

Melbourne Water manages more than 230 retarding basins across the metropolitan region, part of the flood protection system used Melbourne-wide. Many of these retarding basins were designed and built by other agencies and have been transferred to Melbourne Water to manage. In 2015, Melbourne Water began a three year program to assess the stability of these basins and the potential risk they pose to the community.

With safety as a guiding principle, we identified this project as a core deliverable and challenged ourselves to deliver in a much reduced timeframe. With a commitment to innovation and excellence, Melbourne Water delivered a fast tracked risk assessment process and completed the analysis within six months. We now have an established risk profile across the retarding basins portfolio, enabling us to target our risk reduction activities.

A key innovation of this work was the writing of risk guidance notes appropriate for application to retarding basins, a first for Australia. These guidance notes provided a consistent application of all the risk factors and are complementary to the Australian National Committee on Large Dams (ANCOLD) guidelines for water retaining structures, and are at the forefront of the industry approach to retarding basins.

Supporting Sustainable Urban Growth

Melbourne Water supports the community to achieve appropriate urban growth and land development through our involvement in the entire planning cycle – from leading future-focused water sensitive design and integrated water management to planning approvals and the design and construction of the infrastructure needed to support new developments.

Liveability

As Melbourne grows and our urban areas both increase in density and expand geographically, access to quality open space for recreation, wellbeing and to enhance quality of life will become more important. As the custodian of over 33,000ha of land, Melbourne Water is in a unique position to meet this need by sharing our land with the community. The community can now identify our landholdings through the *Our Place Your Space* web portal which was designed to encourage open access, where safe, to our land for community-based projects.

We also completed community and stakeholder engagement for the concept design of Zone 5 of the 'Greening the Pipeline' project (see case study) and secured Department of Environment, Land, Water and Planning (DELWP) grant funding to build a pilot parkland at Williams Landing to showcase future opportunities for the project.

In 2015-16, we completed the Western Treatment Plant (WTP) Future Land Use Plan, a major milestone for both the WTP and the evolution of 'liveability' at Melbourne Water. The plan highlights the multiple and beneficial land use options available at the WTP which were identified through extensive study and design involving the community, land use planners and economists.

We also facilitated a range of community-based liveability projects, including a community garden on a pipe track (see Hope City Mission case study), public educational mural on Diamond Creek, improved access to Moonee Ponds Creek, renovation of the bird hide at Edithvale-Seaford Wetlands, designs for a new trail at Warburton, a boat ramp at Launching Place and historical signage on the Werribee River.

CASE STUDY

Greening the Pipeline

In response to the phenomenal growth of Melbourne in the 1880s, construction began on the Main Outfall Sewer in 1882 in Melbourne's west. Designed to remove Melbourne's sewage for treatment, at the time of construction it was the largest civil engineering project ever undertaken in Victoria. Constructed by seven contractors employing 1,300 workers, it was a vital piece of infrastructure, protecting the health of Melbourne for more than 100 years before it was decommissioned.

Now disused, the 27km heritage pipeline is being reimagined as a place that can spark a sense of community and identity, improve active transport links, and create water resilient open space. 'Greening the Pipeline' is a collaborative project between Melbourne Water, Wyndham City Council, City West Water and Vic Roads with the long term aim of generating water sensitive parkland surrounding the Federation Trail that runs along the entire length.

To showcase the potential of the reserve, a pilot project at Williams Landing was initiated in early 2016. The pilot, largely funded by a grant from the Victorian Government, will see the first 100m of the pipeline reserve transformed into community parkland by the end of 2016.

The next stage of the reserve to be revitalised will be a 3.7km section between Lawrie Emmins Reserve and Skeleton Creek. Consultation is underway with the local community to understand their needs and preferences for the redevelopment. The project partnership will be seeking participation and funding from the community, private sector and government over the next few years.

Greening the Pipeline is a long term investment that will contribute significantly to Melbourne's reputation as the 'world's most liveable city' and will see the old sewer pipe continue its tradition of improving the health and wellbeing of the community.

Melbourne Water, delivering on the Sustainable Development Goals – Sustainable cities and communities

Integrated water management

Integrated Water Management (IWM) is an approach to planning and management of water resources that brings together all facets of the water cycle - supply, sewerage management, treatment and stormwater - to achieve sustainable triple bottom line benefits for the community.

Melbourne Water was an early-adopter of IWM and now has several significant successes including the use of recycled water from our sewage treatment plants. Our work also encompasses efforts to reduce impervious surfaces and harvest stormwater in wetlands, raingardens and water tanks.

In 2015-16, significant projects include:

Sunbury Integrated Water Management Plan supports the growth and expansion of Sunbury. Melbourne Water has been working closely with Western Water, Hume City Council and DELWP to identify a sustainable and integrated approach to water management. The plan will consider technical requirements such as water pressure, look closely at risks and include consultation with community prior to implementation.

Arden Macaulay is a true city-shaping project that will transform Arden into one of the best examples of urban regeneration internationally. Melbourne Water is contributing to this highly collaborative project through a process which draws on industry expertise to define key problems and create innovative solutions. This has led to the development of an Arden Vision and Framework issued by the Metropolitan Planning Authority.

Enhancing our Dandenong Creek (EODC) is a significant environmental project in which Melbourne Water is collaborating with the Environment Protection Authority (EPA) to defer the upgrade of the Ringwood South branch sewer. While wet-weather sewage currently spills frequently to Dandenong Creek, we identified that industrial development along the creek is a more serious source of pollution. Melbourne Water negotiated to channel funding from infrastructure upgrades of the sewage system into alternative projects that will achieve much stronger environmental outcomes at much lower costs. The alternative projects are designed to improve natural amenity, reduce uncontrolled sewer spills, create Dwarf Galaxias habitat and change behaviours of local industry to reduce stormwater pollution.

Dobsons Creek - 'Tanks for Helping Your Creek Round 2' was a rainwater tank program designed to help improve the health of Dobsons Creek by reducing runoff from homes by installing rainwater tanks. Using a market-based tender system, households received an average of $622 towards the installation of rainwater tanks. The 39 properties where bids were accepted will disconnect 6,500 square metres of roof area on private homes from the stormwater system that drains into Dobsons Creek, reducing runoff by around 2.2ML on average each year. This project won the Stormwater Victoria Awards for Excellence Award in Research and Innovation.

Stony Creek Upper Transformation Project will transform 1.2km of concrete channel into a linear waterway reserve. Located in Sunshine, the design will improve waterway health, provide stormwater treatment and harvesting, improve flood protection and provide a high quality community recreation asset. Working closely with project partners City West Water, Brimbank City Council and Greenfleet, the project will see $12.9M of capital investment in civil works, stormwater harvesting, revegetation and landscaping.

Land development

In 2015-16, we made significant progress in implementing a customer focused service for land developers. Specific initiatives included a redesign of the 'Planning and Building' section of Melbourne Water's website to make information and services easier to access. This resulted in an increase in the total number of visitors, an increase in the use of online application forms and, importantly, greater efficiency for our developer customers and Melbourne Water.

A revamped Customer Service Centre (CSC) was launched with a specific focus on resolving 'higher volume, lower complexity' land development enquiries. The CSC managed more than 4,000 telephone and email enquiries per month, improving our response times to our customers.

Melbourne Water also supported land development from the statutory planning phase through to construction. In 2015-16, we completed 15 Developer Service Schemes to either 'Preliminary' or 'Final' status and six Engineering Reviews, including flood mapping, of previously finalised schemes. We successful processed 11,982 Planning Permit and Certification of Plan requests according to the requirements of the *Planning and Environment Act 1989, Subdivision Act 1988* and *Water Act 1989*. All applications were considered and responses provided in accordance with statutory requirements.

Our work with the Developer sector to embed water sensitive design into new property developments continues. In 2015-16 our capital works program delivered $77.1M of works with an additional $42.1M in developer contributed assets. These assets include 20 new wetlands, 29 sections of waterway and 15km of new pipelines.

CASE STUDY

Hope City Mission

Croydon, in Melbourne's east, is home to Hope City Mission who provide a significant quantity of food each week to families in need. Looking for ways to increase knowledge and appreciation of fresh food and for ways of supplementing the packaged goods they supplied, Hope City Mission conceived a 'Garden for Hope' where fresh local produce could be harvested and supplied to clients direct from the garden.

Short of space for this project, Hope City Mission looked to the open space behind their premises where Melbourne Water maintained an easement with significant amounts of open space along its length and approached Melbourne Water with a proposal to construct a community garden on their land.

The easement contained infrastructure essential to Melbourne Water and the community of Melbourne that had to be protected, so careful planning for both the construction and operation of the garden was essential for a successful outcome.

Construction of the garden began in November 2015. The beds were built above the ground using a 'no dig' solution to protect the Melbourne Water assets. Further protective measures had the garden established using wheelbarrow sized loads, eliminating the use of heavy machinery.

After a full summer of food growth the CEO from Hope City Mission said "the garden is enabling us to provide fresh produce to up to 100 families each week".

Melbourne Water - delivering on the Sustainable Development Goals – Good health and wellbeing

Alternative Water Services

Melbourne Water produces recycled water at the Western Treatment Plant (WTP) and the Eastern Treatment Plant (ETP), providing Class A and Class C recycled water to customers.

Class A is the highest class of recycled water and can be used for a range of non-drinking purposes. Class C water is treated to a lower standard and has greater restrictions on its use.

A large percentage of the recycled water is used on-site at our main water treatment plants. Recycled water supplied off-site to our customers is commonly used for:

- Irrigating pastures and public open spaces.
- Intensive agriculture and horticulture.
- Residential estates for toilet flushing and garden watering.
- Industrial processes and wash down facilities.

In 2015-16, Melbourne Water completed the first stage of a three-stage upgrade project at the WTP. The completed works support our ability to provide recycled water at the right quality and with greater security of supply.

The volume of recycled water used on site and supplied to our customers in 2015-16 is shown in Table 1.

Table 1: Recycled water produced for 2015-16

	Volume 2014-15 (ML)	Volume 2015-16 (ML)
Treated wastewater available for recycling	295,258	293,708
WTP		
Conservation flows used on-site	18,129	3,870[1]
Non-agricultural on-site use	N/A	52
Agricultural on-site use	10,445	15,609
Southern Rural Water		
- Werribee Irrigation District	3,938	5,813
- Werribee Tourist District	83	127
City West Water		
- Werribee Employment Precinct	236	195
- MacKillop College	18	26
- Water tankers / standpipes	30	11
- West Werribee Dual Supply (non-residential)	0	0
- West Werribee Dual Supply (residential/ commissioning)	32	50
WTP Sub Total	**32,911**	**25,753**
ETP		
Reused onsite	8,182	9,509
Water Infrastructure Group – Eastern Irrigation Scheme	4,362	6,055
Supply to South East Water – South Eastern Outfall	1,169	1,568
ETP Sub Total	**13,713**	**17,132**
Total	**46,624**	**42,885**

In partnership with the Smart Water Fund, Melbourne Water is championing research into chlorine disinfection of recycled water. The research has led to chlorine gas savings of nearly $0.5M per year at the ETP. This work has also been used by the Department of Health in new guidelines for validation of Class A recycled water in Victoria.

[1] Reduction due to a change in process at the WTP

CASE STUDY

Sustaining agriculture

The Werribee Irrigation District sits on the western shores of Port Phillip Bay and is a major vegetable growing region for Victoria. Current crops are primarily broccoli, cauliflower and lettuce which are sold to supermarket chains and local and international wholesale markets.

The Werribee Irrigation District, managed by Southern Rural Water, has historically been fed from the Werribee River. However the river, like all natural water systems, is subject to low flow and restricted availability during drought. In 2004, following a prolonged period of drought, farmers were seeking a more secure supply of water for their crops. The Western Treatment Plant, located nearby, was an obvious source of high quality, secure water.

The WTP was the first plant in Victoria to produce the highest class recycled water (Class A). Class A treatment involves biological treatment and ultraviolet and chlorine disinfection before the water is discharged to customers.

The Recycled Water Scheme was designed to supply recycled water mixed with river water. With the district experiencing several consecutive dry seasons and low allocations from river water, demand for and reliance on recycled water has increased. Since 2006, recycled water has become the main source of supply.

During the 2015-16 year, in excess of 5,500ML of recycled water was supplied to the Werribee Irrigation District. Recently, a new contract volume has been negotiated that will double the volume of water being supplied in the coming year. This is a great result for the farmers of the Werribee Irrigation District as it gives them ongoing water security for their future.

Melbourne Water, delivering on the Sustainable Development Goals – Zero Hunger

Healthy Environment

HIGHEST RECORDED
PLATYPUS
numbers in Melbourne's waterways

Proactive management preventing water pollution from incidents at Somerton, Broadmeadows and Steele Creek.

REHABILITATION OF
54HA OF LAGOONS

EXTENDS HABITAT AND IMPROVES BIODIVERSITY AT RAMSAR SITES

90%
OF THE COMMUNITY
SATISFIED WITH WATERWAYS

Treatment Plant effluent meets Environment Protection Authority discharge license requirements.

MORE THAN **11GL** OF ENVIRONMENTAL WATER DELIVERED

$8.6M
IN GRANTS
TO COMMUNITY AND LOCAL GOVERNMENT TO IMPROVE WATERWAY CONDITION

Environment Protection Authority Pilot Project awards Western Treatment Plant Earned Autonomy status.

EFFECTIVE
CLIMATE CHANGE
MITIGATION STRATEGY

USING BIOGAS AND HYDRO TECHNOLOGY. WESTERN TREATMENT PLANT CLOSE TO NET EXPORTER OF ENERGY.

$22.9M CAPITAL EXPENDITURE IN WATERWAY CONDITION AND STORMWATER POLLUTION MANAGEMENT

225,000T
Beneficial reuse of biosolids from the Eastern Treatment Plant. Largest re-use in 40 years of operation.

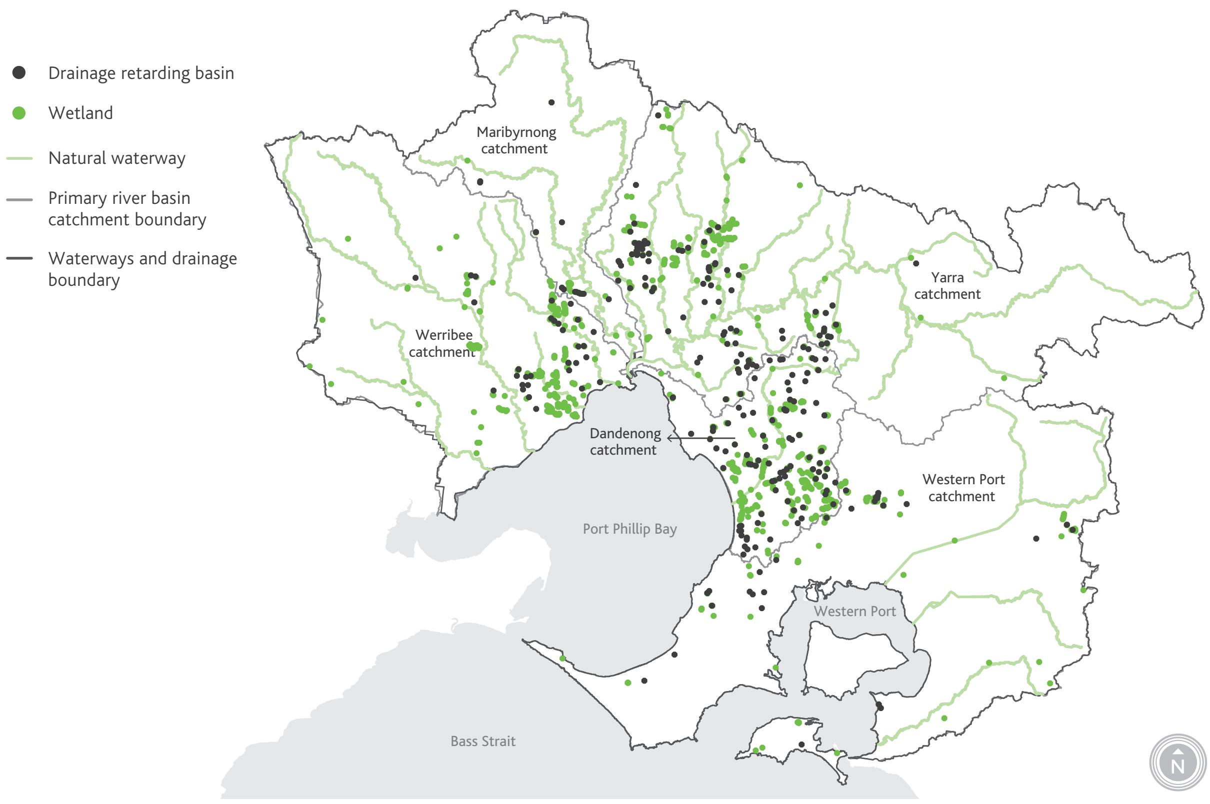
We continue to improve the quality of waterways and enhance biodiversity in an increasingly urbanised region. We help create a sustainable region through innovative resource recovery and reducing our emissions.

We establish healthy ecosystems by managing waterways from catchment to coast. We empower people to help protect our natural assets. Through engagement and education programs, we help build a community that values water and the environment.

Protecting and Enhancing our Natural Environment

Our river health and stormwater management programs help to protect and improve the condition of the region's waterways and bays and enhance habitats for the plants and animals that live there. We do this by restoring vegetation, creating new habitat and delivering environmental flows. We also support activities in waterway catchments to reduce stormwater pollution and runoff. These activities are all guided by our *Healthy Waterways Strategy* which we have been successfully implementing since 2013.

Melbourne Water's waterways and drainage systems



Maintaining and restoring river health

Every year, Melbourne Water maintains more than 8,680km of rivers and creeks, and more than 500 water treatment systems and wetlands. We undertake projects including weed control, revegetation and erosion control to improve the amenity and condition of waterways. In 2015-16, we continued with investments to improve the aquatic and terrestrial environment of these waterways through works including the:

- Planting of 132km of new vegetation.
- Construction of 77km of stock exclusion fencing.
- Rehabilitation of 13.3ha of aquatic habitat including wetlands, billabongs and floodplains.
- Removal of six fish barriers to improve waterway connectivity for fish and other animals.
- Removal of more than 5,000m^3 of silt and nearly 4,000m^3 of debris.

We also provided more than $4.7M in grants through our *River Health Incentives Program* to farmers, community groups and land management agencies to protect and improve our waterways and water quality. These grants, issued under the four program areas of Rural Land, Community, Corridors of Green and Stream Frontage Management, have achieved the :

- Purchase and planting of over 400,000 plants.
- Establishment of 37.5km of streamside vegetation.
- Management of 169km of streamside vegetation.
- Installation of 75.6km of stock exclusion fencing.

The Centre for Aquatic Pollution Identification and Management, in collaboration with Melbourne Water, completed an investigation of pollution in Merri Creek which demonstrated that an environmental offsets strategy would deliver a better and more cost effective improvement to the environment than preventing wet weather sewage spills. This approach resulted in combined savings of $11M for Yarra Valley Water and Melbourne Water while delivering improved environmental outcomes.

Delivering environmental flows

In 2004, the Victorian Government established a reserve of water to achieve a suite of ecological objectives for waterways. Ecological objectives include protecting and enhancing both terrestrial and riverine biodiversity, maintaining water quality including the prevention of blue-green algae and sustaining groundwater dependent ecosystems.

Melbourne Water, on behalf of the Victorian Environmental Water Holder, manages the environmental water reserve for the river systems of Port Phillip and Westernport catchments, primarily the Yarra, Werribee and Tarago.

In 2015-16, Melbourne Water delivered over 11GL of water as shown in Table 2.

Table 2: Environmental water delivered for 2015-16

River	Volume	Outcomes
Yarra	8,817ML	Four releases of environmental water were made into the Yarra system to maintain habitat for fish and macroinvertebrates throughout the river and to improve the water quality of the Dights Falls weir pool during summer months.
Tarago	2,117ML	Three releases were made into the Tarago system to maintain water quality, provide habitat for river blackfish, platypus and macroinvertebrates and support spawning of Australian grayling.
Werribee	440ML	Three releases were made into the Werribee system to provide habitat for frogs and macroinvertebrates in Coimadai Creek and to improve water quality and promote fish migration in the lower reaches in and around Werribee.

CASE STUDY

Rescuing the Pygmy Perch

It may be small, but the tiny, endangered Yarra Pygmy Perch has demonstrated the power of partnering to achieve great outcomes. Over the summer of 2015-16, the last known population of the fish in the Yarra and Westernport catchments was threatened as their home, Deep Creek in Lancefield, dried into a series of isolated pools.

Throughout summer, the Newham and District Landcare Group tracked the state of Yarra Pygmy Perch using a mix of water quality, photopoint and depth monitoring measures. Using this citizen science, Melbourne Water was able to monitor the state of the population and was ready to take emergency action if necessary.

In February 2015, one of the refuge sites dropped to 20% of capacity, triggering action under Melbourne Water's Drought Refuge Monitoring Plan. Melbourne Water's operational teams organised a water tanker and collected 28,000 litres of water from a nearby water basin and Western Water provided the water at no charge. The refuge pool was filled to pre-December levels of water, water quality was improved and a number of pygmy perch were recorded on video after the release.

Utilising skills from across Melbourne Water's planning, operational and community engagement teams in partnership with the Newham and District Landcare Group, the emergency watering ensured the drought refuge continued to be resilient throughout summer, and allowed pygmy perch to repopulate the creek after autumn rainfall.

Melbourne Water, delivering on the Sustainable Development Goals – Partnerships for the goals

Managing our Catchments

Melbourne Water's Living Rivers program supports sustainable stormwater management by providing grants to local government to deliver projects that achieve strong catchment management outcomes.

In 2015-16, the Living Rivers program supported the delivery of 73 sustainable stormwater management projects totalling $3.9M. The projects include the design and construction of stormwater treatment systems and harvesting schemes, the ongoing development of strategy to support the growth of Melbourne as a water sensitive city, integrated water cycle management planning, investigations to understand catchment specific impacts and facilitate better planning, case studies to showcase best practice, monitoring implementation of water sensitive urban design and the development of communication material and education programs.

With funding totalling $4.5M over the next three years, the program will continue to drive improvements in catchment management across the region.

CASE STUDY

Working together to protect the Bay

The Mornington Peninsula is a popular seaside region that forms the land barrier between Port Philip and Westernport Bays. Whilst its popularity contributes greatly to the local economy and growing community, it also poses risks to waterways and the water quality of Port Phillip Bay. In recent years, high levels of bacteria (E. *coli*) and nutrients in the stormwater system are believed to have contributed to summer beach closures and algal blooms. Comparatively high levels of heavy metals have also been detected in local wetlands and estuary sediments.

A collaborative effort between Mornington Peninsula Shire, Melbourne Water, the Environment Protection Authority (EPA) and South East Water has seen development of a suite of projects that target risks to waterways and recreational water quality at key beaches. The projects recognise that long term improvements will require a whole of government response in collaboration with local community and also employ the latest approaches and technologies developed by the University of Melbourne and Monash University to guide action.

Mornington Council includes a number of industry recognised leaders in public health management and Melbourne Water has been proud to support their continued leadership through seed funding from its Living Rivers program and supporting strategic relationships that will tackle industrial estate discharges, leachate from commercial bin areas and septic tank maintenance and compliance.

Melbourne Water, delivering on the Sustainable Development Goals – Life below water

Melbourne Water has worked with DELWP to develop the new Port Phillip Environmental Management Plan (EMP). The EMP will provide a vision and priority actions to guide the government's work with partners and the community. In partnership with DELWP, Melbourne Water has undertaken extensive community and stakeholder consultation during the past year, completed detailed scientific, modelling and economics studies, and prepared an initial draft of the new plan. Once finalised, the EMP will ensure the bay continues to thrive as a healthy ecosystem that delivers significant benefits to the Victorian community and economy.

Managing pollution compliance

As the manager of Melbourne's waterways, Melbourne Water is responsible for cleaning up pollution caused by others. In doing so, we frequently incur significant costs, much of which has not been included in formal pricing determinations. As part of the 2016 Melbourne Water Price Submission, we worked with the EPA to clearly define our obligations as a protection agency. In addition, we worked with other agencies from the Victorian water industry to improve our approach to insurance and to cover large costs should they be incurred.

In 2015-16, the EPA issued eight notices to Melbourne Water to manage asbestos pollution in silt removed from Stoney and Kororoit Creeks. We are in the process of actioning these and most are now closed out. The notices are not considered sanctions by the EPA.

Enhancing Biodiversity

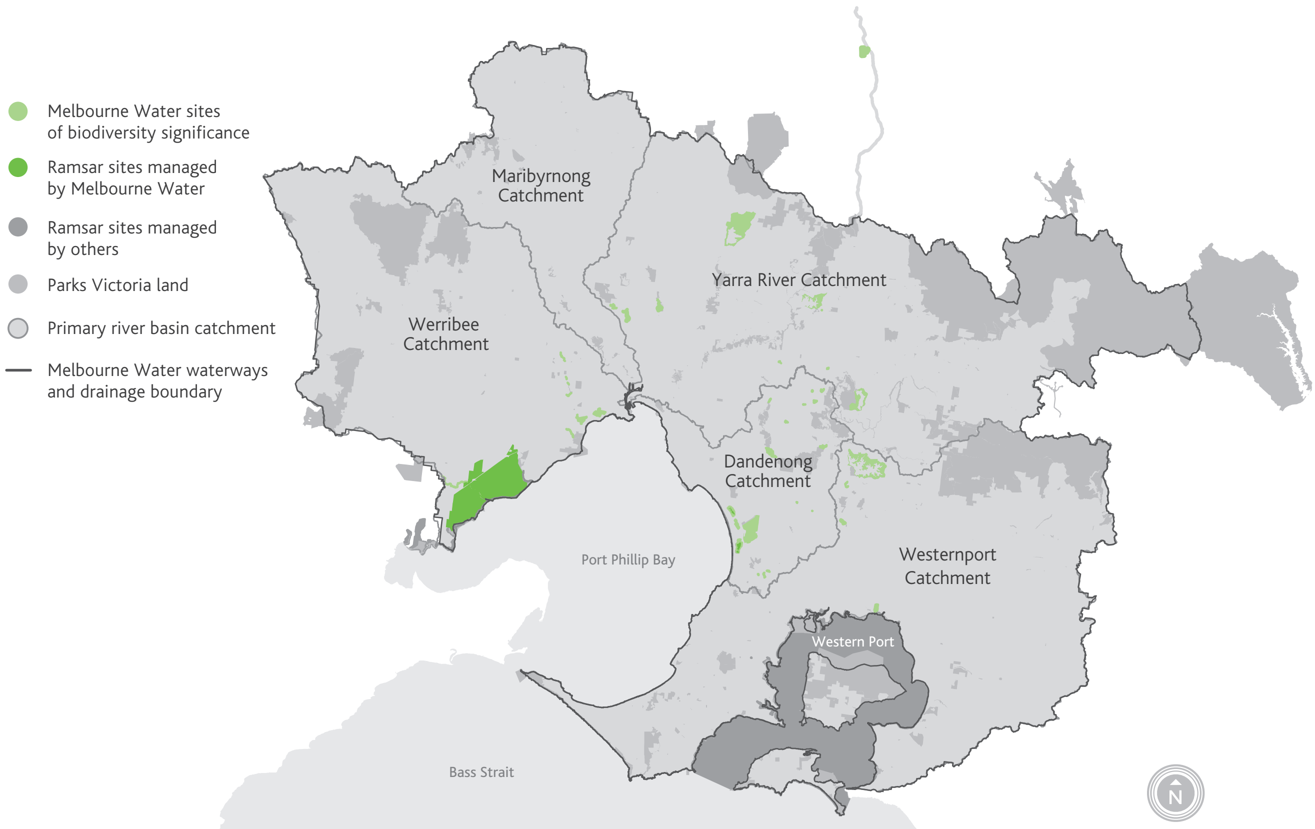
Enhancing Biodiversity

Melbourne Water manages significant landholdings that support diverse and thriving communities of native plants and animals. The land ranges from highly urbanised to pristine and we employ different strategies for each, complying with Victorian and Commonwealth obligations.

Within the land managed by Melbourne Water are 44 sites that we consider Sites of Biodiversity Significance (SOBS), properties that support listed species or communities that require particular care and attention. Management plans for these special sites are included in Melbourne Water's asset management system and five yearly assessments of condition are conducted to ensure they are being protected.

Two of Melbourne Water's SOBS are listed under the *Environment Protection and Biodiversity Conservation Act (1999)* (the EPBC) as Ramsar wetlands of international significance. The Western Treatment Plant (WTP) lagoons, ponds, shoreline and saltmarsh are a haven for waterbirds and other wildlife. The Edithvale-Seaford wetlands are co-managed with the Kingston and Frankston City Councils and provide a home for numerous bird species including the Australasian Bittern, a bird that is nationally endangered. It also provides a respite for migratory birds such as the Sharp-tailed Sandpiper.

Melbourne Water biodiversity



Other SOBS managed by Melbourne Water range in size from large areas, such as the 2,800ha around the Cardinia Reservoir that protects good condition remnant vegetation, and small sites such as a 1.9ha site in the Hallam Valley floodplain to support threatened Dwarf Galaxias, a small native fish. They also include the Tirhatuan Wetlands which protect remnant vegetation around Dandenong Creek.

Melbourne Water manages important habitat for several nationally listed species including the Orange-bellied Parrot, Dwarf Galaxias, Southern Brown Bandicoot, Latham's Snipe, Growling Grass Frog, Spiny Rice-flower, Matted Flax-lily, Striped Legless Lizard and Curlew Sandpiper. We also manage vegetation communities including:

- Subtropical and Temperate Coastal Saltmarsh listed as Vulnerable under the EPBC.
- Seasonal Herbaceous Wetlands (Freshwater) of the Temperate Lowland Plains, Natural Temperate Grassland of the Victorian Volcanic Plain and Grassy Eucalypt Woodland of the Victorian Volcanic Plain listed as Critically Endangered under the EPBC

Evidence of change

Our efforts to protect and enhance the natural environment are beginning to show results in the return of native flora and fauna. We are particularly pleased with the evidence of growth in Melbourne's platypus populations. Melbourne Water has monitored platypus since 1995 to understand the status of populations and guide our management to ensure the long-term conservation of this iconic species. Our monitoring in 2015-16 showed that Melbourne's platypus populations overall are increasing in numbers and breeding following declines in number and distribution during the drought.

This year we recorded:

- One of the highest proportions of juvenile platypuses captured, reaching 50% during our autumn sampling.
- The oldest male platypus ever recorded in the wild.
- New locations for platypus populations at Lysterfield, Eltham, Warburton, McMahons Creek, Werribee, Labertouche and Lower Tarago.

Energy and Emissions

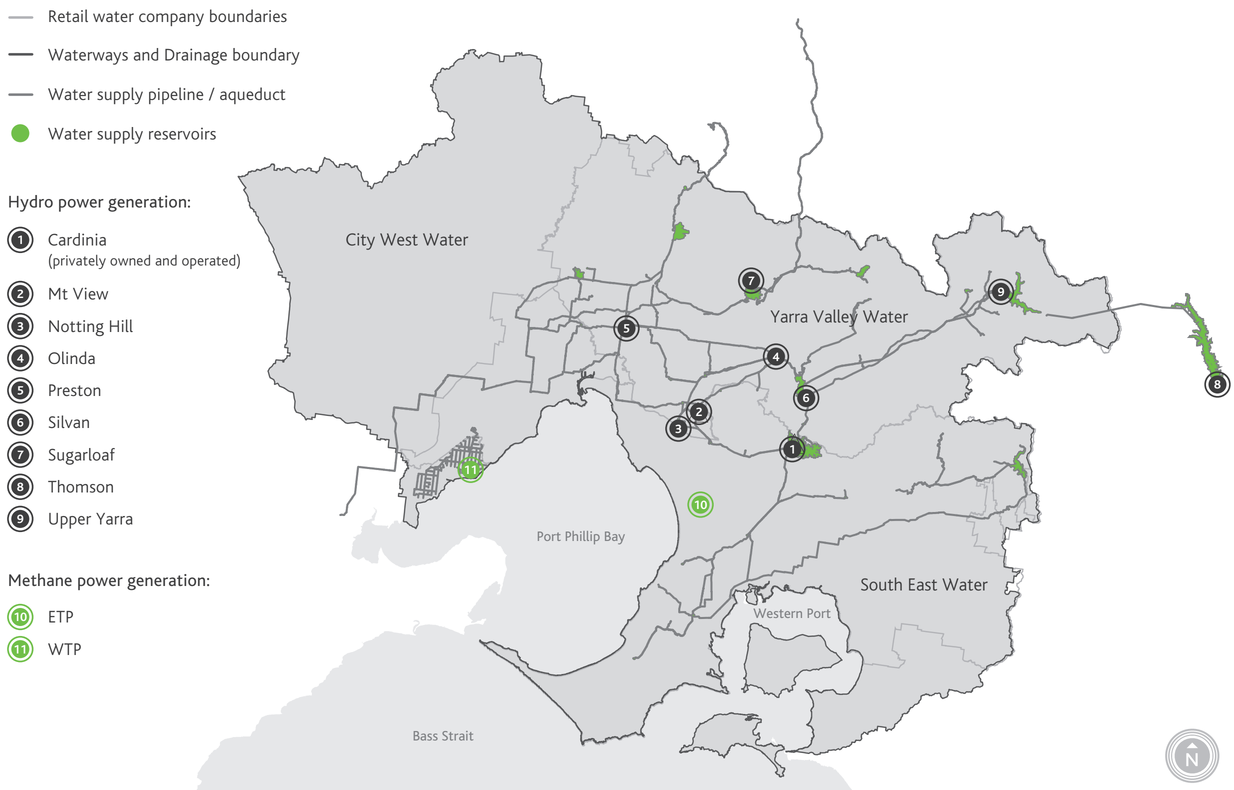
In 2015-16, Melbourne Water consumed 1,508 million gigajoules of energy to deliver water and sewerage services to Melbourne.

Our wastewater treatment is more energy intensive than water supply, consuming 74% of the total.

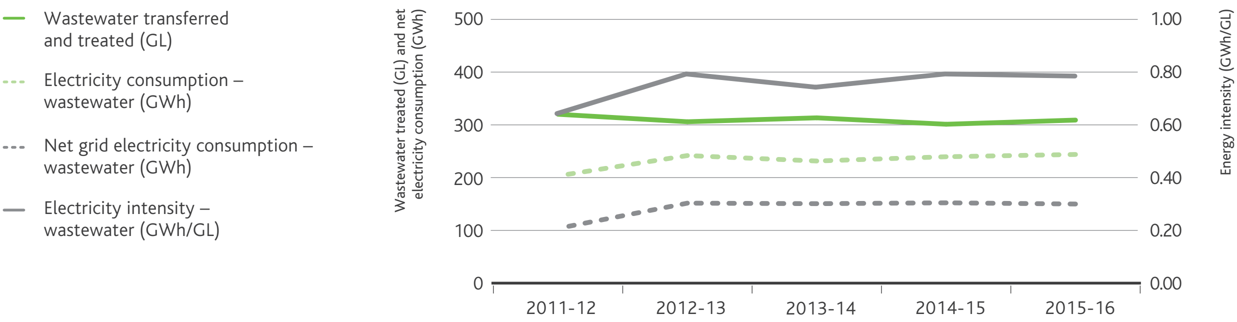
Our greenhouse gas emissions come from two main sources. Direct emissions of methane and nitrous oxide from the wastewater treatment process (Scope 1 emissions) and electricity purchased from the grid used for pumping and treatment of both sewerage and water (Scope 2 emissions).

We are committed to reducing our energy consumption and mitigating carbon related emissions. We regularly forecast our emissions and use this information for future planning. We continue to invest in opportunities to develop renewable energy when they are economically feasible (see 'Energy for the future'). Direct emissions from wastewater at our treatment plants remain a challenging, long-term issue for Melbourne Water. In 2015-16, we continue to participate in research to better understand and manage these emissions.

