

# MELBOURNE WATER

## ANNUAL REPORT 2010/11



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## ABOUT US

Melbourne Water is owned by the Victorian Government. We manage water supply catchments, treat and supply drinking and recycled water, remove and treat most of Melbourne's sewage, and manage waterways and major drainage systems in the Port Phillip and Westernport region.

We consider social, environmental and financial effects and short-term and long-term implications in all our business decisions.

We provide services to customers and our key stakeholders include government, regulators, other water businesses, land developers, suppliers and the community. These customers and stakeholders and our other strategic partners, including alliance colleagues and research organisations, help us achieve our objectives.

## ABOUT THIS REPORT

Melbourne Water's *Annual Report 2010/11* describes our annual progress towards achieving our vision for a sustainable water future for Melbourne, and how we met our regulatory obligations from 1 July 2010 to 30 June 2011. The Honourable Tim Holding, Minister for Water, was the Minister responsible for Melbourne Water from 1 July 2010 until 2 December 2010. The Honourable Peter Walsh, Minister for Water, was the responsible Minister from 2 December 2010 to 30 June 2011.

The report reviews our performance against key performance indicators (KPIs) that meet Ministerial Reporting Directions and against KPIs detailed in our *Corporate Plan*. We also report against sustainability or water industry-based indicators including the *Global Reporting Initiative (GRI): Sustainability Report Guidelines*. The GRI Content Index and our Independent Assurance Statement are available on our website [melbournewater.com.au](http://melbournewater.com.au).

## ONLINE DOCUMENT

As part of Melbourne Water's commitment to sustainability, a limited number of copies of this report will be printed (with 80 designated for the Victorian Parliament). An online version will be available on the Melbourne Water website [melbournewater.com.au](http://melbournewater.com.au).

## ACCESSIBILITY

If you do not have internet access and require a CD of this report or if you would like to receive sections in large print, please contact Melbourne Water on 131 722 in Victoria or (03) 9235 7100 if calling from interstate or email [inquiry@melbournewater.com.au](mailto:inquiry@melbournewater.com.au).

## OUR STRATEGIC GUIDE

Melbourne Water's *Strategic Framework* outlines how we are working to become a more sustainable business. The document guides and informs our decisions towards achieving our vision of 'working together to ensure a sustainable water future'.

Melbourne Water's *Strategic Framework* is available on our website [melbournewater.com.au](http://melbournewater.com.au).



The past year highlights just how crucial flexibility and innovation are to managing water resources on behalf of 4 million people.

A prime example is the Western Treatment Plant. In the April to June quarter, years of ongoing investment and innovation culminated in the generation of enough renewable energy to completely power the treatment plant from biogas produced on-site. As one of Victoria's biggest energy users, this is a tremendous milestone and a prototype of the approach we need to meet future challenges.

  
Shaun Cox  
Managing Director

Over the past 12 months, we have faced a succession of challenges radically different from those that had come to define the water sector nationally. A long period of drought ended with record rainfall and damaging floods, demanding a profoundly altered operational response from Melbourne Water.

Despite a strong focus on 'zero harm' for everyone working at or for Melbourne Water, there were several instances of people being placed in harms way. This is unacceptable and we will continue to improve systems and processes until our zero harm objective is achieved.

This included making the most of higher inflows to our dams, which finished this year 557 billion litres higher than their all time low of 25.6 percent just two years earlier. The level of water security this brought has been very welcome, but we cannot take it for granted.

I would like to recognise the efforts of my predecessor, Rob Skinner, particularly for championing a constructive culture at Melbourne Water that makes it such a high-performing organisation, well-placed to deal with change.

With fresh climate extremes breaking records in 2010/11, the importance of a robust network of water supply, drainage and sewerage infrastructure became even clearer.

In 2010/11, we achieved nothing alone. Partnerships are some of our most important assets and they are the engine room of converting innovation into outcomes. Customers, governments, regulators, suppliers and the broader community are all critical to achieving sustainable outcomes.

Much of the year was spent building more resilience into our system. This included work to upgrade our treatment plants, to integrate new sources of drinking water and to strengthen river health.

These partnerships will become even more crucial in the coming years, as we work to manage our most productive catchment – the city and its suburbs – to create a more sustainable water future for Melbourne.

After an intense building phase that started in 2007/08, many of these projects will be completed during 2011/12. In preparation, our focus shifted towards managing this network of world-class assets in the most efficient way possible, regardless of climate.

# CHAIRMAN'S REPORT



I am pleased to report that 2010/11 has seen valuable progress towards a more secure and sustainable water future for Melbourne.



Eleanor Underwood  
Chairman

Our financial performance was strong. Total returns to our shareholder were \$173.1 million (\$175.9 million in 2009/10). Net profit after tax was \$157.8 million (\$186.4 million in 2009/10), a reduction caused primarily by a significant increase in depreciation due to asset revaluation.

We delivered \$753.1 million of capital works in 2010/11. The improvements – ranging from water supply projects such as replacing old mains and building new pump stations, to major sewerage upgrades – are focused on delivering a more reliable, flexible and efficient service to our customers and improving our ability to meet environmental obligations. The benefits of this will be felt for decades to come.

A new State Government in December 2010 strengthened the focus on integrated water management – that is, incorporating stormwater collection and wastewater recycling into the built form of greater Melbourne as a way to augment traditional supplies. While many recycling and stormwater projects already exist in Melbourne, achieving meaningful volumes requires clear policy drivers, inter-agency coordination and leadership.

To that end, Melbourne Water welcomed formation of the Ministerial Advisory Council for Living Victoria, which is developing a roadmap for a more resilient and smarter water system. Melbourne Water has been pleased to provide extensive input to this process.

The improved rainfall in 2010/11 generated by one of the strongest La Niña events on record, helped dams reach their highest levels since 2006 as work continued on building new infrastructure to deal with future climate uncertainty and strong population growth.

The exceptionally wet conditions also brought the challenge of flooding in February 2011. Many areas experienced a 1-in-500-year rain event that caused significant damage to riverbanks and left a trail of rubbish and debris. Despite the significant workload following the floods, we have in the most part achieved our waterway and drainage Operating Charter targets.

We incorporated a major policy change to the North-South Pipeline. While this asset will remain an important part of Melbourne Water's supply network, the rules around its operation have changed so that it will only be activated in times of critical human need.

March 2011 marked the end of Rob Skinner's six-year term as Melbourne Water Managing Director. Rob led the organisation through some of its biggest challenges – bushfires, drought and record investment in new infrastructure – and built an extremely positive culture in the process. On behalf of all Board members who worked with Rob, I would like to recognise his tremendous contribution and tireless dedication to the organisation.

Also in March we welcomed Shaun Cox as Melbourne Water's new Managing Director. Together with our senior executive team, Shaun is extending our commitment to innovation, efficiency and value for money, as well as strengthening external relationships.

Improving our customer service will be a key focus in 2011/12 and beyond. Being more customer-focused is critical to our ability to provide value, anticipate future needs and deliver the services people want and need. A customer strategy will be developed and implemented in 2012.

In accordance with the *Financial Management Act 1994*, we are pleased to attest that Melbourne Water Corporation's annual report is compliant with all statutory reporting requirements.