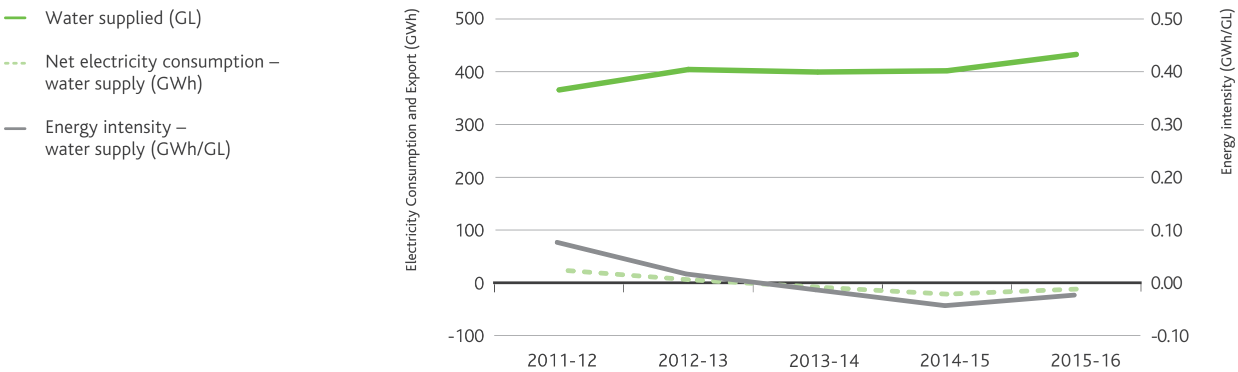
Melbourne Water methane and hydroelectric power generation



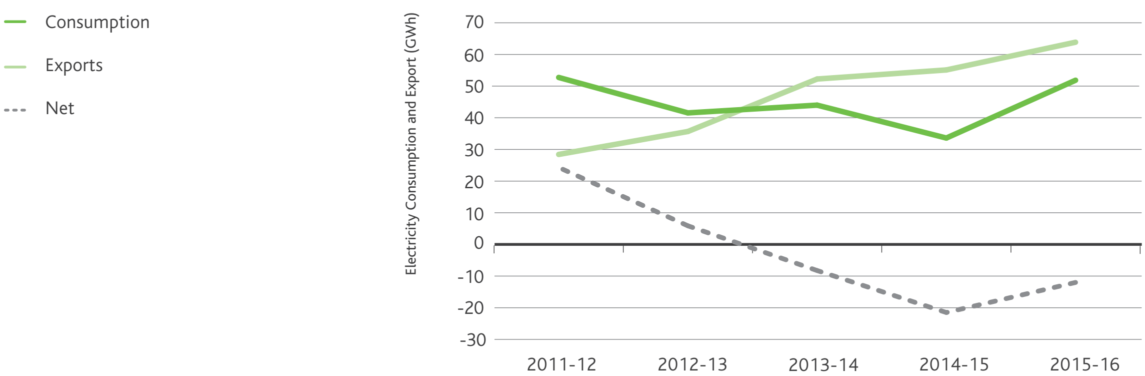
Wastewater transfer and treatment



Water supply



Electricity consumption and generation in our water supply network



CASE STUDY

Energy for the future

From the beginning, Melbourne Water and its predecessor, the Melbourne Metropolitan Board of Works (MMBW), have been actively reducing the energy that is needed to meet customer water and wastewater services. In the late 19th century the MMBW led the way with smart design, ensuring that our systems were largely gravity fed. Innovation continued in the early 1970s with the establishment of a system to capture and use methane at the WTP and again in the late 20th century with the beginning of hydro generated power within our water supply network. This commitment has seen Melbourne Water remain at the leading edge of initiatives to produce renewable energy.

With advances in technology and changes to the pricing structure of energy, Melbourne Water is now able to envisage a future where more energy is generated through our systems than we use. While this is still some years away, there are early signs of this future, with both the WTP and the water supply network being close to net energy exporters.

We also generate power from hydroelectric stations across our water supply system. In 2015-16 we began installing more mini-hydro generators which, when complete, will increase energy supply from this network by a further 5,000MWh, ensuring we generate more renewable energy than the water supply system uses.

Melbourne Water, delivering on the Sustainable Development Goals – Affordable and clean energy

Biosolids

Melbourne Water made significant progress in the beneficial use of our clay rich biosolids from the Eastern Treatment Plant (ETP). In 2015-16 we achieved the highest amount of reuse in the 40 year operation of the facility.

A nearby landfill made use of 106,550 dry tonnes as a sealing agent. A further 118,876 dry tonnes were used onsite to refurbish the sludge drying pans. In total the past two years have seen 390,137 dry tonnes of biosolids removed from the ETP legacy stockpiles. Melbourne Water continues our work with the EPA to broaden the beneficial use opportunities for biosolids in the landfill market.

Strengthening our Business

To continue to successfully deliver our services in an era of change, we need to build on our solid organisational foundation and adapt, evolve and develop. In 2015-16 Melbourne Water has continued to develop our business under the four themes of Customer Focus, Inspired People, Continuous Improvement and Financial Sustainability.

Customer Focus

Our customers understand and value our services. We listen to our customers and they are at the centre of everything we do.

In 2014 Melbourne Water transformed our business, restructuring our teams and services to ensure that customers are at the center of everything we do. This transformation was a long term investment in our business model which is now showing early signs of success through improvements in our Reputation Score. In 2015-16 our focus was the development and delivery of an organisational approach to customer service – our 'Customer Service Model' - and to embed a customer focused service into specific areas of our operations.

Customer Account Managers, Customer Charters, Customer Service Standards, Customer Service Training and a Customer Service Centre.

COMMUNITY PERCEPTION OF MELBOURNE WATER

increases over 2 years by

14%

WE RATE STRONGLY WHEN BENCHMARKED AGAINST AUSTRALIAN COMPANIES

WATERWAYS AND LAND ESTABLISHES CUSTOMER RESPONSE OFFICERS TO INCREASE CUSTOMER FOCUS

MORE THAN

75%

OF ENQUIRIES HANDLED BY OUR CUSTOMER SERVICE TEAM WITHIN **2 DAYS**

Engagement with our customers through the 2016 Melbourne Water Price Review sets priorities for **$1416.2M** in capital investment in water supply and sewerage services for the next 5 years.

Developing our Customer Service Model

Investments in our Customer Service Model over the 2015-16 year have seen the implementation of several significant projects including new services delivered through our Customer Service Centre (CSC), new tools and technology to capture customer information, the establishment of Account Managers for each of our customer segments and the subsequent delivery of Customer Charters for the local government and developer segments. We have also developed training modules and Customer Service Standards to establish an organisational benchmark for customer interaction.

Understanding our customer enquiries

With the intent of improving the consistency of our customer service and reducing response times, we have expanded and refocused our CSC. With an initial focus on the developer segment, our CSC staff have been trained to handle low complexity issues which form a large percentage of all enquiries from our developer customers. Handling more than 4,000 enquiries per month, our CSC staff have been able to respond quickly and efficiently to customer needs, achieving a response time of less than two days for more than 76% of all enquiries.

Melbourne Water has also invested in the technology necessary to support a customer focused service by implementing our Customer Relationship Management (CRM) toolkit. CRM enables Melbourne Water to capture, track and monitor customer enquiries for the first time, greatly improving our ability to ensure all enquiries are managed until closed. The CRM tool was delivered using an agile methodology and resulted in one of the fastest successful implementations recorded, with design, delivery and testing completed within a 10 week timeframe.

Tailoring our service to customer segments

Melbourne Water has identified several segments from our customer base, including developers, local and state governments and retailers. To better understand the needs of each segment and to focus our cross-business efforts on meeting these needs, we have created dedicated Customer Account Managers. A significant achievement for the Account Managers this year has been the collaborative design and delivery of Customer Charters for the local government and developer segments.

The Local Government Charter was developed over a period of several months in consultation with the Municipal Association of Victoria (MAV) and councils. It covers a wide range of areas of mutual interest to local government and Melbourne Water including scheduling and planning activities, roles and responsibilities, flood mapping and mitigation, lease and license structures, maintenance activities, climate change and sea level rise and collaborative working arrangements. Melbourne Water has committed to reporting quarterly on our performance in these areas.

The Developer Charter was our first foray into customer charters. It was developed by evaluating the regular feedback we have from developers and establishing standards to meet identified challenges. The Developer Charter covers how Melbourne Water will support development in our region, what developers can expect from us when they need our services, our collaborative approach to establishing new guidelines and technical material and the timeframes for responding to service requests.

Building organisational capacity for customer service

Acknowledging that all our staff are agents for customer service, we have developed programs to increase organisational capacity for a more consistent and service-oriented approach.

We have made significant investments in training for all Melbourne Water people at all levels. Embedded into our core training modules is an introduction to customer focused service, using emotional intelligence to improve customer service, and leadership modules for our people managers.

In addition to training, core competencies required to provide strong customer service have been developed and are being built into position descriptions and performance plans.

We have also developed Customer Service Standards that provide clear language guidance on appropriate behaviours for interacting with our customers. The Standards set an organisational benchmark for interactions by phone, in writing or in person.

Embedding Customer Focus at Melbourne Water

In addition to working on the way we service customers, Melbourne Water has also made significant in-roads to embedding customer focus into specific areas of operational delivery.

Some success stories include our work with our retail, developer[1] and local government sectors.

The Wholesale Services Team and Yarra Valley Water

The Wholesale Services team made a number of customer-focused improvements that helped Yarra Valley Water meet their 2020 stretch target to reduce water quality complaints – five years early.

Actions focused on working more closely with Yarra Valley Water to improve their visibility of forecast outages and associated impacts and plan for and minimise disruptions.

"Yarra Valley Water felt that our improved customer focus, appreciation of their needs and attention to risk and planning all contributed to them meeting this seemingly impossible target. This customer outcome – and positive feedback – reflects well on every operator, our technical support teams and all those involved." Tommie, Melbourne Water.

Waterways and Land

In 2014, Melbourne Water changed its Waterways & Land Regional Services model to improve customer focus. The new, regional structure, reflected catchment boundaries and council areas, enabling us to work more transparently with local governments. In 2015-16, in collaboration with local government, we have continued to refine our model, realigning team capabilities and accountabilities to remain agile and responsive to customer needs. Day to day customer needs and issues will now be responded to by a dedicated resource, Customer Response Officers, who will be the first point of contact for stakeholders, customers and community. The Waterway and Land Officers will focus their efforts on building stronger customer relationships to promote greater partnerships and collaboration.

Measuring our Reputation

We monitor our reputation on a quarterly basis to understand how we are perceived by our customers and the community and how satisfied they are with the products and services we provide.

In 2015-16 we increased our overall reputation score to 76.8, a very high watermark when benchmarked across other industries and utilities.

1 See the 'Healthy Places' section for work done to improve customer focus in the developer segment

CASE STUDY

Responding to emergencies

Melbourne Water is custodian of the rivers, creeks and waterways of the greater Melbourne region.

In the last year, our western region has experienced three significant incidents through which we built our capacity to respond to these events and developed relationships with other agencies that progressively enabled us to respond more quickly.

In November 2015, a lightning strike began a fire on land used illegally for disposal of waste timber and other materials in Somerton. With fuel piled up to 10m high the fire was substantial and burned over several days. While Melbourne Water acted quickly to protect the adjacent Merri Creek, including pumping water out and providing additional aeration of the water, the runoff from the firefighting efforts resulted in pollution of a 7km section of the creek sufficient for some loss of fish and eels.

This fire was quickly followed by a fire at a tyre recycling factory in Broadmeadows in January 2016, again a significant fire that burned for several days. The factory was located along Merlynston and Campbellfield Creeks and runoff was again a potential threat to water quality downstream in both creeks. With closer relationships with emergency management services and having gained valuable insight from the Somerton fire, Melbourne Water was in a strong position to prevent the pollution from spreading downstream of the site by pumping contaminated water out of the creek and into the sewerage system.

The third event occurred in May 2016, when a fuel tanker overturned on the Calder Freeway in Airport West near Steele Creek, resulting in a leak of volatile fuel. With the assistance of the Metropolitan Fire Brigade, Environment Protection Authority, Yarra Valley Water and local councils, Melbourne Water was able to contain the fuel and firefighting foam to less than a kilometre of the waterway.

While we hope these events continue to be infrequent, Melbourne Water is now in a much stronger position to respond. Subsequent to these events, we are working towards a memorandum of understanding across emergency agencies to clarify responsibilities regarding firewater runoff and waterway pollution, and have strengthened our in-house procedures for these situations.

Melbourne Water, delivering on the Sustainable Development Goals – Peace, Justice and Strong Institutions

Inspired People

Our organisation is a leader, with diverse, smart, capable and resilient people that are reflective of the community.

At Melbourne Water, our most valuable asset is our people – the strength of our customer relationships, our future-focused service delivery and our world class assets are all dependent upon the capability, engagement and diversity of our workforce. In 2015-16 Melbourne Water has continued to invest in each of these elements to develop the confident, vibrant and engaged workforce necessary for continued success.

MELBOURNE WATER'S ENGAGEMENT SCORE
INCREASED BY MORE THAN
15%
OVER THE 2015/16 YEAR

THE ALIGNMENT SCORE HAS ALSO INCREASED BY **MORE THAN 10%**

Accelerating the Diversity and Inclusion Strategy and flexible work arrangements.

REMUNERATION REVIEW SHOWS GENDER PAY EQUITY

37%
OF ALL SENIOR POSITIONS
HELD BY WOMEN
*Target of **50%** by 2017*

RECONCILIATION ACTION PLAN GUIDES ENGAGEMENT WITH THE ABORIGINAL COMMUNITY

INCREASING CAPABILITY THROUGH
LEADERSHIP DEVELOPMENT
THRIVE AND MANAGER ESSENTIALS
TRAINING PROGRAMS

Diversity and Inclusion

Melbourne Water is committed to valuing and supporting individual differences and creating an environment where everyone can contribute and realise their full potential.

We know our people bring different life and work experiences, skills and knowledge, languages, ethnicities, family status, religious and cultural backgrounds and sexual orientation to our workplace and we know that these enhance our business.

We want to be an organisation as diverse as the community we serve, that embraces different perspectives and supports all our people to achieve fulfilling careers and lives. We recognise that actively supporting diversity and inclusion helps us to attract, retain and develop the best talent. It supports improved financial and operational performance, addresses skills shortages and capitalises on available talent pools. Expenses associated with employee turnover and recruitment are reduced, innovation is enhanced and legal and reputational risks are minimised.

At Melbourne Water, our diversity and inclusion program has three key areas of focus:

- Leadership - we expect our leaders to model inclusive behaviour.
- Inclusion - we actively support all employees regardless of gender, age, cultural, linguistic differences, sexual or gender orientation or disability status.
- Wellbeing – we support and care for all employees at all career stages.

CASE STUDY

Embracing gender diversity

Gender equity is important to Melbourne Water and, with 37% of all senior leadership roles held by women, we are in a a good starting position to reach our target of 50% by 2017. This year Melbourne Water has continued to support women into more senior roles through tactical interventions across all areas of the business. We have implemented a Career Resilience for Women program, ensured gender balanced shortlists and interview panels throughout recruitment, created a new Family and Domestic Violence Leave Procedure and set a goal of 50:50 gender split in our graduate program.

In March 2016, our Managing Director deepened our commitment to flexible work practices. While recognising that flexibility will be different for each role and each person, the commitment establishes the opportunity for embedding flexible work options into all roles.

This opportunity was embraced early by the Customer and Strategy team when a senior role in the Government Affairs and Policy team became available. The General Manager, Ben, agreed the role could be undertaken as a job share, which allowed Emily, who was returning from maternity leave, to take on the position.

Emily and Ben are already reaping the benefits of jobshare arrangements. For Ben, appointing Emily into this role enables a talented team member to remain engaged and fulfilled, contributing to a positive culture within Customer and Strategy, and avoiding the challenge of on-boarding an external recruit. For Emily, the role enables her to continue to grow professionally through the critical years of a family in early childhood.

While the flexible arrangements will potentially be tested over the coming months, Emily and Ben's commitment to making the arrangement work will likely see any hurdles overcome.

Melbourne Water, delivering on the Sustainable Development Goals – Gender Equality

Building our Organisational Capability

In 2015-16 Melbourne Water continued to invest in the growth and development of our teams to ensure they remain engaged, focused on achieving the right outcomes for the community and able to deliver the services that our customers expect.

Specific programs run at Melbourne Water to support increasing organisational capability include the:

- Introduction of POD (Performance, Opportunity, Development) which is an improved approach to performance and goal setting.
- Identification of key talent and opportunities to nurture potential and build their leadership capability.
- Provision of tools, training and knowledge to enable employees to perform in the most effective, safe and efficient manner.
- Expansion of our existing senior leadership development program by introducing 'Thrive' and 'Manager Essentials'. Thrive is an accredited, year-long program for experienced managers building on their core skills and Manager Essentials is an in-house program for our front line and first time leaders.
- Formalising career pathways for technical staff through Vocational Education Training (VET). VET is targeted towards operational delivery and aims to establish foundational technical capability across our services. In 2015-16, Melbourne Water supported 35 employees to gain qualifications through traineeship and apprenticeship schemes.
- Welcoming eight new engineering graduates in May 2016. The graduates form part of Melbourne Water's longer term strategy and commitment to build ongoing engineering capability for the water industry.

Building our Organisational Engagement

Employee engagement has a direct impact on performance, productivity, retention, advocacy and wellbeing.

Each year we measure employee engagement through our annual Alignment and Engagement Survey. In 2015-16 our engagement score increased 15%[1], a strong result in a time of significant business change.

Changes in our engagement score reflect the cumulative impact of efforts across the business to build the capability, capacity and resilience of our people and to connect them firmly with our Strategic Direction and operational requirements. Some areas where significant efforts were made in 2015-16 include:

- The refresh of our Strategic Direction to enable better line of sight of Melbourne Water's long term direction.
- Continued reward and recognition for strong performance.
- Leadership training including Thrive and Manager Essentials.
- Our health and wellbeing program.
- Implementation of a formal approach to change management.
- Providing flexible work options to recognise our people have different needs regarding how, when and where they work.

1 Our engagement score increased by 9 percentage points, equivalent to a 15% increase over the 2014-15 result.

CASE STUDY

Engaging with Melbourne's Aboriginal community

At Melbourne Water, we recognise that Aboriginal people have a connection to the land and waterways that is inseparable from their identity. The launch of our Reconciliation Action Plan (RAP) in March 2016 outlined the steps that Melbourne Water would undertake to support reconciliation with the Aboriginal and Torres Strait Islander (ATSI) communities of the Melbourne region.

The procurement of goods and services through ATSI owned organisations is an important element of our RAP. Marcus Lee Design and Print Junction are two ATSI-owned entities that Melbourne Water has already begun to support by procuring their design and printing services through the publication of our RAP.

Services provided by these organisations helped to embed elements of design that recognised Aboriginal communities and make our RAP visually appealing. Since then, Melbourne Water has continued to build a relationship with Marcus Lee Design, who have been engaged to work on subsequent projects for Melbourne Water.

Melbourne Water, delivering on the Sustainable Development Goals – Reduced Inequalities

Our workforce by numbers

At 30 June 2016:

- Our total workforce was 943 compared with 900 at 30 June 2015.
- The proportion of women in our workforce was 31%, unchanged from 30 June 2015.

During 2015-16:

- 302 roles were filled with 45.4% internal candidates.
- 9,077 training sessions for staff were conducted using both face to face and online modes covering issues relating to induction, safety, leadership and technical and professional development.

Further workforce data can be found in Appendix G.

Continuous Improvement

With safety foremost, our innovative and agile approach embraces technology to always exceed community expectations.

6.73

TOTAL RECORDABLE INJURY FREQUENCY RATE

DOWN MORE THAN 30%

REPLACEMENT OF BUNDLED POWER CABLES AT WINNEKE WITH SIGNIFICANT FIRE RISK REDUCTION

SUBMERSIBLE

AND AERIAL DRONES

replace high risk inspections

High value, collaborative research, leveraging **$5.4M** to achieve a **$45M** program.

IMPLEMENTATION

OF A RISK BASED SURVEILLANCE PROGRAM FOR WATER STORAGES AND RETARDING BASINS

Safety

Melbourne Water is committed to achieving a workplace where safety and wellbeing is core to every aspect of our business and where our people can count on a safe working environment.

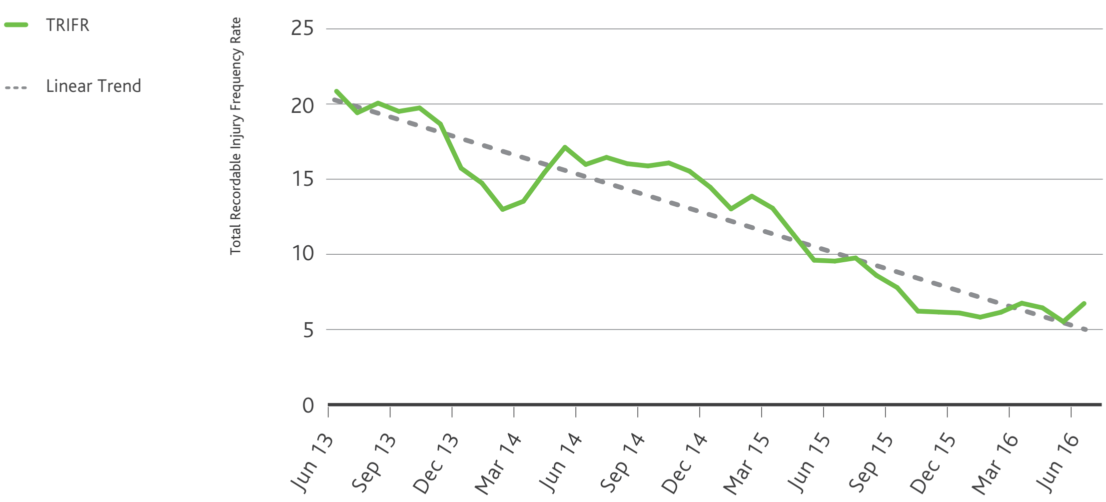
We have made strong progress in improving our underlying safety culture. We have reinforced this through the release of our Managing Directors Safety Commitment, which sets out the core values of our safety program and the expectations of every person who carries out work for Melbourne Water:

- **Lead** – proactively improve safety in the work we do and with one another, reinforcing our responsibilities and accountabilities.
- **Think** – start every initiative, project and task thinking first of safety and how we can make everything we do safer.
- **Act** – never hesitate in having the courage to speak up, change or do something new to make things safer and do the right thing.
- **Care** – address all issues fairly, investigating and learning from them, while supporting our people in recovery when required.

In 2015-16 we continued our outstanding progress in reducing our injury rate with a decline of 30% in our performance metric of Total Recordable Injury Frequency Rate (TRIFR). Melbourne Water does not differentiate between the safety of employees, contractors and that of the community, as we see great benefit to a holistic approach to preventing harm and ensuring the integrity of our operation. Our TRIFR rates are therefore inclusive of incidents from both our contractors and Melbourne Water staff.

Again this year we have outperformed the improvement target for TRIFR, achieving a total result of 6.73 events per million hours worked. This is down from 9.55 in 2014-15 and 15.98 in the year preceding. As a component of our overall TRIFR, the employee TRIFR reduced from 6.30 in 2014-15 to 2.82 in 2015-16[1].

Total Recordable Injury Frequency Rate and Lost Time Injury Frequency Rate



1 Further information and data on our safety results can be found in Appendix G.

In April 2016, Worksafe Victoria also confirmed the reissuance of our Self-Insured licence, following an audit of safety systems and other licence criteria. The assessment of safety systems was made against 68 criteria including training and competency, contractor management, purchasing and traffic management, among others. The process of working through the audit provided us with an opportunity to review and improve our processes and procedures.

In 2015-16 we introduced a renewed safety strategy and increased safety resources to the business. The new strategy placed a focus on Leadership, Safe People, Safe Assets, Safety Systems and improved standards of care for anyone injured in the workplace. These focuses form the foundation of our aspiration to be both an industry leader and a generative culture.

During the year our key initiatives have been:

- Building a simplified safety system that is more engaging and more easily understood and applied within the business. Key to this was the introduction of the Melbourne Water Lifesaving Rules that provide guidance in eight of our key risk areas.
- Developing a stronger focus on safe assets and the role that they play in operational integrity and the safety of people with exposure to them.
- Raising the level of knowledge and capability of our people so they can work more safely.
- Implementing a learning culture by developing an investigative approach to the issues and incidents.
- Growing our control framework to ensure our approach to safety is working as intended.

We have achieved strong safety results for 2015-16, a reflection of the commitment, across our teams, to safe behaviours.

Business Improvement

Beginning in 2014, Melbourne Water has progressed through a period of significant change, most notably associated with our strategic shift to become a customer focused organisation.

In 2015-16 our approach towards business improvement shifted from a transformation agenda to one of continuous improvement, which has ensured that we embed and sustain the value of the changes to date and maintain an ongoing focus of identifying and delivering improvement opportunities.

In 2015-16 we included the development of a Business Improvement Plan in our business planning process. Through consultation, we identified a portfolio of 22 business improvement initiatives, a minimum of three initiatives for each of our strategic themes of 'Customer Focus', 'Inspired People', 'Continuous Improvement' and 'Financial sustainability'. While strategic in their nature, these initiatives are prioritised based on their ability to achieve meaningful improvement within a 12 month period. Examples of initiatives include the 2015-16 program of Digital Transformation, the Asset Management and Maintenance Optimisation program, the implementation of a CSC for the developer segment and the establishment of a Diversity and Inclusion Plan.

Digital Innovation

The digital revolution is bringing significant and ongoing change to all workplaces.

New developments affect social interaction and mobility, provide new insights through 'big data', revolutionise our access to information through cloud computing and affect the security of our corporate and personal information through cybersecurity threats. As an organisation with substantial infrastructure, the digital age is also transforming the way we operate, maintain and improve our assets.

Our Digital Strategy is helping Melbourne Water to address these issues and is focused on making Melbourne Water *safer, faster, smarter* and *easier* to work with. Our digital transformation not only includes the evolution of our technology systems and infrastructure, but also a shift in the way we think about, interact with and use technology.

We have started using iterative methods to deliver digital solutions faster, requiring us to think and do things differently. We are building our 'agile' practice to enable us to add value to our key systems.

The world is moving technology to the cloud and so are we, with over half of our active projects delivered or enhanced by using cloud services. With cloud computing we get the benefit from hardware and software owned and managed by an external organisation that we access through the internet, allowing us to scale our services up or down to match our business needs, offering more mobility and real-time data access across devices.

In response to elevated cybersecurity threats, we are developing a rigorous program around information, personnel, technology and physical security.

Over the past 12 months, we have made significant progress in improving the digital experience for our people and our customers, including:

- The implementation of our new Asset Management Information system has provided the foundation for a comprehensive program of improvements in the way we manage and operate assets including innovation in asset condition monitoring and the introduction of iPhone-based field mobile systems.
- Digitally capturing, monitoring and reporting detailed customer interactions through a Customer Relationship Management system, giving us new insights into our customers' experience and allowing us to identify areas for improvement and automation.
- New insight into risk management through our Integrated Risk and Incident System (IRIS)
- The use of business intelligence tools to bring together existing information in new ways for business performance reporting. We have created a self-service data environment to support water unit costing and streamlining of data from the new Energy Management System. This included innovative ways of displaying operational data to map forecast and actual sewage flows.
- Delivery of our Flood Integrated Decision Support System (FIDSS), bringing together forecast and real time rainfall and river level data with our existing models to make flood reporting, modelling and forecasting easier, faster and more accurate. FIDSS helps us provide better customer service to key stakeholders such as the Bureau of Meteorology, State Emergency Services, local councils, government agencies and the community.

Asset Management

Melbourne Water is focused on providing efficient and reliable services to our customers.

The continuous improvement of our Asset Management approach through the full service lifecycle of our assets is key to this. This improvement is being driven through the implementation of our Asset Management and Maintenance Optimisation (AMMO) plan to ensure a consistent uplift in performance across our service delivery functions.

The implementation of a new Asset Management Information System (Maximo) in November 2014 is providing a key foundation to transforming the way we better utilise asset and maintenance data to optimise decision making. The current focus in the AMMO plan is the optimisation of:

- Key asset related process including stores and procurement.
- Technology and integration including field mobility and drainage scheme management.
- Data quality including introducing a data quality framework and system and collecting more critical asset information.
- Capability in our people such as building a capability framework and undertaking further training.
- Innovation in asset condition monitoring such as the use of drones, submersibles and laser scanning which not only help us to maintain assets, they also improve the safety of our people.

To ensure we continue to challenge ourselves and drive further improvements we are participating in industry benchmarking of our asset management processes against international standards.

CASE STUDY

Biobanking

Since the beginning of the environmental movements in the 1970s, the value of the 'environment' has been increasingly recognised. Until recently, most value has been expressed in either scientific terms, such as the extent of species biodiversity, or subjective terms, such as aesthetic value or cultural meaning. While these remain central concepts of environmental value, the move towards monetising environmental value is growing.

Biobanking is one example of placing a monetary value on the environment that has been quietly delivering environmental value for several years. Biobanking primarily exists to support development in situations where environmental value will be unavoidably lost through the development process. Where a developer is unable to return the landscape to a similar level of environmental value following development, under some planning schemes they are able to offset their responsibility by investing in the development of environmental values at other sites with the aim of delivering a 'net zero' environmental impact.

Melbourne Water is a landholder with significant areas of biodiversity and the capacity and capability to extend those areas. In recent years, we have developed vegetation credits from our rehabilitation works and are now in a strong position to support developers needing the service of 'biobanking'.

During the year Melbourne Water actively traded native vegetation credits. A total of 25 trades were completed for more than $0.2M. For the first time these natural assets have been included as a contingent asset in this year's Annual Report, with a value of approximately $4M.

A draft business plan has been developed to establish new credit sites on suitable Melbourne Water land and meet customer demand for offsets. Ryans Swamp, an ephemeral wetland with high value vegetation at the Western Treatment Plant, is being used to trial this.

By placing a monetary value on the environment and connecting it with established financial accounting, we simultaneously make a strong contribution to responsible development and achieve positive financial outcomes.

Melbourne Water, delivering on the Sustainable Development Goals – Responsible production and consumption

Research

The research program continues to provide value over a wide range of areas important to Melbourne Water.

During the 2015-16 year there have been 55 projects underway totaling $45M. This represents a leverage ratio of 8:1 for each dollar of the $5.4M spent by Melbourne Water. There have been 29 water utilities, 40 government agencies, 30 universities and 12 research agencies involved in the 55 projects. Melbourne Water was successful in 7 of the 14 applications submitted for Australian Research Council funding, which represents cash funding of $2.3M over a three year period.

In addition to other projects highlighted in this report, Melbourne Water's research program has developed:

- A revised cleaning method for small weirs leading to improved safety and maintenance savings.
- Improved methods for detecting toxin genes in blue green algal blooms and progress towards translating this information into risks to human health.
- A model for predicting debris flow which will help water authorities to understand likely deterioration in water quality following fire.

Financial Sustainability

Our commercial excellence ensures we will always provide value to the community.

Operational efficiencies found through the 2016 Melbourne Water Price Review leading to ongoing customer savings.

CONTINUED CONTROL ON MANAGING EXPENDITURE WHILE IMPROVING CUSTOMER SERVICE

NEARLY **$8M** IN PROCUREMENT SAVING

JOINT PROCUREMENT INITIATIVE ON INSURANCE WITH 19 VICTORIAN WATER AGENCIES RESULTING IN **$1.5M IN SAVINGS**

11% REDUCTION

IN WHOLESALE WATER AND SEWERAGE PRICES

RESULTING IN REAL RETURNS TO CUSTOMERS AND THE COMMUNITY

Financial Performance

Melbourne Water is committed to ensuring that in delivering our services we maintain a financially stable corporation that delivers value for money for customers.

Over the last few years we have challenged our cost base, ensuring everything we do delivers value for money. This program has resulted in an increased understanding across the corporation of our expenses and their drivers.

A focus on strengthening our people's commercial acumen has been a key capability initiative. This continued focus is delivering better business outcomes and is fostering innovative ideas to generate improved financial performance.

Aided by some of the initiatives, total expenditure during 2015-16 reduced to $1,532.4M from $1,589.3M the previous year. At the same time expenditure reduced, total revenue increased to $1,871.6M ($1,749.7M in 2014-15) as a result of increased developer activity and higher water demand and sewage flows. Increases were partially offset by an increased level of efficiency savings passed back to customers through the Government Water Rebate ($78.5M in 2015-16 versus $72.5M in 2014-15).

Due to higher revenue and lower expenditure Net Profit After Tax for 2015-16 increased to $153.4M ($116.2M in 2014-15).

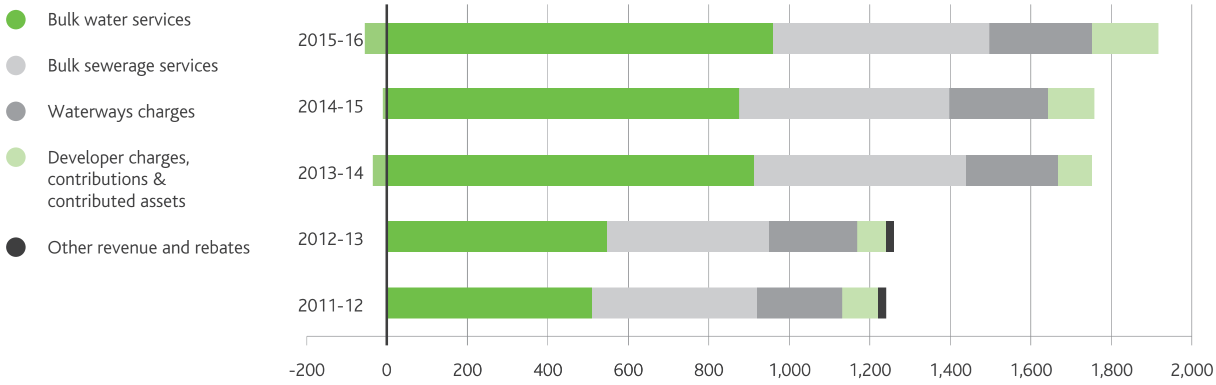
During 2015-16, Melbourne Water made cash payments to the Victorian Government of $262.9M which was an increase from the $100.9M paid in 2014-15. For the third consecutive year, borrowings were also lower at the end of June 2016 due to stronger cash flows.

At 30th June 2016, Melbourne Water has total assets of $14,820.9M up from $14,535.3M at 30th June 2015. This increase is mainly due to increase in capital expenditure and land, buildings and infrastructure revaluations.

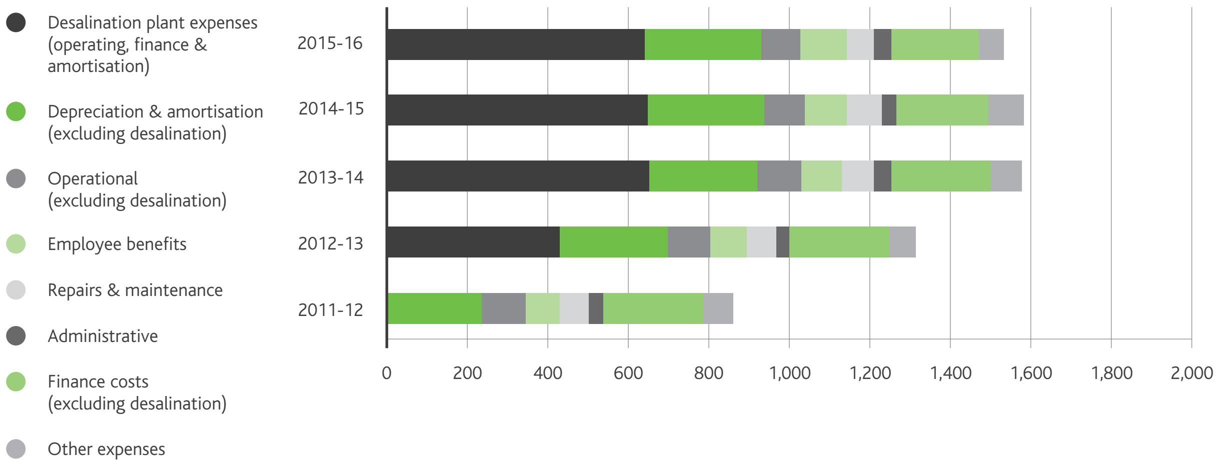
In 2015-16 the level of investment in capital expenditure (including purchases of motor vehicles) increased to $420.1M ($358.5M in 2014-15). The increase was in waterways and drainage where there was an additional $53M invested in drainage and flood.

Total liabilities decreased to $9,675.2M at 30th June 2016 from $9,743.3M as at 30th June 2015. This decrease was mainly due to the reduction in interest-bearing liabilities (borrowings and finance lease liabilities). As a result of higher assets and lower liabilities, equity increased to $5,145.7M from $4,792.0M as at 30th June 2015.

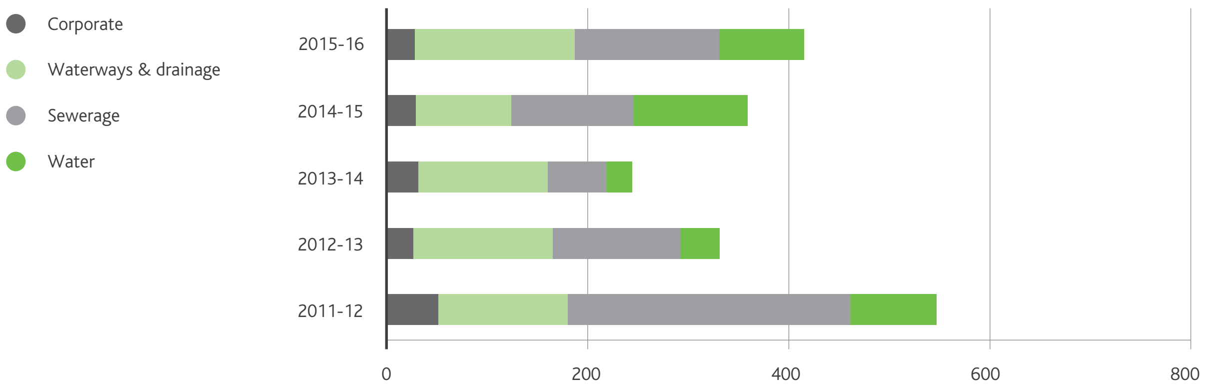
Revenue ($M)



Expenditure ($M)



Capital Expenditure ($M)



Melbourne Water 2016 Price Review

Melbourne Water's revenue is established via regulatory review and oversight by the Victorian Essential Services Commission (ESC). Our prices were last set in July 2013 and were due to expire in June 2016. In preparation for the end of the regulatory period, Melbourne Water made a submission to the ESC in October 2015 which outlined our revenue requirements for the coming regulatory period which will end June 2021. Our 2016 Price Review was based on extensive customer and community consultation and outlined our requirements for operational and capital expenditure.

In June 2016, the ESC released its final determination on Melbourne Water's price review, which, overall, was a positive outcome for Melbourne Water and our customers. The final decision will see a reduction in wholesale water and sewerage prices of 11% in 2016-17. This means most end-use customers in Melbourne will see a decrease in their water bills for 2016-17.

Improved Procurement

Melbourne Water procures over $500M every year from a wide range of goods and services. These include:

- Design and consulting services.
- Construction works and building materials.
- Information technology hardware and services including telecommunications.
- Chemicals for water treatment processes.
- Asset and infrastructure maintenance services.
- Fleet and fleet repair and maintenance.
- Corporate goods and services including marketing materials, fleet and office supplies.

Our procurement process is carefully managed to ensure all purchases are made transparently and in accordance with appropriate business, government and ethical standards and to ensure the best value for the community.

In 2014, Melbourne Water transformed our procurement model. The introduction of a centralised procurement model with a contracts register, e-tendering and catalogue pricing to our finance system has enabled us to consolidate spending, drive price reductions and strengthen our relationship with suppliers.

In 2015-16, we continued to embed this successful model across the business, generating savings of nearly $8M. A highlight was the successful delivery of a joint procurement initiative on insurance across all 19 Victorian water agencies. Partnering with other water agencies across the industry resulted in approximately $6.3M in savings to the water sector, realised in the 2015-16 year.

Corporate Governance

Ethics and values

Melbourne Water's directors and employees are committed to operating ethically and in the best interests of customers, the Victorian Government, 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 our people, 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. These documents are regularly updated. The Corporate Secretary maintains a Register of Directors' Interests and a register of gifts and invitations accepted by Directors and employees.

As part of maintaining a safe and healthy working environment, the Board has approved behavioural and workplace policies for specific purposes, such as health and safety and equal opportunity. These policies are distributed and widely publicised to our employees.

Powers and accountability

Melbourne Water operates under the *Water Act 1989*.

Melbourne Water has two current by-laws: *By-Law No. 1: Water Supply Protection (2008)* and *By-Law No. 2: Waterways, Land and Works Protection and Management (2009).*

The Minister for Water has delegated powers of management under the *Water Act 1989* relating to licensed private water diversions from waterways to Melbourne Water, effective as of 1 July 1999. The Water Act and by-laws can be purchased via the publications directory at vic.gov.au.

The Honourable Lisa Neville MP, Minister for Environment, Climate Change and Water, was the Minister responsible for Melbourne Water from 1st July 2015 to 22nd May 2016. From 23rd May 2016 to 30th June 2016, Minister Neville continued to be the responsible Minister for Melbourne Water as the Minister for Water.

Melbourne Water works with officers of the Department of Environment, Land, Water and Planning and the Department of Treasury and Finance. Statutory and other reports are provided, covering Melbourne Water's performance against the objectives and performance indicators stated in the Corporate Plan.

There have been no recorded incidents of non-compliance with laws or regulations resulting in sanctions or fines.

Primary responsibilities

Melbourne Water's Board has adopted a charter that defines its role and responsibilities within the legislative framework provided by the Water Act and other applicable legislation including the *Public Administration Act 2004*. The Board makes plans to achieve specific objectives, including:

- Long-term, sustainable, outcomes – based on a triple bottom line approach.
- Approval of corporate plans together with key performance indicators linked to objectives.
- Approval of annual financial statements and monitoring of performance against objectives and risks.
- Monitoring of safety, health and environmental standards and management systems.

The Board has ratified a Corporate Governance Statement. Key features of its activities include the following:

- Holding 11 Board meetings a year, undertaking site safety visits and a strategy workshop with Melbourne Water's Leadership Team. Special Board and committee meetings are convened as required to meet the needs of the business.
- Monthly updates on Board activities are made available to all employees and the community.
- A structured induction program exists for new Board and committee members.
- Development opportunities are made available for Board members on an ongoing basis.
- 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 upon appointment and thereafter annually and confirmed at each Board meeting.
- There is an annual review of Board performance.

CASE STUDY

Providing essential services at affordable prices

Melbourne Water has a role in providing essential services to the community of Melbourne. We are a wholesale supplier of water services and we also remove and treat sewerage. We support flood protection, urban development and other waterways and drainage activities. While we strive to provide the best possible service, we must balance this with community concerns about affordability.

Melbourne Water sets its prices by consulting with its customers on the services they want and what they are prepared to pay. In the lead up to our 2016 Price Submission, we undertook our most significant consultation program to date. Key elements of the consultation program included:

- Multiple rounds of workshops with metropolitan retail water customers to test whether their preferences align with proposed expenditure
- Engagement with more than 120 community members in three deliberative forums. These forums sought customer views on two complex issues - how quickly the cost of the Victorian Desalination Plant is repaid and options for reforming the non-residential Waterways and Drainage Charge. Further information was sought from the community on these issues through an online survey of nearly 1,000 customers.
- In partnership with LaTrobe University, Melbourne Water investigated community preferences for investments in waterway management and flood protection. The method used trade-off modelling to understand community preferences.
- A dedicated website which enabled the community to provide comment on our proposals.
- Multiple rounds of meetings with other interested stakeholders, including Government agencies and representative bodies who advocate on behalf of a range of interests spanning business and the disadvantaged.

Some clear messages emerged. Customers told us they wanted us to maintain our high quality services but to ensure they remained affordable. As a consequence of the price review and our efforts to find efficiencies, we are able to reduce the wholesale cost of our services by approximately 11% for the next regulatory period while maintaining high quality water and sewerage services and protecting waterways and drainage assets.

Melbourne Water, delivering on the Sustainable Development Goals – Zero Poverty

Committees

The Board has three committees, each comprising at least three non-executive directors, who meet periodically to focus on finance and sustainability, people, safety and remuneration, and customer and service delivery. The Managing Director, Chief Financial Officer and relevant General Manager attend meetings of committees by invitation. The Board approves the charters of each committee.

Audit, Risk and Finance Committee

This committee assists the Board in fulfilling its responsibilities relating to audit, risk management, financial management, operational control practices and compliance with relevant laws and regulations.

At 30th June 2016, the committee comprised Dana Hlavacek (Chair), John Thwaites, Merran Kelsall and Hugh Gleeson. A report about the activities of the committee in fulfilling its charter is prepared annually.

People, Safety and Remuneration Committee (formerly People and Safety Committee)

This committee assists the Board in fulfilling its responsibilities relating to safety, human resources and remuneration. For details of directors' and executives' remuneration, refer to the Financial Statements.

At 30th June 2016, the committee comprised David Buckingham (Chair), Kathleen Bailey-Lord and Robyn McLeod. A report about the activities of the committee in fulfilling its charter is prepared annually.

Customer and Service Delivery Committee

This committee assists the Board in fulfilling its responsibilities relating to Melbourne Water's transformation to a customer centric organisation, delivery of customer driven and resilient services providing multiple benefits, affordable asset delivery and protecting the environment and public health.

At 30th June 2016 the committee comprised Garry Smith (Chair), Kathleen Bailey-Lord, Hugh Gleeson and Robyn McLeod. A report about the activities of the committee in fulfilling its charter is prepared annually.

Board of Directors

The Minister for Water, in consultation with the Treasurer, appoints the directors of Melbourne Water 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 Victorian 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.

Typically, annual reviews are conducted on the performance of the Board as a whole and of individual members. Pursuant to a Statement of Obligations issued by the Minister, the outcomes of these performance reviews are reported to the Treasurer and the Minister. In 2015-16, the Board was acting in a caretaker capacity and this review did not occur.

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

John Thwaites, Chair

John Thwaites is Chair of Melbourne Water.

John Thwaites is a Professorial Fellow at Monash University, and Chair of *ClimateWorks Australia* and the *Monash Sustainability Institute.* He is Chair of the Australian Building Codes Board and the Peter Cullen Trust and is a director of the Green Building Council of Australia. He chairs the Brotherhood of St Lawrence Equity and Climate Change program.

Mr Thwaites is a Co-Chair of the Leadership Council of the UN Sustainable Development Solutions Network ("SDSN") launched by the Secretary General of the United Nations to provide expert advice and support on the Sustainable Development Goals. In 2013, John was named as one of the 100 Global Sustainability Leaders by ABC Carbon Express.

Mr Thwaites was Deputy Premier of Victoria from 1999 until his retirement in 2007. During this period he was Minister for Health, Minister for Planning, Minister for Environment, Minister for Water, Minister for Victorian Communities and Victoria's first Minister for Climate Change. In these portfolios he was responsible for major reforms in social policy, health, environment and water.

Prior to being elected to Parliament, he was a barrister and Mayor of South Melbourne. He has degrees in Law (Honours) and Science from Monash University.

Mr Thwaites was appointed as Chair of Melbourne Water on 1 October, 2015.

Michael Wandmaker, Managing Director

Michael Wandmaker was appointed Managing Director on 22 September 2014.

Mr Wandmaker has extensive senior leadership experience across several industries, both in Australia and internationally.

Mr Wandmaker was previously President of FT Services, CEO of Silcar Maintenance Services, Vice President at Siemens Canada Ltd and held various executive positions with Tyco Services and Transfield Holdings Pty Ltd. Prior to becoming Managing Director at Melbourne Water, Mr Wandmaker was Group President and Acting CEO of UGL Limited.

Merran Kelsall, Director and Deputy Chair

Merran Kelsall is an experienced independent Director who has considerable expertise in finance, audit, risk and compliance. She has served on many boards in the private and public sectors including RACV Limited, as Chairman, Auditing and Assurance Standards Board and Member, International Auditing and Assurance Standards Board and Financial Reporting Council. Ms Kelsall is also Chair at Australian Health Service Alliance Ltd (AHSA) and was previously a Commissioner at Taxi Services Commission and Deputy Chair at Victorian Regional Channels Authority. She was formerly a partner at BDO Chartered Accountants.

Ms Kelsall was appointed to the Melbourne Water Board on 1st October 2015.

Kathleen Bailey-Lord, Director

Kathleen Bailey-Lord serves on the Safety, People and Remuneration Committee and the Customer and Service Delivery Committee.

Ms Bailey-Lord is an internationally experienced corporate senior executive and company director. With deep knowledge of digital and leading businesses through transformational change, Ms Bailey-Lord's senior executive experience includes banking (ANZ Bank), technology (IBM), Professional Services (Law, Accounting, Funds Mgt) and Marketing/Media (PMP).

Ms Bailey-Lord currently serves as a Non-Executive Director of QBE Insurance (Australia and New Zealand) where she chairs the Remuneration Committee. Her past board experience includes the Australian Government Solicitor; Trinity College, University of Melbourne; Chief Executive Women and the Diversity Council of Australia.

Ms Bailey-Lord was appointed to the Melbourne Water Board on 1st October 2015.

David Buckingham, Director

David Buckingham is Chair of the People, Safety and Remuneration Committee.

He has served as Victoria's Agent General in London, following a long and varied career as a Senior Officer in Federal government and the private sector.

He is a former Executive Director of the Business Council of Australia and Chief Executive Officer of the Minerals Council of Australia. Mr Buckingham has previously served on Boards including the Monash Medical Foundation and Fulbright Foundation. He was Chair of the Linking Melbourne Authority and has held other representative and board positions.

Mr Buckingham was appointed to the Melbourne Water Board on 1st October 2015.

Hugh Gleeson, Director

Hugh Gleeson was a Director at Barwon Water from 2010 to 2015. Mr Gleeson is the recently retired CEO of electricity and distribution businesses, United Energy and Multinet Gas, following 12 years in that role.

Mr Gleeson has over 30 years' experience in the energy sector. He was a founding member on the Board of the Energy Network Association, where he held the positions of Deputy Chair and Chair. He has also served on the boards of the Energy Supply Association of Australia and the Australian Gas Association.

He is currently a non-executive director of Allgas Energy.

Mr Gleeson was appointed to the Melbourne Water Board on 1st October 2015.

Dana Hlavacek, Director

Dana Hlavacek was appointed to the Board in September 2011. She is the Chair of the Audit, Risk and Finance Committee.

Ms Hlavacek is an experienced finance executive. She worked at Rio Tinto for 17 years, and previously at KPMG. Ms Hlavacek holds a number of Directorships including the Greater Metropolitan Cemeteries Trust and VicWater. She is Chair of the Brotherhood of St Laurence Audit and Risk Committee and a member of the Salvation Army Corporate and Philanthropy Committee.

She is also a Trustee of the Victorian Arts Centre Trust and is Chair of the Risk, Audit and Management Committee. Ms Hlavacek was reappointed to the Melbourne Water Board on 1st October 2015.

Robyn McLeod, Director

Robyn McLeod has held the positions of Independent Commissioner for Water Security in South Australia, National Director of Water at KPMG, and Executive Director of Major Projects, Water with the Department of Sustainability and Environment, Victoria.

She was Chief of Staff to the Victorian Energy Resources and Ports Minister, and an Advisor to the Victorian Environment and Education Minister. Ms McLeod has previously worked in Higher Education to industry, Industrial Relations, and Secondary Teaching.

Robyn is a Graduate of the Australian Institute of Company Directors, and completed the Senior Executive Fellows Program at The Kennedy School of Government, Harvard University. Previous Board positions include as an inaugural Director of The Australian Centre for Social Innovation and Chair of this organizations Risk and Audit Committee.

Ms McLeod was appointed to the Melbourne Water Board on 1st October 2015.

Garry Smith, Director

Garry Smith was appointed to the Board in October 2012. He is Chair of the Customer and Service Delivery Committee.

Mr Smith has extensive experience in the water sector and is a Director with DG Consulting, providing advice on water and natural resource management policy and strategy. He has previously held a range of senior management roles in the rural water industry.

Garry's previous roles include membership of the Advisory Board for the National Centre for Groundwater Research and Training, Director of the eWater Co-operative Research Centre, member of the Water Accounting Standards Board and Director of Scope.

Mr Smith was reappointed to the Board on 1st October 2015.

Organisation structure

Chair
John Thwaites
(ARFC)

Deputy Chair **Merran Kelsall** (ARFC)

Director **Kathleen Bailey-Lord**

Director **David Buckingham**

Director **Hugh Gleeson** (ARFC)

Director **Dana Hlavacek** (ARFC)

Director **Robyn McLeod**

Director **Garry Smith**

Managing Director
Michael Wandmaker

Chief Financial Officer **Anthony O'Shannessy**

Executive General Manager Service Delivery **David Ryan**

General Manager Integrated Planning **Chris Williams**

General Manager Customer and Strategy **Ben Furmage**

General Manager People and Capability **Linda Heron**

General Manager Safety **David Tregoweth**

General Manager Major Program Delivery **Eamonn Kelly**

Chief Technology Officer **Geoff Purcell**

General Manager Waterways and Land **Gavan O'Neill**

General Manager Wholesale Services **Charmaine Quick**

General Manager Service Optimisation and Performance **Tony Antoniou**

(ARFC) is the Audit, Risk and Finance Committee

Risk and emergency management

Risk management is central to ensuring Melbourne Water understands and manages the risks and uncertainties in achieving its vision and objectives.

Melbourne Water maintains an Enterprise Risk Management Framework consistent with the Australian/New Zealand Risk Management Standard (AS/NZS ISO 31000:2009) and the requirements of the Victorian Government Risk Management Framework 2015.

Melbourne Water's Enterprise Risk Management Framework is made up of a number of key elements which, when combined, create an environment for effectively managing risk, and pursuing opportunities across the corporation. This includes:

- An established Risk Management Policy and Risk Appetite Statement.
- Ongoing management of strategic risks that may impact on the achievement of our strategic objectives.
- Ongoing management of operational risks that may impact on the achievement of our operational objectives - such as financial, asset, product quality, environmental, safety, security, information technology and project execution risks.
- Ongoing education and development of risk capability across the corporation, and maintaining a risk aware culture.
- Providing ongoing assurance over our control environment through a comprehensive risk-based audit program, based on the three lines of defence.
- A comprehensive Insurance portfolio.

Melbourne Water maintains and tests its Emergency Risk Management framework, which outlines controls with respect to emergency management and business continuity, including critical infrastructure, and the management and response to internal and external emergencies. Melbourne Water also assists in the development of industry response plans and protocols. We work with water retailers and government departments and agencies that assign roles and responsibilities in the event of large-scale incidents. These plans are also tested and reviewed with water retailers.

Melbourne Water continually reassesses its risk profile, risk control effectiveness and emergency and incident management framework through external reviews by subject matter specialists and comprehensive risk-based audit programs.

Attestation on compliance with the Australian and New Zealand Risk Management Standard

I, John Thwaites, certify that:

Melbourne Water has complied with the Ministerial Standing Direction 4.5.5 – Risk Management Framework and Processes. The Audit, Risk and Finance Committee have verified this.

John Thwaites

John Thwaites
Chair, Melbourne Water Corporation

Financial Report

Contents

Five-Year Financial Summary

Summary of Financial Results

Statement of Profit or Loss For the year ended 30 June - Extract	2016 $M	2015 $M	2014 $M	2013 $M	2012 $M
Revenue and other income	1,871.6	1,749.7	1,716.7	1,258.2	1,240.2
Operating and other expenses	(481.8)	(514.6)	(505.6)	(454.6)	(375.7)
Depreciation and amortisation expenses	(373.8)	(367.5)	(351.6)	(315.9)	(242.6)
Finance expenses	(676.7)	(707.2)	(727.6)	(549.3)	(249.2)
Net result from operations before tax	**339.3**	**160.4**	**131.9**	**(61.6)**	**372.7**
Tax (expense)/benefit	(185.9)	(44.2)	(42.0)	21.8	(102.8)
Profit/(Loss) for the period after tax	**153.4**	**116.2**	**89.9**	**(39.8)**	**269.9**

Statement of Financial Position As at 30 June - Extract	2016 $M	2015 $M	2014 $M	2013 $M	2012 $M
Current assets	103.8	189.1	233.4	259.8	97.6
Non-current assets	14,717.2	14,346.2	14,105.8	14,238.3	9,936.5
Total assets	**14,821.0**	**14,535.3**	**14,339.2**	**14,498.1**	**10,034.1**
Current liabilities	1,018.7	852.5	702.2	770.7	1,142.6
Non-current liabilities	8,656.5	8,890.8	9,154.1	9,346.7	4,352.5
Total liabilities	**9,675.2**	**9,743.3**	**9,856.3**	**10,117.4**	**5,495.1**
Net assets / total equity	**5,145.8**	**4,792.0**	**4,482.9**	**4,380.5**	**4,539.0**

Statement of Cash Flows For the year ended 30 June - Extract	2016 $M	2015 $M	2014 $M	2013 $M	2012 $M
Net cash inflow from operating activities	526.0	373.2	503.5	219.3	520.0
Net cash outflow from investing activities	(357.7)	(302.9)	(221.0)	(361.2)	(620.2)
Net cash (outflow)/inflow from financing activities	(207.1)	(140.3)	(316.6)	286.9	98.6

* The Corporation has restated the 2014-15 Total assets, Total liabilities and Total equity as outlined in Note 1(a) (ix). The Corporation has also reclassified interest bearing liabilities for 2015 to reflect the VDP lease schedule. Refer to Note 12(b).

Summary of Financial Performance

Key Financial Performance Indicators

Performance indicator	2016	2015	2014	2013	2012
Interest Cover (Cash)	**2.1 x**	1.6 x	1.8 x	1.5 x	3.7 x
Gearing Ratio*	**53.6%**	55.9%	57.5%	58.4%	38.2%
Internal Financing Ratio	**135.3%**	103.4%	166.7%	56.4%	64.5%
Current Ratio	**0.10 x**	0.23 x	0.34 x	0.35 x	0.09 x
Return on Assets	**6.9%**	6.0%	5.9%	4.0%	6.3%
Return on Equity	**3.1%**	2.5%	2.0%	(0.9%)	6.1%
EBITDA Margin	**74.2%**	70.5%	70.3%	63.8%	69.7%

Explanatory Notes:

Refer to the Annual Performance Reporting chapter pages 140 to 143 for definitions of financial performance indicators and reporting of all 2015-16 performance indicators (financial and non financial) against targets with supporting explanations for any significant variations.

* Ratios for 2015 have been restated due to the revised infrastructure valuation. Refer to Note 1(a)(ix).

Directors' Report

Directors

The Directors of Melbourne Water Corporation ('the Corporation') in office during the financial year were:

John Thwaites[1] (Chairman)
Michael Wandmaker (Managing Director)
Merran Kelsall[1] (Deputy Chairman)
Dana Hlavacek
Garry Smith
Kathleen Bailey-Lord[1]
Hugh Gleeson[1]
David Buckingham[1]
Robyn McLeod[1]
Paul Clark[2]
Janice van Reyk[2]
Richard McKinnon[2]
Melanie Allibon[2]
Llewelyn Vale[2]

1 Appointed to the Board on 1/10/2015

2 Appointment to the Board ceased on 30/9/2015

Particulars of the Directors' qualifications, experience and special responsibilities are set out on pages 58 and 60 of this report.

Directors' meetings

During the financial period, the Corporation held 11 scheduled meetings of Directors.

Attendance at meetings of the Board and its Committees were:

	Board		Audit, Risk and Finance Committee		People, Safety and Remuneration Committee (formerly People and Safety Committee)		Customer and Service Delivery Committee	
	Attended	Maximum held	Attended	Maximum held	Attended	Maximum held	Attended	Maximum held
John Thwaites[1] (Chairman)	7	8	3	3	-	-	-	-
Michael Wandmaker (Managing Director)	11	11	-	-	-	-	-	-
Merran Kelsall[1] (Deputy Chairman)	7	8	2	3	-	-	-	-
Dana Hlavacek	11	11	4	4	2	2	-	-
Garry Smith	10	11	-	-	2	2	4	4
Kathleen Bailey-Lord[1]	8	8	-	-	3	3	2	3
Hugh Gleeson[1]	8	8	3	3	-	-	3	3
David Buckingham[1]	7	8	-	-	2	3	-	-
Robyn McLeod[1]	8	8	-	-	3	3	3	3
Paul Clark[2]	3	3	1	1	2	2	-	-
Janice van Reyk[2]	2	3	1	1	-	-	1	1
Richard McKinnon[2]	3	3	1	1	-	-	1	1
Melanie Allibon[2]	2	3	-	-	2	2	-	-
Llewelyn Vale[2]	3	3	-	-	-	-	-	1

1 Appointed to the Board on 1/10/2015

2 Appointment to the Board ceased on 30/9/2015

The Managing Director is invited to attend all Committee meetings. As he is not a member of these Committees his attendance has not been included above. Further, where a Director has attended a Committee meeting that they are not a member of, then this attendance has not been included above.

In addition to the regular Board and Committee meetings the Corporation held the following Special meetings during the year. Attendance at the meetings were:

	Special Board meetings		Special Audit, Risk and Finance Committee meetings		Special People, Safety and Remuneration Committee meetings		Special Customer and Service Delivery Committee meetings	
	Attended	Maximum held	Attended	Maximum held	Attended	Maximum held	Attended	Maximum held
John Thwaites[1] (Chairman)	2	2	-	-	-	-	-	-
Michael Wandmaker (Managing Director)	3	3	-	-	-	-	-	-
Merran Kelsall[1] (Deputy Chairman)	1	2	-	-	-	-	-	-
Dana Hlavacek	3	3	1	1	-	-	-	-
Garry Smith	3	3	-	-	-	-	1	1
Kathleen Bailey-Lord[1]	2	2	-	-	2	2	1	1
Hugh Gleeson[1]	2	2	-	-	-	-	1	1
David Buckingham[1]	2	2	-	-	2	2	-	-
Robyn McLeod[1]	2	2	-	-	2	2	1	1
Paul Clark[2]	1	1	1	1	-	-	-	-
Janice van Reyk[2]	-	1	-	1	-	-	-	-
Richard McKinnon[2]	1	1	1	1	-	-	-	-
Melanie Allibon[2]	-	1	-	-	-	-	-	-
Llewelyn Vale[2]	-	1	-	-	-	-	-	-

1 Appointed to the Board on 1/10/2015

2 Appointment to the Board ceased on 30/9/2015

Director benefits

No Director has received, or become entitled to receive, a benefit (other than a benefit included in Notes 26a and 26b 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 2016 or at any other time) with:

(a) the Corporation; or

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

Directors' and Officers' liability insurance

During the 2015-16 financial year, the Corporation paid insurance premiums in respect of Directors' and Officers' liability insurance. The policy does not specify a premium for individual Directors and Officers.

The insurance policy provides cover for Directors and Officers of the Corporation against loss arising from claims made against them during the period of insurance by reason of any wrongful act committed, or alleged to have been committed, by them in their capacity as Directors or Officers of the Corporation and reported to the insurers during the policy period, or if exercised, an extended reporting period.

The terms of the insurance policy 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 2015-16 financial year, other than the transactions detailed in Notes 26a and 26b to the Financial Statements.

Principal activities

The Corporation is owned by the State of Victoria. The Corporation manages and maintains Melbourne's water supply catchments, removes and treats most of Melbourne's sewage, and manages rivers, creeks and major waterways and drainage systems in the Port Phillip and Westernport region. The Corporation delivers innovative integrated planning to establish Melbourne as a water sensitive city. The Corporation also provides water and sewerage services to Melbourne's three metropolitan retail water businesses: City West Water, South East Water and Yarra Valley Water and water services to Western Water and Gippsland Water. The Corporation also has the potential to provide water services to other entities including South Gippsland Water, Westernport Water and Barwon Water. The Corporation works with local government, developers and the community to provide waterways and drainage services.

Operating results and dividend

The Corporation's profit, after providing for income tax was $153.4 million (2014-15: $116.2 million). There has been no dividend payment made or determined in relation to the 2015-16 financial year, any dividend for the 2015-16 financial year will be determined by the Treasurer of Victoria after consultation with the Corporation's Board of Directors and the Minister for Water. Following determination by the Treasurer of Victoria the Corporation has paid $27.8M in 2015-16 as a capital repatriation.

Review of operations

The Directors' review of the Corporation's operations during the financial year ended 30 June 2016 is set out in the Chairman and Managing Director's report on pages 4 to 7 of this report.

State of affairs

There were no significant changes in the state of affairs of the Corporation during the financial period ended 30 June 2016.

John Thwaites

John Thwaites
Chairman

Michael Wandmaker
Managing Director

Financial Statements

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2016

Revenue	Notes	2016 $000	2015 $000
Revenue	3(a)	1,853,322	1,733,479
Other Income	3(b)	18,300	16,193
Total revenue		**1,871,622**	**1,749,672**
Expenses			
Depreciation and amortisation expenses	4(a)	(373,829)	(367,530)
Operational expenses	4(b)	(206,848)	(208,899)
Employee benefits expenses	4(c)	(115,600)	(106,425)
Repairs and maintenance expenses	4(d)	(63,297)	(74,171)
Administrative expenses	4(e)	(35,460)	(35,636)
Finance expenses	4(f)	(676,672)	(707,245)
Asset transfers to Council	4(g)	(20,474)	(34,416)
Government rates and taxes	4(h)	(28,801)	(26,698)
Other expenses	4(i)	(11,414)	(28,232)
Total expenses		**(1,532,395)**	**(1,589,252)**
Net result from operations before tax		**339,227**	**160,420**
Tax (expense)	5 (a,b)	(185,867)	(44,257)
Profit for the period after tax		**153,360**	**116,163**
Other comprehensive income/(expense) net of tax			
Items that will not be reclassified to profit or loss			
Actuarial gain/(loss) on defined benefit superannuation plan asset	24(i)	(4,661)	3,312
Revaluation increase on land	18	45,158	145,036
Revaluation increase on buildings	18	1,955	-
Revaluation increase on infrastructure assets	18	185,344	67,068
		227,796	**215,416**
Items that may be reclassified to profit or loss			
Changes in fair value of cash flow hedges	18	644	(260)
		644	**(260)**
Other comprehensive income for the period net of tax		**228,440**	**215,156**
Total comprehensive income for the period after tax		**381,800**	**331,319**

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes on pages 74 through to 134.

Financial Statements

Statement of Financial Position

As at 30 June 2016

	Notes	2016 $000	2015 $000
Assets			
Current assets			
Cash and cash equivalents	6	2,366	41,088
Trade and other receivables	7(a)	85,636	124,065
Other current assets	8	11,617	9,804
Assets classified as held for sale	9	4,140	14,156
Total current assets		**103,759**	**189,113**
Non-current assets			
Property, plant and equipment	10(a)	14,664,892	14,294,355
Intangible assets	10(b)	41,728	32,258
Defined benefit superannuation plan asset	24(h)	10,546	19,562
Total non-current assets		**14,717,166**	**14,346,175**
Total assets		**14,820,925**	**14,535,288**
Liabilities			
Current Liabilities			
Trade and other payables	11(a)	335,741	290,932
Interest bearing liabilities	12(a)	553,142	492,695
Other financial liabilities	13	153	1,073
Provisions	14(a)	7,248	5,126
Current tax liability	5(c)	88,737	27,563
Employee benefits	16(a)	33,672	35,131
Total current liabilities		**1,018,693**	**852,520**
Non-current liabilities			
Trade and other payables	11(b)	924	1,505
Interest bearing liabilities	12(b)	7,390,499	7,633,132
Provisions	14(b)	3,904	4,944
Net deferred tax liabilities	15	1,250,849	1,241,818
Employee benefits	16(b)	10,330	9,377
Total non-current liabilities		**8,656,506**	**8,890,776**
Total liabilities		**9,675,199**	**9,743,296**
Net assets		**5,145,726**	**4,791,992**
Equity			
Contributed equity	17	530,429	558,495
Reserves	18	2,896,718	2,668,878
Retained profits	19	1,718,579	1,564,619
Total equity		**5,145,726**	**4,791,992**
Commitments	21		
Contingent Assets and contingent liabiltiies	22		

The Corporation has restated the 2014-15 Total assets, Total liabilities and Total equity as outlined in Note 1(a) (ix). The Corporation has also reclassified interest bearing liabilities for 2015 to reflect the VDP lease schedule. Refer to Note 12(b).

The above Statement of Financial Position should be read in conjunction with the accompanying notes on pages 74 through to 134.

Statement of Changes in Equity

For the year ended 30 June 2016

	Notes	Contributed Equity	Reserves	Retained Profits	Total $000
Balance at 1 July 2015		558,495	2,668,878	1,564,619	**4,791,992**
Comprehensive income for the period					
Profit for the period after tax		-	-	153,360	**153,360**
Other comprehensive income net of tax		-	227,840	600	**228,440**
Total comprehensive income for the period after tax		-	227,840	153,960	**381,800**
Transactions with equity holders in their capacity as equity holders					
Dividends paid	23	-	-	-	**-**
Net increase in contributed equity	17	(28,066)	-	-	**(28,066)**
Total transactions with owners		(28,066)	-	-	**(28,066)**
Balance at 30 June 2016	17, 18, 19	**530,429**	**2,896,718**	**1,718,579**	**5,145,726**
Balance at 1 July 2014		559,173	2,238,737	1,684,941	**4,482,851**
Net effect of correction of errors	1(a)(ix)	-	225,794	(225,794)	**-**
Restated balance at 1 July 2014		559,173	2,464,531	1,459,147	**4,482,851**
Comprehensive income for the period					
Profit for the period after tax		-	-	116,163	**116,163**
Other comprehensive income net of tax		-	204,347	10,809	**215,156**
Total comprehensive income for the period after tax		-	204,347	126,972	**331,319**
Transactions with equity holders in their capacity as equity holders					
Dividends paid	23	-	-	(21,500)	**(21,500)**
Net increase in contributed equity	17	(678)	-	-	**(678)**
Total transactions with owners		(678)	-	(21,500)	**(22,178)**
Balance at 30 June 2015	17, 18, 19	**558,495**	**2,668,878**	**1,564,619**	**4,791,992**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes on pages 74 through to 134.

The Corporation has restated the 2014-15 equity balances as outlined in Note 1(a) (ix).

Financial Statements

Statement of Cash Flows

For the year ended 30 June 2016

	Notes	2016 $000	2015 $000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and service tax)		1,813,223	1,640,913
Developer charges and contributions		118,462	67,495
Payments to suppliers and employees (inclusive of goods and service tax)*		(583,689)	(602,982)
Income tax paid		(191,205)	(34,734)
Interest received		466	1,171
Interest and other costs of finance paid		(680,921)	(711,849)
Other receipts		49,706	13,169
Net cash inflow from operating activities	29	**526,042**	373,183
Cash flows from investing activities			
Payments for property, plant and equipment and intangibles		(388,853)	(340,126)
Proceeds from sales of property, plant and equipment and intangibles		31,189	37,230
Net cash (outflow)/inflow from investing activities		**(357,664)**	(302,896)
Cash flows from financing activities			
Repayment of borrowings		(128,200)	(80,000)
Repayments for desalination plant finance lease liability		(51,100)	(38,785)
Dividends paid	23	-	(21,500)
Capital repatriation paid	17	(27,800)	-
Net cash (outflow)/inflow from financing activities		**(207,100)**	(140,285)
Net (decrease)/increase in cash and cash equivalents		(38,722)	(69,998)
Cash and cash equivalents at the beginning of the financial year		41,088	111,086
Cash and cash equivalents at the end of the financial year	6	**2,366**	41,088

* Includes Government rates and taxes (including land tax, FBT and other, excluding income tax).