# WATER

## STRATEGIC GOALS

- > Provide high quality and reliable drinking water
- > Protect Melbourne's existing water resources through sustainable catchment management practices
- > Secure water supplies for current and future generations by developing new, alternative and diverse water resources
- > Increase water resource efficiency
- > Improve environmental outcomes from all aspects of the business
- > Listen to and engage the community to seek support for our projects and priorities
- > Conserve and improve biodiversity and ecosystems
- > Invest prudently and efficiently, taking account of environmental, social and financial considerations, whole-of-life costs, risks and service needs
- > Operate and maintain our assets efficiently, in accordance with sustainability principles

## KEY ACHIEVEMENTS

- > Completed our construction works ahead of schedule which will enable desalinated water to be received from the Victorian Government's desalinated water plant being built at Wonthaggi
- > Development of a collaborative approach with stakeholders to assess the desalination water order volumes using innovative optimisation techniques
- > Protected water quality at Greenvale Reservoir by collaborating with various agencies to coordinate urban development
- > Increased accuracy of determining bushfire risks in our catchments through research and the latest technology
- > Continued work with key stakeholders and climate researchers to improve business understanding of climate change and variability, including completion of a Climate Change Management Framework

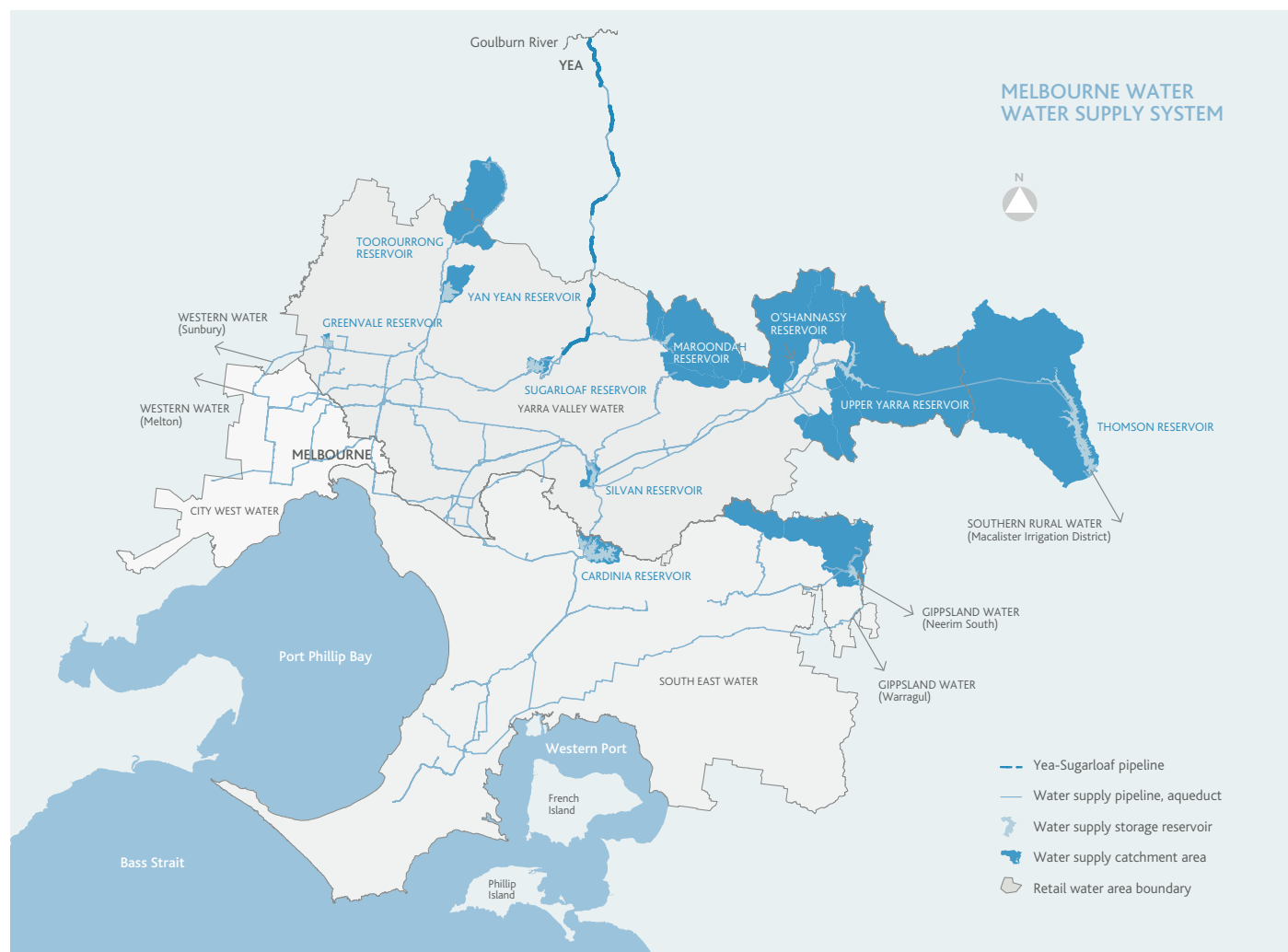
## DISAPPOINTMENTS

- > Failed to meet one annual water quality target due to *E.coli* being detected twice at the Yan Yean clear water storage tank. However there was no impact on customer supplies. In both cases, the problem was identified and the water re-chlorinated before entering the distribution system
- > Failed to meet our target of less than 1% for measurable transfer losses of total water delivered (recording 1.41%), mainly due to higher than average harvesting flows through the aqueduct system

## CHALLENGES

- > Integrating desalinated water into Melbourne's water supply system to ensure customers continue to receive high quality and reliable drinking water
- > Maximising the water from traditional catchments and dams while continuing to develop opportunities from other sources including stormwater and recycled water
- > Working with retail water businesses, local councils and the development industry to generate integrated water management solutions
- > Supporting the Government in delivering its vision of Living Melbourne Living Victoria by working with the retail water businesses to develop a long-term metropolitan *Water Supply Demand Strategy*
- > Working with Government and retail water businesses to review water restriction schedules and to build on lessons learned during the recent long drought to develop appropriate management frameworks for responding to future drought periods
- > Monitoring research into climate patterns and building Melbourne's water supply resilience by diversifying our sources

## Total reservoir storage level at 30 June 2011 was the highest since 19 January 2006



### OUR WATER SUPPLY SYSTEM

Melbourne Water's supply system comprises:

- 157,000 hectares of protected catchments in the Yarra Ranges
- 10 reservoirs with a total capacity of 1,812 billion litres
- 37 water treatment plants
- 1,062 kilometres of water mains
- 214 kilometres of aqueducts
- 65 service reservoirs

### MANAGING DEMAND AND SUPPLY

#### Storages rising

As a result of higher rainfall, our water storages recorded their best year in terms of recovery since the drought began in 1997. Rainfall in the major catchments in 2010/11 was 15% to 41% above average and 14% more than 2009/10.

Rainfall and streamflow in Melbourne's catchments are heavily influenced by climatic variations. During 2010/11, climate conditions were favourable to rainfall over the catchments due to warm tropical waters around northern Australia and the strong La Niña pattern on the Pacific Ocean.