The above Statement of Cash Flows should be read in conjunction with the accompanying notes on pages 74 through to 134.

Financial Statements
Notes to the Financial Report

1 Summary of significant accounting policies

(a) (i) Basis of Accounting

These Financial Statements of Melbourne Water Corporation ('the Corporation' or 'Melbourne Water') represent the general purpose financial report that consists of a Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and Notes accompanying these statements. This general purpose financial report complies with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, including Australian interpretations, the requirements of the *Financial Management Act 1994* and applicable Ministerial Directions.

These Financial Statements have been prepared on an accrual and going concern basis. The Corporation is a for profit entity for the purposes of preparing the financial statements. This report is presented in Australian dollars, the functional and presentation currency of Melbourne Water.

The annual financial statements were authorised for issue by the Board on 13th September 2016.

The principal address is:

Melbourne Water Corporation
990 Latrobe Street
Docklands Victoria 3008

(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 requirements. The Corporation has not prepared a third balance sheet resulting from any amended comparative figures as the impacts are not considered to warrant additional disclosure, in accordance with AASB 101 *Presentation of Financial Statements*.

(iii) Classification between current and non-current

In the determination of whether an asset or liability is current or non-current, consideration has been given to the time when each asset or liability is expected to be realised or paid. The asset or liability has been classified as current if it is expected to be turned over within the next 12 months, being the Corporation's operational cycle. See Note 1(q) for a variation in relation to borrowings.

(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 and financial instruments.

(vi) Accounting estimates

Judgements, estimates and assumptions are required to be made about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in the application of Australian Accounting Standards that have significant effects on the financial statements and estimates relate to:

- Defined benefit superannuation asset/liability
- Fair value of land, buildings, infrastructure assets, plant and equipment
- Employee and other provisions
- Useful lives of plant, property and equipment
- Recognition of deferred tax balances.

These assumptions and their related carrying amounts are discussed in Notes 1(d,e,f,p,r), 10, 14, 15, 16 and 24.

(vii) Fair value measurement

Consistent with AASB 13 *Fair Value Measurement*, the Corporation determines the policies and procedures for both recurring fair value measurements such as infrastructure, property, plant and equipment, financial instruments and for non-recurring fair value measurements such as non-financial physical assets held for sale, in accordance with the requirements of AASB 13 and the relevant Financial Reporting Directions.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole. These are described below:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

1 Summary of significant accounting policies (continued)

(vii) Fair value measurement (continued)

For the purpose of fair value disclosures, the Corporation has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

In addition, the Corporation determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(viii) Changes in accounting policies

Subsequent to the 2014-15 reporting period, the Corporation has not adopted any new or revised accounting Standards applicable to the 2015-16 financial year.

(ix) Prior period errors

In 2015-16, the Corporation reassessed its 2014-15 infrastructure assets valuation model. The changes provide more relevant information in light of the changes in the tax treatment of the assets, specifically, their tax depreciation rates as represented by the tax amortisation benefit included in the valuation model. In addition, management reassessed certain critical assumptions embedded in the valuation model and identified that these required adjustment to reflect the business environment and expected operations going forward that were present at the time. This identified that the existing terminal growth rate used in the previous valuation assessment was too low and therefore an error. These operating conditions and business environment were prevalent as at 30 June 2015 and do not reflect a change in estimate. The restatement will increase the depreciation expense as a result of the increase in fair value going forward. Refer to Note 10(a)(ii) for detailed disclosure on the valuation model adopted and the assumptions applied to determine the fair value of the infrastructure assets. The below table reflects the differences in two key assumptions which the valuation is sensitive to, highlighting a comparison between the valuation previously recognised and the restated value. These have been restated as a result of increased analysis of the facts and circumstances that existed as at 30 June 2015.

Per AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, this is not considered a material error and in line with the reassessed 2014-15 valuation, which is still within the valuation ranges and applicable multiples, we believe that it would be good practice to disclose the additional analysis that has been undertaken by management over the fair value of the infrastructure assets as at 30 June 2015 and to restate these values.

Assumption	2015 valuation	Restated valuation
Weighted Average Cost of Capital (WACC)	5.75% - 6.00%	5.80% - 6.40%
Terminal Value growth rate	2.50%	3.25%

Through review of deferred tax balances, it was determined that deferred tax balances in prior periods had been released to the tax expense in the profit and loss statement, resulting in an overstatement of tax expenses. These deferred tax balances should have been released against the deferred tax reserve. The Corporation has restated the reserves and retained earnings for 2015, the impact is non-material with an increase of less than 0.5% to retained earnings.

In addition to the above, the Corporation identified an error in the 2010-11 land and building valuations performed by the Valuer General Victoria, which has now been corrected. The Corporation has also reviewed the accounting treatment of land and building valuations prior to 2015-16 and has determined that it has incorrectly applied AASB 116 Property, Plant and Equipment. Land and building valuations performed since the end of 2010-11 had been accounted for on a class basis as opposed to an individual asset basis as per the standard. This has resulted in amounts that should have been recognised in the profit and loss, being recognised against the asset revaluation reserve. In order to correct these errors, in line with *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors*, adjustments were made retrospectively with the July 2014 opening balances for retained earnings and reserves corrected. The consequential impacts on the financial statements have not been restated as this is not material.

1 Summary of significant accounting policies (continued)

The following table illustrates the impact on the balance sheet due to the above:

1 July 2014 Opening Balance Restatement	Notes	Opening balance 1 July 2014 $000	Prior period error - land and buildings $000	Prior period error - deferred tax balance $000	Adjusted opening balance 1 July 2014 $000
EXTRACT					
STATEMENT OF FINANCIAL POSITION					
Equity					
Retained earnings	18	1,684,941	(234,236)	8,442	1,459,147
Reserves	19	2,238,737	234,236	(8,442)	2,464,531

30 June 2015 Closing Balance Restatement	Notes	As previously reported 30 June 2015 $000	Adjustments for opening balance restatement $000	Adjusted closing 30 June 2015 $000	Prior period error - infrastructure valuation $000	Restated 30 June 2015 $000
EXTRACT						
STATEMENT OF FINANCIAL POSITION						
Non-current assets						
Property, plant and equipment	10(a)	14,198,544	-	14,198,544	95,811	14,294,355
Non-current liabilities						
Deferred tax liabilities (net)	15	1,213,075	-	1,213,075	28,743	1,241,818
Equity						
Retained earnings	18	1,790,413	(225,794)	1,564,619	-	1,564,619
Reserves	19	2,376,016	225,794	2,601,810	67,068	2,668,878

The Corporation has not prepared a third balance sheet resulting from the above restatement as the impacts are not considered to warrant additional disclosure. This is in accordance with *AASB 101 Presentation of Financial Statements.*

1 Summary of significant accounting policies (continued)

Revenue

(b)(i) Bulk water and sewerage services revenue

The Corporation collects bulk water and sewerage services revenue for providing storage operator services and bulk water and sewerage services to retail metropolitan and regional water businesses.

Bulk water and sewerage services revenues consist of a variable metered component (based on volumes of usage) and a fixed fee (for service availability). The usage charge is invoiced weekly with payment required within 7 days. The availability charge is invoiced monthly with payment required within 14 days.

The Essential Services Commission (ESC) regulates the prices and service standards for the provision of storage operator services and bulk water and sewerage services. The ESC's general regulatory powers are set out in:

- The *Essential Services Commission Act 2001*
- Part 1A of the *Water Industry Act 1994*
- A Water Industry Regulatory Order made under section 4D of the *Water Industry Act 1994*.

(ii) Waterways and drainage charges

Waterways and drainage charges are recognised in the year for which the rate is levied. Charges are levied either quarterly or annually and are collected by various retail water businesses on behalf of the Corporation. A lien is held over each property to ensure that any outstanding amounts are recovered upon sale of the property.

The ESC regulates the prices and service standards for the provision of waterways and drainage services.

(iii) Developer charges and contributions and contributed assets

Developer charges and contributions are recognised when received. Developer contributed assets and revenue consist of assets received free of charge or for nominal consideration and are recognised as revenue at fair value on practical completion of works and their acceptance by the Corporation.

(iv) Interest receivable

Interest receivable is recognised as revenue when earned and 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 in relation to the Corporation's arrangements with Places Victoria are recognised upon settlement due to the nature of the arrangement between Places Victoria and the Corporation. Other property sales are recognised on signing of an unconditional contract of sale. Property sales are recognised in the Statement of Profit or Loss and Other Comprehensive Income on a net basis of sale proceeds less costs.

(vi) Government grants and contributions

Grants from the Victorian 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 required conditions.

Government grants relating to expenditure are included as deferred income in liabilities and are recognised in the Statement of Profit or Loss and Comprehensive Income 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 deducted in arriving at the carrying amount of the asset.

Expenses

(c) (i) Finance costs

Finance costs are recognised as expenses in the period in which they are incurred.

All qualifying assets (being assets that necessarily take a substantial period of time to get ready for their intended use or sale) are measured at fair value. Therefore, any finance costs directly attributable to the acquisition, construction or production of these qualifying assets are not required to be capitalised and will continue to be expensed in the period in which they are incurred.

Finance costs include interest on short-term and long-term borrowings, finance lease charges and the Victorian Government's Financial Accommodation Levy.

(ii) Employee benefits expenses

Employee benefits expenses include all expenses related to employment including; salaries, post employment benefits, annual, long service and shift leave, rostered days off, leave loading, defined benefit superannuation plan expense, Work Cover, workers' compensation, payroll tax, redundancy payments and performance payments.

(iii) Operational expenses

Operational expenses represent the materials, chemicals and laboratory expenses, energy, contract works, external professional services, other expenses incurred in normal operations and Victorian Desalination Plant (VDP) operating expenses all of which are recognised as an expense in the reporting period in which they are incurred. VDP operating expense information is provided to the Corporation by the Department of Environment, Land, Water and Planning (DELWP) in accordance with the Water Interface Agreement.

1 Summary of significant accounting policies (continued)

(d) Taxation

The Corporation is subject to the National Tax Equivalent Regime (NTER), which is administered by the Australian Taxation Office (ATO). The difference between the NTER and the Commonwealth legislation is that the tax liability is paid to the Victorian State Government rather than the Commonwealth Government.

The income tax expense or benefit 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.

Deferred tax assets and liabilities are recognised as 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 when they arise in a transaction that at the time of the transaction did not affect either accounting or taxable profit or loss. Deferred tax assets are recognised as 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. Current and deferred tax is recognised in the Statement of Profit or Loss, except to the extent that it relates to items recognised in Other Comprehensive Income or directly in equity. In this case, the tax is also recognised in Other Comprehensive Income or directly in equity respectively.

Uncertain tax positions are disclosed in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. Where it is probable that the Corporation will pay or recover an amount for any uncertain tax position, this is taken into consideration in the measurement of tax assets and liabilities in accordance with AASB 112 *Income Taxes*.

Assets

(e) Property, plant and equipment

(i) Recognition and measurement of assets

Property, plant and equipment represent non-current physical assets comprising land, buildings, water, sewerage and drainage infrastructure used by the Corporation in its operations. Items with a cost or value in excess of $500 (2014-15: $500) (capitalisation threshold) and a useful life of more than 1 year are recognised as assets with the exception of lifecycle costs for the VDP which are expensed. All items with a cost or value less than $500 (2014-15: $500) are expensed.

Cost includes such expenditure that is directly attributable to the acquisition of the asset. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges relating to foreign currency purchases of non-current physical assets.

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 subsequent costs are charged to the Statement of Profit or Loss and Other Comprehensive Income during the financial period in which they are incurred.

(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 over the remaining life of the asset.

(iii) Valuation of non-financial physical assets

All non-current physical assets are recognised initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment in accordance with the requirements of Financial Reporting Direction (FRD) 103F Non-Financial Physical Assets.

Revaluations are conducted either independently (as required under FRD 103F) or using management expertise and classified as a managerial revaluation. The Corporation also considers more frequent revaluations during price determination years as valuations are closely linked to income. 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 with regard to highest and best use principles after due consideration is made for any legal or constructive restrictions imposed on the asset. During 2015-16 an independent valuation of the Corporation's land and buildings was performed by the Valuer General Victoria (VGV) to determine the fair value of the land and buildings, in accordance with FRD 103F as explained further in Note 10(a)(i).

The fair value of infrastructure assets is determined annually using the 'income approach' (based on discounted cash flows). During 2015-16 an independent valuation of the Corporation's infrastructure assets was performed by KPMG to determine the fair value of the infrastructure assets, as explained further in Note 10(a)(ii).

The fair value of the remaining property, plant and equipment (consisting of plant and equipment, leasehold improvements and fleet vehicles) is determined using appropriate market or other fair value indicators including management expertise. Capital Works In Progress are recorded at cost.

1 Summary of significant accounting policies (continued)

(iv) Impairment

All non-current assets are assessed for indicators of impairment on an annual basis. Such assets are tested to ascertain whether the carrying amount exceeds their recoverable amounts.

Impairment losses are recognised immediately in the Statement of Profit or Loss and Other Comprehensive income, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same assets, they are debited to the asset revaluation reserve.

Refer to Notes 10(a)(iv) for the results of the 2015-16 annual impairment test.

(v) Revaluations

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

Any revaluation increase is recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in net profit in the Statement of Profit or Loss and Other Comprehensive Income, in which case the increase is credited to profit to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation is recognised in net profit in the Statement of Profit or Loss and Other Comprehensive Income to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

(vi) Non-current assets held for sale

Non-current assets that are classified as held for sale are 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 of these assets is highly probable and the assets are available for immediate sale in their present condition. These assets are not depreciated or amortised while classified as held for sale and are disclosed separately in the Statement of Financial Position as current assets.

(f) 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.

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 the end of each reporting period. Land is not depreciated. Impacts resulting from changes in depreciation rates have been incorporated in the current year's results and have not been separately disclosed as the overall amount was not material.

Major depreciation and amortisation periods used are listed below:

Buildings	15 to 150 years (2014–15: 15 to 100 years)
Leasehold improvements	5 to 15 years (2014–15: 5 to 15 years)
Plant and equipment	3 to 50 years (2014–15: 3 to 50 years)
Infrastructure assets	3 to 200 years (2014–15: 3 to 200 years)
Fleet vehicles	1 to 10 years (2014–15: 3 to 10 years)
Intangible assets	2 to 16 years (2014–15: 3 to 15 years)

(g) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term and highly liquid investments with original maturities of 3 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 (if applicable) are shown within interest bearing liabilities in the Statement of Financial Position.

(h) Receivables

All receivables are recognised at the amounts receivable less any allowance for doubtful debts. Receivables are reviewed on an ongoing basis to identify any receivables which cannot be collected. Debts which cannot be collected are written-off when identified. A provision for doubtful debts is established when there is objective evidence that the Corporation is highly unlikely 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 Statement of Profit or Loss and Other Comprehensive Income.

Financial Statements
Notes to the Financial Report

1 Summary of significant accounting policies (continued)

(i) Prepayments

Prepayments represent payments in advance of receipt of goods or services or part of expenditure made in one accounting period covering a term extending beyond that accounting period.

(j) Inventories

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.

(k) Smart Water Fund

The Smart Water Fund was established by the Victorian Government and is managed by the Corporation, City West Water, Yarra Valley Water and DELWP for the purpose of supporting the development of sustainable water use projects.

Each water business and the Victorian Government has an equal amount of interest in the Fund.

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

The Corporation is responsible for administering the Fund on behalf of all the participants. The Fund is expected to be wound up by December 2017.

(l) Intangible assets and research & development costs

(i) Intangible assets

Intangible assets (primarily consisting of information technology software and Renewable Energy Certificates (RECS)) represent identifiable non-monetary assets without physical substance. Intangible assets are measured at cost less accumulated amortisation (RECS are not amortised) and impairment. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the Corporation.

The Corporation amortises intangible assets with a limited useful life using the straight line method over the estimated useful lives. 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 useful life and amortisation method is reviewed at the end of each annual reporting period. In addition, an assessment is made at the end of each reporting period 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.

Refer to Note 10(b) for the results of the 2015-16 annual impairment test/assessment.

(ii) Research & 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 when it is probable that the project will be completed and generate future economic benefits and its costs can be measured reliably.

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period it is incurred.

(m) Goods and Services Tax

Revenues, expenses and assets are recognised net of Goods and Services Tax (GST).

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 Statement of Financial Position. Cash flows arising from operating activities are disclosed in the Statement of Cash Flows on a gross basis (i.e. inclusive of GST). Commitments, contingent assets and liabilities are also stated inclusive of GST (refer to Notes 1(r) and (u)).

The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the Australian Taxation Office (ATO) are presented as operating cash flows.

Liabilities

(n) Leased assets

(i) Finance leases

Leases of property, plant and equipment, where the Corporation substantially bears all the risks and rewards incidental to ownership, are classified as finance leases. Finance leases (primarily relating to the VDP) 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 Statement of Financial Position. 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 Statement of Profit of Loss and Other Comprehensive Income 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 leases is amortised on a straight line basis over the estimated useful lives of the assets.

1 Summary of significant accounting policies (continued)

(ii) Operating leases - expenses

Leases in which a significant portion of the risks and rewards incidental to 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 Statement of Profit or Loss and Other Comprehensive Income 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 upon entering 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.

(o) Payables

(i) Trade payables

Payables are recognised when the Corporation becomes obliged to make future payments resulting from the purchase of goods or services.

(ii) Accruals

These amounts represent liabilities for goods or 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 recognised as an expense in the reporting period in which it is payable and accrued in accordance with the terms and conditions of the underlying financial instruments or other contract.

(p) Employee benefits and on-costs

(i) Salaries and annual leave

Liabilities for salaries and annual leave are all recognised in the provision for employee benefits as 'current liabilities' as per AASB 119, because the Corporation does not have an unconditional right to defer settlements of these liabilities. Liabilities for salaries and annual leave are measured at:

- undiscounted value; if they will be wholly settled within 12 months; or
- present value; if not expected to be wholly settled within 12 months.

(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 (LSL)

LSL is recognised in the provision for employee benefits. Unconditional LSL is disclosed in the notes to the financial statements as a current liability, even where the Corporation does not expect to settle the liability within 12 months because it will not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months. The components of this current LSL liability are measured at:

- undiscounted value; if they will be wholly settled within 12 months; or
- present value; if not expected to be wholly settled within 12 months.

Conditional LSL is disclosed as a non-current liability. There is an unconditional right to defer the settlement of the entitlement until the employee has completed 7 years of service. This non-current LSL liability is measured at present value. Expected future cash payments are discounted using market yields attached to the Reserve Bank of Australia's 10 year rate for semi-annual coupon bonds at the end of the reporting period with terms to maturity that closely match the estimated future cash outflows (use of this rate is mandated by DTF).

(iv) Superannuation

Defined contribution plans (accumulation fund)

Employee expenses include superannuation expenses which are reported differently depending upon whether employees are members of defined benefit or defined contribution plans. In relation to defined contribution (i.e. accumulation fund) superannuation plans, the associated expenses are the employer contributions that are paid or payable in respect of employees who are members of these plans during the reporting period.

Defined benefit plan

A liability or asset in respect of the Corporation's defined benefit plan is recognised in the Statement of Financial Position and is measured as the difference between the present value of employees' accrued benefits at the end of the reporting period and the net market value of the plan's assets at that date. The present value of benefits is based on expected future payments which arise from membership of the plan at the end of the reporting period. Consideration is given to expected future salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields of the 6 year Commonwealth Government bonds that match the estimated future cash flows. At the end of each reporting period the Corporation engages the services of an independent actuarial assessor to provide a valuation of the defined benefit superannuation plan.

1 Summary of significant accounting policies (continued)

Defined benefit plan (continued)

Remeasurements of the net defined liability or asset, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in Other Comprehensive Income. The Corporation determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability or asset taking into account contributions and benefit payments during the period. Net interest expense and other expenses related to defined benefit plans are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income. The Corporation recognises gains and losses on the settlement of a defined benefit superannuation plan when the settlement occurs.

(v) Termination benefits

Liabilities for termination benefits are recognised when the Corporation is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal. 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 end of the reporting period are measured as the estimated cash outflows, discounted using market yields at the reporting date on the 10 year bond rate.

Termination payments that are in any way dependent on providing future services are recognised over the future service period.

(vi) Provisions for on-costs

Employee benefit on-costs, including payroll tax and workers 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 achievement of agreed performance targets and are based on a percentage of the annual salary package provided under their contracts of employment in accordance with the Corporation's performance bonus policy. A liability is recognised and is measured as the aggregate of the amounts accrued under the term of the contracts at the end of the reporting period.

(viii) Work Cover

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*. An independent actuarial assessment has been obtained for outstanding claims incurred and not settled, and for claims incurred but not reported as at 30 June 2016 which are recognised as a liability. Other claims incurred and settled during the period are charged to the Statement of Profit or Loss and Other Comprehensive Income.

In accordance with Section 146(5)(a) of the *Accident Compensation Act 1985*, the Corporation must provide a bank guarantee to the Victorian Work Cover Authority as part of its Work Cover self insurance commitments.

Refer to Note 16(b)(i) for details of the independent actuarial assessment and bank guarantee.

(ix) Workers compensation

The Corporation continues to be liable for workers compensation claims incurred prior to the introduction of Work Care (now Work Cover) in 1985. An independent actuarial assessment is obtained for all outstanding workers compensation claims as at 30 June 2016, which are recognised as a liability.

Refer to Note 16(b) for details of the independent actuarial assessment.

(q) Interest Bearing Liabilities

Interest bearing liabilities consist of borrowings and finance lease liabilities. DTF's centralisation policy requires borrowings to be transacted through the Treasury Corporation of Victoria (TCV) whose liabilities are guaranteed by the Victorian Government.

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the constant interest rate method, with interest expense recognised on an effective yield basis.

Where the Corporation has an unconditional right to defer settlement of the liability for at least 12 months after the balance date, borrowings are classified as non-current liabilities. Otherwise borrowings are classified as current liabilities.

Refer to Note 1(n)(i) for further details on finance lease liabilities.

(r) 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 forecast future operating losses.

1 Summary of significant accounting policies (continued)

(r) Provisions, contingent assets and contingent liabilities (continued)

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, 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 Statement of Financial Position but are disclosed by way of a note, and if quantifiable, are measured at nominal value inclusive of GST.

(s) 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 reporting period are brought to account using the exchange rate in effect at the date of the transaction.

(t) Cash flow hedges

In order to hedge the effect of adverse interest rate movements on cash flows, the Corporation enters into Interest Rate Swaps.

The Corporation documents at the inception of the hedging transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge transaction. The Corporation also documents its assessment, both at hedge inception and on an ongoing basis, of whether the Interest Rate Swaps used have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The Interest Rate Swaps are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

These hedges are classified as cash flow hedges with the effective portion of changes in fair value recognised in Other Comprehensive Income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income within other income or expense. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (when the respective interest expense is recognised).

(u) Commitments

Commitments (capital and other) are disclosed at their nominal value and inclusive of the GST payable. In addition, where it is considered appropriate and provides additional relevant information to users, the net present values of significant individual projects are stated.

In accordance with the Water Interface Agreement and Supplementary Water Interface Agreement between Melbourne Water and the State, commitments in respect of the VDP are recorded as per information provided by DELWP.

(v) Contributed equity

Additions to, and disposals of net assets are designated as contributed equity when approved by the Minister for Finance and have met the requirements of FRD 119A Transfers through contributed capital. Other transfers that are in the nature of contributions or distributions have also been designated as contributed equity.

(w) Dividend policy

The Corporation is required to pay a dividend in accordance with a determination of the Treasurer of Victoria based on a prescribed methodology. An obligation to pay a dividend only arises after a formal determination is made by the Treasurer of Victoria following consultation with the Corporation's Board of Directors and the Minister for Water.

(x) Joint Arrangements

The Corporation has two material joint operations with Places Victoria. These are:

- Riverwalk, Werribee, Victoria – This 197 hectare site was previously part of the Werribee Treatment Plant. The land is owned by Melbourne Water which has entered a Partnering Deed with Places Victoria for Places Victoria to develop the land with an estimated 2,260 homes at the completion of the project. Places Victoria is responsible for all development costs and the profit share percentage between Places Victoria and Melbourne Water was agreed in the Partnering Deed. There is a Project Control Group with equal membership and voting rights from both Places Victoria and Melbourne Water.
- Logis, Dandenong, Victoria – This 154 hectare site is on land owned by Melbourne Water which has entered a Partnering Deed with Places Victoria for Places Victoria to develop Victoria's first integrated eco-industrial business park. Places Victoria is responsible for all development costs and the profit share percentage between Places Victoria and Melbourne Water was agreed in the Partnering Deed. There is a Project Control Group with equal membership and voting rights from both Places Victoria and Melbourne Water.

1 Summary of significant accounting policies (continued)

(x) Joint Arrangements (continued)

The Corporation has accounted for all assets, liabilities, revenues and expenses relating to its interest in the joint operation in accordance with the AASB11 *Joint arrangements*.

(y) New accounting standards and interpretations

Certain new accounting standards and interpretations relevant to the Corporation have been published that are not mandatory for the 30 June 2016 reporting period. The Corporation has not adopted and does not intend to adopt these standards early in accordance with DTF's Financial Reporting Direction 7A (Early Adoption of Authoritative Accounting Pronouncements), where DTF have mandated entities to not early adopt (to achieve consistency at the whole of State level).

The Corporation's assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 9 '*Financial Instruments and associated amendments arising from AASB 9*' (AASB 2010-7, AASB 2014-1 and AASB 2014-7)

The revised version of AASB 9 incorporates revised requirements for the classification and measurement of financial liabilities, and carrying over of the existing derecognition requirements from AASB 139 '*Financial Instruments: Recognition and Measurement*'. This Standard supersedes AASB 9 (December 2009) and is effective for annual reporting periods commencing on or after 1 January 2018. The revised financial liability provisions maintain the existing amortised cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss. In these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in Other Comprehensive Income rather than within the Statement of Profit or Loss.

AASB 9's new impairment model is a move away from AASB 139's incurred credit loss approach to an expected credit loss model. This change could result in earlier recognition of impairment losses.

The Corporation does not expect the revised standard to have a material impact on its financial position, as the majority of financial liabilities are not at amortised cost and credit losses (i.e bad and doubtful debts) are immaterial.

(ii) AASB 15 '*Revenue from Contracts with Customers*' and associated amendments to AASB 2014-5

The new standard for the recognition of revenue will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The core principle requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer and is effective from 1 January 2018. The new standard is based on the principle that revenue is recognised when control of a good or services transfers to a customer with the notion of control replacing the existing notion of risks and rewards. Management is currently assessing the impact on the Corporation resulting from the new standard.

(iii) AASB 16 *Leases*

AASB 16 will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet and is effective 1 January 2019. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts. The accounting by lessors, however, will not significantly change. Management is currently assessing the impact on the Corporation resulting from the new standard.

The Corporation has assessed the following issued but not yet effective standards, amendments and interpretations and noted that these have no significant impact on the Corporation:

- AASB 14 *Regulatory Deferral Accounts*
- AASB 1057 *Application of Australian Accounting Standards*
- AASB 2014 1 *Amendments to Australian Accounting Standards [Part D – Consequential Amendments arising from AASB 14 Regulatory Deferral Accounts only]*
- AASB 2014 3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]*
- AASB 2015 5 *Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception [AASB 10, AASB 12, AASB 128]*
- AASB 2015 9 *Amendments to Australian Accounting Standards – Scope and Application Paragraphs [AASB 8, AASB 133 & AASB 1057]*
- AASB 2015 10 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128*
- AASB 2016 1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112*].

2 Financial risk management objectives and policies

(a) Principal financial instruments

The Corporation's principal financial instruments are contractual in nature and comprise (as per Note 20):

(i) Cash and cash equivalents

(ii) Trade debtors and other receivables

(iii) Trade creditors, accruals and interest payable

(iv) VDP lease liabilities

(v) Other payables

(vi) Borrowings

(vii) Interest Rate Swaps.

(b) Financial risk management objectives

The objectives of the Corporation's Treasury Management Policy are to:

- Manage the Corporation's cost of borrowings through effective control and management of interest rate risk
- Manage working capital requirements by ensuring sufficient cash resources and funds are available to meet daily and long-term liquidity needs within approved parameters, while utilising excess cash to reduce debt balances
- Manage risk exposure regarding Renewable Energy Certificates (RECs) price movements
- Ensure that adequate financial accommodation facilities are in place to meet the short and long term liquidity needs
- Ensure that all financial and operational risk exposures are identified and managed
- Ensure adequate internal controls and staffing
- Maintain an indicative investment grade corporate credit rating and credit metrics equivalent to a minimum of Fitch Ratings A- credit rating.

These objectives are consistent with the Corporate Risk Management Policy and Framework of the Corporation, the Corporation's Financial Sustainability Strategy, the Treasury Management Guidelines issued by DTF and the Victorian Public Sector Debt Management Objectives.

(c) Financial risk management strategy

The Corporation effectively manages financial risk by:

- Managing the financial risks arising from the regulatory price determination process, specifically the mismatch between the regulator's revenue allowance for debt costs and actual debt costs throughout the regulatory period; and
- Actively managing liquidity and funding risk.

The following are the key measures used to manage financial risk:

(i) Portfolio composition (i.e. fixed and floating):

During the 2015-16 financial year the Corporation updated its Treasury Management Policy to manage its debt portfolio within the bands of (with exceptions as per the Treasury Management Policy):

Floating interest rate borrowings
0-20% (2014-15: 10-20%)

Fixed interest rate borrowings
80-100% (2014-15: 80-90%)

In compliance with the Board approved Treasury Management Policy, during the 2015-16 financial year the level of floating and fixed debt was outside the above bands as the Corporation approached the end of the regulatory period (30 June 2016). Re-pricing of actual cost of debt was strategically positioned to reset around the time a new Weighted Average Cost of Capital (WACC) is determined as part of the Pricing Submission.

(ii) Physical maturity profile:

Debt maturity of fixed and floating interest rate borrowings is not to exceed 15% of the total debt portfolio in any financial year. During the 2015-16 financial year, debt due to mature during 2017-18 exceeded the limit on the total debt portfolio by 0.3% as a result of gross debt reduction over the past three year period.

(iii) Interest rate risk profile:

Interest Rate Swaps and Forward Rate Agreements are used to mitigate the risk from adverse interest rate increases where the actual interest rates paid to finance debt are at risk of being higher than the debt allowance received in revenue to finance debt. Our goal is to align the actual Interest Rate Risk profile to the profile used by the Essential Services Commission (ESC) in setting our revenue.

Aligning the interest rate re-pricing profile of the debt portfolio with the regulatory re-set date at the start of each regulatory period aims to reduce the regulatory interest rate mismatch risk.

2 Financial risk management objectives and policies (continued)

(d) 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 an annual approval, permitting new borrowings and the refinancing of all loan maturities for that year and non-maturing loans upon request. All funding is sourced from the Treasury Corporation of Victoria (TCV).

The Corporation's total approved maximum borrowing limit for 2015-16 of $4,139.7 million (2014-15: $4,306.5 million) was not exceeded at any stage throughout the financial year.

(e) Capital Management

The Corporation manages its finances in order to maintain a stable and appropriate capital structure given the financial risk profile and the regulated nature of its business. The Corporation's aim is to maintain credit metrics consistent with an investment grade, long-term corporate credit rating.

The Corporation has the following externally imposed limits in relation to capital management:

- Financial Accommodation cannot exceed the approval limits set by the Treasurer of Victoria pursuant to the *Borrowing and Investment Powers Act 1987*
- The Corporation, with the exception of working capital accounts with overdraft facilities, is required to borrow and invest exclusively with TCV.

The Corporation's gearing ratio (Total Debt/Total Assets) at 30 June 2016 was 53.6% (2014-15: 55.9%) and interest cover cash ratio was 2.1 times (2014-15: 1.6 times).

Gearing and Interest Cover ratios are some of a number of benchmarks that are considered by the Board when considering an appropriate capital structure. These ratios are approved via the Corporate Plan.

(f) Market risk

Market risk is the risk that changes in market prices will affect the fair value or future cash flows of the financial instruments. Market risk is comprised of the Corporation's foreign exchange risk, price risk and interest rate risk. The Corporation's exposure to market risk is primarily through interest rate risk and the exposure to energy price risks being the market movements in the value of RECs. There is insignificant exposure to commodity price risk and foreign exchange risks.

Objectives, policies and processes used to manage these risks are disclosed below:

(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 transactions in excess of AUD$1 million. The Corporation's policy requires all hedging to be undertaken through TCV in the form of forward Foreign Exchange Contracts.

At 30 June 2016, the Corporation did not have any forward foreign exchange contracts.

(ii) Price risk

Price risk is the risk that the Corporation will suffer financial loss due to adverse movements in the price of commodity inputs and/or outputs related to its business operations.

The main price risk exposure to the Corporation is the potential decline in market value of the RECs. This may impact on the realisable value of RECs the Corporation currently holds and future RECs it will be receiving. The current strategy is to realise on an ongoing basis the value of the RECs given they are no longer required by the Corporation. Other lower level exposures will exist with supply and service contracts mitigating this risk where possible. Refer to Note 10(b) for the results of the annual impairment test on RECs.

(iii) Interest rate risk

Interest rate risk is the risk that over the regulatory period the actual cost of debt is higher than the regulatory cost of debt allowance that the Corporation receives as part of the regulatory determination.

Interest rate risk is managed by:

- Strategic management of the mix of floating and fixed rate debt 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
- The utilisation of interest rate swaps to align the repricing of the actual costs of debt with the timing of the setting of the regulatory cost of debt allowance.

2 Financial risk management objectives and policies (continued)

(g) 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 in full and on the due date. 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 impaired receivables. Receivables are reviewed on an ongoing basis to identify amounts which cannot be collected. Debts which cannot be collected 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 Statement of Profit or Loss and Other Comprehensive Income.

The major exposure to credit risk arises from Trade Debtors and Other Receivables, which have been recognised net of any provision for doubtful debts.

Trade Debtors are made up predominantly by the metropolitan retail water businesses with minimal credit risk exposure to the Corporation. These debtors are invoiced in two parts. The first part is a usage charge that is invoiced weekly and paid within seven days. The second part is an availability charge that is invoiced monthly and paid within fourteen days.

Other receivables primarily consist of a large number of residential and business customers across a diverse range of industries to which the Corporation provides waterways and drainage services. These receivable balances are monitored on an ongoing basis to ensure that exposure to bad debts is not significant. The collection of payments and overdue receivables is managed by the metropolitan retail water businesses as part of billings and collection agreements with the Corporation. In addition any unpaid debt is allocated against the property title and will be extinguished if there is a change in property ownership.

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

(h) 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.

The objective of the Corporation's financial risk management policies is the optimal utilisation of cash with all surplus funds used to repay borrowings.

The Corporation's financial liability maturities have been disclosed in Note 20(e).

3 Revenue

	2016 $000	2015 $000
(a) Revenue		
Sales revenue		
Bulk water services	964,153	876,209
Bulk sewerage services	532,295	523,161
Waterways charges	256,264	242,461
Government Water Rebate*	(78,500)	(72,514)
Total sales revenue	**1,674,212**	**1,569,317**
Other revenue		
Developer charges and contributions	118,462	67,495
Developer contributed assets	44,233	49,925
Interest revenue	466	1,352
Licence fees	2,924	2,883
Other revenue**	13,025	42,507
Total other revenue	**179,110**	**164,162**
Total revenue	**1,853,322**	**1,733,479**
(b) Other income		
Net gain/(loss) on disposal of property, plant and equipment	16,264	13,525
Government grants***	2,036	2,668
Total other income	**18,300**	**16,193**
Total Revenue	**1,871,622**	**1,749,672**

* **Government Water Rebate**

During 2014 the Government Water Rebate was introduced. The Government Water Rebate relates to payments made to the retail water businesses in relation to efficiency savings identified by the Corporation. The efficiency savings are to assist retail water businesses to provide residential customers an annual bill reduction of $100 per year over 4 years. During 2015-16, the Corporation paid to the retail water businesses $78.5M as compared to $129.1M for 2014-15, being both the rebate for 2013-14 $56.6M (accrued in 2013-14) and 2014-15 $72.5M.

** **Other revenue** includes legal settlements, fees and charges and other miscellaneous revenue.

***__Government grants__

Government grants were recognised as other income by the Corporation during the 2015-16 financial year for various projects. All conditions attached to Government grants have been satisfied prior to their recognition in the Statement of Profit or Loss and Other Comprehensive Income. The recognition of Government grants with unfulfilled conditions have been recognised as deferred income (included in trade and other payables) in the Statement of Financial Position. Any grants relating to assets that meet the conditions attached are recorded against the asset.

4 Expenses

	Notes	2016 $000	2015 $000
(a) Depreciation and amortisation expenses			
Depreciation			
Buildings	10(f)	1,376	1,457
Leasehold improvements	10(f)	1,024	1,020
Plant and equipment	10(f)	7,392	8,567
Infrastructure assets	10(f)	274,682	269,634
Fleet vehicles	10(f)	2,758	2,425
Total depreciation		**287,232**	**283,103**
Amortisation			
VDP infrastructure assets under finance lease	10(f)	77,553	77,554
Intangible assets	10(f)	9,044	6,873
Total amortisation		**86,597**	**84,427**
Total depreciation and amortisation expenses		**373,829**	**367,530**
(b) Operational expenses			
VDP operating expenses		111,376	108,454
Materials, chemicals and laboratory expenses		13,775	11,619
Energy expenses (including renewable energy)		27,796	29,617
Insurance expenses		2,266	5,220
Transport expenses		3,922	3,522
Grants and contributions expenses		9,879	11,067
External professional services expenses		12,399	7,408
Contract works		20,594	23,248
Other expenses		4,841	8,744
Total operational expenses		**206,848**	**208,899**
(c) Employee benefits expenses			
Salary expenses		80,320	71,821
Defined contribution plans (superannuation accumulation fund)		10,818	7,154
Annual, long service and shift leave expenses		9,497	10,614
Defined benefit superannuation plan expense	24(i)	2,357	2,385
Other employee expenses		12,608	14,451
Total employee benefits expenses		**115,600**	**106,425**

4 Expenses (continued)

	2016 $000	2015 $000
(d) Repairs and maintenance expenses		
Repairs and maintenance	57,885	69,262
Information technology maintenance	5,412	4,909
Total repairs and maintenance expenses	**63,297**	**74,171**
(e) Administrative expenses		
Waterways charges billings and collection	12,295	11,540
Information technology and telecommunication expenses	14,891	13,962
Legal expenses	109	661
Education and training expenses	3,043	2,037
Other expenses	5,122	7,436
Total administrative expenses	**35,460**	**35,636**
(f) Finance expenses		
Interest expense	183,654	199,008
Interest expense on cash flow hedge	219	240
VDP finance lease interest	452,383	466,816
Financial accommodation levy	40,416	41,181
Total finance expenses	**676,672**	**707,245**
(g) Asset transfers to council*	**20,474**	**34,416**

* Asset transfers to council relate to Drainage Developer Scheme works within a catchment size of less than 60 hectares that are transferred to Councils for ongoing maintenance.

(h) Government rates and taxes	**28,801**	**26,698**
(i) Other expenses		
Rental and lease expenses	7,558	7,766
Bad and doubtful debt expenses	(10)	40
Assets written off/written down	1,309	8,659
Other expenses	2,557	11,767
Total other expenses	**11,414**	**28,232**
Total expenses	**1,532,395**	**1,589,252**

5 Income tax

	2016 $000	2015 $000
(a) Components of tax expense/(benefit)		
Current tax	164,404	55,854
Deferred tax relating to temporary differences	(38,028)	(11,695)
Adjustments for current tax of prior periods	59,491	98
Total tax expense/(benefit)	**185,867**	**44,257**

(b) Numerical reconciliation of income tax to prima facie tax payable		
Profit/(loss) before income tax	339,227	160,420
Tax at the Australian tax rate of 30% (2014–15: 30%)	101,768	48,126
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Adjustment in respect of income tax of previous year	59,491	98
Non assessable and non deductible for income tax purposes	22,452	(4,405)
Assessable income / (deductible expenses) not booked	3,515	1,194
Research and development tax incentive	(1,359)	(756)
Income tax as reported in the Statement of Profit or Loss and Other Comprehensive Income	**185,867**	**44,257**

(c) Income tax payable		
Current tax payable	(88,737)	(27,563)
Total income tax payable	**(88,737)**	**(27,563)**

(d) Income tax recognised in other comprehensive income		
Deferred tax arising on items recognised in other comprehensive income:		
Increment/(decrement) in deferred tax on land & buildings revalued	(2,044)	7,469
Reversal of deferred tax on disposal of land previously revalued	(122)	(58)
Increment/(decrement) in deferred tax on infrastructure assets revalued	79,433	28,743
Increase/(decrease) in deferred tax on actuarial gain on the defined benefit plan	(1,998)	1,419
Changes in fair value of cash flow hedges	276	(47)
Total income tax recognised in other comprehensive income	**75,545**	**37,526**

6 Cash and cash equivalents

	2016 $000	2015 $000
Cash on hand	-	5
Cash at bank	2,298	41,033
Cash advances	68	50
Total cash and cash equivalents	**2,366**	**41,088**

7 Trade and other receivables

	2016 $000	2015 $000
(a) Trade and other receivables		
Trade debtors	**53,656**	61,799
Other receivables		
Other receivables	18,561	51,464
Net GST receivable from the ATO	13,442	10,861
Less: provision for impaired other receivables	(23)	(59)
Total other receivables	**31,980**	**62,266**
Total trade and other receivables	**85,636**	**124,065**

(b) Ageing Analysis of Receivables

All receivables are recognised at the amounts receivable less any allowance for impaired receivables. Receivables are reviewed on an ongoing basis to identify debts that cannot be collected. Debts which cannot be collected are written off.

		Current	Past Due but not Impaired				
30 June 2016	Notes	0-30 days $000	31-60 days $000	61-90 days $000	91 days + $000	Impaired $000	Total $000
Receivables							
Trade debtors		38,741	2,918	1,110	10,887	-	53,656
Other receivables		32,003	-	-	-	(23)	31,980
Total Receivables		**70,744**	**2,918**	**1,110**	**10,887**	**(23)**	**85,636**

		Current	Past Due but not Impaired				
30 June 2015	Notes	0-30 days $000	31-60 days $000	61-90 days $000	91 days + $000	Impaired $000	Total $000
Receivables							
Trade debtors*		54,855	2,955	1,358	7,605	-	66,773
Other receivables*		57,351	-	-	-	(59)	57,292
Total Receivables		**112,206**	**2,955**	**1,358**	**7,605**	**(59)**	**124,065**

* In the current period, a review of the classification between other receivables and trade debtors was conducted. This has resulted in adjusting the split for trade debtors and other receivables. As the ageing remains unchanged, this reclassification is not materially different to that which was presented as at 30 June 2015.

8 Other current assets

	2016 $000	2015 $000
Prepayments	3,485	2,154
Inventories	8,132	7,650
Total other current assets	**11,617**	**9,804**

9 Assets classified as held for sale

	Notes	2016 $000	2015 $000
Property, plant and equipment - held for sale*	10(c)**	4,140	14,156
Total assets classified as held for sale		**4,140**	**14,156**

* The Corporation currently holds land for sale mainly as part of the Riverwalk Estate (Werribee) and Logis Industrial Estate (Dandenong) developments. As at 30 June 2016 the Corporation has a joint arrangement with Places Victoria to actively market these lots for private sale. Refer to Note 1(x).

** AASB13 *Fair Value Measurement* disclosures have been included in Note 10(c).

10 Property, plant and equipment and intangible assets

	Notes	2016 $000	2015 $000
(a) Classes of property, plant and equipment			
Crown land			
Crown land at fair value		103,728	146,400
Total Crown land	10(f)	**103,728**	**146,400**
Freehold land			
Freehold land at fair value		1,261,799	1,167,040
Total freehold land	10(f)	**1,261,799**	**1,167,040**
Buildings			
Buildings at fair value		24,614	29,404
Less: accumulated depreciation		-	(4,755)
Total buildings	10(f)	**24,614**	**24,649**
Leasehold improvements			
Leasehold improvements at fair value		15,101	13,159
Less: accumulated depreciation		(4,012)	(1,075)
Total leasehold improvements	10(f)	**11,089**	**12,084**
Plant and equipment			
Plant and equipment at fair value		84,055	81,627
Less: accumulated depreciation		(66,613)	(70,375)
Total plant and equipment	10(f)	**17,442**	**11,252**
Fleet vehicles			
Fleet vehicles at fair value		17,938	16,577
Less: accumulated depreciation		(5,398)	(4,058)
Total fleet vehicles	10(f)	**12,540**	**12,519**
Infrastructure assets			
Infrastructure assets at fair value***		8,400,750	8,081,467
Sub total infrastructure assets* **		**8,400,750**	**8,081,467**
VDP infrastructure assets under finance lease			
VDP assets under finance lease at fair value*		4,662,793	4,662,793
Less: VDP assets accumulated amortisation*		(280,689)	(203,136)
Sub total VDP finance lease		**4,382,104**	**4,459,657**
Total infrastructure assets* **	10(f)	**12,782,854**	**12,541,124**
Capital works in progress at cost	10(f)	**450,826**	**379,287**
Total property, plant and equipment* **	10(f)	**14,664,892**	**14,294,355**

* The difference between total VDP assets under finance lease at fair value and the finance lease liability recorded at note 21(f) are principal repayments and other capital payments already made to 30 June 2016, which reduce the liability.

** The Corporation has reclassified its 2015 classes of assets between property, plant and equipment following a review in the current period.

*** The corporation has restated its infrastructure valuation. Refer to Note 1(a)(ix).

10 Property, plant and equipment and intangible assets (continued)

(a) Classes of property, plant and equipment (continued)

(i) Valuations of land and buildings

A scheduled formal independent valuation was performed by the Valuer General Victoria (VGV) in 2015-16 to determine the fair value of the Corporation's land and buildings assets. The valuation results for land have changed by 3.2% ($42.1M) compared to the last interim managerial valuation adjustment of 12.95% ($152.4M) made in 2014-15. The valuation results for buildings have changed by 12.8% ($2.8M) from the last independent valuation performed by the VGV in 2010/11 (no interim managerial valuation adjustment was made for buildings in 2014-15 as they had not exceeded the 10% movement threshold in FRD103F). Being a scheduled formal valuation year the Corporation has accounted for the new fair value of land and buildings in its 2015-16 financial statements.

If land and buildings were measured at historical cost, the carrying amounts would be as follows:

	2016 $000	2015 $000
Specialised Land	648,818	793,738
Specialised Buildings	28,320	24,114
Total	**677,138**	**817,852**

(ii) Valuations of infrastructure assets

A scheduled formal independent valuation was performed by KPMG in 2015-16 to determine the fair value of the Corporation's infrastructure assets for 2015-16 and for 2014-15. The income approach was used for the valuation by discounting reliable estimates of the Corporation's future cash flows to their present value and arriving at an enterprise value range. A discounted tax amortisation benefit (TAB) is added to the enterprise value to represent the tax benefits available to a hypothetical purchaser in resetting the tax cost base. Non infrastructure assets and liabilities are deducted from the enterprise value range to obtain the infrastructure value. In order to assess reasonableness of the enterprise valuation, cross checks are performed by comparing the earnings before interest, tax and depreciation/amortisation (EBITDA) and regulated asset value multiples implied by the value determined under the income approach against multiples implied by share prices at which comparable organisations are trading and recent transactions in comparable assets which have occurred. Such approaches are often referred to as market approaches or relative value approaches. Judgement is applied in selecting the appropriate valuation within the enterprise value range.

The income approach has been applied since inception of fair value accounting for infrastructure assets in 2009/10, with some revisions adopted by the new independent valuer for the 2015-16 (and 2014-15 revised) valuations, such as the calculation of the tax benefits available to the hypothetical purchaser in resetting the tax cost base.

10 Property, plant and equipment and intangible assets (continued)

(a) Classes of property, plant and equipment (continued)

(ii) Valuations of infrastructure assets (continued)

The significant assumptions used in determining fair value under the income approach at 30 June 2016 (and revised 2014-15 comparatives) are summarised below:

- Nominal after tax discount rate in the range of 5.6% to 6.2% (2014-15: 5.8% to 6.4%) - representing the rate that market participants would expect to use in determining the fair market value of the Corporation after taking into account the market cost of debt and equity.
- Operating expenditure and revenue growth applied post initial five year pricing period 3.0% (2014-15: 3.0%)
- Long term growth rate of 3.25% (2014-15: 3.25%) - representing inflation and volume growth.
- A 10 year explicit cash flow projection period (reflecting one actual and one estimated price determination), with cash flows beyond the projection period reflected in the terminal value (2014-15: 10 years).

Based on the approach and assumptions noted above, the 2015-16 valuation assessment has increased by $264.8M.

The revised 2014-15 valuation assessment, based on the approach and assumptions noted above, has indicated that there is no material change in the fair value of infrastructure assets to the existing book value recorded. However, the Corporation has restated the valuation amount as we believe that it would be good practice to restate these values. The 2014-15 valuation assessment has increased by $95.8M.

For the purpose of determining fair value of infrastructure assets under the income approach, fair market value is defined by our expert valuer as the amount at which an asset would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell. This is considered consistent with the definition of fair value set out in AASB 13 *Fair Value Measurement*, which defines fair value as the 'price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. It is noted that fair value, as defined in AASB 13, is a concept of value which may or may not equal the purchase/sale price that could be obtained if the asset were sold to a special purchaser in an actual transaction in the open market. Special purchasers may be willing to pay higher prices to obtain benefits (i.e. cost savings or other synergies) which could only be enjoyed by the special purchaser. Our valuation of infrastructure assets is not premised on the existence of a special purchaser.

If infrastructure assets were measured at historical cost, the carrying amount would be as follows:

	2016 $000	2015 $000
Infrastructure assets - Owned	5,819,329	5,761,874
Infrastructure assets - Under finance lease	4,382,104	4,459,657
Total infrastructure assets	**10,201,433**	10,221,531

10 Property, plant and equipment and intangible assets (continued)

(iii) Valuations of the remaining property, plant and equipment

Other property, plant and equipment consists of leasehold improvements, plant and equipment and fleet vehicles. The fair value of these assets is determined internally by management using appropriate market or other fair value indicators. The carrying amount is not materially different to historical cost.

(iv) Impairment

Property, plant and equipment is assessed for indicators of impairment on an annual basis. At 30 June 2016 no impairment was identified (2014-15: no impairment identified).

	2016 $000	2015 $000
(b) Intangible assets*		
Intangible assets at cost	92,708	82,338
Less: accumulated amortisation and impairment	(50,980)	(50,080)
Total intangible assets	**41,728**	**32,258**

* Intangible assets consist primarily of information technology software and REC's.

Impairment

Intangible assets are assessed for indicators of impairment on an annual basis. No impairment was recognised as at 30 June 2016 (2014-15: no impairment identified).

10 Property, plant and equipment and intangible assets (continued)

(c) Property, plant and equipment assets measured at fair value

30 June 2016	Notes	2016 $000	Fair value measurements Level 1 [(a)]	Level 2 [(b)]	Level 3 [(c)]
Non-specialised land		85,145	-	85,145	-
Specialised land		1,284,522	-	-	1,284,522
Total Land		**1,369,667**	**-**	**85,145**	**1,284,522**
Non-Specialised Buildings		874	-	874	-
Specialised Buildings		23,740	-	-	23,740
Total Buildings		**24,614**	**-**	**874**	**23,740**
Leasehold improvements		11,089			11,089
Plant and equipment		17,442	-	-	17,442
Fleet vehicles		12,540	-	-	12,540
Infrastructure assets		8,400,750	-	-	8,400,750
Infrastructure assets under finance lease		4,382,104	-	-	4,382,104
Total		**12,823,925**	**-**	**-**	**12,823,925**

30 June 2015	Notes	2015 $000	Fair value measurements Level 1 [(a)]	Level 2 [(b)]	Level 3 [(c)]
Non-specialised land		14,156	-	14,156	-
Specialised land		1,313,440	-	-	1,313,440
Total Land		**1,327,596**	**-**	**14,156**	**1,313,440**
Non-Specialised Buildings		-	-	-	-
Specialised Buildings		24,649	-	-	24,649
Total Buildings		**24,649**	**-**	**-**	**24,649**
Leasehold improvements		12,084	-	-	12,084
Plant and equipment		11,252	-	-	11,252
Fleet vehicles		12,519	-	-	12,519
Infrastructure assets		8,081,467	-	-	8,081,467
Infrastructure assets under finance lease		4,459,657	-	-	4,459,657
Total		**12,576,979**	**-**	**-**	**12,576,979**

Notes:
(a) Quoted prices (unadjusted) in active markets for identical assets or liabilities.
(b) Inputs based on observable market data (either directly using prices or indirectly derived from prices).
(c) Inputs not based on observable market data.

* Refer to Note 10(a) regarding the restatement of prior year balances.

10 Property, plant and equipment and intangible assets (continued)

(d) Fair Value

(i) Valuation techniques

Non-specialised land and buildings

Non-specialised land (held for sale) is stated at the lower of its carrying amount and fair value less costs to sell, as its carrying amount will be recovered principally through a sale transaction, rather than through continuing use. The Corporation considers that the sale of these assets are highly probable and the assets are available for immediate sale in their present condition. These assets are not depreciated or amortised while classified as held for sale and are disclosed separately in the Statement of Financial Position.

Non-specialised land (other than held for sale) and buildings are valued using the market/direct comparison approach with key inputs used being sales evidence and unit of value by comparative basis. Some land and buildings previously classified as specialised are now classified as non-specialised in 2015-16, following formal independent scheduled valuation by the VGV.

To the extent that non-specialised land and buildings do not contain significant, unobservable adjustments, the assets are classified as Level 2 under the market approach.

Specialised land and specialised buildings

The market approach is used for specialised land adjusted for the Community Service Obligation (CSO) to reflect the specialised nature of the land being valued. A CSO adjustment is a reflection of the valuer's assessment of the impact of restrictions associated with an asset to the extent that is also equally applicable to market participants. This approach is in light of the highest and best use consideration required for fair value measurement, and takes into account the use of the asset that is physically possible, legally permissible, and financially feasible. As adjustments of CSO are considered as significant unobservable inputs, specialised land would be classified as Level 3 assets.

To the extent that specialised land do not contain significant, unobservable adjustments, the assets are classified as Level 2 under the market approach.

For the majority of the Corporation's specialised buildings, the depreciated replacement cost method is used adjusting for the associated depreciation. As depreciation adjustments are considered a significant unobservable input, specialised buildings are classified as level 3 assets.

To the extent that specialised buildings do not contain significant, unobservable adjustments, the assets are classified as Level 2 under the market approach.

Infrastructure assets (owned and under finance lease)

Infrastructure assets are valued using the income approach method. The income approach method estimates fair market value by discounting reliable estimates of future cash flows to their present value. The assumptions adopted in calculating fair value in this manner are considered to be significant unobservable inputs. As such, infrastructure is classified as a Level 3 fair value asset. Refer to note 10(a)(ii) for additional information.

Plant and equipment

Plant and equipment is specialised in use, such that it is rarely sold, fair value is determined using the depreciated replacement cost method. As depreciation is a significant unobservable input, these assets have been classified as Level 3 for fair value purposes.

Fleet Vehicles

Vehicles are valued using appropriate market or other fair value indicators as determined by management. The Corporation acquires new vehicles and at times disposes of them before the end of their economic life. The process of acquisition, use and disposal in the market is managed by experienced fleet managers who set relevant depreciation rates during use to reflect the utilisation of the vehicles. As depreciation is a significant unobservable input, these assets have been classified as Level 3 for fair value purposes.

There were no changes in valuation techniques for financial year 2015-16.

For all assets measured at fair value, the current use is considered the highest and best use.

10 Property, plant and equipment and intangible assets (continued)

(ii) Reconciliation of level 3 fair value

30 June 2016	Notes	Specialised land $000	Specialised buildings $000	Leasehold improvements $000	Plant and equipment $000	Fleet vehicles $000	Infrastructure assets $000	VDP infrastructure assets under finance lease at fair value $000
Carrying amount at 1 July 2015		1,313,440	24,649	12,084	11,252	12,519	8,081,467	4,459,657
Purchased Additions		3,454	401	29	11,427	4,455	316,449	-
Disposals and write-offs		(12,850)	90	-	(41)	(1,688)	(21,750)	
Developer Contributed Assets		7,372	-	-	-	-	36,861	-
Transfers between classes		1,942	(1,942)	-	2,196	12	(2,372)	-
Transfers in (out) of Level 3*		(70,989)	-	-	-	-	-	-
Gains or losses recognised in net result								
Depreciation and amortisation		-	(1,376)	(1,024)	(7,392)	(2,758)	(274,682)	(77,553)
Sub total		1,242,369	21,822	11,089	17,442	12,540	8,135,973	4,382,104
Gains or losses recognised in other economic flows - other comprehensive income								
Revaluation increments		84,199	2,792	-	-	-	264,777	-
Revaluation decrements		(42,046)	-	-	-	-	-	-
Carrying amount at 30 June 2016		**1,284,522**	**24,614**	**11,089**	**17,442**	**12,540**	**8,400,750**	**4,382,104**
Unrealised gains / (losses) on non-financial assets		-	-		-	-	-	-

* Transfers in relation to land held for sale.

10 Property, plant and equipment and intangible assets (continued)

(ii) Reconciliation of level 3 fair value (continued)

30 June 2015	Notes	Specialised land $000	Specialised buildings $000	Leasehold improvements $000	Plant and equipment $000	Fleet vehicles $000	Infrastructure assets $000	VDP infrastructure assets under finance lease at fair value $000
Carrying amount at 1 July 2014		1,150,054	23,529	13,030	12,478	10,264	8,050,555	4,537,211
Purchased Additions		10,446	2,940	74	7,494	6,429	201,477	-
Disposals and write-offs		(11,569)	(402)	-	(135)	(1,749)	(41,689)	-
Developer Contributed Assets		4,950	-	-	-	-	44,975	-
Transfers between classes		(1,018)	39	-	(18)	-	(28)	-
Transfers in (out) of Level 3*		8,130	-	-	-	-	-	-
Gains or losses recognised in net result								
Depreciation and amortisation		-	(1,457)	(1,020)	(8,567)	(2,425)	(269,634)	(77,554)
Sub total		1,160,993	24,649	12,084	11,252	12,519	7,985,656	4,459,657
Gains or losses recognised in other economic flows - other comprehensive income								
Revaluation increments**		152,447	-	-	-	-	95,811	-
Revaluation decrements		-	-	-	-	-	-	-
Carrying amount at 30 June 2015		**1,313,440**	**24,649**	**12,084**	**11,252**	**12,519**	**8,081,467**	**4,459,657**
Unrealised gains / (losses) on non-financial assets		-	-	-	-	-	-	-

* Transfers in relation to land held for sale.

** Refer to Note 10(a)(i).

*** Refer to Note 1(a)(ix) regarding the restatement of 2014-15 balances.

10 Property, plant and equipment and intangible assets (continued)

(e) Property, plant and equipment assets valuation techniques and significant unobservable inputs (Level 3 inputs)

30 June 2016

Asset category	Valuation technique	Significant unobservable inputs	Range/weighted average	Sensitivity of fair value measurement to changes in significant unobservable inputs
Specialised land	Market Approach	Community Service Obligation (CSO) adjustment	20-70% (44% weighted average)	A significant increase or decrease in the CSO adjustment would result in a significantly higher or lower fair value
Specialised buildings	Depreciated replacement cost	Direct cost per square metre	$25-$4,200	A significant increase or decrease in direct cost per square metre would result in a significantly higher or lower fair value
		Useful life of specialised buildings	25-150 years (54 years weighted average)	A significant increase or decrease in estimated useful life of the asset would result in a significantly higher or lower fair value
Leasehold improvements	Depreciated replacement cost	Cost per unit	$1,500-$5.8M per unit	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value
		Useful life of plant and equipment	5-15 years (15 years weighted average)	A significant increase or decrease in estimated useful life of the asset would result in a significantly higher or lower fair value
Plant and equipment	Depreciated replacement cost	Cost per unit	$500-$1.4M per unit	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value
		Useful life of plant and equipment	3-50 years (6 years weighted average)	A significant increase or decrease in estimated useful life of the asset would result in a significantly higher or lower fair value
Fleet vehicles	Depreciated replacement cost	Cost per unit	$4,596-$132,691 per unit	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value
		Useful life of vehicles	1-10 years (4 years weighted average)	A significant increase or decrease in estimated useful life of the asset would result in a significantly higher or lower fair value
Infrastructure assets (owned and VDP finance lease)	Income Approach	Long term growth (inflation)	3.25%	An increase or decrease in the long term growth would result in a significantly higher or lower fair value
		Discount Rate	5.6-6.2%	An increase or decrease in discount rate would result in a significantly higher or lower fair value
		Useful life of infrastructure assets	3-200 years (76 years weighted average)	A significant increase or decrease in estimated useful life of the asset would result in a higher or lower fair value

10 Property, plant and equipment and intangible assets (continued)

(e) Property, plant and equipment assets valuation techniques and significant unobservable inputs (Level 3 inputs) (continued)

30 June 2015

Asset category	Valuation technique	Significant unobservable inputs	Range/weighted average	Sensitivity of fair value measurement to changes in significant unobservable inputs
Specialised land	Market Approach	Community Service Obligation (CSO) adjustment	20-90% (55% average)	A significant increase or decrease in the CSO adjustment would result in a significantly higher or lower fair value
Specialised buildings	Depreciated replacement cost	Direct cost per square metre	$200-$6,200	A significant increase or decrease in direct cost per square metre would result in a significantly higher or lower fair value
		Useful life of specialised buildings	15-100 years (48 years weighted average)	A significant increase or decrease in estimated useful life of the asset would result in a significantly higher or lower fair value
Leasehold improvements*	Depreciated replacement cost	Cost per unit	$3,200-$6.3M per unit	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value
		Useful life of plant and equipment	10-15 years (15 years weighted average)	A significant increase or decrease in estimated useful life of the asset would result in a significantly higher or lower fair value
Plant and equipment*	Depreciated replacement cost	Cost per unit	$500-$1.4M per unit	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value
		Useful life of plant and equipment	3-30 years (5 years weighted average)	A significant increase or decrease in estimated useful life of the asset would result in a significantly higher or lower fair value
Fleet vehicles	Depreciated replacement cost	Cost per unit	$19,548-$156,983 per unit	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value
		Useful life of vehicles	3-10 years (4 years weighted average)	A significant increase or decrease in estimated useful life of the asset would result in a significantly higher or lower fair value
Infrastructure assets* (owned and VDP finance lease)	Income Approach	Long term growth	3.25%	An increase or decrease in the long term growth would result in a significantly higher or lower fair value
		Discount Rate	5.8-6.4%	An increase or decrease in discount rate would result in a significantly higher or lower fair value
		Useful life of infrastructure assets	3-200 years (76 years weighted average)	A significant increase or decrease in estimated useful life of the asset would result in a higher or lower fair value

Financial Statements

Notes to the Financial Report

10 Property, plant and equipment and intangible assets (continued)

(f) (i) Reconciliation of movement in property, plant and equipment and intangible assets for 2015–16

30 June 2016	Crown land at fair value $000	Freehold land at fair value $000	Buildings at fair value $000	Leasehold improvements at fair value $000	Plant and equipment at fair value $000	Fleet vehicles at fair value $000	Infrastructure assets at fair value $000	VDP infrastructure assets under finance lease at fair value $000	Capital works in progress $000	Total $000	Intangible assets at cost $000
Carrying amount at 1 July 2015	146,400	1,167,040	24,649	12,084	11,252	12,519	8,081,467	4,459,657	379,287	**14,294,355**	32,258
Purchased additions	-	3,454	401	29	11,427	4,455	316,449	-	-	**336,215**	19,598
Developer contributed assets	-	7,372	-	-	-	-	36,861	-	-	**44,233**	-
Disposals and write-offs	-	(12,850)	90	-	(41)	(1,688)	(21,750)	-	(181)	**(36,420)**	(1,248)
Depreciation and amortisation	-	-	(1,376)	(1,024)	(7,392)	(2,758)	(274,682)	(77,553)	-	**(364,785)**	(9,044)
Transfers between classes	(626)	2,568	(1,942)	-	2,196	12	(2,372)	-	-	**(164)**	164
Assets classified as held for sale	-	10,016	-	-	-	-	-	-	-	**10,016**	-
Revaluation increments	-	84,199	2,792	-	-	-	264,777	-	-	**351,768**	-
Revaluation decrements	(42,046)	-	-	-	-	-	-	-	-	**(42,046)**	-
Impairment losses	-	-	-	-	-	-	-	-	-	**-**	-
Impairment losses reversed	-	-	-	-	-	-	-	-	-	**-**	-
Assets spares / consumables	-	-	-	-	-	-	-	-	-	**-**	-
Capital expenditure	-	-	-	-	-	-	-	-	415,658	**415,658**	-
Capitalisation of works in progress	-	-	-	-	-	-	-	-	(343,938)	**(343,938)**	-
Carrying amount at 30 June 2016	**103,728**	**1,261,799**	**24,614**	**11,089**	**17,442**	**12,540**	**8,400,750**	**4,382,104**	**450,826**	**14,664,892**	**41,728**

10 Property, plant and equipment and intangible assets (continued)

(ii) Reconciliation of movement in property, plant and equipment and intangible assets for 2013–14

30 June 2015	Crown land at fair value $000	Freehold land at fair value $000	Buildings at fair value $000	Leasehold improvements at fair value $000	Plant and equipment at fair value $000	Fleet vehicles at fair value $000	Infrastructure assets at fair value $000	VDP infrastructure assets under finance lease at fair value $000	Capital works in progress $000	Total $000	Intangible assets at cost $000
Carrying amount at 1 July 2014	133,964	1,016,090	23,529	13,030	12,478	10,264	8,050,555	4,537,211	276,750	**14,073,871**	14,637
Purchased additions	-	10,446	2,940	74	7,494	6,429	201,477	-	-	**228,860**	31,727
Developer contributed assets	-	4,950	-	-	-	-	44,975	-	-	**49,925**	-
Disposals and write-offs	(266)	(11,303)	(402)	-	(135)	(1,749)	(41,689)	-	-	**(55,544)**	(7,233)
Depreciation and amortisation	-	-	(1,457)	(1,020)	(8,567)	(2,425)	(269,634)	(77,554)	-	**(360,657)**	(6,873)
Transfers between classes	(26)	(992)	39	-	(18)	-	(28)	-	1,025	**-**	-
Assets classified as held for sale	-	8,130	-	-	-	-	-	-	-	**8,130**	-
Revaluation increments*	12,728	139,719	-	-	-	-	95,811	-	-	**248,258**	-
Revaluation decrements	-	-	-	-	-	-	-	-	-	**-**	-
Impairment losses	-	-	-	-	-	-	-	-	-	**-**	-
Impairment losses reversed	-	-	-	-	-	-	-	-	-	**-**	-
Assets spares / consumables	-	-	-	-	-	-	-	-	-	**-**	-
Capital expenditure	-	-	-	-	-	-	-	-	351,881	**351,881**	-
Capitalisation of works in progress	-	-	-	-	-	-	-	-	(250,369)	**(250,369)**	-
Carrying amount at 30 June 2015	**146,400**	**1,167,040**	**24,649**	**12,084**	**11,252**	**12,519**	**8,081,467**	**4,459,657**	**379,287**	**14,294,355**	**32,258**

* Refer to Note 1(a)(ix) regarding the retrospective restatement of infrastructure assets.

** We have reclassified motor vehicles from capital works in progress to fleet vehicles.

11 Trade and other payables

	2016 $000	2015 $000
(a) Current		
Trade creditors	76,908	51,496
Interest payable	57,292	61,781
Accruals - Other	87,391	90,258
Accruals - Capital	107,321	80,583
Other payables	6,829	6,814
Total trade and other payables - current*	**335,741**	**290,932**
(b) Non-current		
Other payables	924	1,505
Total trade and other payables - non-current	**924**	**1,505**
Total trade and other payables	**336,665**	**292,437**

12 Interest bearing liabilities

	2016 $000	2015 $000
(a) Current		
VDP finance lease***	46,342	52,695
Borrowings*	506,800	440,000
Total interest bearing liabilities - current	**553,142**	**492,695**
(b) Non-current		
VDP finance lease***	4,130,499	4,178,132
Borrowings*	3,260,000	3,455,000
Total interest bearing liabilities - non-current	**7,390,499**	**7,633,132**
Total interest bearing liabilities**	**7,943,641**	**8,125,827**

* Current and non-current borrowings comprise both fixed and floating interest rate notes depending on the dates of maturity.

** Interest bearing liabilities are unsecured (note - The Victorian Government provides a guarantee to TCV over its liabilities as detailed in note 2(g)).

*** The VDP finance lease current and non-current liabilities split has been restated for the 2015 financial year to reflect the VDP lease schedule.

13 Other financial liabilities

	2016 $000	2015 $000
Current		
Interest rate swap	**153**	**1,073**

This balance refers to the market value movement on a $100M fixed interest rate swap that the Corporation has in place in order to hedge against regulatory interest rate risk. The underlying loans underpinning this transaction are $100M of Floating Rate Notes (FRNs). The swap has the effect of converting the variable interest rates applicable to these loans into a fixed interest rate. The transaction hedges regulatory interest rate risk by achieving a fixed interest rate that reprices in line with the setting of the regulatory cost of debt from a time perspective. The increase or decrease in the value of the swap represents the theoretical increase or decrease in the present value of the interest expense the Corporation would have incurred had the swap agreement not been entered into.

The resulting cash flows of interest payments and receipts commenced on the 15th of September 2014 and are to occur semi-annually through to the 15th September 2016 (termination date), impacting profit/(loss) in the same periods.

For the financial year ending 30 June 2016, there were no amounts re-classified to profit/(loss) from equity.

14 Provisions (excluding employee benefits)

	2016 $000	2015 $000
(a) Current		
Insurance claims	1,382	1,991
Other provisions	5,866	3,135
Total provisions - current	**7,248**	**5,126**
(b) Non-current		
Insurance claims	858	1,280
Other provisions	3,046	3,664
Total provisions - non-current	**3,904**	**4,944**
Total provisions	**11,152**	**10,070**

(c) Movements in provisions

	Insurance Claims $000	Other Provisions $000	Total $000
Carrying amount at 1 July 2015	3,270	6,800	10,070
Additional provisions recognised	1,825	3,873	5,698
Amounts utilised during the year	(2,855)	(1,761)	(4,616)
Carrying amount at 30 June 2016	**2,240**	**8,912**	**11,152**

	Insurance Claims $000	Other Provisions $000	Total $000
Carrying amount at 1 July 2014	2,354	56,674	59,028
Additional provisions recognised	1,601	6,726	8,327
Amounts utilised during the year	(685)	(56,600)	(57,285)
Carrying amount at 30 June 2015	3,270	6,800	10,070

14 Provisions (excluding employee benefits) (continued)

(c) Movements in provisions (continued)

(i) Insurance Claims

The amounts in 2015-16 and 2014-15 represent a provision for insurance 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) Other Provisions

Other provisions satisfy the recognition requirements of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and include primarily contractual provisions and remediation works.