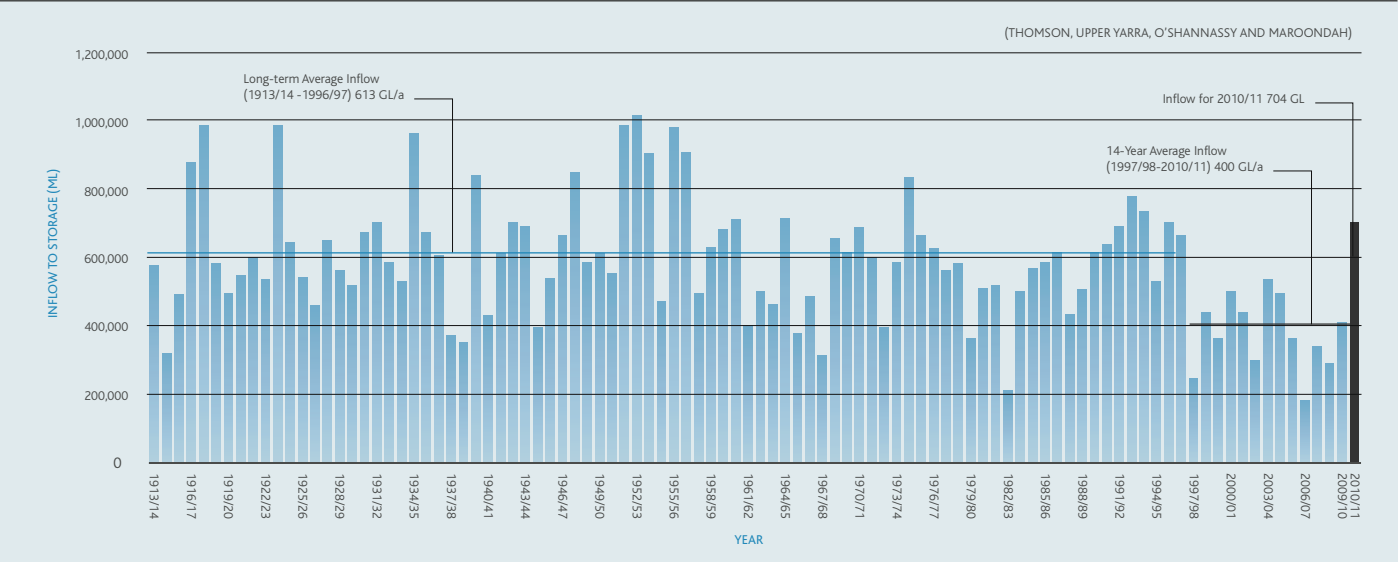
Due to the increased rainfall and wetter catchments, streamflow into the major harvesting reservoirs was 43.1% above the long term average (71% higher than 2009/10) and the highest since 1993/94.

Higher rainfall and streamflow saw storages increase over the 2010/11 summer for the first time since completion of the Thomson Reservoir in 1984. Over the first six months of 2011, storage volumes increased by 2.8% (or 49.2 billion litres) compared to the long-term average for these six months of a decrease of 8.7%, or 156.5 billion litres.

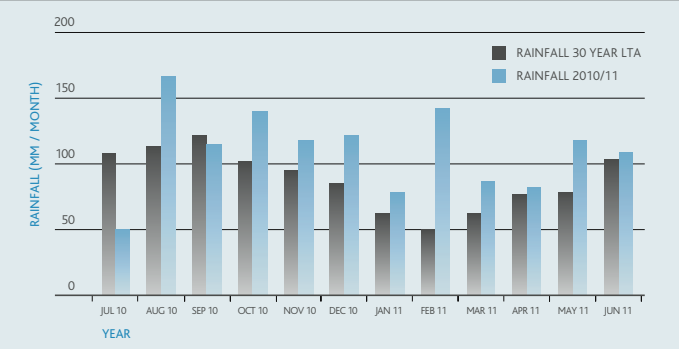
At 30 June 2011, the total reservoir storage level was 55.7% or 1,010.2 billion litres, increasing from 33.7% or 611.4 billion litres at 1 July 2010. Storage levels at 30 June 2011 were the highest since 19 January 2006. The O'Shannassy and Maroondah reservoirs reached capacity for more than 300 days across the financial year.

However, while storages recovered significantly over the past year, total storage volumes are still recovering from years of below average inflows and major droughts in 1997 and 2006.

ANNUAL STREAMFLOW AT MELBOURNE’S MAJOR HARVESTING RESERVOIRS



MONTHLY AVERAGE RAINFALL AT MELBOURNE’S MAJOR HARVESTING RESERVOIRS



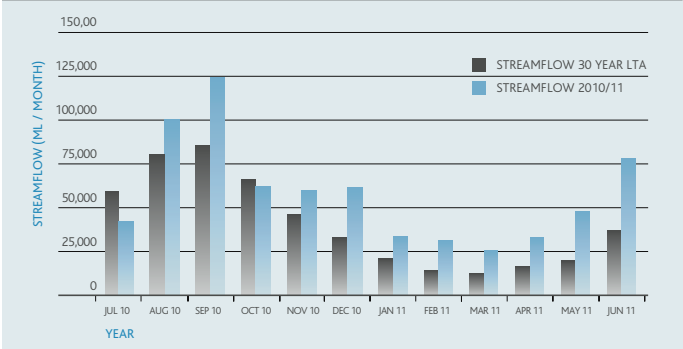
The Thomson Reservoir, which represents about 60% of the total storage capacity available to Melbourne, is the main drought reserve. At the end of the 2010/11 year, Thomson Reservoir was only 41.2% full (440 billion litres). The ability to cope with further severe droughts will depend on the extent of recovery of this reservoir.

As climate variability and change have a significant influence on Melbourne’s storage volumes, Melbourne Water supports an active research program to improve our understanding of climate risks.

Water restrictions

The increase in water supply reserves during the winter/spring of 2010 led to the Government easing Melbourne’s water restrictions. From 1 September 2010, restrictions moved from Stage 3 to Stage 2. This included an increase in the times gardens could be watered and irrigation of all council sporting grounds.

MONTHLY AVERAGE STREAMFLOW AT MELBOURNE’S MAJOR HARVESTING RESERVOIRS



Increased water storages and the easing of restrictions resulted in the full reinstatement of environmental flows for the Yarra and Thomson rivers from October 2010. This equated to annual average increases of 20 billion litres of flows for the Yarra River and 4 billion litres for the Thomson. This was in addition to an estimated 10 billion litres per year of environmental flows that were returned to the Yarra River in July 2010. Environmental entitlements in these rivers had been progressively reduced since March 2007 as part of Melbourne’s drought contingency response to declining reservoir levels.

Consumption at low levels

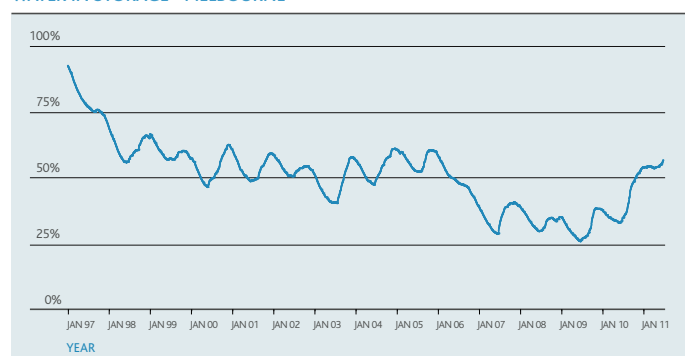
Even with an easing of restrictions, Melburnians continued to conserve water in 2010/11, with average daily consumption of 963 million litres per day (compared to 989 million litres in 2009/10). Water conservation was aided by the wetter summer. Total rainfall for summer was 306 millimetres, almost double the average summer rainfall of 154.9 millimetres.

Residential daily per capita water consumption for Melbourne in 2010/11 was 140 litres compared to 148 litres in 2009/10.

Even with an easing of restrictions, Melburnians continued to conserve water in 2010/11, with average daily consumption of 963 million litres per day (compared to 989 million litres in 2009/10)



WATER IN STORAGE - MELBOURNE



During one week in April 2011, Melbourne households broke a water-saving record, using just 120 litres per person per day.