15 Net deferred tax liabilities - non-current

The balance comprises temporary differences attributable to:

	2016 $000	2015 $000
Amounts recognised in Profit or Loss		
Property, plant and equipment	306,826	386,981
Employee entitlements	(11,620)	(9,481)
Developer contributions	4,154	5,709
Provisions	(2,809)	(3,026)
Revenue in advance	(1,066)	7,987
Other	(1,720)	(2,123)
Total recognised in Profit or Loss	**293,765**	**386,047**
Amounts recognised in Other Comprehensive Income		
Gain on revaluation of land and buildings	44,959	22,777
Net gain on revaluation of infrastructure assets	907,585	826,732
Actuarial gain on the defined benefit plan	4,586	6,584
Net value loss on cash flow hedges	(46)	(322)
Total recognised in Other Comprehensive Income	**957,084**	**855,771**
Net deferred tax liability	**1,250,849**	**1,241,818**

15 Net deferred tax liabilities - non-current (continued)

	2016 $000	2015 $000
Movements		
Opening balance	1,241,818	1,212,201
Credited to Profit or Loss	(38,028)	(11,695)
Debited to Other Comprehensive Income	75,545	37,526
Adjustment in respect of deferred tax of prior period	(28,486)	3,786
Adjustment in respect to reversal of deferred tax on impairment of assets	-	-
Closing balance	**1,250,849**	**1,241,818**
Net Deferred tax liabilities to be recovered after more than 12 months	1,264,844	1,245,695
Net Deferred tax liabilities to be recovered within 12 months	(13,995)	(3,877)
Total non-current liabilities - Deferred tax liabilities	**1,250,849**	**1,241,818**

16 Employee benefits

	2016 $000	2015 $000
(a) Current liabilities		
Accrued salaries	2,635	1,611
(i) Annual leave		
Unconditional and expected to be wholly settled after 12 months	5,541	5,561
(ii) Long Service leave		
Unconditional and expected to be wholly settled within 12 months	1,850	4,083
Unconditional and expected to be wholly settled after 12 months	16,134	14,044
Provision for oncosts (i and ii)		
Unconditional and expected to be wholly settled within 12 months	319	740
Unconditional and expected to be wholly settled after 12 months	3,719	3,347
Other employee benefits*	3,474	5,745
Total employee benefits liability - current	**33,672**	**35,131**

16 Employee benefits (continued)

	2016 $000	2015 $000
(b) Non-current liabilities		
Long Service leave	2,894	2,767
Provision for oncosts on Long Service leave	499	484
Other employee benefits*	6,937	6,126
Total employee benefits liability - non-current	**10,330**	**9,377**
Total employee benefits liability	**44,002**	**44,508**

Aggregate other employee benefits current and non-current liability includes amounts for shift leave, rostered days off, Work Cover, workers' compensation and termination benefits.

(i) Work cover

The Work cover liability is based on an independent actuarial assessment by Bateup Actuarial & Consulting Services Pty Ltd, a provision of $6.67 million (2014-15: $6.60 million) has been made for outstanding claims incurred and not settled, and for claims incurred but not reported at 30 June 2016.

The value of the bank guarantee to the Victorian Work Cover Authority (as part of the Corporation's Work Cover self insurance commitments) at 30 June 2016 is $10.2 million (2014-15: $10.2 million).

(ii) Workers Compensation

The workers' compensation liability is based on an independent actuarial assessment by Bateup Actuarial & Consulting Services Pty Ltd, a provision of $2.33 million (2014-15: $0.4 million) has been made for all outstanding workers compensation claims at 30 June 2016.

17 Contributed equity

	2016 $000	2015 $000
Opening balance	558,495	559,173
Capital transactions with the State in its capacity as owner arising from:		
Adjustments relating to the transfers of Crown assets (to)/ from the Government	(266)	(678)
Capital repatriation	(27,800)	-
Total contributed equity at the end of the year	**530,429**	**558,495**

18 Reserves

	Notes	2016 $000	2015 $000
Asset revaluation reserve			
Land			
Opening balance	1(a)(ix)	729,524	591,985
Revaluation increment		42,153	152,447
Revaluation reserves transferred to retained profits on derecognition of asset		(5,261)	(7,497)
(Increment)/Decrement in deffered tax on asset revaluation		3,005	(7,411)
Closing balance		**769,421**	**729,524**
Buildings			
Opening balance	1(a)(ix)	6,333	6,333
Revaluation increment on non-current physical assets		2,792	-
Decrement in deferred tax on asset revaluation		(837)	-
Closing balance		**8,288**	**6,333**
Infrastructure assets			
Opening balance		1,933,772	1,866,704
Revaluation increase/(decrease) on infrastructure assets *		264,777	95,811
Increment/(decrement) in deferred tax on impairment of assets previously revalued*		(79,433)	(28,743)
Total revaluation increase/(decrease) on infrastructure assets (net of tax)		185,344	67,068
Revaluation reserves transferred to retained profits on derecognition of asset		-	-
Closing balance		**2,119,116**	**1,933,772**
Closing balance (total asset revaluation reserve)		**2,896,825**	**2,669,629**
Summary of movements in asset revaluation reserve			
Opening balance*		2,669,629	2,465,022
Revaluation increase/(decrease) on land		309,722	248,258
(Increment)/Decrement in deferred tax *		(77,265)	(36,154)
Total revaluation increase/(decrease) on assets (net of tax)		2,902,086	2,677,126
Revaluation reserves transferred to retained profits on derecognition of asset		(5,261)	(7,497)
Closing balance (total asset revaluation reserve)		**2,896,825**	**2,669,629**
The asset revaluation reserve is used to record asset revaluation increments and decrements in the value of non-current physical assets.			
Cash flow hedge reserve			
Opening balance		(751)	(491)
Revaluation (increase)/decrease		920	(307)
(Increment)/Decrement in deferred tax on cash flow hedges		(276)	47
Closing balance		**(107)**	**(751)**
The cashflow hedge reserve for 2016 and 2015 represents the market movement of the interest rate swap (refer to note 13).			
Total reserves net of tax		**2,896,718**	**2,668,878**

* Refer to Note 1(a)(ix) regarding the retrospective restatement of balances.

19 Retained profits

	Notes	2016 $000	2015 $000
Retained profits at the beginning of the year*	1(a)(ix)	1,564,619	1,459,147
Net profit/(loss) for the period after tax		153,360	116,163
Actuarial gain / (loss) on defined benefit plan	24(i)	(4,661)	3,312
Transfer from asset revaluation reserve	18	5,261	7,497
Dividends paid	23	-	(21,500)
Retained profits at the end of the year		**1,718,579**	**1,564,619**

* Refer to Note 1(a)(ix) regarding the retrospective restatement of balances.

20 Financial instruments

Financial instruments are shown exclusive of GST

(a) Categorisation of financial instruments

30 June 2016	Notes	Derivative financial instruments $000	Contractual financial assets - loans and receivables $000	Contractual financial liabilities at amortised cost $000	Total Carrying Amount $000
Financial assets					
Cash and cash equivalents	6	-	2,366	-	2,366
Trade debtors	7(a)	-	53,656	-	53,656
Other receivables	7(a)	-	18,538	-	18,538
Total financial assets		**-**	**74,560**	**-**	**74,560**
Financial liabilities					
Trade and other payables	11	-	-	336,665	336,665
Interest rate swap	13	153	-	-	153
VDP lease liabilities	12	-	-	4,176,841	4,176,841
Borrowings:					
Short term borrowings	12	-	-	101,800	101,800
Floating rate notes	12	-	-	400,000	400,000
Fixed interest	12	-	-	3,265,000	3,265,000
Total financial liabilities		**153**	**-**	**8,280,306**	**8,280,459**

20 Financial instruments (continued)

30 June 2015	Notes	Derivative financial instruments $000	Contractual financial assets - loans and receivables $000	Contractual financial liabilities at amortised cost $000	Total Carrying Amount $000
Financial assets					
Cash and cash equivalents	6	-	41,088	-	41,088
Trade debtors	7(a)	-	61,799	-	61,799
Other receivables	7(a)	-	51,405		51,405
Total financial assets		**-**	**154,292**	**-**	**154,292**
Financial liabilities					
Trade and other payables	11	-	-	292,437	292,437
Interest rate swap	13	1,073	-	-	1,073
VDP lease liabilities	12	-	-	4,230,827	4,230,827
Borrowings:					
Floating rate notes*	12	-	-	400,000	400,000
Fixed interest	12	-	-	3,495,000	3,495,000
Total financial liabilities		**1,073**	**-**	**8,418,264**	**8,419,337**

* The Corporation has made a reclassification of the 2015 split between floating rate notes and fixed interest borrowings. This was due to fixed interest loans with maturity of less than a year being classified as floating rate notes. It has been determined during the period that it is more accurate to identify these as fixed interest loans.

(b) Net holding gain/(loss) on financial instruments by category

30 June 2016	Notes	Net holding gain/(loss) $000	Total interest income/ (expense) $000	Fee income/ (expense) $000	Impairment Loss $000	Total $000
Financial assets						
Financial assets	4(f)	-	466	-	-	466
Total financial assets		**-**	**466**	**-**	**-**	**466**
Financial liabilities						
Financial liabilities at amortised cost	4(f)	-	676,672	-	-	676,672
Total financial liabilities		**-**	**676,672**	**-**	**-**	**676,672**

30 June 2015	Notes	Net holding gain/(loss) $000	Total interest income/ (expense) $000	Fee income/ (expense) $000	Impairment Loss $000	Total $000
Financial assets						
Financial assets	4(f)	-	1,352	-	-	1,352
Total financial assets		**-**	**1,352**	**-**	**-**	**1,352**
Financial liabilities						
Financial liabilities at amortised cost	4(f)	-	707,245	-	-	707,245
Total financial liabilities		**-**	**707,245**	**-**	**-**	**707,245**

20 Financial instruments (continued)

(c) Interest rate exposure

30 June 2016	Notes	Weighted average interest rate %	Interest Rate Exposure Floating interest $000	Fixed interest $000	Non interest bearing $000	Total Carrying Amount $000
Financial assets						
Cash and cash equivalents	6	1.95	2,366	-	-	2,366
Trade debtors	7(a)	-	-	-	53,656	53,656
Other receivables	7(a)	-	-	-	18,538	18,538
Total financial assets			**2,366**	**-**	**72,194**	**74,560**
Financial liabilities						
Trade and other payables	11	-	-	-	336,665	336,665
Interest Rate Swap	13	3.20	153	-	-	153
VDP lease liabilities*	12	10.72	-	4,176,841	-	4,176,841
Borrowings:						
Short term borrowings	12	2.10	101,800	-	-	101,800
Floating rate notes	12	2.68	300,000	-	-	300,000
Floating rate notes - fixed and Swap**	12	3.20	-	100,000	-	100,000
Fixed interest	12	5.06	-	3,265,000	-	3,265,000
Total financial liabilities			**401,953**	**7,541,841**	**336,665**	**8,280,459**

* The weighted average interest rate for VDP lease liabilities is the interest rate implicit in the lease.

** Of the $400M Floating Rate Notes, $100M has been fixed with an interest rate swap the Corporation has in place in order to hedge against regulatory interest rate risk.

30 June 2015	Notes	Weighted average interest rate %	Interest Rate Exposure Floating interest $000	Fixed interest $000	Non interest bearing $000	Total Carrying Amount $000
Financial assets						
Cash and cash equivalents	6	2.38	41,088	-	-	41,088
Trade debtors	7(a)	-	-	-	61,799	61,799
Other receivables	7(a)	-	-	-	51,405	51,405
Total financial assets			**41,088**	**-**	**113,204**	**154,292**
Financial liabilities						
Trade and other payables	11	-	-	-	292,437	292,437
Interest Rate Swap	13	3.20	1,073	-	-	1,073
VDP lease liabilities*	12	10.77	-	4,230,827	-	4,230,827
Other lease liabilities	12	-	-	-	-	-
Other payables	11	-	-	-	-	-
Borrowings:					-	
Floating rate notes**	12	3.64	300,000	-	-	300,000
Floating rate notes - fixed and Swap**	13	3.20	-	100,000	-	100,000
Fixed interest**	12	5.21	-	3,495,000	-	3,495,000
Total financial liabilities			**301,073**	**7,825,827**	**292,437**	**8,419,337**

* The weighted average interest rate for VDP lease liabilities is the interest rate implicit in the lease. Refinancing of the VDP commitments occurred during 2014-15. Refer to Note 21(f) for further details.

** Of the $400M Floating Rate Notes, $100M has been fixed with an interest rate swap the Corporation has in place in order to hedge against regulatory interest rate risk. Refer to Note 20(a) in regards to the retrospective restating of the borrowings split.

20 Financial instruments (continued)

(d) The carrying amounts and net fair values of financial assets and liabilities at balance date are:

	Notes	2016 Book value $000	2016 Net fair value* $000	2015 Book value $000	2015 Net fair value* $000
Financial assets					
Cash and cash equivalents	6	2,366	2,366	41,088	41,088
Trade debtors	7(a)	53,656	53,656	61,799	61,799
Other receivables	7(a)	18,538	18,538	51,405	51,405
Total financial assets		**74,560**	**74,560**	154,292	154,292
Financial liabilities					
Trade and other payables	11	336,665	336,665	292,437	292,437
Interest rate swap	13	153	153	1,073	1,073
VDP lease liability	12	4,176,841	4,176,841	4,230,827	4,230,827
Borrowings:					
Short term borrowings	12	101,800	101,800		
Floating rate notes**	12	400,000	405,395	400,000	405,838
Fixed interest**	12	3,265,000	3,607,700	3,495,000	3,829,199
Total financial liabilities		**8,280,459**	**8,628,554**	8,419,337	8,759,374

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

** Refer to Note 20(a) in regards to the retrospective restating of the borrowings split.

Net fair values of financial instruments are determined as follows:

Cash and cash equivalents, trade debtors, other receivables, trade and other payables and other lease liabilities are valued at cost.

The interest rate swap is measured at fair value adjusted for credit risk.

The fair value of the VDP finance lease liability has been determined by DELWP in accordance with the requirements of the relevant accounting standards and provided to the Corporation under the Water Interface Agreement.

Interest bearing liabilities (borrowings consisting of floating rate notes and fixed interest) are estimated based on the present value of expected future cash flows discounted at current market interest rates quoted for securities issued by TCV.

Financial instruments are shown exclusive of GST.

20 Financial instruments (continued)

(e) Maturity analysis of financial liabilities

The following table discloses the contractual maturity analysis for the Corporation's financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

30 June 2016	Total Carrying Amount $000	Total Contractual Cash Flows $000	1 year or less $000	1 to 5 years $000	Over 5 years $000
Financial liabilities					
Non-interest bearing	336,665	336,665	335,741	924	-
Variable rate	401,800	439,075	110,975	150,540	177,560
Fixed rate*	7,538,803	16,614,811	1,101,594	4,401,569	11,111,648
Interest rate swap	153	153	153	-	-
Total financial liabilities	**8,277,421**	**17,390,704**	**1,548,463**	**4,553,033**	**11,289,208**

30 June 2015	Total Carrying Amount $000	Total Contractual Cash Flows $000	1 year or less $000	1 to 5 years $000	Over 5 years $000
Financial liabilities					
Non-interest bearing	292,437	292,437	290,932	1,505	-
Variable rate	300,000	344,928	7,579	104,431	232,918
Fixed rate	7,825,827	17,519,079	1,171,089	4,567,159	11,780,831
Interest rate swap	1,073	1,107	-	1,107	-
Total financial liabilities	**8,419,337**	**18,157,551**	**1,469,600**	**4,674,202**	**12,013,749**

* Contains the $100M of floating rate notes that have been fixed with the swap.

** The prior period amounts have been restated to show contractual outflow of interest and principal payments.

(f) 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 2016, if interest rates had changed by +/- 50 basis points from the year end rates with all other variables held constant, the net profit after tax and the impact on equity would have changed by the amounts shown below.

	Profit or Loss		Equity	
30 June 2016	$000 -50 basis points	$000 +50 basis points	$000 -50 basis points	$000 +50 basis points
Cash	(63)	63	(63)	63
Interest Bearing Liabilities	2,009	(2,009)	2,009	(2,009)
Total	**1,946**	**(1,946)**	**1,946**	**(1,946)**
30 June 2015				
Cash	(104)	104	(104)	104
Interest Bearing Liabilities	1,500	(1,500)	1,500	(1,500)
Total	1,396	(1,396)	1,396	(1,396)

20 Financial instruments (continued)

(g) Financial assets and liabilities measured at fair value*

30 June 2016	$000	Fair value measurements Level 1 inputs [(a)]	Level 2 inputs [(b)]	Level 3 inputs [(c)]
Financial assets				
Total financial assets	-	-	-	-
Financial liabilities				
Interest Rate Swap	(153)	-	(153)	-
Total financial liabilities	**(153)**	-	**(153)**	-

30 June 2015	$000	Fair value measurements Level 1 inputs [(a)]	Level 2 inputs [(b)]	Level 3 inputs [(c)]
Financial assets				
Total financial assets	-	-	-	-
Financial liabilities				
Interest Rate Swap	(1,073)	-	(1,073)	-
Total financial liabilities	**(1,073)**	-	**(1,073)**	-

Notes:

(a) Quoted prices (unadjusted) in active markets for identical assets or liabilities.

(b) Inputs based on observable market data (either directly using prices or indirectly derived from prices).

(c) Inputs not based on observable market data.

* Interest rate swaps are the only financial liabilities measured at fair value. There are no financial assets measured at fair value.

21 Commitments

Commitments are shown inclusive of GST except for finance lease liabilities.

(a) Capital commitments

Total capital expenditure contracted for the construction of water, sewerage and waterways and drainage infrastructure

	2016 $000	2015 $000
Property, plant and equipment payable:		
Within 1 year	179,062	158,502
Later than 1 year but not later than 5 years	11,093	18,310
Total capital commitments	**190,155**	**176,812**

(b) Operating lease commitments

(i) The Corporation as lessee

The Corporation leases buildings and motor vehicles under non-cancellable operating leases.

The building lease agreements have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2016 $000	2015 $000
Within 1 year	8,916	8,670
Later than 1 year but not later than 5 years	39,120	37,784
Later than 5 years	69,957	80,445
Total operating lease commitment	**117,993**	**126,899**

There are no lease incentives on non-cancellable operating leases included in trade creditors at 30 June 2016 (2014–15: Nil).

(ii) The Corporation as lessor

Operating leases primarily relate to land owned by the Corporation. 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 receipts in relation to non-cancellable operating leases are as follows:

	2016 $000	2015 $000
Within 1 year	1,106	1,030
Later than 1 year but not later than 5 years	2,238	3,375
Later than 5 years	2,234	4,526
Total operating lease receivable	**5,578**	**8,931**

21 Commitments (continued)

(c) Smart Water Fund

The Corporation has a commitment to the Victorian Government's Smart Water Fund. The Smart Water Fund was established by the Victorian Government and is managed by the Corporation, City West Water, Yarra Valley Water and DELWP for the purpose of supporting the development of sustainable water use projects.

	2016 $000	2015 $000
Within 1 year	132	350
Later than 1 year but not later than 5 years	-	66
Total operating lease commitment	**132**	416

Refer to note 1(k) in relation to the Smart Water Fund being wound up by December 2017.

(d) Other operating commitments

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

	2016 $000	2015 $000
Within 1 year	24,705	29,872
Later than 1 year but not later than 5 years	54,726	55,606
Later than 5 years	102,538	114,021
Total other operating commitments	**181,969**	199,499

(e) Build, Own and Operate (BOO) commitment

The Corporation has allocated a parcel of land at the Western Treatment Plant (WTP) for the operation of a 9.9 Megawatts biogas electricity generation plant, managed under a BOO contract with AGL. The Corporation delivers biogas extracted from the treatment process to AGL, who in turn provides this generated electricity exclusively to the Corporation. The arrangement commenced on 25 February 2000 and expires on 31 December 2020.

	2016 $000	2015 $000
Within 1 year	3,037	2,989
Later than 1 year but not later than 5 years	15,412	16,210
Later than 5 years	-	2,389
Total Build, Own and Operate commitment	**18,449**	21,588

21 Commitments (continued)

(f) Victorian Desalination Plant Finance Lease and Other Commitments

On 30 July 2009, the State of Victoria ('the State') through DELWP entered into a 30 year Project Deed with the AquaSure consortium to build and operate the desalination plant in Wonthaggi under a Public Private Partnership (PPP) arrangement, with a connection to the Melbourne Water System. Construction of the desalination plant began in September 2009. The project operation term commenced from the date of commercial acceptance which occurred on 17 November 2012, triggering the recognition of the finance lease payable.

The Minister for Environment, Climate Change and Water issued a Statement of Obligations (SoO) to the Corporation under section 4I of the *Water Industry Act 1994* on 26 June 2009. The SoO requires the Corporation to pay all monies payable by the State under the Project Deed with AquaSure.

The Corporation also entered into a Victorian Desalination Project 'Water Interface Agreement' (WIA) and a Supplementary Water Interface Agreement with the State to record the terms of the interface and financial arrangements between the Project and the Corporation.

Under the arrangement, the Corporation has an obligation to make Project Deed Payments to DELWP, who are managing the contract with AquaSure on behalf of the State government. The portions of the Project Deed Payments that relate to the right to use the project assets are accounted for as a finance lease as disclosed in the table at (i) below. In addition, the Project Deed Payments also include other commitments for operating, maintenance and lifecycle costs as disclosed in table at (ii) below. The desalination plant assets will transfer from DELWP to the Corporation at the end of the project contract term presently planned for 2039.

In March 2016, AquaSure completed its third refinancing of a portion of its external debt with the approval of the State. The refinancing resulted in the State being entitled to a refinancing benefit of $56 million. Also in March, the Minister for Water announced an order of 50 billion litres of water to be delivered over the period 1 July 2016 to 30 June 2017.

As per information provided by DELWP (in accordance with the WIA),the Corporation has recognised the following finance lease liability, and an asset of equal value:

(i) Victorian Desalination Plant Finance Lease Liability:

	Minimum future lease payments		Present value of minimum future lease payments*	
	2016 $000	2015 $000	2016 $000	2015 $000
Within 1 year	490,140	506,825	46,342	52,695
Later than 1 year but not later than 5 years	1,944,354	1,968,629	227,414	207,061
Later than 5 years	8,975,420	9,496,698	3,903,085	3,971,071
Minimum future lease payments	11,409,914	11,972,152	4,176,841	4,230,827
Less: Future finance charges	(7,233,073)	(7,741,325)	-	-
Total finance lease liability	**4,176,841**	**4,230,827**	**4,176,841**	**4,230,827**
Representing finance lease liability:				
Current (refer to note 12a)**			46,342	52,695
Non-current (refer to note 12b)**			4,130,499	4,178,132
Total finance lease liability			**4,176,841**	4,230,827

* The present value of the minimum future lease payments have been discounted to 30 June of the respective financial years using the interest rate implicit in the lease. These payments exclude finance charges.

** The VDP finance lease current and non-current liabilities split has been restated for the 2015 financial year to reflect the VDP lease schedule.

21 Commitments (continued)

(ii) Other Commitments Payable

Under the PPP arrangement that the State entered into with AquaSure the State pays a base Water Security Payment, provided the plant is maintained to the appropriate standard, that includes other commitments for its operation, maintenance and lifecycle costs. The nominal amounts for the other commitments below represent the charges payable under the agreement at the end of the reporting period.

The Project Deed requires a minimum number of Renewable Energy Certificated (RECs) to be purchased to offset the electricity used by the plant. The number of RECs that are consumed will vary based on the volume of water produced by the plant. If there are any surplus RECs at the end of the project term, the Project Deed requires AquaSure to transfer them to the State, or sell them on arms length commercial terms on behalf of the State with all proceeds paid to the State. DELWP will transfer any surplus RECs or proceeds from sales thereof to the Corporation at the end of the project contract term.

The other commitments payable are disclosed based on information provided by DELWP (in accordance with the WIA).

	2016 $000	2015 $000
Within 1 year	155,854	124,209
Later than 1 year but not later than 5 years	569,526	555,610
Later than 5 years	4,036,758	4,279,730
Total other commitments (inclusive of GST):	**4,762,138**	4,959,549
Less GST recoverable from the Australian Taxation Office	(432,922)	(450,868)
Total other commitments (exclusive of GST):	**4,329,216**	4,508,681
Present value of other commitments*	**1,587,009**	1,562,438

* As per standard practice, the present value of the 'Other commitments' has been discounted to 30 June of the respective financial years. The discount rate of 9.99% is the nominal pre-tax discount rate representative of the overall risk of the project at inception. The basis for discounting has been to take each 12 month period of cash flows and discount these cash flows at the end of the period using the annual discount rate.

(g) Government Water Rebate commitment

The Corporation will now pass on the business efficiencies identified through the Victorian Government's Water Rebate for 2016-17 and 2017-18 financial years as a reduction in future prices to the water retailers as approved by the Essential Services Commission through the 2016 Pricing Determination. The Corporation has not classified these efficiency reductions as separate commitments for the 2015-16 financial year. The 2014-15 commitment was anticipated to be paid out as a rebate to the water entities and was supported by the letter received from the Victorian Government on 16 January 2014.

	2016 $000	2015 $000
Not later than 1 year	-	78,500
Later than 1 year but not later than 5 years	-	147,765
Total Government Water Rebate commitment	-	226,265

22 Contingent assets and liabilities

	2016 $000	2015 $000
(a) Contingent assets		
Details and estimates of maximum amounts of contingent assets for which no provision is included in the accounts, are as follows:		
Legal claims arising out of various matters connected with the Corporation's business dealings	10,608	3,367
Total contingent assets	**10,608**	**3,367**

(b) Contingent liabilities

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

	2016 $000	2015 $000
Legal claims arising out of various matters connected with the Corporation's business dealings	17,290	26,635
Total contingent liabilities*	**17,290**	**26,635**

* Included within total contingent liabilities for 2015-16 is $17.18 million (2014-15: $26.5 million) of compulsory land acquisitions where the Corporation will receive an equivalent land asset. Given the significant estimation uncertainty these are not treated as provisions. The Corporation only recognises assets and liabilities once the Notice of Acquisition has been issued to the landowner.

23 Dividends

	2016 $000	2015 $000
Dividend paid	-	21,500
Total dividends	**-**	**21,500**

The Corporation's profit, after providing for income tax was $153.4 million (2014-15: $116.2 million). There has been no dividend payment made or determined in relation to the 2015-16 financial year and any dividend for the 2015-16 financial year will be determined by the Treasurer of Victoria after consultation with the Corporation's Board of Directors and the Minister for Water. A dividend of $21.5 million was paid in 2014-15 in relation to the 2013-14 financial year.

24 Defined benefit superannuation

The superannuation plan ('the Plan') provides lump sum benefits based on length of service and final superannuable salary for employees engaged prior to 31 December 1993. Employees contribute at rates between 0% to 7.5% per cent of their superannuable salary. The Corporation contributes to the Plan based on the Corporation's commitments under the Employee Participation Agreement and Contribution Policy with the Trustee of the Plan.

	2016 $000	2015 $000
(a) Employer contributions to the defined benefit superannuation plan	-	-

(b) Nature of the benefits provided by the Plan

Defined benefit members receive lump sum benefits on retirement, death, disablement and withdrawal. Some defined benefit members are also eligible for pension benefits in some cases. The defined benefit section of the Plan is closed to new members.

(c) Description of the regulatory framework

The Superannuation Industry Supervision (SIS) legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS Regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every 3 years, or every year if the plan pays defined benefit pensions.

(d) Description of other entities' responsibilities for the governance of the Plan

The Plan's Trustee is responsible for the governance of the Plan. The Trustee has a legal obligation to act solely in the best interests of Plan beneficiaries. The Trustee has the following roles:

- Administration of the Plan and payment to the beneficiaries from Plan assets when required in accordance with the Plan rules;
- Management and investment of the Plan assets; and
- Compliance with superannuation law and other applicable regulations

The prudential regulator, the Australian Prudential Regulation Authority (APRA), licenses and supervises regulated superannuation plans.

(e) Description of risks

There are a number of risks to which the Plan exposes the Corporation. The more significant risks relating to the defined benefits are:

Investment risk - The risk that investment returns will be lower than assumed and the Corporation will need to increase contributions to offset this shortfall.

Salary growth risk - The risk that wages to salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.

Legislative risk - The risk that legislative changes could be made which could increase the cost of providing the defined benefits.

Pension risk - The risk is firstly that pensioner mortality will be lighter than expected, resulting in pensions being paid for a longer period. Secondly, the risk that a greater proportion of eligible members will elect to take a pension benefit, which is generally more valuable than the corresponding lump sum benefit.

24 Defined benefit superannuation (continued)

(e) Description of risks (continued)

The Plan assets are invested by the Trustee in a pool of assets with plans providing defined benefits for other employers. The assets have a benchmark weighting to equities of 50% and therefore the Plan has a significant concentration of equity market risk. However, within the equity investments, the allocation both globally and across sectors is diversified.

(f) Reconciliation of the present value of the defined benefit superannuation obligation

	2016 $000	2015 $000
Present value of defined benefit obligation at beginning of the year	97,224	97,793
Current service cost	2,830	2,893
Interest cost	2,658	3,225
Contributions by Plan participants	850	1,285
Actuarial (gains)/losses	-	-
Benefits paid	(28,111)	(10,861)
Taxes and premiums paid	(513)	(566)
Actuarial (gains)/losses arising from changes in financial assumptions	5,379	4,557
Actuarial (gains)/losses arising from experience	516	(1,102)
Present value of the defined benefit obligation at the end of the year	**80,833**	**97,224**

(g) Reconciliation of the fair value of plan assets

	2016 $000	2015 $000
Fair value of plan assets at beginning of the year	116,786	115,009
Employer contributions	-	-
Contributions by Plan participants	850	1,285
Benefits paid	(28,111)	(10,861)
Taxes and premiums paid	(513)	(566)
Interest Income	3,131	3,733
Actual return on Plan assets less interest income	(764)	8,186
Fair value of Plan assets at the end of the year	**91,379**	**116,786**

(h) Reconciliation of the assets and liabilities recognised in the Statement of Financial Position

	2016 $000	2015 $000
Net defined benefit (asset)/liability at start of year	**(19,562)**	**(17,216)**
Current service cost	2,830	2,893
Net interest	(473)	(508)
Actual return on plan assets less Interest income	764	(8,186)
Actuarial (gains)/losses arising from changes in demographic assumptions	-	-
Actuarial (gains)/losses arising from changes in financial assumptions	5,379	4,557
Actuarial (gains)/losses arising from liability experience	516	(1,102)
Employer contributions	-	-
Net defined benefit (asset)/liability at end of year *	**(10,546)**	**(19,562)**

* The Corporation has recognised an asset in the Statement of Financial Position in respect of its defined benefit superannuation Plan arrangements at 30 June 2016 (2014-15: asset). If the Plan is in surplus, the Corporation may reduce the required contribution rate, depending on the advice of the Plan's actuary. If a deficit exists in the Plan the Corporation may be required to increase the contribution rate, depending on the advice of the Plan's actuary consistent with the Plan's deed.

During 2015-16 the contributions rate continued to be zero due to sufficient surplus in the Plan. The rate was officially reduced to zero in March 2014 and has remained at zero to 30 June 2016.

24 Defined benefit superannuation (continued)

(i) Expense Recognised in Profit or Loss

	2016 $000	2015 $000
Service cost	2,830	2,893
Net interest	(473)	(508)
Total defined benefit superannuation expense (Note 4(c))	**2,357**	2,385
Actuarial gain/(loss) recognised in other comprehensive income		
Actuarial (gains) / losses	(5,895)	(3,455)
Actual return on Plan assets less interest income	(764)	8,186
Actuarial gain/(loss) on defined benefit superannuation plan (pre tax)	**(6,659)**	4,731
Actuarial gain/(loss) on defined benefit superannuation plan (post tax)	**(4,661)**	3,312

(j) Fair value of Plan assets as at 30 June 2016

	Total $000	Level 1 [(a)] $000	Level 2 [(b)] $000	Level 3 [(c)] $000
Asset Category				
Investment funds	91,379	-	91,379	-
Total	**91,379**	-	**91,379**	-

Fair value of Plan assets as at 30 June 2015

	Total $000	Level 1 [(a)] $000	Level 2 [(b)] $000	Level 3 [(c)] $000
Asset Category				
Investment funds	116,786	-	116,786	-
Total	**116,786**	-	**116,786**	-

Notes:

(a) Quoted prices (unadjusted) in active markets for identical assets or liabilities.

(b) Inputs based on observable market data (either directly using prices or indirectly derived from prices).

(c) Inputs not based on observable market data.

(k) Categories of Plan assets

	2016	2015
The percentage invested in each asset class at the Statement of Financial Position date was:		
Australian Equity	29%	29%
International Equity	20%	25%
Fixed Income	12%	11%
Property	8%	9%
Alternatives/Other	19%	18%
Cash	12%	8%
Total	**100%**	100%

(l) Fair Value of Plan Assets

The fair value of Plan assets includes no amounts relating to:

a) any of the Corporation's own financial instruments; and
b) any property occupied by, or other assets used by, the Corporation.

24 Defined benefit superannuation (continued)

(m) Significant actuarial assumptions at the balance sheet date

	%pa	%pa
Financial year ending	**30 June 2016**	**30 June 2015**
Assumptions to determine defined benefit cost		
Discount rate	2.80%	3.40%
Expected salary increase rate	3.25%	3.25%
Expected pension increase rate	3.00%	3.00%
As at	**30 June 2016**	**30 June 2015**
Assumptions to determine defined benefit obligation		
Discount rate	2.00%	2.80%
Expected salary increase rate	3.25%	3.25%
Expected pension increase rate	3.00%	3.00%

(n) Sensitivity analysis

The defined benefit obligation as at 30 June 2016 under several scenarios is presented below.

Scenario A and B relate to discount rate sensitivity. Scenario C and D relate to salary increase rate sensitivity.

Scenario A: 0.5% pa lower discount rate assumption
Scenario B: 0.5% pa higher discount rate assumption
Scenario C: 0.5% pa lower salary increase rate assumption
Scenario D: 0.5% pa higher salary increase rate assumption

2016	Base case	Scenario A	Scenario B	Scenario C	Scenario D
		-0.5% pa	+0.5% pa	-0.5% pa salary	+0.5% pa salary
Discount rate	2.00% pa	1.50% pa	2.50% pa	2.00% pa	2.00% pa
Salary increase rate	3.25% pa	3.25% pa	3.25% pa	2.75% pa	3.75% pa
Defined benefit obligation* ($000)	80,833	84,488	77,407	77,877	83,938

* includes contributions tax provision

2015	Base case	Scenario A	Scenario B	Scenario C	Scenario D
		-0.5% pa	+0.5% pa	-0.5% pa salary	+0.5% pa salary
Discount rate	2.80% pa	2.30% pa	3.30% pa	2.80% pa	2.80% pa
Salary increase rate	3.25% pa	3.25% pa	3.25% pa	2.75% pa	3.75% pa
Defined benefit obligation* ($000)	97,224	101,290	93,404	93,795	100,819

* includes contributions tax provision

(o) Asset-liability matching strategies

The Corporation is not aware of any asset and liability matching strategies adopted by the Plan.

(p) Funding arrangements

The Equipsuper Contribution and Funding Policy provides for review of the financial position of the Plan each 6 months, as at 30 June and 31 December, with the Corporation contribution rate comprising a long term contribution rate and an adjustment to meet the financing objective of a Funding Ratio of 105%.

The Funding Ratio is the ratio of assets to accrued liabilities, being the greater of vested benefits and the present value of past membership benefits.

Where the Funding Ratio is greater than 100%, the financing objective is to achieve a Funding Ratio of 105% over 5 years. Where the Funding Ratio is less than 100%, the primary financing objective is to achieve 100% over 3 years and 105% over 5 years.

24 Defined benefit superannuation (continued)

(q) Expected Contributions

Employer contributions for defined benefit superannuation plan members during the financial year ending 30 June 2017 are expected to be nil.

(r) Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation as at 30 June 2016 is 6 years.

Expected benefit payments for the financial year ending on	$000
30 June 2017	6,594
30 June 2018	6,544
30 June 2019	7,106
30 June 2020	7,082
30 June 2021	6,682
Following 5 years	35,371

25 Related party transactions

(a) Entities with significant influence - Department of Environment, Land, Water & Planning and Department of Treasury and Finance

DELWP leads and directs the Corporation in the implementation of the framework for achieving the Victorian Government's responsibilities for sustainability of the natural and built environment. DELWP monitors the Corporation's compliance with the *Water Act 1989*, Water Interface Agreement and the Supplementary Agreement to the Water Interface Agreement. DTF monitors the Corporation's compliance with the *Financial Management Act 1994*. DTF is responsible for protecting the shareholder's interest in respect of corporate business plans and capital project approvals above $50 million (2014-15: $50 million). DTF also collects income taxes, the Financial Accommodation Levy and dividend payments from the Corporation.

(b) Related parties with significant transactions

The following entities have the same controlling entity as the Corporation, and therefore are considered to be related parties of the Corporation:

City West Water, South East Water, Yarra Valley Water, Western Water, Gippsland Water, Southern Rural Water and Barwon Water

City West Water, South East Water, Yarra Valley Water, Western Water, Gippsland Water, Southern Rural Water and Barwon Water are Government owned water corporations with agreements with the Corporation that include bulk water and sewerage, bulk recycled water supply, billings collections and biosolids storage arrangements. These agreements operated on normal terms and conditions during the reporting period.

Treasury Corporation of Victoria

TCV provides financial accommodation (loans to the Corporation), executes financial arrangements (derivatives) and provides/arranges the provision of financial services to the Corporation. Any investments above $2 million are also required to be invested with TCV.

Places Victoria

Places Victoria is the Victorian Government's sustainable urban development agency. The Corporation is involved with Places Victoria in commercial joint arrangement associated with the development of land at Dandenong Logis Estate and Werribee Riverwalk Estate.

25 Related party transactions (continued)

(c) Other related parties

The following entities have the same significant controlling entity as the Corporation, and therefore are considered to be related parties of the Corporation.

- Central Highlands Region Water Corporation
- Chisholm Institute
- Country Fire Authority
- Department of Health and Human Services
- Department of Economic Development, Jobs, Transport and Resources
- Energy Safe Victoria
- Environment Protection Agency Victoria
- Parks Victoria
- East Gippsland Region Water Corporation
- Port of Melbourne Corporation
- Port Philip & Westernport Catchment Management Authority
- Public Transport Development Authority
- Sustainability Victoria
- Vic Roads
- Victorian Arts Centre Trust
- Victorian Environmental Water Holder
- Victorian WorkCover Authority
- Westernport Region Water Corporation

	Notes	2016 $000	2015 $000
(d) Transactions with related parties			
Receipts from related parties (inclusive of GST)			
DELWP		2,948	714
City West Water		444,636	422,367
South East Water		651,976	618,969
Yarra Valley Water		650,328	613,466
Western Water		12,166	3,740
Gippsland Water		88	34
Southern Rural Water		1,113	821
Barwon Water		479	306
TCV		466	982
Places Victoria		4,245	1,394
Other related parties		711	636
(e) Payments to related parties (inclusive of GST)			
DELWP		679,438	680,114
DTF		236,176	99,962
City West Water		21,385	33,037
South East Water		35,039	55,152
Yarra Valley Water		35,001	55,363
Western Water		2,791	4,131
Southern Rural Water		154	157
Barwon Water		10	20
TCV		188,644	203,678
Places Victoria		16,482	52,130
Other related parties		4,930	6,005
Dividend paid			
DTF	23	-	21,500
Equity contributions			
DELWP (transfer of Crown land)	17	(266)	(678)
DTF (capital repatriation)	17	(27,800)	-

25 Related party transactions (continued)

(f) 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:

	Notes	2016 $000	2015 $000
Current receivables			
DELWP		60	753
City West Water		11,709	11,247
South East Water		12,271	11,390
Yarra Valley Water		16,501	16,760
Western Water		-	9
TCV		-	88
Places Victoria		13	13
Other Related parties		153	342
Current payables			
DELWP*		46,507	52,990
DTF		88,737	27,563
City West Water		-	-
South East Water		-	-
Yarra Valley Water		9	-
Southern Rural Water		3	4
TCV		564,092	501,781
Places Victoria		3,392	277
Other Related parties		144	77
Non current payables			
DELWP*	12(b)	4,130,499	4,178,132
TCV	12(b)	3,260,000	3,455,000

* Due to an update of the VDP lease schedule, the prior year balances have been reclassified. Refer to Note 12.

(g) 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 the Minister for Water.

Transactions relating to equity contributions are determined by the Minister for Water in consultation with the Corporation.

Transactions relating to trading activities of the Corporation including sale of bulk water, sale of sewerage services and collection of drainage rates are based on normal commercial terms and conditions.

Outstanding balances are unsecured and are receivable/payable in cash under normal trading terms.

(h) Guarantees

There are no guarantees given or received for the current and non-current payables, current receivables and borrowings.

Financial Statements
Notes to the Financial Report

26 Responsible persons disclosures

(a) Responsible persons

The names of persons who were responsible persons at anytime during the financial year were:

The Hon. Lisa Neville MP, Minister for Water (1 July 2015 to 30 June 2016).

Board Members 2015–16

Chairman	John Thwaites	1 October 2015 to 30 June 2016
Managing Director	Michael Wandmaker	1 July 2015 to 30 June 2016
Deputy Chairman	Merran Kelsall	1 October 2015 to 30 June 2016
Director	Dana Hlavacek	1 July 2015 to 30 June 2016
Director	Garry Smith	1 July 2015 to 30 June 2016
Director	Kathleen Bailey-Lord	1 October 2015 to 30 June 2016
Director	Hugh Gleeson	1 October 2015 to 30 June 2016
Director	David Buckingham	1 October 2015 to 30 June 2016
Director	Robyn McLeod	1 October 2015 to 30 June 2016
Director	Paul Clark	1 July 2015 to 30 September 2015
Director	Janice van Reyk	1 July 2015 to 30 September 2015
Director	Richard McKinnon	1 July 2015 to 30 September 2015
Director	Melanie Allibon	1 July 2015 to 30 September 2015
Director	Llewelyn Vale	1 July 2015 to 30 September 2015

Remuneration of responsible persons

Remuneration paid to the Ministers 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 Parliament completes.

The number of responsible persons whose remuneration from the Corporation was within the specified bands were as follows:

		2016 Number	2015 Number
Income Band ($)			
10,000	19,999	4	-
20,000	29,999	1	-
30,000	39,999	5	-
40,000	49,999	1	2
50,000	59,999	1	4
60,000	69,999	1	-
90,000	99,999	-	1
130,000	139,999	-	1
310,000	319,999	-	1
480,000	489,999	1	-
Total numbers		**14**	**9**
		$000	$000
Total amount		910	867

26 Responsible persons disclosures (continued)

(b) Related party transactions

The Australian Accounting Standards Board has extended the scope of AASB 124 *Related Party Disclosures* to include not-for-profit public sector entities from 1 July 2016. The amendments made to AASB 124 provided clarification of key management personnel (KMP) in the public sector context and this has resulted in the identification of the portfolio minister(s) as a KMP and the remaining Cabinet ministers as related parties for for-profit public sector entities which is a change from previous disclosures.

The Corporation has prepared the related party disclosures for the year based on reasonable enquiries made by management in relation to the portfolio minister(s) and their related parties and the information available to the organisation, with the transition to a full implementation of AASB 124 and any applicable financial reporting directions from 2016-17 onwards.

There were no amounts paid by the Corporation in connection with the retirement of responsible persons of the Corporation during the 2015-16 financial year.

There were no loans in existence by the Corporation to responsible persons or related parties during the 2015-16 financial year.

Related party transactions include transactions between a responsible person or a responsible person-related party and a department or a public body. These transactions are as follows:

	2016 $000	2015 $000
(i) Michael Wandmaker - Managing Director		
Michael Wandmaker is a Director of Committee for Melbourne and Water Services Association of Australia. All dealings with these agencies were on normal terms and conditions during the reporting period.		
Total payments made to Committee for Melbourne were:	37	-
Total payments made to Water Services Association of Australia:	407	-
(ii) John Thwaites - Chairman		
John Thwaites is Chairman of the Peter Cullen Trust. All dealings with this entity were on normal terms and conditions during the reporting period.		
Total payments made to Peter Cullen Trust were:	45	-
(iii) Merran Kelsall - Director		
Merran Kelsall is a Director of Royal Automobile Club of Victoria (RACV) and Chairman of the Risk, Audit and Compliance Committee for Environmental Protection Authority Victoria (EPAV). All dealings with these entities were on normal terms and conditions during the reporting period.		
Total payments made to RACV were:	42	-
Total payments made to EPAV were:	784	-
(iv) Dana Hlavacek - Director		
Dana Hlavacek is a Director of the Victorian Water Industry Association and Trustee of the Victorian Arts Centre Trust. All dealings with these agencies were on normal terms and conditions during the reporting period.		
Total payments made to Victorian Arts Centre Trust were:	1	23
Total payments made to Victorian Water Industry Association were:	155	-
(v) Paul Clark - former Chairman (appointment to Board ceased on 30/9/2015)		
Paul Clark is a member of the Advisory Board at Salta Properties and in the prior period and was a Director of Chisholm Institute of TAFE until September 2014. All dealings with these entities were on normal terms and conditions during the reporting period.		
Total payments made to Salta Properties were:	44	-
Total payments made to Chisholm Institute of TAFE were:	-	44
(vi) Janice van Reyk - former Director (appointment to Board ceased on 30/9/2015)		
Janice van Reyk was a member of the the Environment Protection Authority Victoria (EPAV) Inquiry Ministerial Advisory Committee. All dealings with these agencies were on normal terms and conditions during the reporting period.		
Total payments made to EPAV were:	-	1,027

All other transactions with related party entities were made on normal terms and conditions during the financial year.

27 Remuneration of executives

The number of Executive Officers, excluding the responsible persons, whose total and base remuneration from the Corporation falls within the specified bands are as follows:

Total remuneration is inclusive of bonus payments, long-service leave payments, redundancy payments and retirement benefits paid and payable. Base remuneration excludes these components.

Payments were made in accordance with the Government Sector Executive Remuneration Panel (GSERP) guidelines.

	Total Remuneration		Base Remuneration	
Income Band ($)	2016 number	2015 number	2016 number	2015 number
110,000 - 119,999	-	1	1	1
140,000 - 149,999	-	-	-	1
150,000 - 159,999	-	1	-	1
210,000 - 219,999	-	-	-	1
220,000 - 229,999	-	-	1	-
230,000 - 239,999	1	-	1	2
240,000 - 249,999	1	1	-	-
250,000 - 259,999	-	-	2	
260,000 - 269,999	1	1	-	-
270,000 - 279,999	2	-	2	-
280,000 - 289,999	-	-	-	1
290,000 - 299,999	-	-	-	1
300,000 - 309,999	1	-	1	2
310,000 - 319,999	-	1	2	-
320,000 - 329,999	1	-	-	2
330,000 - 339,999	1	1	1	-
340,000 - 349,999	1	1	1	1
350,000 - 359,999	-	3	-	-
360,000 - 369,999	2	-	-	-
380,000 - 389,999	-	1	-	-
430,000 - 439,999	1	-	-	-
590,000 - 599,000	-	1	-	-
850,000 - 859,000	-	1	-	-
Total numbers	**12**	**13**	**12**	**13**
Total annualised employee equivalent*	**10.8**	10.8	**10.8**	10.8
	$000	$000	$000	$000
Total amount*	3,764	4,679	3,265	3,290

* Annualised employee equivalent is based on working 38 ordinary hours per week over the reporting period.

During the reporting period and the previous reporting period the Corporation had no contractors or other personnel with significant management responsibilities.

28 Key management personnel compensation

Key management personnel (as defined in AASB 124 *Related Party Disclosures*) includes all Directors and 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.

	2016 $000	2015 $000
Short-term employment benefits	**3,750**	3,440
Post-employment benefits	**217**	276
Other long-term benefits*	**383**	332
Termination benefits	**288**	731
Total amount	**4,638**	4,779
Total numbers	**23**	20

* Other long-term benefits represents Long Service leave.

29 Reconciliation of net cash provided from operating activities to net profit

	Notes	2016 $000	2015 $000
Profit for the period after tax	19	153,360	116,163
Plus/(less) non cash items:			
Depreciation and amortisation	4(a)	373,829	367,530
Net gain on sale of non-current assets	3(b)	(16,264)	(13,525)
Assets written off/written down		21,783	43,075
Developer contributed assets	3(a)	(44,233)	(49,925)
Defined benefit superannuation plan expense	24(i)	2,357	2,385
REC'S received		(9,833)	(3,402)
Net gain on sale of REC's		(1,415)	(3,657)
Interest expense on cashflow hedge		219	240
Changes in operating assets and liabilities (net of investing items):			
Decrease/(Increase) in trade and other receivables		38,465	(34,098)
Decrease/(Increase) in other assets		(1,813)	(2,295)
(Decrease)/Increase in provision for impaired receivables		(36)	18
(Decrease)/Increase in trade and other payables		13,465	(23,642)
(Decrease)/Increase in provisions		576	(44,035)
(Decrease) in other liabilities (interest rate swap)		920	-
Increase/(Decrease) in current tax liability	5(c)	61,174	17,477
Increase/(Decrease) in deferred tax liabilities		(66,512)	874
Net cash provided by operating activities		**526,042**	**373,183**

30 Remuneration of auditors

During the reporting period, the following fees were paid or payable for services provided by the Victorian Auditor General's Office:

	2016 $000	2015 $000
Audit of financial report	166	162
Additional charge for audit of 2014-15 financial year	15	-
Total amount paid/payable	**181**	162

31 Ex-gratia expenses

In accordance with the amended FRD 11A *Disclosure of Ex-Gratia Expenses* the Corporation must disclose in aggregate the total amount of material (greater than $5,000) expenses.

For 2015-16, the Corporation incurred $23.2K of ex-gratia expenses related to an uncollectible aged debtor balance (2014-15: no ex-gratia expenses greater than $5,000).

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, or the results of those operations.

Melbourne Water Corporation
Statement by Directors and Chief Financial Officer

We certify the attached Financial Statements for the Melbourne Water Corporation ('the Corporation') have been prepared in accordance with Standing Direction 4.2 of the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards, Interpretations and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and Notes to and forming part of the Financial Statements, presents fairly the financial transactions during the year ended 30 June 2016 and the financial position of the Corporation as at 30 June 2016.

At the time of signing, we are not aware of any circumstance which would render any particulars included in the Financial Statements to be misleading or inaccurate.

The Financial Statements were authorised for issue by the Directors on the 13th day of September 2016.

On behalf of the Board:

John Thwaites
Chairman

Michael Wandmaker
Managing Director

Anthony O'Shannessy
Chief Financial Officer

VAGO

Victorian Auditor-General's Office

Level 24, 35 Collins Street
Melbourne VIC 3000

Telephone 61 3 8601 7000
Facsimile 61 3 8601 7010

Website www.audit.vic.gov.au

INDEPENDENT AUDITOR'S REPORT

To the Board Members, Melbourne Water Corporation

The Financial Report

I have audited the accompanying financial report for the year ended 30 June 2016 of the Melbourne Water Corporation which comprises the statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, notes comprising a summary of significant accounting policies and other explanatory information, and the statement by directors and chief finance officer.

The Board Members' Responsibility for the Financial Report

The board members of the Melbourne Water Corporation are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the board members determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the 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 the 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 I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Auditing in the Public Interest

Independent Auditor's Report (continued)

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, I and my staff and delegates have complied with the applicable independence requirements of the Australian Auditing Standards and relevant ethical pronouncements.

Opinion

In my opinion, the financial report presents fairly, in all material respects, the financial position of the Melbourne Water Corporation as at 30 June 2016 and of its financial performance and its cash flows for the year then ended in accordance with applicable Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*.

Peter O. Gallagher

MELBOURNE
16 September 2016

for Dr Peter Frost
Acting Auditor-General

Performance Reporting

Contents

Performance Report

Financial Performance Indicators

KPI Number [1]	Key Performance Indicator	2014-15 Result	2015-16 Result	2015-16 Target	Variance to Prior Year	Notes	Variance to Target	Notes
F1	**Cash Interest Cover** Net operating cash flows before net interest and tax / net interest payments	1.6	2.1	1.7	31.3%	[2]	23.5%	[7]
F2	**Gearing Ratio** Total Debt (including finance leases) / total assets * 100	55.9%	53.6%	57.3%	-4.1%		-6.5%	
F3	**Internal Financing Ratio** Net operating cash flow less dividends / net capital expenditure * 100	103.4%	135.3%	76.3%	30.9%	[3]	77.3%	[7]
F4	**Current Ratio** Current assets / current liabilities (excluding long-term employee provisions and revenue in advance)	0.23 times	0.10 times	0.12 times	-56.5%	[4]	-16.7%	[4]
F5	**Return on Assets** Earnings before net interest and tax / average assets * 100	6.0%	6.9%	5.8%	15.0%	[5]	19.0%	[7]
F6	**Return on Equity** Net profit after tax / average total equity * 100	2.5%	3.1%	2.1%	24.0%	[6]	47.6%	[7]
F7	**EBITDA Margin** Earnings before interest, Tax, Depreciation and Amortisation / total revenue * 100	70.5%	74.2%	71.9%	5.2%		3.2%	

* The Corporation has restated the 2014-15 Gearing Ratio from 56.3% to 55.9% following the revaluation of infrastructure assets. The 2014-15 target was still achieved following the restatement.

Water and Sewerage and other Service Performance Indicators

KPI Number [1]	Key Performance Indicator	2014-15 Result	2015-16 Result	2015-16 Target	Variance to Prior Year	Notes	Variance to Target	Notes
WQ1	**Water Quality** Compliance with Bulk Water Service Agreement. (BWSA): Microbiological Standards - E. *coli*	100.0%	100.0%	100.0%	0.0%		0.0%	
WQ2	**Water Quality** Compliance with BWSA: Aesthetics - Turbidity	100.0%	100.0%	91.5%	0.0%		9.3%	[8]
CRM1	**Customer Responsiveness** Complaints referred to EWOV responded to within EWOV established time	100.0%	100.0%	100.0%	0.0%		0.0%	

Water and Sewerage and other Service Performance Indicators (continued)

KPI Number [1]	Key Performance Indicator	2014-15 Result	2015-16 Result	2015-16 Target	Variance to Prior Year	Notes	Variance to Target	Notes
EM1	**Non-compliance with other EPA Victoria License and SEPP parameters - Sewerage system failure** Zero spills due to sewerage system failure	0	0	0	0.0%		0.0%	
EM2	**Compliance with EPA Victoria discharge licence requirements**							
EM2.1	WTP	67.0%	100.0%	100.0%	49.3%	[9]	0.0%	
EM2.2	ETP	100.0%	100.0%	100.0%	0.0%		0.0%	
WW1	**Waterways - Drainage and Flood protection** A further 10 % of currently known intolerable (extreme) flood risks will be reduced by 2018	N/A	100%	10% by 2018	N/A		N/A	
WW2	**Waterways condition** Achievement of Water Plan implementation targets set out in the Healthy Waterways Strategy	100.0%	100.0%	100.0%	0.0%		0.0%	
RW1	**Recycled Water** WTP recycled water schemes fully compliant with regulatory obligations and their contractual requirements, as outlined in the relevant Bulk Recycled Water Service Agreements (BRWSAs)							
RW1.1	Volume demands	100.0%	100.0%	100.0%	0.0%		0.0%	
RW1.2	Reliability	83.3%	100.0%	100.0%	20.0%	[10]	0.0%	
RW1.3	Quality	100.0%	100.0%	100.0%	0.0%		0.0%	
RW2	**Recycled Water** ETP recycled water schemes fully compliant with regulatory obligations and their contractual requirements, as outlined in the relevant BRWSAs							
RW2.1	Volume demands	100.0%	100.0%	100.0%	0.0%		0.0%	
RW2.2	Reliability	100.0%	100.0%	100.0%	0.0%		0.0%	
RW2.3	Quality	91.7%	100.0%	100.0%	9.1%	[11]	0.0%	

Performance Report

Notes - to Performance Report:

[1] Performance indicators as mandated in Ministerial Reporting Direction 01 - Performance Reporting (MRD 01) have been marked with their MRD 01 reference numbers.

[2] The variance to prior year is favourable resulting from higher operating cash flows due to an increase in collection amounts from bulk water services and developer charges during the period and an overall decrease in the amounts of interest paid on the finance lease due to the refinancing of the Victorian Desalination Plant (VDP) and lower interest rates on borrowings.

[3] The variance to prior year is favourable resulting from higher operating cash flows due to an increase in collection amounts from bulk water services and developer charges during the period. Also, a dividend has not been paid during the period.

[4] The variance to prior year is unfavourable resulting from utilisation of cash on hand to fund capital expenditure and some debt maturities changing from non-current to current liabilities. This is in line with the Corporation's liquidity strategy which involves optimal utilisation of cash with surplus funds repaid in borrowings. This also applies to the unfavourable variance to target.

[5] The variance to prior year is favourable due to increased revenue mainly recognised from bulk water services and developer charges and contributions.

[6] The variance to prior year is favourable resulting from higher net profit after tax. This is due to increased revenue, decreased interest paid on borrowings due to lower interest rates and less interest being paid on the VDP finance lease through yearly refinancing.

[7] The favourable variance to target is resulting from an improved actual financial performance for 2015-16 compared to plan targets. Significant contributing factors for improved performance include the lowering of borrowings and finance costs and a higher net profit after tax (through increased revenue), which has resulted in an improvement in operating cash flows.

[8] The favourable variance to target was reached due to non occurrence of adverse conditions that were considered in determining the target. The adverse conditions taken into consideration include storm events, bushfires and drought, which are events that usually affect our catchment water quality.

[9] The favourable variance to prior year target was reached due to decreased % levels of ammonia in the lagoons at the Western Treatment Plant. This was achieved through implementation of projects to improve performance of 25 West anaerobic reactor and the reduce sludge inventories in the lagoons. Compliance modelling in 2016-17 will continue to inform projects and actions.

[10] The favourable variance to prior year target is due improved plant reliability and zero outages for the year.

[11] The favourable variance to prior year target is due to improved processes resulting in an uninterrupted Class A supply to our customers.

Certification of Performance Report for 2015–2016

We certify that the accompanying Performance Report of Melbourne Water Corporation in respect of the 2015-16 financial year is presented fairly in accordance with the *Financial Management Act 1994*.

The Performance Report outlines the relevant performance indicators for the financial year as determined by the Minister for Water and as set out in the 2015/16 Corporate Plan, the actual and comparative results achieved for the financial year against predetermined performance targets and these indicators, and an explanation of any significant variance between the actual results and performance targets and/or between the actual results in the current year and the previous year.

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

John Thwaites
Chairman

Michael Wandmaker
Managing Director

Anthony O'Shannessy
Chief Financial Officer

Dated this 13th day of September 2016.

VAGO
Victorian Auditor-General's Office

Level 24, 35 Collins Street
Melbourne VIC 3000

Telephone 61 3 8601 7000
Facsimile 61 3 8601 7010

Website www.audit.vic.gov.au

INDEPENDENT AUDITOR'S REPORT

To the Board Members, Melbourne Water Corporation

The Performance Report

I have audited the accompanying performance report for the year ended 30 June 2016 of the Melbourne Water Corporation which comprises the performance report, the related notes and the certification of performance report.

The Board Members' Responsibility for the Performance report

The board members of the Melbourne Water Corporation are responsible for the preparation and fair presentation of the performance report and for such internal control as the board members determine is necessary to enable the preparation and fair presentation of the performance report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Auditing in the Public Interest

Independent Auditor's Report (continued)

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, I and my staff and delegates have complied with the applicable independence requirements of the Australian Auditing Standards and relevant ethical pronouncements.

Opinion

In my opinion, the performance report of the Melbourne Water Corporation in respect of the 30 June 2016 financial year presents fairly, in all material respects.

Peter T. Gallagher

MELBOURNE
16 September 2016

for Dr Peter Frost
Acting Auditor-General

Appendices

Contents

Appendix A – Disclosure index

Melbourne Water's Annual report 2015-16 is prepared in accordance with all relevant Victorian legislation and pronouncements. This index has been prepared to facilitate identification of Melbourne Water's compliance with statutory disclosure requirements.

Legislation	Requirement	Page reference
Report of operations		
Charter and purpose		
FRD 22G	Manner of establishment and the relevant Ministers	56
FRD 22G	Objectives, functions, powers and duties	3, 58
FRD 22G	Nature and range of services provided	3, 68
Management and structure		
FRD 22G	Organisational structure	60
Financial and other information		
FRD 10A	Disclosure index	148-149
FRD 22G	Employment and conduct principles	56, 153
FRD 22G	ICT expenditure	150
FRD 22G	Government advertising	150
FRD 22G	Occupational health and safety policy and performance	49, 56, 152
FRD 22G	Summary of the financial results for the year	64-65
FRD 22G	Significant changes in financial position during the year	53-55
FRD 22G	Major changes or factors affecting performance	54, 138-142
FRD 22G	Subsequent events	134
FRD 22G	Application and operation of *Freedom of Information Act 1982*	150-151
FRD 22G	Compliance with building and maintenance provisions of *Building Act 1993*	152
FRD 22G	Statement on National Competition Policy	150
FRD 22G	Application and operation of the *Protected Disclosure Act 2012*	153
FRD 22G	Details of consultancies over/under $10,000	150
FRD 22G	Statement of availability of other information	150
FRD 22G	Environmental Performance	10-15, 19, 21-22, 30, 25-27, 29-37, 156-157
FRD 25B	Victorian Industry Participation Policy disclosures	163-164
FRD 27C	Presentation and reporting of performance information	138-143
FRD 29A	Workforce data disclosures	161-164
FRD 30C	Standard requirements for the design and print of annual reports	Entire report
SD 4.5.5	Risk management compliance attestation	61
SD 4.5.5.1	Ministerial Standing Direction 4.5.5.1 compliance attestation	61
SD 4.2(g)	Specific information requirements	1-61
SD 4.2(j)	Sign off requirements	4-7
Ministerial Reporting Directions		
MRD 01	Performance Reporting	138-143
MRD 02	Reporting on Water Consumption and Drought Response	158
MRD 03	Environmental and Social Sustainability Reporting	10-15, 19, 21-22, 30, 25-27, 29-37, 156-157

Legislation	Requirement	Page reference
MRD 04	Disclosure of Information on Bulk Entitlements, Transfers of Water Entitlements, Allocations and Licences, irrigation Water Usage and Licence Entitlements	154-156
MRD 05	Annual Reporting of Major Non-Residential Water Users	13
Financial Report		
Financial statements required under Part 7 of the FMA		
SD 4.2(b)	Income Statement	69
SD 4.2(b)	Balance sheet	70
SD 4.2(b)	Cash flow statement	72
SD 4.2(b)	Notes to the Financial Statements	74-134
Other requirements under Standing Directions 4.2		
SD 4.2(a,c)	Compliance with Australian accounting standards and other authoritative pronouncements	74
SD 4.2(c)	Compliance with Ministerial Directions	74
SD 4.2(d)	Rounding of amounts	74
S.D 4.2(c)	Accountable officer's declaration	135
Other disclosures as required by FRDs in notes to the financial statements		
FRD 03A	Accounting for Dividends	83
FRD 07B	Early Adoption of Authoritative Accounting Pronouncements	84
FRD 11A	Disclosure of Ex Gratia Expenses	134
FRD 17B	Wage inflation and discount rates for Employee Benefits	81
FRD 21B	Disclosures of Responsible Persons, Executive Officers and other Personnel (Contractors with Significant Management Responsibilities) in the Financial Report	130-133
FRD 102	Inventories	80
FRD 103F	Non-Financial Physical Assets	78-79, 94-105
FRD 104	Foreign Currency	83, 86
FRD 105B	Borrowing Costs	77, 90
FRD 106A	Impairment of Assets	79, 97
FRD 108B	Classification of Entities as For-Profit	74
FRD 109A	Intangible Assets	80, 97
FRD 110A	Cash Flow Statements	72, 79, 133
FRD 112D	Defined Benefit Superannuation Obligations	74, 81-82, 123-127
FRD 113A	Investments in Subsidiaries, Joint Venture and Associates in the Separate financial statements	83-84
FRD 114B	Financial Instruments – General Government Entities and Public Non-Financial Corporations	85-87, 112-117
FRD 119A	Transfers through Contributed Capital	83, 110
FRD 120J	Accounting and Reporting Pronouncements Applicable to the 2015-16 reporting period	84

Appendix B – Corporate Information

Consultancy Expenditure

The following is a summary of consultancy expenditure by Melbourne Water over the 2015-16 year. Details of individual consultancies are outlined on Melbourne Water's website at www.melbournewater.com.au

Consultancies valued at $10,000 or greater

In 2015-16 there were 15 consultancies where the total fees payable to the consultants were $10,000 or greater. The total expenditure incurred during 2015-16 in relation to these consultancies was $1,081,219 (exc gst).

Consultancies valued at less than $10,000

In 2015-16 there were 5 consultancies where the total fees payable to the consultants was less than $10,000. The total expenditure incurred during 2015-16 in relation to these consultancies was $37,054.

Advertising Campaigns

Melbourne Water had no advertising campaigns with a value greater than $100,000.

ICT Expenditure

For the 2015-16 reporting period, Melbourne Water had a total ICT expenditure of $51,417,590 with the details shown below.

Business as usual (BAU) ICT expenditure	Non- business as usual (non-BAU) ICT expenditure (operational and capital expenditure)	Non-BAU ICT expenditure (operational expenditure)	Non-BAU ICT expenditure (capital expenditure)
$25,390,000	$26,028,000	$363,000	$25,664,000

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 Essential Services Commission determines cost-based pricing. In this regard our processes are consistent with the requirements of the Victorian Competitive Neutrality Policy.

Pricing

The Essential Services Commission – 2016 Price Determination approved Melbourne Water's wholesale water and sewerage prices for five years – with an 11 per cent decrease (plus inflation) in 2016-17, and increases approximately in line with inflation for the remaining four years. Average household water bills will decrease by up to $15 for 2016-17, and then increase by approximately $25 (depending on inflation) for the remaining four years. The annual waterways and drainage charge will increase from $95.48 to $96.83 for 2016-17, and will increase by inflation for the remaining four years.

Freedom of Information

Melbourne Water is subject to the *Freedom of Information Act 1982* and is committed to releasing documents in our possession unless exempt. We also welcome enquiries about the broad range of documents we provide outside the *Freedom of Information Act 1982*.

The designated persons for the purpose of the *Freedom of Information Act 1982* are:

Principal Officer
Mr J Thwaites
Chair, Melbourne Water Board

Authorised Officer
Mr M Keough
FOI and Privacy Adviser and Government Liaison

Requests for information

We received 23 requests under the *Freedom of Information Act 1982* for access to documents. We finalised 18. Three were transferred to other agencies, two were yet to be finalised and one was withdrawn.

Eleven requests were from members of the public, five from lawyers on behalf of clients, three each from members of parliament and journalists and one from an insurance firm. There was one request for personal information.

We released 152 documents (1,336 pages), 125 in full. Exemptions applied to documents or matter in them which would unreasonably affect personal privacy or unreasonably disadvantage commercial undertakings.

Outcomes	Finalised requests related to:	Reviews and complaints
Finalised requests 18: Release in full 11 Release in part 6 No documents 1	Environment and planning 11	FOI Commissioner finalised 1 complaint informally
Transferred 3	Business administration 5	
Not yet finalised 1	Drainage management 1	
Withdrawn 1	Personal 1	
	Water supply 1	
	Waterway management 1	

Reviews and complaints

No decisions were subject to review. The FOI Commissioner accepted one complaint, which was finalised informally with no required action. No notifications of VCAT hearings were received.

Access to documents

People wanting access to Melbourne Water documents under the *Freedom of Information Act 1982* should write to:

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

Each application must clearly identify the documents sought and be accompanied by the required application fee ($27.90 from 1st July 2016).

General enquiries concerning Freedom of Information may be made by contacting the Freedom of Information Officer by telephone on (03) 9679 7111 between 9am and 5pm Monday to Friday or via email to foi@melbournewater.com.au.

Information required under Part II of the *Freedom of Information Act 1982* is available on our website, melbournewater.com.au under About us, Who we are, Legislation and Policies.

The statement includes information about Melbourne Water functions, decision –making, consultation arrangements and publications. It also outlines how to make a Freedom of Information request and how to request information outside the scope of the Act.

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 water supply, waterways, drainage and sewerage responsibilities. Historical archives of our activities are available through the Public Records Office Victoria. More information is in our Part II Information Statement on our website.

Appendix B – Corporate Information

Building Compliance

Melbourne Water continues to work toward compliance with the *Building Act 1993* across our substantial property and building portfolio. We have in place a compliance program which we continue to action.

Privacy Legislation

Melbourne Water is subject to the *Privacy and Data Protection Act 2014* and the *Health Records Act 2001* and is committed to protecting the privacy of personal and health information it collects and handles. Melbourne Water collects and handles personal and health information only to carry out its functions and activities.

Melbourne Water received no complaints in relation to privacy intrusions this year or notifications of complaints received by the Commissioner for Privacy and Data Protection or the Health Services Commissioner.

Melbourne Water is committed to openness and transparency and welcomes any queries about its approach to privacy. We endeavour to resolve any privacy complaints quickly and effectively.

People may access their personal and health information at Melbourne Water. People wanting to access their information, seek a copy of our Privacy Policy or make a privacy complaint, should call 131 722 (within Victoria) or (03)9679 7100 (within the rest of Australia) or write to:

Privacy Advisor
Melbourne Water
PO Box 4342
Melbourne VIC 3001

Financial Management

Other information as required under the *Financial Management Act 1994*, but not specifically referred to, has been retained by the Accountable Officer and is available to the Minister, Members of Parliament and the public on request.

Other Information Available on Request

In compliance with the requirements of the Standing Directions of the Minister for Finance, details in respect of the items listed below have been retained by Melboune Water and are available on request, subject to the provisions of the *Freedom of Information Act 1982*:

Further information is available on request about:

- Pecuniary interests of relevant officers.
- Details of shares held by a senior officer as nominee or held beneficially in a statutory authority or subsidiary.
- Details of changes in prices, fees, charges, rates and levies charged if relevant.
- Details of Melbourne Water publications.
- Committees chaired by Melbourne Water.
- Major external reviews carried out on Melbourne Water.
- Research and development activities.
- Overseas visits.
- Major promotional, public relationship and marketing activities.
- Melbourne Water's Code of Conduct.
- Assessments and measures to improve the occupational health and safety of employees.
- Statement of industrial relations.
- Details of time lost through industrial accidents and disputes.
- Major sponsorships.
- Details of all consultancies and contractors used during the year.

Phone 131 7822 or (03) 9679 7100 (within the rest of Australia) or visit www.melbournewater.com.au.

Protected Disclosure

The *Protected Disclosure Act 2012* encourages and assists people in making disclosures of improper conduct by public officers and public bodies. The Act provides protection to people who make disclosures in accordance with the Act and establishes a system for the matters disclosed to be investigated and rectifying action to be taken.