#### Preparing for desalination

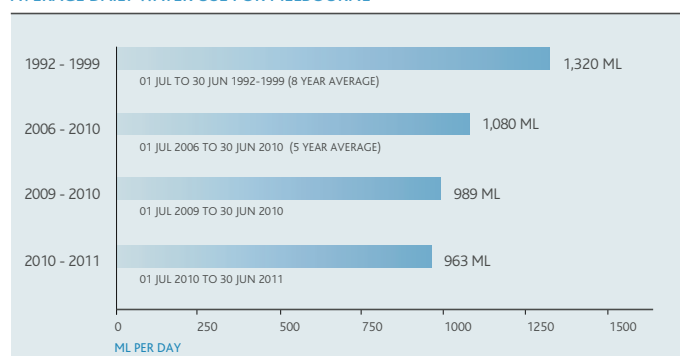
To receive and redistribute desalinated water from the Victorian Government's new desalination plant being built at Wonthaggi, significant works within Melbourne Water's supply network had to be carried out.

These works involved an upgrade to existing water mains, and a new inlet water main and chute to enable desalinated water to be delivered to Cardinia Reservoir for subsequent redistribution to Melbourne's southern suburbs,

Mornington Peninsula and Pakenham areas. A new pump station at Cardinia Reservoir was also constructed to further improve flexibility and security in transferring water throughout Melbourne's water supply network.

The Victorian Government is developing the desalination plant in conjunction with the AquaSure consortium. In June 2011, construction of the plant, pipeline and power supply was 60% complete.

AVERAGE DAILY WATER USE FOR MELBOURNE



The desalination project will enable three regional water authorities to be connected to the Melbourne water supply system. Barwon Water, South Gippsland Water and Westernport Water will be able to increase the security of their supply by accessing the Melbourne system when required. They join Melbourne Water's existing urban customers of City West Water, South East Water, Yarra Valley Water, Western Water and Gippsland Water.

This means that integrating the desalination project into the Melbourne headworks system involves building new institutional arrangements as well as physical assets.

Above: Cardinia Reservoir

Melbourne Water is working with the retail and regional water businesses and the Department of Sustainability and Environment to develop the arrangements needed to support the Government's annual desalinated water order decision.

This process will require sophisticated modelling and analysis to optimise the operation of Melbourne's water supply system.

## ENVIRONMENTAL SUSTAINABILITY

### SUSTAINABLE WATER USE

Melbourne Water is working with the Ministerial Advisory Council for Living Victoria, which is developing a detailed implementation plan on a roadmap for a more sustainable Melbourne.

We support the Government's desire to ensure that water is used more than once wherever possible. Increased utilisation of recycled water and other alternative water sources is vital to achieving a more sustainable city (see Alternative Water Sources chapter, pages 20-24 for detailed information on water recycling initiatives).

### WATER CONSERVATION

#### System losses and repairing leaks

Melbourne Water's target is that measurable transfer losses are less than 1% of total water delivered. This year we failed to meet the target (recording 1.41%), mainly due to a significant increase in losses from the aqueduct system.

Losses from aqueducts increased by about 38% compared to the average of the past three years, mainly due to higher than average harvesting flows.

Conversely, 3,348 million litres of water this year was saved as a result of upgrades and maintenance works completed on the aqueduct systems since 2001/02.

A small proportion of the water losses across the Melbourne Water system were due to flushing the Winneke-Preston main and major water main renewal works, which placed operational constraints on the transfer system. Our pipe repair crews based at Olinda and Healesville fixed 73 leaks on our water mains.

We are continuing to work with Government, the retail water businesses and the broader industry to support water conservation initiatives and have been participating on the Joint Water Conservation Committee and the Water Services Association of Australia (WSAA) Water Conservation Network.

#### Renewing infrastructure

Melbourne Water invested a total of \$45.3M this year in renewing water mains and other water supply assets in the metropolitan area. This included:

- Renewal of the Preston-North Essendon main, which will be completed in August 2011
- Renewal of the North Essendon-Footscray main, which began in February 2011.

#### Asset management research

Melbourne Water is involved in collaborative research projects with the Water Services Association of Australia, Monash University and other organisations to study and develop materials and technologies that will help extend the life of our water mains, reduce the impact of leaks and optimise the timing of asset renewal.

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### WATER SUPPLY DEMAND STRATEGY

The *Water Supply Demand Strategy (WSDS)* is a 50-year strategy to balance the supply of water to meet Melbourne's consumption and environmental, industrial and agricultural water needs.

Initiatives undertaken by Melbourne Water during 2010/11 to achieve the objectives of the current WSDS include:

- Securing Existing River Supplies - The full allocation of environmental flows were progressively returned to the Yarra River and some other rivers (see environmental flows, page 17)
- Reducing Water Leaks and Wastage - An independent review revealed that leakage within the Melbourne Water system is outstandingly low and is better than any other state capital
- Increasing the Use of Local Water Supplies - Melbourne Water has been working with the retail water businesses and local councils to explore more ways of utilising alternative water supplies. For example, Melbourne Water has been working with Yarra Valley Water and Moreland City Council to treat stormwater from two existing drains for use in Coburg.

Melbourne Water has also been collaborating with the retail water businesses to develop a new WSDS taking account of lessons learned since the last strategy was completed in 2006. The new strategy is due to be delivered in early 2012.

### SUSTAINABLE WATER STRATEGIES

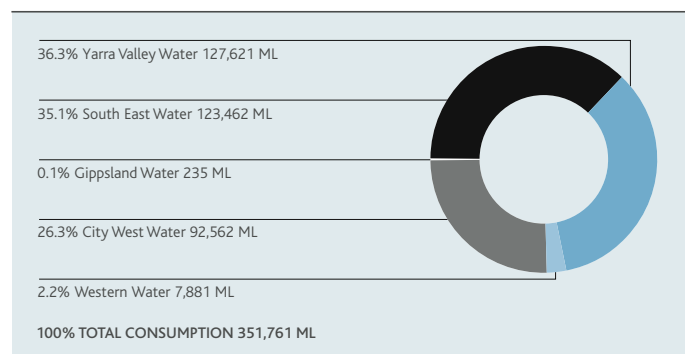
Sustainable water strategies set out to secure water supplies for consumption and environmental purposes over a 50-year period. The *Central Region Sustainable Water Strategy (CRSWS) 2006* set out a series of actions to 2055 to deliver sustainable water use and management objectives.

Melbourne Water has several key and supporting roles and responsibilities that contributed to these objectives during 2010/11, for example, the full allocation of environmental flows to the Yarra, Bunyip and Tarago rivers.

Melbourne Water is exploring local water source opportunities with other metropolitan water authorities and councils. For example, we are investigating the use of aquifers to store alternative sources such as stormwater and recycled water.

This year we supplied 351,761 million litres of drinking water to the retail water businesses. This compares with 361,362 million litres in 2009/10 and 371,170 million litres in 2008/09

#### 2010/2011 RETAIL WATER CONSUMPTION



The objectives of the *Central Region Sustainable Water Strategy* are addressed through the *Water Supply and Demand Strategy* and the *Healthy Waterways Strategy*. The CRSWS is planned to be reviewed in 2012. For further information on Melbourne Water's role in balancing consumption and environmental needs, see the *Alternative Water Sources* chapter pages 20-24; and the *Waterways* chapter pages 15-19.

#### NEW APPROACH TO TREATING RESIDUALS

In October 2010, we commissioned the Winneke Centrifuge Plant upgrade, beginning a new approach to water treatment residuals management in Melbourne.

The Winneke Water Treatment Plant no longer discharges solid waste to sewer, cutting trade waste discharge, solids load on the Eastern Treatment Plant, biosolids production and water loss throughout the Winneke water treatment process. It also enables Melbourne Water to beneficially reuse inert water treatment solids.

The completion of the project is a culmination of several years of work that represents a holistic approach to the water cycle, factoring in the impacts and needs of water supply, sewage transfer and trade waste, wastewater treatment and biosolids management.

#### SUPPLYING HIGH QUALITY WATER

Melbourne Water works closely with the retail water businesses to consistently meet stringent requirements in the distribution of safe, high quality water.

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

This year we supplied 351,761 million litres of drinking water to the retail water businesses. This compares with 361,362 million litres in 2009/10 and 371,170 million litres in 2008/09. The continued reduction is due to the impact of climate conditions (rain, temperature), water restrictions and other conservation initiatives.

#### Performance against water quality targets

Melbourne Water met requirements for turbidity, aluminium and disinfection by-products.

The annual target for *E.coli* was not met due to one site having *E.coli* detected in samples twice during the year, however there was no impact on customer supplies. An isolation valve was found to be leaking a small amount of untreated water into the clear water storage tank from Yan Yean Reservoir. This flow was reversed to prevent water coming from the reservoir, the valve was overhauled and the tank cleaned and spot dosed. Operation of the tank has been altered to lower detention time and the tank spot dosed regularly. The Department of Health was notified in accordance with the *Safe Drinking Water Act* on both occasions. No *E.coli* was detected by the retail water business in zones supplied from this source at these times.

#### Protecting Greenvale Reservoir from inappropriate development

Melbourne Water has worked closely with developers, local councils and the Growth Areas Authority to coordinate urban development north of Greenvale Reservoir.

The reservoir is located in the Hume Growth Area. By undertaking quantitative risk assessments, Melbourne Water has been able to facilitate development without compromising water quality in the reservoir, which supplies drinking water to about 300,000 people.

The efforts of all stakeholders were recognised in the successful amendment of the planning scheme to include a precinct structure plan that incorporates significant controls to protect the reservoir.

#### PROTECTING OUR CATCHMENTS FROM BUSHFIRE

Melbourne Water undertakes research to protect our catchments from bushfire and to ensure that we meet legislative requirements to manage fire hazards on our land.

We use the latest technology to map the type and height of vegetation in our catchments to accurately determine bushfire risks.

Aerial photo imagery, together with LiDAR technology (that uses high-speed laser pulses to generate three-dimensional structural data about terrain), create fuel hazard classifications. These classifications are applied to calculate bushfire hazards, and the results are then verified in the field.

The primary study area was the Sugarloaf catchment and the methodology has since been successfully used on Melbourne Water owned land in Cardinia, Silvan and Kangaroo Ground.

This approach replaces the traditional, time consuming and expensive visual interpretation of aerial photos and also considerably reduces time spent in the field on fuel assessments.

#### OFFICE WATER USE

We met our office water use target this year at our 100 Wellington Parade office with consumption of 6,900 litres per full time equivalent employee per year, compared to our target of 7,700 litres per full time equivalent employee per year and last year's result of 7,500 litres per full time equivalent employee per year.

This data includes water used by this building, particularly for air-conditioning cooling towers. In terms of office space, corporate water use equates to 435.62 litres per square metre.

# SEWERAGE

## STRATEGIC GOALS

- > Deliver safe sewage transfer, treatment and disposal
- > Improve the health and amenity of waterways and marine environments
- > Minimise waste disposal and maximise resource efficiency
- > Improve environmental outcomes from all aspects of the business
- > Listen to and engage the community to seek support for our projects and priorities
- > Conserve and improve biodiversity and ecosystems
- > Invest prudently and efficiently, taking account of environmental, social and financial considerations, whole-of-life costs, risks and service needs
- > Operate and maintain our assets efficiently, in accordance with sustainability principles

## KEY ACHIEVEMENTS

- > Met all environmental compliance obligations at our sewage treatment plants
- > Made good progress on the Eastern Treatment Plant upgrade, which will benefit the marine environment and increase opportunities to recycle water
- > Completed the final tunnel on the Northern Sewerage Project, which is ahead of program and under budget
- > Completed a new sewer across the Yarra River in the heart of the CBD as part of the Melbourne Main Sewer Replacement Project
- > Constructed the Western Trunk Sewer Aqueduct over the Werribee River
- > Led a collaborative review of the regulatory obligations for containing sewage spills

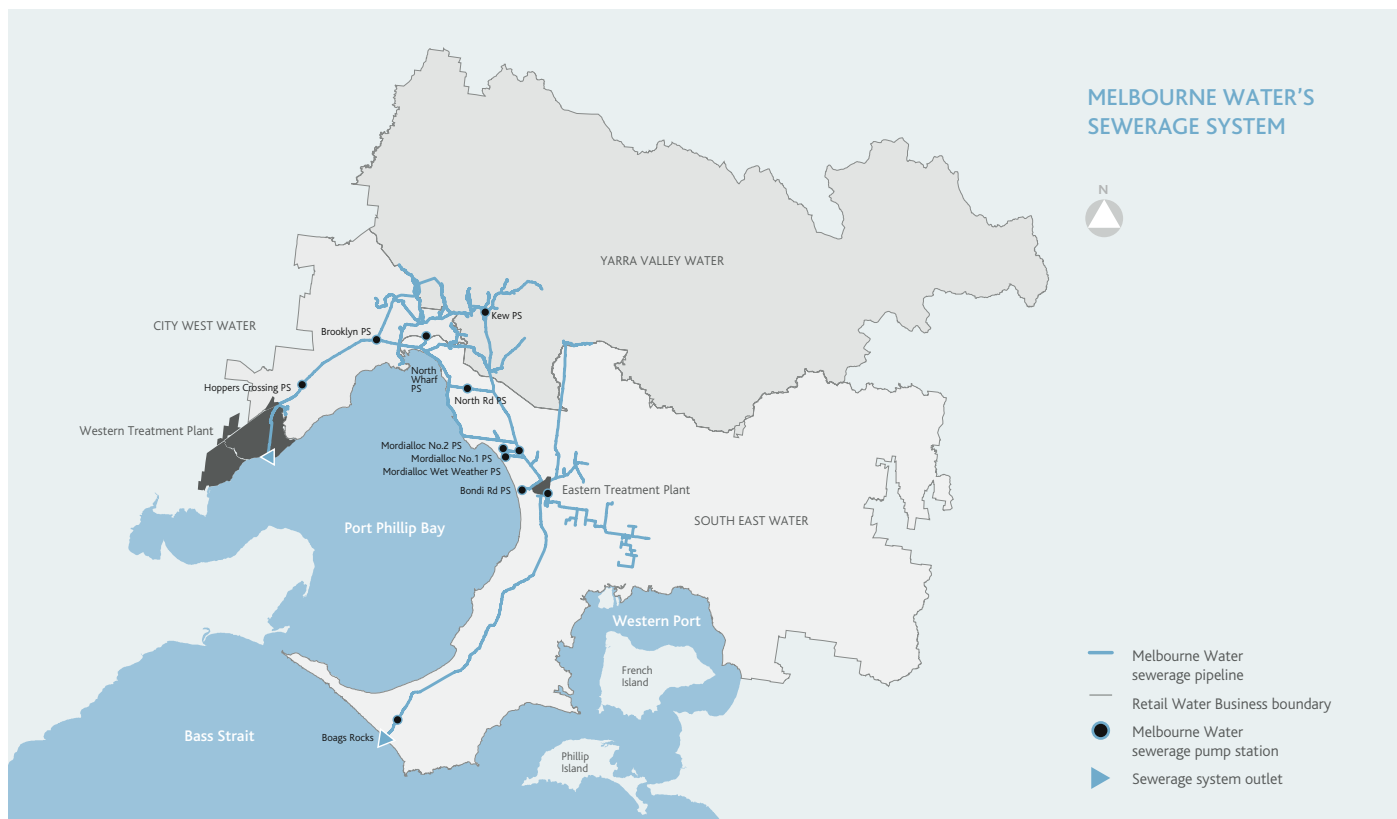
## DISAPPOINTMENTS

- > Failed odour complaints target for second consecutive year
- > Rectification work associated with faults detected in ETP aeration tanks has been slow, with the potential to reduce the plant's efficiency