Melbourne Water does not tolerate improper conduct by employees nor reprisals against those who come forward to disclose such conduct. It is committed to ensuring 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. Our commitment is incorporated in our Code of Conduct and our Protected Disclosure Procedures.

Where a disclosure is brought to Melbourne Water's attention by an investigative body, 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 to the extent it is legally possible.

How do I make a 'protected disclosure'?

You can make a protected disclosure about Melbourne Water or its Board members, officers or employees by contacting the Independent Broad-Based Anti-Corruption Commission (IBAC) Victoria using the contact details provided below.

Please note that Melbourne Water is not able to receive protected disclosures.

How can I access Melbourne Water's procedures for the protection of persons from detrimental action?

Melbourne Water has in place procedures for the protection of persons from detrimental action in reprisal for making a protected disclosure about Melbourne Water or its employees. You can access our procedures at melbournewater.com.au.

Contacts

Melbourne Water
Bernadette Doyle, General Counsel
Melbourne Water
PO Box 4342
Melbourne Victoria 3001
Phone (03) 9679 7111

Independent Broad Based Anti-Corruption Commission Victoria
Level 1, North Tower, 459 Collins Street, Melbourne Water Corporation
IBAC, GPO Box 24234, Melbourne Victoria 3000
Ibac.vic.gov.au
Phone 1300 735 135

See the IBAC website for the secure email disclosure process which also provides for anonymous disclosures.

Industry Memberships

Melbourne Water maintains several industry memberships and associations, particularly those associated with the Australian water industry and provision of infrastructure. We frequently serve on committees from both a governance perspective and on issue specific initiatives. We engage frequently with the following organisations:

- Water Services Association of Australia
- VicWater
- Infrastructure Partnerships Australia
- Institute of Water Administration
- Committee for Melbourne
- Global Compact Network
- CEDA – Committee for the Economic Development of Australia
- Association of Land Development Engineers Australia

As a government-owned entity, Melbourne Water does not make any political donations or contributions.

Appendix C – Bulk Entitlements

Victoria introduced bulk water reforms on the 1st July 2014. These reforms introduced a 'source' and 'delivery' bulk entitlement model for Melbourne with a seasonal determination process and rights to carry over unused water allocations over time. The four systems currently supplying Melbourne, Thomson River, Yarra River, Silver and Wallaby Creeks and Tarago and Bunyip Rivers, are collectively known as the Greater Yarra System – Thomson River Pool.

Melbourne Water was assigned the Source Bulk Entitlement to the Greater Yarra System – Thomson River Pool. The Delivery Bulk Entitlement to the Greater Yarra System – Thomson River Pool was assigned to Barwon Water, City West Water, South East Water, South Gippsland Water, Western Water, Westernport Water and Yarra Valley Water (the 'primary entitlement holders').

As the Resource Manager for the Melbourne headworks system, Melbourne Water was assigned the role of allocating water to the primary entitlement holders by making seasonal determinations to them. Melbourne Water also continues in its role as Storage Manager (under section 171B of the *Water Act 1989*) for water sources in the Melbourne headworks system. The following table fulfils the reporting requirements in Melbourne Water's bulk entitlements.

Melbourne Water reporting obligation	Combined Yarra River, Silver and Wallaby Creeks, Thomson River	Yarra River[2] (BEE072373)	Silver and Wallaby creeks[5] (BEE072374)	Thomson River[7] (BEE072371)	Tarago and Bunyip rivers[9] (BEE072372)
The amount of water taken by PEHs in 2015-2016 i) Total inflows[a]; ii) Total storage volumes[b]; and iii) Total outflows[c]	N/A	Clause 15.1 (a) i) 194,063 ML ii) 443,786 ML iii) 177,773 ML	Clause 14.1 (a) i) 1,059 ML ii) No storage is available in Silver & Wallaby iii) 1,059 ML	Clause 15.1 (a) i) 74,536 ML ii) 597,913 ML iii) 247,098 ML	Clause 15.1 (a) i) 16,220 ML (Tarago) 2,196 ML, (Bunyip) ii) 34,303 ML, (Tarago) No storage is available in Bunyip iii) 12,255 ML (Tarago), 2,196 ML (Bunyip)
Compliance with the diversion limit	396,079 ML[1]	Clause 15.1 (b) 278,440 ML[3]	Clause 14.1 (b) 4,393 ML[6]	Clause 15.1 (b), 114,509 ML[8]	Clause 15.1 (b), 7,471 ML (Tarago)[10] 2,192 ML, (Bunyip)[11]
Any temporary/permanent transfer of this bulk entitlement	N/A	Clause 15.1 (c) Nil	Clause 14.1 (c) Nil	Clause 15.1 (c) Nil	Clause 15.1 (c) Nil
Any temporary/permanent transfer of a bulk entitlement which may alter the flow in the waterway	N/A	Clause 15.1 (d) Nil	Clause 14.1 (d) Nil	Clause 15.1 (d), Nil	Clause 15.1 (d) Nil
Any amendment to this bulk entitlement	N/A	Clause 15.1 (e) Nil	Clause 14.1 (e) Nil	Clause 15.1 (e) Nil	Clause 15.1 (e) Nil
Volume of water made available to PEHs from seasonal determinations (on 1 June 2016)	N/A	Clause 15.1 (f)	Clause 14.1 (f)	Clause 15.1 (f)	Clause 15.1 (f)
		Greater Yarra System – Thomson River Pool[4] (City West Water) 64,191 ML (South East Water) 86,660 ML (Yarra Valley Water) 92,329 ML (Barwon Water) 6,616 ML (South Gippsland Water) 414 ML (Westernport Water) 414 ML (Western Water) 7,547 ML			

Melbourne Water reporting obligation	Combined Yarra River, Silver and Wallaby Creeks, Thomson River	Yarra River[2] (BEE072373)	Silver and Wallaby creeks[5] (BEE072374)	Thomson River[7] (BEE072371)	Tarago and Bunyip rivers[9] (BEE072372)
Any new bulk entitlement of water granted	N/A	Clause 15.1 (g) Nil	Clause 14.1 (g) Nil	Clause 15.1 (g) Nil	Clause 15.1 (g) Nil
Any failures to comply with this bulk entitlement and any remedial action	N/A	Clause 15.1 (h) Nil	Clause 14.1 (h) Nil	Clause 15.1 (h) Nil	Clause 15.1 (h) Nil
Any difficulties experienced in complying with this bulk entitlement and any remedial action	N/A	Clause 15.1 (i) Nil	Clause 14.1 (i) Nil	Clause 15.1 (i) Nil	Clause 15.1 (i) Nil
Any other matters as required by the Minister	N/A	Clause 15.1 (j) Nil	Clause 13.1 (j) Nil	Clause 15.1 (j) Nil	Clause 15.1 (j) Nil

(a) Total inflows for each of Melbourne Water's bulk entitlements include inflows to reservoir (s) and diversions from weirs available to Melbourne Water under its bulk entitlements.

(b) Total storage volumes are as at 30 June 2016 for all reservoirs defined in each of Melbourne Water's bulk entitlements.

(c) Total outflows are the volume of water diverted or released under each of Melbourne Water's bulk entitlements for consumptive and operational purposes. It excludes spills from reservoirs.

Notes for compliance with Bulk Entitlements

Combined Yarra River, Silver and Wallaby creeks, Thomson River

1 Compliance with the long-term average diversion limit of 555,000 ML was assessed using a 15-year rolling average annual diversion. Melbourne Water has proposed a new diversion limit compliance method as required by its bulk entitlements that became effective on 1 July 2014.

Yarra River

2 Melbourne Water holds the Bulk Entitlement (Yarra River – Melbourne Water) Order 2014 – BEE072373.

3 Compliance with the long-term average diversion limit of 400,000 ML was assessed using a 15-year rolling average annual diversion. Melbourne Water has proposed a new diversion limit compliance method as required by its bulk entitlements that became effective on 1 July 2014.

Greater Yarra System – Thomson River Pool

4 Greater Yarra System – Thomson River Pool includes the following Bulk Entitlements holds by Melbourne Water:

- Bulk Entitlement (Yarra River – Melbourne Water) Order 2014 – BEE072373
- Bulk Entitlement (Silver and Wallaby creeks – Melbourne Water) Order 2014 – BEE072374
- Bulk Entitlement (Tarago and Bunyip Rivers – Melbourne Water) Order 2014 – BEE072372
- Bulk Entitlement (Thomson River – Melbourne Water) Order 2014 – BEE072371

Silver and Wallaby creeks (Goulburn Basin)

5 Melbourne Water holds the Bulk Entitlement (Silver and Wallaby creeks – Melbourne Water) Order 2014 – BEE072374

6 Compliance with the three-year total diversion limit of 66,000 ML was assessed using a three-year rolling total diversion.

Thomson River

7 Melbourne Water holds the Bulk Entitlement (Thomson River – Melbourne Water) Order 2014 – BEE072371.

8 Compliance with the long-term average diversion limit of 171,800 ML was assessed using a 15-year rolling average annual diversion. Melbourne Water has proposed a new diversion limit compliance method as required by its bulk entitlements that became effective on 1 July 2014.

Tarago and Bunyip rivers

9 Melbourne Water holds the Bulk Entitlement (Tarago and Bunyip Rivers – Melbourne Water) Order 2014 – BEE072372.

10 Compliance with the Tarago River long-term average diversion limit of 24,950 ML was assessed using a five-year rolling average annual diversion.

11 Compliance with the Bunyip River long-term average diversion limit of 5,560 ML was assessed using a five-year rolling average annual diversion.

Appendix C – Bulk Entitlements

Melbourne Water's Bulk Entitlement

Melbourne Water holds a Bulk Entitlement to the water resources of the Maribyrnong Basin to supply irrigators diverting water from Jacksons Creek, downstream of Rosslynne Reservoir, and the Maribyrnong River between its confluence with Jacksons Creek and Shepherd Bridge.

Compliance with the Maribyrnong River Bulk Entitlement held by Melbourne Water

The volume of water taken by Melbourne Water to supply licence holders in 2015–16	Clause 19.1 (b), 395 ML
Compliance with the five-year rolling average annual Bulk Entitlement diversion limit of 1,056 ML	275 ML
Melbourne Water's share of flow into Rosslynne Reservoir in 2015–16	Clause 19.1 (a,iii), 19 ML
Melbourne Water's share of storage volume in Rosslynne Reservoir at 30th June 2016	Clause 19.1 (a,ii), 630 ML
Transfer and operating losses within the system	Clause 19.1 (a,iv), 0 ML
Releases made from Rosslynne Reservoir to supply licence holders in 2015–16	Clause 19.1 (a, i), 278 ML
Releases from Melbourne Water's share of flow to meet minimum flows	Clause 19.1 (a,v), 161 ML
Any temporary or permanent transfers of the Bulk Entitlement	Clause 19.1 (c), nil
Any temporary or permanent transfer of the Bulk Entitlement which may alter the flow in the waterway	Clause 19.1 (d), nil
Alteration to volume of water under licences issued by Melbourne Water	Clause 19.1 (e), nil
Alteration to security of supply of entitlements under licences	Clause 19.1 (e), nil
Transfer of licences (number, amount and places)	Clause 19.1 (f), Yes[1]
Any amendment to the Bulk Entitlement	Clause 19.1 (g), nil
Any new Bulk Entitlement granted to Melbourne Water	Clause 19.1 (h), nil
Implementation of metering program	Clause 19.1 (i), Yes
Any failures to comply with any provision of the Bulk Entitlement	Clause 19.1 (j), nil
Any difficulty experienced in complying with the Bulk Entitlement and if so, any remedial action taken or proposed	Clause 19.1 (k), nil

1 In total 31 transfers of licenses were made: 1) four land transfers with 125ML in Keilor; 2) three water trades with 26ML in Keilor; 3) 24 licence transfers to Victorian Environmental Water Holder with 302ML.

Appendix D – Private Diversion Licenses

Melbourne Water manages 1,844 licenses to use water from farm dams and waterways in the Yarra River, Maribyrnong River, Stony Creek, Kororoit Creek, Laverton Creek and Skeleton Creek catchments. Water is mainly used for agricultural, industrial, commercial, domestic and stock purposes. The total number of 'take and use' licenses (i.e. licences for uses such as irrigation) is 1,234 with a combined volume of 35,350.6ML.

Outside of the permanent management trigger and restriction conditions enacted under the Diversions Water Sharing Plan for all Licensed Water Users Melbourne Water has not invoked its Drought Response Plan during 2016-17.

Licence Totals	No. Licences	Volume (ML)	Metered Usage
Farm Dam Registrations	524	6,860.5	48.7
Farm Dam Licences	40	925.5	156.2
Take & Use Licences Yarra	1189	34,230.6	8,212.2
Take & Use Licences Maribyrnong	45	1,120	117.3
Stormwater Licences	42	2,416.4	757.2
Environmental Water Licence	4	97.4	N/A

Appendix E – Flooding and Drainage

	2015-2016	2014-2015	2013-2014	
Underground drains				
Total Length of Melbourne Water Assets	1,618	1,604	1,604	km
Total Length of Melbourne Water Assets excluding drainage scheme areas	1,022	1,008	1,008	km
Mapped 100yr ARI	809	809	809	km
Percentage Mapped	79	80	80	%
Mapped 20yr ARI	486	Not estimated	Not estimated	km
Percentage Mapped	47	Not estimated	Not estimated	%
Mapped 10yr ARI	180	180	180	km
Percentage Mapped	18	18	18	%
Mapped 5yr ARI	138	11	11	km
Percentage Mapped	14	1	1	%
Natural Waterways				
Total Length of Melbourne Water Assets	8,685	8,647	8,647	km
Total Length of Melbourne Water Assets excluding drainage scheme areas, forested areas and French Islands	5,661	5,447	5,447	km
Mapped 100yr ARI	3,350	2,815	2,815	km
Percentage Mapped	60	52	52	%
Mapped 20yr ARI	194	Not estimated	Not estimated	km
Percentage Mapped	4	Not estimated	Not estimated	%
Mapped 10yr ARI	196	104	104	km
Percentage Mapped	4	4	4	%
Mapped 5yr ARI	178	127	127	km
Percentage Mapped	4	4.5	4.5	%
Channels				
Total Length of Melbourne Water Channels	1,490	1,490	1,490	km
Mapped 100yr ARI (underground drains)	81	76	76	km
Mapped 100yr ARI (waterways)	1,288	1,163	1,163	km
Mapped 100yr ARI (total)	1,369	1,239	1,239	km
Percentage Mapped	92	83	83	%
Total				
Total length of Melbourne Water Assets	11,793	Not estimated	Not estimated	
Total length of Melbourne Water Assets excluding drainage scheme areas, forested areas and French Island	8,173	Not estimated	Not estimated	
Mapped 100yr ARI	5,528	Not estimated	Not estimated	
Percentage Mapped	68	Not estimated	Not estimated	

Appendix F – Environmental Data

Energy Consumption

Our electricity consumption for water supply and waste water treatment over the past 5 years in megawatt hours (MWh) is set out in the following tables.

Electricity consumed for water supply	2011-12	2012-13	2013-14	2014-15	2015-16
Electricity consumption - water supply (MWh)	52,737	41,540	43,989	33,599	51,913
Electricity export - water supply (MWh)	28,421	35,668	52,240	55,105	63,865
Net electricity consumption - water supply (MWh)	24,316	5,872	-8,250	-21,406	-11,952

Electricity consumed during waste transfer and treatment (MWh)	2011-12	2012-13	2013-14	2014-15	2015-16
Electricity consumption (total) – Wastewater (MWh)	206,099	242,345	232,500	240,226	244,635
Electricity consumption (generated and used on site) – wastewater transfer and treatment (MWh)	99,585	90,203	80,864	87,322	93,917
Net electricity consumption – wastewater transfer and treatment (MWh)	103,778	151,616	150,630	152,262	150,090
Electricity export – wastewater transfer and treatment (MWh)	2,736	526	1,006	641	627

Greenhouse Gas Emissions

Greenhouse gas emissions over the past 5 years in equivalent tonnes of Carbon Dioxide (t-CO2e)

Greenhouse gas emissions over the past 5 years in equivalent tonnes of Carbon Dioxide (t-CO2e)	2011-12	2012-13	2013-14	2014-15	2015-16
Water transfer and treatment (t-CO2e)	49,894	49,914	52,500	39,454	58,780
Wastewater transfer and treatment (t-CO2e)	342,473	325,010	277,335	428,375	368,768
Waste disposal (t-CO2e)	-	-	-	-	-
All other energy use (non-fleet) (t-CO2e)	5,359	2,414	9680	7,736	2,700
Vehicle fleet (t-CO2e)	9,155	6,860	2,226	2,318	2,749

Appendix F – Environmental Data

Melbourne Water Corporate Consumption

Melbourne Water's consumption is 725.7kl or 1.1kl/FTE/year based on our operations at our corporate office at 990 La Trobe Street. This is down marginally from consumption in 2014-15 which was 1.2kl/FTE/Year.

Environmental Complaints Data

In the 2015-16 year, Melbourne Water received 139 environmental complaints. These are summarised in the following table.

		Severity			
Classification	Total Events	Insignificant	Minor	Moderate	Major
Water	37	28	7		2
Waste	5	5	1		
Operational	1		2		
Fauna	11	9			
Flora	4	3		1	
Odour	2	2			
Algae	1	1			
Vehicle/bike	3	3			
Vandalism	2	2			
Trespass	9	8	1		
Sodium hypochlorite	1	1			
Power	2	2			
Mobile plant	1		1		
Machinery	1			1	
Illegal dumping	1	1			
Fuel	2		2		
Fire	3	1	1		1
External agency enforcement	2				2
Environment and extreme events	1	1			
Emergency exercise	2	2			
Observations	1	1			
Chlorine	6	5	1		
Chemical or substance	3	2	1		
Biological	1		1		
Asset failure	1	1			
Asset damage	2	1	1		
Animals, insects and vegetation	7	6	1		
Other (spill, sediment, fire, water)	11	11			
Fluoride	2	1	1		
Oil	1	1			
Ozone	2	2			
Bushfire/grassfire	1	1			
Cultural heritage	1	1			
Odour	7	7			
Flood	2	1	1		
Total	**139**	**110**	**22**	**2**	**5**

Appendix G – Workforce Statistics

Safety

The following safety statistics are provided as additional information in support of statutory reporting and other obligations.

Table G1 -Number of reported safety incidents per 100 full time equivalent (FTE) staff

	FTE	Hazards	Hazards/ 100 FTE	Incidents	Incidents/ 100 FTE	Total	Total/ 100 FTE
2014-15 :	**899**	557	62.0	539	60.0	1096	121.9
2015-16 :	**972**	467	48.0	409	42.1	876	90.1

Table G2 - Number of lost time standard claims for the year per 100 FTE

	Number of Claims	Claims/100 FTE
2014-15 :	1	0.11
2015-16 :	4	0.41

Table G3 - Average cost per claim for the year (including payments to date and estimates of outstanding claim costs advised by WorkCover)

	Cost of Claim $
2014-15 :	37,000
2015-16 :	34,730

Table G4 - Types of Injury

	2015-16
Lost time injury (LTI)	5
Restricted work injury (RWI)	7
Medical treatment injury (MTI)	9
First Aid	95
Total	**116**

Total lost days in 2015-16 were 79

Appendix G – Workforce Statistics

People

The following employee related statistics are provided as additional information in support of statutory reporting and other obligations.

Table G5 - Employee profile 2015-16

	Full time permanent employees (Headcount)	Part time permanent employees (Headcount)	Permanent employees (Headcount)	Permanent employees (FTE)	Fixed term and casual employees[1] (FTE)
June 2015	786	113	899	841	58
June 2016	812	126	938	885	74

Employee profile by type 2015-16

	Permanent employees		Fixed term and casual employees	Permanent employees		Fixed term and casual employees
	Headcount	FTE	FTE	Headcount	FTE	FTE
	June 2015			June 2016		
Gender						
M	635	625	29	638	632	43
F	264	216	29	300	253	30
Age						
Under 25	9	9	5	10	10	9
25-34	233	221	18	251	238	25
35-44	282	250	19	313	282	13
45-54	206	199	11	226	219	15
55-64	143	139	5	127	126	10
Over 65	26	23	0	11	10	1
Classification						
Casual						16
EBA2				44	43	1
EBA3				45	45	
EBA4				5	5	
EBA5				2	2	
2	46	45	0	5	3	1
3	67	64	2	27	26	8
4	56	51	6	46	44	6
5	125	119	14	115	111	12
6	103	97	10	104	94	6
7	193	170	14	207	189	14
SO	9	9	0	6	6	
Senior Manager	243	229	10	274	262	9
Executives	59	59	0	58	56	

1 Note that total FTE for Melbourne Water is 943 consisting of permanent and fixed term FTE. Casual employees are not counted in our FTE numbers.

Total number and rates of new employee hires by age group and gender

Gender	Headcount
M	97
F	61

Age	
Under 25	7
25-34	67
35-44	43
45-54	36
55-64	5
Over 65	0

Total number and rates of employee turnover by age group and gender

Gender	Headcount
M	109
F	46

Age	
Under 25	3
25-34	29
35-44	32
45-54	25
55-64	40
Over 65	26

Hours of training for the financial year 2015-16

	All Melbourne Water		
	F	M	All
Total Completed Hours of Training	8519	23059	31577
Total Number of Employees Completed Training	309	659	968
Average Completed Training Hours Per Employee	28	35	33

Ratio of basic salary and remuneration of women to men by employee category by significant locations of operation

	Ratio (F/M)	
Corporate	Base	TRP
MW EA 2	NA	NA
MW EA 3	1.02	1.02
MW EA 4	0.97	0.97
MW EA 5	0.99	0.99
MW EA 6	1.01	1.01
MW EA 7	0.99	0.99
SO	NA	NA
Senior Management	0.93	0.93
Executive	0.88	0.88

	Ratio (F/M)	
Service Delivery	Base	TRP
MW EA 2	NA	NA
MW EA 3	1.00	1.00
MW EA 4	0.99	0.99
MW EA 5	0.99	0.99
MW EA 6	1.03	1.03
MW EA 7	1.00	1.00
SO	NA	NA
Senior Management	0.94	0.94
Executive	1.06	1.06

Appendix G – Workforce Statistics

In addition:

- 100% of senior management were hired from the local community at significant locations of operation.
- There is no minimum notice period regarding consultation of operational changes.
- There was one grievance about labour practices filed, addressed and resolved through formal grievance mechanisms.
- 93.6% of employees were covered by the Enterprise Agreement.
- Human rights are not part of Melbourne Water's current training program.
- No incidents of discrimination have been raised with Melbourne Water.
- No security personnel have been trained in human rights policies or procedure for Melbourne Water operations.
- No incidents of violations involving the rights of indigenous peoples have occurred.
- No incidents of human rights violations have been recorded.

Victorian Industry Participation Policy (VIPP)

In accordance with the VIPP Act 2003, the following VIPP contracts commenced or were completed during the 2015-16 financial year.

Contracts commenced to which the VIPP applied

Melbourne Water commenced 19 metropolitan contracts to which the VIPP applied. These contracts totalled $192.5M. The Industry Capability Network (ICN) deemed that there were no contestable items on 4 contracts and therefore a VIPP plan was not required.

The commitments by contractors that required a VIPP plan included:

- Local content of 81% of the total value of the contracts.
- 402 full time equivalent jobs.
- 14 full time equivalent apprenticeships and traineeships.
- A number of benefits to the Victorian economy in terms of skills and technology transfers including:
  - Training and development for all staff including project induction training.
  - A commitment to providing graduate, apprenticeship and work experience programs.
  - Training in management systems (quality, safety and environment) for all employees.
  - Activity specific training in plant operation, elevated work, front end loader and excavator operation, confined spaces, manual handling, scaffolding, traffic control, firefighting, emergency response, working near water and sewerage, site induction, site specific hazard induction, first aid, Melbourne Water Permit Training, electrical spotter, heavy vehicle operation, TBM operation, working at heights, lifting and rigging, concrete cutting & coring and telehandler and specialist welding plastic.

Contracts completed to which the VIPP applied

The Corporation completed 14 metropolitan contracts to which the VIPP applied. These contracts totalled $149.3M. The outcomes reported by contractors under the VIPP included:

- Local content of 86% of the total value of the contracts.
- 256 full time equivalent jobs
- 14 full time equivalent apprenticeships and traineeships

All committed skills and technology transfers were achieved for these contracts. These include:

- Continued development and training of staff members to better understand specific projects and contracts.
- Use of advanced HDPE welding technology, installation and program control systems, steelwork fabrication and pipeline assembly.
- Training for construction workers and supervising staff where required. Ongoing skill improvement and cross skilling for subcontractors. Learning processes and mentoring for undergraduates. Graduation rotation. Detailed induction processes. Regular weekly site based training.
- Commitments were made to staff training and skills development in general, however no specific programs have been developed for this contract.
- New employees will be trained in Thiess's management systems. They will also be provided with training ranging from contract planning to subcontract administration if applicable to their role. Safety, environmental and quality training will be undertaken for all employees.
- John Holland harnesses innovation in their industries particularly in project delivery methodologies and applying new technologies. Integration of continuous improvement processes into its project management systems. Project personnel will be given the opportunity to learn and apply skills and knowledge developed on previous projects. Have programs in place to facilitate the training of apprentices. Other training programs to be provided will be the Passport to Safety program and industry competency certificate training.
- The contractor will provide training in management systems together with activity specific training. Also subcontractors will be trained in specific areas relating to their engagement.

Implementation of the Victorian Industry Participation Policy (VIPP)

Grants and Design Contracts

For design contracts where project value exceeds the VIPP threshold of $3.0 million, the successful contractor must involve the ICN in the design process. The ICN's involvement ensures that the design where possible does not disadvantage local suppliers. The issue of an interaction reference number (IRN) signifies that this has occurred. For the year ending 30 June 2016 there have been no design contracts over the $3M threshold that required an IRN number

Appendix H – Global Reporting Initiative

The Global Reporting Initiative (GRI) framework provides a comprehensive and objective set of indicators and supporting guidance material to help in the preparation of an organisation's sustainability report. *Melbourne Water's Annual Report contains disclosures from the GRI Sustainability Reporting Guidelines* with an index at Tables H1 to H7.

Melbourne Water has previously reported against GRI, most recently in the 2012-13 Annual Report however this is our first GRI report under the G4 set of guidelines. While previous reporting has provided guidance to our disclosures this year, the release of G4 and the interval between reports has meant that many of our disclosures have been made anew.

Report content was defined through a mixture of extensive, business wide consultation, including with senior management and executives. Melbourne Water is also required to report under a range of regulatory instruments and some of our content reflects these requirements.

Our GRI disclosures in 2015-16 have been undertaken in preparation for full reporting next financial year (2016-17) when our first Communication of Progress under the United Nations Global Compact is due. While we have endeavoured this year to complete a report that is in accordance with the Core requirements of GRI, some disclosures have been delayed to allow appropriate engagement within our business. We have reported these as a "non-disclosure" in our index. We anticipate being in a position to complete an "in accordance" Annual Report in 2016-17.

Unless otherwise specified, aspects are relevant across the entire Melbourne Water organisation and only inside the organisation.

While common practice in previous reports, Melbourne Water has not sought to have this report externally assured this year.

Our last Annual Report was in 2014-15. No restatements of information have been made.

● Full Disclosure
◐ Part Disclosure
○ No Disclosure

H1 General Standard Disclosures

Indicator		Level of Disclosure	Location
G4-1	Provide a statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability.	○	4-7
G4-3	Report the name of the organization.	●	3
G4-4	Report the primary brands, products, and services.	●	3, 10-38
G4-5	Report the location of the organisation's headquarters.	●	Rear cover
G4-6	Report the number of countries where the organization operates.	●	3
G4-7	Report the nature of ownership and legal form.	●	56-57
G4-8	Report the markets served.	●	3, 42-43
G4-9	Report the scale of the organisation including total number of employees, total number of operations, net sales or revenue, total capitalisation broken down for debt and equity, quantity of products or services provided.	●	47, 63-142, 162

Appendix H – Global Reporting Initiative

H1 General Standard Disclosures (continued)

Indicator		Level of Disclosure	Location
G4-10	a. Report the total number of employees by employment contract and gender. b. Report the total number of permanent employees by employment type and gender. c. Report the total workforce by employees and supervised workers and by gender. d. Report the total workforce by region and gender. e. Report whether a substantial portion of the organization's work is performed by workers who are legally recognised as self-employed, or by individuals other than employees or supervised workers including employees and supervised employees of contractors. f. Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries).	●	162-164
G4-11	Report the percentage of total employees covered by collective bargaining agreements.	●	164
G4-12	Describe the organization's supply chain.	●	56
G4-13	Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain.	●	None to report
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization.	●	60
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses.	●	5
G4-16	List memberships of associations and national or international advocacy organizations in which the organization: • Holds a position on the governance body. • Participates in projects or committees. • Provides substantive funding beyond routine membership dues. • Views membership as strategic.	●	153
G4-17	a. List all entities included in the organization's consolidated financial statements or equivalent documents. b. Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report.	●	66
G4-18	a. Explain the process for defining the report content and the Aspect Boundaries. b. Explain how the organization has implemented the Reporting Principles for Defining Report Content.	●	167
G4-19	List all the material Aspects identified in the process for defining report content.	●	167
G4-20	For each material Aspect, report the Aspect Boundary within the organization.	●	167

H1 General Standard Disclosures (continued)

Indicator		Level of Disclosure	Location
G4-21	For each material Aspect, report the Aspect Boundary outside the organization	●	167
G4-22	Report the effect of any restatements of information provided in previous reports and the reasons for such restatements.	●	N/A
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries.	●	N/A
G4-24	Provide a list of stakeholder groups engaged by the organization.	●	19, 21, 22, 56-57
G4-25	Report the basis for identification and selection of stakeholders with whom to engage.	●	
G4-26	Report the organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	●	
G4-27	Report key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns.	●	
G4-28	Reporting period for information provided.	●	Front cover
G4-29	Date of most recent previous report.	●	2014-2015
G4-30	Reporting cycle.	●	Annual
G4-31	Provide the contact point for questions regarding the report or its contents.	●	3
G4-32	a. Report the 'in accordance' option the organization has chosen. b. Report the GRI Content Index for the chosen option. c. Report the reference to the External Assurance Report, if the report has been externally assured.	●	167
G4-33	a. Report the organization's policy and current practice with regard to seeking external assurance for the report. b. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided. c. Report the relationship between the organization and the assurance providers. d. Report whether the highest governance body or senior executives are involved in seeking assurance for the organization's sustainability report.	●	167
G4-34	Report the governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts.	●	56-60
G4-56	Describe the organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	●	56

Appendix H – Global Reporting Initiative

H2 Economic Indicators

Aspect	Parameter	Details	Level of Disclosure	Location
Economic performance	G4-EC1	Direct economic value generated and distributed	●	63-135
Market presence	G4-EC6	Proportion of senior management hired from the local community at significant locations of operation	●	164
Indirect Economic Impacts	G4-EC7	Development and impact of infrastructure investments and services supported	●	9-38
Procurement Practices	G4-EC9	Proportion of spending on local suppliers at significant locations of operations	●	165-166

H3 Environmental Indicators

Aspect	Parameter	Details	Level of Disclosure	Location
Materials	G4-EN1	Materials used by weight or volume	◐	10-14
Energy	G4-EN3	Energy consumption within the organisation	●	37,159
Water	G4-EN8	Total water withdrawal by source	●	10-14
Biodiversity	G4-EN11	Operational sites owned, leased, managed in or adjacent to protected areas and areas of high biodiversity value outside protected areas.	●	34-35
Emissions	G4-EN15	Direct greenhouse gas emissions (Scope 1)	●	37,159
Effluents and waste	G4-EN22	Total water discharge by quality and destination	●	16-18, 26-27, 140-142
Products and services	G4-EN27	Extent of impact mitigation of environmental impacts of products and services	●	9-36, 140-142
Compliance	G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	●	33
Transport	G4-EN30	Significant environmental impacts of transporting products and other goods and materials for the organisation's operations and transporting members of the workforce.	●	159-161
Overall	G4-EN31	Total environmental protection expenditures and investments by type.	●	9-36, 66-135
Supplier environmental assessment	G4-EN32	Percentage of new suppliers that were screened using environmental criteria.	○	-
Environmental grievances mechanisms	G4-EN34	Number of grievances about environmental impacts filed, addressed and resolved through formal grievance mechanisms.	●	160

H4 Social Indicators

Aspect	Parameter	Details	Level of Disclosure	Location
Employment	G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region.	●	163
Labour / management relations	G4-LA4	Minimum notice periods regarding operational changes including whether these are specified in collective agreements.	●	164
Occupational Health and Safety	G4-LA6	Type of injury and rates of injury, occupational diseases, lost days and absenteeism and total number of work related fatalities by region and gender.	●	161
Training and education	G4-LA9	Average hours of training per year per employee by gender and by employee category.	●	163
Diversity and equal opportunity	G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity.	●	58-60, 162
Equal remuneration for women and men	G4-LA13	Ratio of basic salary and remuneration of women to men by employee category by significant locations of operation	●	163
Supplier assessment for labour practices	G4-LA14	Percentage of new suppliers that were screened using labour practices criteria	○	-
Labour practices grievance mechanisms	G4-LA16	Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms	●	164

H5 Human Rights Indicators

Aspect	Parameter	Details	Level of Disclosure	Location
Investment	G4-HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	○	-
Non-discrimination	G4-HR3	Total number of incidents of discrimination and corrective actions taken	●	164
Freedom of association and collective bargaining	G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk and measures taken to support these rights	●	164
Child labour	G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labour and measure taken to contribute to the effective abolition of child labour	●	-

Appendix H – Global Reporting Initiative

H5 Human Rights Indicators (continued)

Aspect	Parameter	Details	Level of Disclosure	Location
Forced or compulsory labour	G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour and measures to contribute to the elimination of all forms of forced or compulsory labour	◐	-
Security practices	G4-HR7	Percentage of security personnel trained in the organisations human rights policies or procedures that are relevant to operations	○	164
Indigenous rights	G4-HR8	Total number of incidents of violations involving rights of indigenous peoples and actions taken	●	164
Assessment	G4-HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	○	-
Supplier human rights assessment	G4-HR10	Percentage of new suppliers that were screened using human rights criteria	○	-
Human rights grievance mechanisms	G4-HR12	Number of grievances about human rights impacts filed, addressed and resolved through formal grievance mechanisms	●	164

H6 Society

Aspect	Parameter	Details	Level of Disclosure	Location
Local communities	G4-SO1	Percentage of operations with implemented local community engagement, impact assessments and development programs	◐	19, 21, 22, 56-57
Anti-corruption	G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	◐	56
Public policy	G4-SO6	Total value of political contributions by country and recipient	●	153
Anti-competitive behaviour	G4-SO7	Total number of legal actions for anti-competitive behaviour antitrust and monopoly practices and their outcomes	●	150
Compliance	G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	●	56
Supplier assessment for impacts on society	G4-SO9	Percentage of new suppliers that were screened using criteria for impacts on society	○	-
Grievance mechanisms for impacts on society	G4-SO11	Number of grievances about impacts on society filed, addressed and resolved through formal grievance mechanisms	○	-

H7 Product Responsibility

Aspect	Parameter	Details	Level of Disclosure	Location
Customer health and safety	G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	●	140-142
Product and service labelling	G4-PR3	Type of product and service information required by the organisations procedures for product and service information and labelling and percentage of significant product and service categories subject to such information requirements	○	-
Marketing communications	G4-PR6	Sale of banned or disputed products	●	9-36
Customer privacy	G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	●	152
Compliance	G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	●	56

Melbourne Water

990 La Trobe Street
Docklands, Victoria 3008

PO Box 4342
Melbourne, Victoria 3001

Telephone 131 722
Fax 03 9679 7499

melbournewater.com.au

VICTORIA State Government

Melbourne Water