## CHALLENGES

- > Managing a significant number of wet weather sewage spills
- > Reviewing our *Odour and Corrosion Strategy* to account for issues including the impacts of reduced sewer flows on odour causing compounds
- > Managing the sludge harvest at our sewage treatment plants following a wet summer that reduced the ability to dry out biosolids
- > Ensuring we have the latest information and knowledge about rapidly evolving treatment systems (for example sewer mining plants) designed to recover resources from sewage
- > Ensuring the business is positioned to benefit from markets for resources that can be produced from sewage and biosolids. These markets are developing quickly, driven by changes in carbon pricing, and increasing fuel and food prices

# Melbourne Water treated a total of 325,308 million litres of sewage at the Eastern Treatment Plant and Western Treatment Plant in 2010/11



## OUR SEWERAGE SYSTEM

Melbourne Water's sewerage system consists of:

- 391 kilometres of sewers
- 9 sewage pumping stations
- The Eastern Treatment Plant at Bangholme and the Western Treatment Plant at Werribee

Melbourne Water treated a total of 325,308 million litres of sewage at the Eastern Treatment Plant (ETP) and Western Treatment Plant (WTP) in 2010/11. This was 20% more than 2009/10 due to easing of water restrictions and an increase in rainfall. This total flow is comparable to the volumes experienced in 2004/05, before the recent drought.

About 44% of this sewage was treated at the Eastern Treatment Plant and 56% was treated at the Western Treatment Plant.

## EASTERN TREATMENT PLANT

### Upgrade on track

A major upgrade of the plant began in May 2010 and is progressing well. The upgrade will further reduce the impacts of treated effluent on the marine environment at the Boags Rocks discharge point and produce high quality fit-for-purpose recycled water suitable for a broad range of applications.

Despite site preparation and civil and structural work proceeding during the wettest year since 1997, construction by the Eastern Tertiary Alliance remains on track to be completed by December 2012.

Significant progress has been made on structural works including the ozone generation facilities, biological media filter bays, post ozone contact tank, ultraviolet disinfection building, and the chlorine contact basins. With these structures largely

in place, the project is moving into the critical mechanical and electrical installation phase.

### The benefits of screening

The raw sewage entering ETP is screened to remove gross solids – in particular plastics, rags, sanitary products, etc. Grit is also removed from the process. The objective is to protect downstream equipment and processes from blockages and damage, and to improve efficiency of the plant.

A project in the grit and screenings area to renew ageing assets and increase operational efficiency is nearing completion. The works will result in about 80% of the gross solids being removed through the installation of new band screens. New screenings handling equipment will ensure that almost all of the organic material will be returned to the process for treatment and the production of biogas.

As a result of the project, landfill quantities will be substantially reduced and the screenings will be much cleaner, opening up possibilities for reuse. Biosolids quality will be improved due to lower levels of contamination. The new screen installation also reduces the risk of flooding in the pre-treatment area. The project will be completed in late 2011.

### Keeping the bugs alive

The secondary treatment area for sludge processing at ETP has recently been upgraded to include ammonia reduction. The biological process requires air in order to treat the sewage.

The aeration blowers that provide this air are nearing the end of their useful life. An increase in Melbourne's population over time will see a rising demand for air for the treatment systems at the plant, placing greater demands on the blowers.



As a result, a strategy has been developed to provide the aeration requirements to meet today's demand and enable the plant to meet the forecast growth demands until 2040.

The first project in the strategy involved the construction of a new blower building and installation of two new blowers. Commissioning has begun and the blowers will be operational in the second half of 2011.

## WESTERN TREATMENT PLANT

### Capturing more biogas

The construction of a new biogas cover at the Western Treatment Plant (WTP) will enable more renewable energy to be produced and help to reduce odour. The new cover will be four times the size of the MCG and double the existing area covered across the 55 East Lagoon.

Based on an innovative design, the new lagoon cover forms part of an overall plan to increase biogas capture and production of renewable energy at the plant.

The works will enable the plant to be self-sufficient in its power needs and to export any excess electricity to other Melbourne Water sites, reducing system-wide power costs and our greenhouse gas emissions.

The new cover will further reduce odour and effectively support planned residential and recreational development surrounding the plant. The lagoon cover project is scheduled to be completed in 2012.

### Containing peak flows

Sewage carrier upgrade works to accommodate increases in peak sewage flows during storms are on track for completion in 2011.

The project will increase the plant's wet weather treatment capacity from 1,900 million litres a day to 2,500 million litres a day.

## TRANSFER SYSTEM

### Managing odour

Melbourne Water received 16 odour complaints related to the sewerage transfer system this year. This was four less than 2009/10, but more than our target of 10.

These odour complaints were due to a range of reasons, predominantly ventilation associated with works being undertaken in the sewer network and sewer vents performing as designed. Other causes included sewer gases escaping around or through manhole covers damaged or unsealed by traffic or corrosion, but these were not as prevalent as in previous years due to recent actions to upgrade manhole covers.

Melbourne Water is continuing to investigate the causes of odour complaints as part of our *Odour and Corrosion Strategy*, as well as through our participation in the Australian Research Council's Sewer Corrosion and Odour Research project.

### Odour and Corrosion Strategy

Melbourne Water is reviewing its strategy to manage odour and corrosion in the sewerage system to account for:

- The impacts of reduced sewer flows on odour-causing compounds
- The link between odour and corrosion and the impacts of reduced ventilation in managing odour

*Above: Eastern Treatment Plant upgrade*

- Climate change impacts (for example, increased sewage temperature)
- An increasing trend in odour complaints within the sewerage transfer system
- Increased development near sewer vents.

Melbourne Water is also working closely with other metropolitan water businesses to move to a more structured and integrated approach to corrosion and odour management throughout the sewerage system.

This collaborative work will provide a more consistent approach to corrosion and odour management and associated capital works for sewerage transfer networks, and result in community cost savings.

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The construction of a new biogas cover at the Western Treatment Plant (WTP) will enable more renewable energy to be produced and help to reduce odour. The new cover will be four times the size of the MCG and double the existing area covered across the 55 East Lagoon.

#### Effluent spills

The storms that led to widespread flooding in many parts of Melbourne in 2010/11 put pressure on the city's sewerage network and there was a significant increase in the number of wet weather spills.

Up to 75% of the capacity of sewerage mains is dedicated to handling stormwater that enters the system through cracks and joins in terracotta pipes and through a small number of inappropriate cross-connections with drainage pipes. While usually designed to contain 1-in-5 year storm events (consistent with national standards), some mains were overloaded with stormwater, resulting in 55 wet weather spills during the year.

Twenty-two of the spills occurred in the northern suburbs following storms that were less than 1-in-5 year events, however they were deemed compliant because they happened in parts of the sewerage system where a rectification plan endorsed by EPA Victoria is in place for a known capacity deficiency.

The Northern Sewerage Project will improve sewerage system capacity and virtually eliminate risks of similar spills from all but extreme rainfall events.

Nearly all of the other spills were associated with the significant storms in early February 2011, which dumped almost 200 mm of rainfall across Melbourne. This event exceeded the design standard by such a margin that many Emergency Relief Structures were automatically triggered, and a number of manholes discharged flows. The Emergency Relief Structures released diluted sewage from the mains into some waterways. These structures are designed to reduce hydraulic pressure that would otherwise result in sewage backing up into properties.

The sewage discharged under these circumstances is extremely diluted by stormwater and further diluted when released into waterways, which also flow at much higher levels during storms. However, in Bangholme and Alphington, spills were not flushed away and further diluted by waterway flows, resulting in considerable recovery efforts by Melbourne Water and our maintenance partners.

While the impact on waterway health from these spills is considered quite low, Melbourne Water recognises the importance of community awareness of stormwater pollution and has strengthened its public advice. We are working with the retail water businesses and consulting with EPA Victoria on a network-wide approach that will improve notification of incidents and understanding of risks associated with stormwater pollution.

#### Containing sewage spills in wet weather

Melbourne Water has led a collaborative review of the regulatory obligations for sewage spills containment. The review, involving EPA Victoria and the water industry, found there is no national uniform approach to containing sewage spills.

The review identified that a risk-based approach (taking into account environmental and customer outcomes) may be appropriate depending on whether the receiving environment is more or less sensitive to sewer overflows compared to other sources of pollution.

The review determined investment priorities for sewage containment, and initiated a collaborative project involving a cross-functional team from Melbourne Water, South East Water and Yarra Valley Water.

The project will apply the risk-based approach to the Ringwood South Branch Sewer and identify priorities for managing pollution in the Dandenong Creek, including sewage spills, industrial runoff and urban stormwater.

#### Northern Sewerage Project

The \$650 million Northern Sewerage Project (NSP) is the single largest sewerage tunnelling infrastructure project undertaken by Melbourne Water. Stage 1 is being constructed by Melbourne Water (\$422 million) and Stage 2 by Yarra Valley Water (\$228 million).

Several milestones have been safely achieved this year. In October, a tunnel boring machine finished excavating the project's longest drive (2.9 kilometres) from Brearley Reserve, Pascoe Vale South, to Carr Street, Coburg North.

The project has successfully completed tunnelling under significant pieces of infrastructure, such as CityLink and Coburg Lake, to construct 12.5 kilometres of new sewer beneath 2,500 properties in Melbourne's densely populated northern suburbs.

In June, the project celebrated another significant milestone when the last piece of 2.5 metre diameter glass reinforced plastic sewer pipelining was grouted into position 64 metres under Brearley Reserve.

Also in June, construction of an air treatment facility in Pascoe Vale was completed in readiness for the new sewer system.

The project is now in its final stages with permanent manhole construction and demobilisation works underway at several sites. Landscaping and revegetation will return these sites to their original condition.

The NSP is under budget and ahead of time, with an expected completion date of late 2011.

## Melbourne Water and the retail water businesses have been working together on implementing the Metropolitan Sewerage Review, which is designed to ensure Melbourne's sewerage system can sustainably meet the challenges of the next 50 years



### Replacing the Melbourne Main Sewer

In 2005, Melbourne Water and project partners took on the challenge to replace a section of the century-old Melbourne Main sewer from Port Melbourne to Docklands. The project - involving the construction of more than 2.3 kilometres of new sewer and 1.9 kilometres of local reticulation sewers - will triple sewerage capacity for the city's growing population.

The \$220 million Melbourne Main Sewer Replacement has achieved many key milestones this year. In February, the 140 metre pipeline under the Yarra River was successfully completed. Construction on the river crossing was undertaken in three stages to ensure the Yarra River remained open to users.

In April, tunnel boring machine "Lucy Loo" broke through at the South Wharf site, ending more than 18 months of tunnelling and construction of 2.3 kilometres of new main sewer. The 875 metre northern tunnel drive was a challenging engineering feat, due to soft ground conditions and surrounding infrastructure such as the M1 Freeway.

Works have begun to excavate the sixth and final shaft within the median of Wurundjeri Way. This shaft will be used to connect the new section of the Melbourne Main into the existing sewerage network, which services the CBD and surrounding areas. The project is due for completion in 2012.

### MANAGING BIOSOLIDS

Biosolids are the dried, stabilised matter that remain at the end of the sewage treatment process, and comprise organic and inorganic compounds. Melbourne Water's *Biosolids Strategy* seeks new, sustainable uses for this renewable resource.

Over the past year, we began a third trial of using clay-rich biosolids as geotechnical fill for roads, in consultation with the construction industry. This trial, at ETP, is designed to develop the use of biosolids in large construction projects requiring a stable fill (for example, freeway ramps).

Work has begun on a review of our *Biosolids Strategy* with global market research completed, research proposals identified, and an internal assessment undertaken. Next steps include a public expression of interest

for commercial biosolid reuse proposals.

Melbourne Water has also expanded sampling and analysis of biosolids at WTP as part of a comprehensive quantitative risk assessment and completed a life cycle assessment of biosolid use in an energy recovery process.

### METROPOLITAN SEWERAGE REVIEW

Melbourne Water and the retail water businesses have been working together on implementing the Metropolitan Sewerage Review which is designed to ensure Melbourne's sewerage system can sustainably meet the challenges of the next 50 years.

Actions arising from the review undertaken by Melbourne Water in 2010/11 include:

- Updating Melbourne Water's hydraulic model so that it has the capacity to model sewage quality. The model will be available to support any future analysis of sewer mining plants, as proposed by the Ministerial Advisory Council and the *Water Supply Demand Strategy*. It also offers the potential to improve efficiency in forecasting sewage flows and loads in Melbourne

*Above: Northern Sewerage Project*

- Continuing to improve the integrated sewage quality management system. A significant piece of work was developed to manage the risk of system-wide pollutants and is being trialled. A quantitative risk assessment for recycled water continued, identifying several new pollutants for further investigation
- Completing the first stage of a study into the source of salt in the Hobsons Bay Main. In conjunction with South East Water, Melbourne Water surveyed the sensitivity of customers to salt in recycled water. This information will be used to help manage recycled water quality at our sewage treatment plants
- A study into the production of a fertiliser at ETP. Melbourne Water will develop a business case to further investigate fertiliser production during 2011/12.

# WATERWAYS

## STRATEGIC GOALS

- > Improve the health and amenity of waterways and marine environments
- > Manage flood risk
- > Improve environmental outcomes from all aspects of the business
- > Listen to and engage the community to seek support for our projects and priorities
- > Conserve and improve biodiversity and ecosystems
- > Invest prudently and efficiently, taking account of environmental, social and financial considerations, whole-of-life costs, risks and service needs

## KEY ACHIEVEMENTS

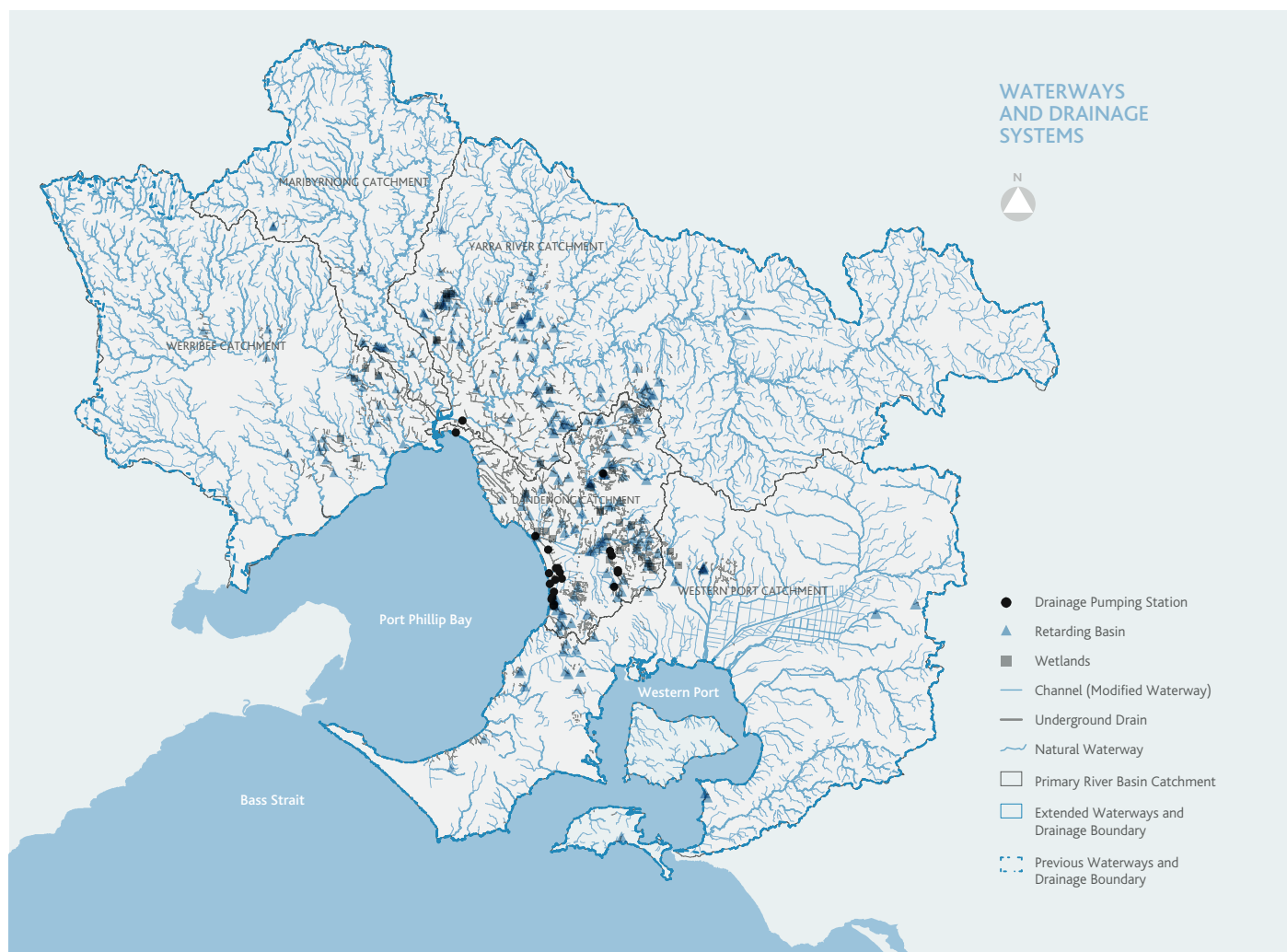
- > Provided an extensive and timely response to February rainfall and subsequent flooding including a major effort to assist people affected and removing more than 2,000 cubic metres of rubbish and debris from Melbourne's waterways
- > Returned full environmental flows to the Yarra River after years of drought
- > Made significant progress implementing our *Flood Management Strategy* including working with councils and emergency services to develop Flood Management Plans
- > Fully met the service standards set out in our Customer Charter for Waterway Diversion Services for the first time
- > Began works to build a new weir and fishway at Dights Falls on the Yarra River
- > Worked with the Growth Areas Authority and local councils to ensure infrastructure in growth areas is in place to provide flood protection, manage stormwater runoff, protect waterways and facilitate water sensitive urban design
- > Implemented safer processes for working in confined spaces such as drains

## DISAPPOINTMENTS

- > The number of property owners directly affected by the February floods
- > Delays to many waterway improvement projects due to the flooding
- > Two notifiable incidents investigated by EPA Victoria on capital projects in relation to the release of potable water with elevated turbidity levels into the stormwater system

## CHALLENGES

- > Managing day-to-day workloads while responding to a significant increase in activity as a result of the February floods
- > Engaging with flood-affected landowners who experienced creek erosion and damage to farm dams across parts of the middle Yarra catchment
- > Constructing major drainage works to minimise flooding in areas with unacceptable risks of incurring significant economic and social costs
- > Managing high workloads associated with land development and the impacts of major infrastructure projects on our assets such as waterway crossings
- > Realising opportunities for better and more integrated management of stormwater to create a more liveable Melbourne



## OUR WATERWAYS AND DRAINAGE SYSTEM

Melbourne Water is the caretaker of river health in the Port Phillip and Westernport region. In this role, we manage:

- 8,400 kilometres of rivers and creeks
- 1,463 kilometres of drains
- 315 constructed waterway treatment systems and wetlands
- 300 monitoring stations on waterways and drains
- 122 urban lakes

We work with many people who look after waterways and the plants and animals that depend on a healthy river environment. These people include local councils, landowners, community groups, developers, farmers, government agencies and research institutions.

## IMPROVING WATER QUALITY

Melbourne Water spent \$4.6 million this year helping local councils implement Water Sensitive Urban Design to improve the health of waterways under the Living Rivers Stormwater Program.

Improvement projects included the Tanderrum Way (main street) extension in Broadmeadows (with Hume City Council); streetscape works within the Little Stringybark Creek catchment in Mt Evelyn; Afton Street wetlands next to the Maribyrnong River at Aberfeldie; and a green roof experiment on the Monash City Council offices in Glen Waverley.

We also worked to improve hotspots of chemical and biological pollution, targeting Victoria Street in Richmond and Bourke Street in the city where waste from food businesses was reduced through focused engagement and education.

## IMPROVING RIVER HEALTH

Melbourne Water invested more than \$17.5 million in streamside works this year to protect and improve river health. These works involved removing and managing weeds across 467 kilometres, revegetating 59 kilometres of land along waterways and stabilising nine sites subject to erosion.

Our River Health Incentives Program provides funds and support for landowners and managers to improve the health of land adjoining waterways. We provided 872 grants this year valued at \$3.61 million (compared to 850 grants valued at \$3.55 million in 2009/10).

# Melbourne Water spent \$4.6 million this year helping local councils implement Water Sensitive Urban Design to improve the health of waterways under the Living Rivers Stormwater Program



Top: Suburban raingarden  
Above: River health works,  
Merri Creek

The Myrniong and Korkuperimul Creeks Biolink Project is an example of one large and successful collaborative effort from this program. The project is developing two north-south biolinks, joining high biodiversity areas – Wombat State Forest and Werribee Gorge – by enhancing native vegetation and faunal habitat along the upper reaches of both creeks.

Melbourne Water is collaborating with the Port Phillip and Westernport Catchment Management Authority, Grow West Implementation Committee and Pentland Hills Landcare Group on the three year project. During this first year, 15 landholders were recruited to deliver six kilometres of revegetation and weed control and plant more than 4,000 plants at a cost of \$105,000.

Under our Stream Frontage Management Program, we provided \$2.49 million to support a record 676 projects on private property, constructing 130 kilometres of fencing along waterways to exclude livestock and planting more than 225,000 native seedlings.

We also funded 137 Community Grant waterway management projects totalling \$636,000 and supported public land managers through 59 Corridors of Green projects totalling \$490,000.

## Investing in research

During 2010/11, Melbourne Water invested more than \$1.5 million on research that helps strategic decision-making in waterway management, as well as increasing the effectiveness and efficiency of our activities.

Areas of research include urban stormwater harvesting and treatment, development of water resource modelling and decision support tools, control of aquatic and riparian weeds, aquatic ecotoxicology and pollution management, wildlife conservation, climate change impacts on waterways, functioning of estuaries and environmental flows.

## ENVIRONMENTAL FLOWS

### Yarra environmental flows

Environmental flows were progressively returned to the Yarra River in 2010 as water storage security increased due to the introduction of new supply projects and good rain over the water supply catchments. The full 37 billion litres a year of environmental water was returned to the Yarra and this will help improve the river's health.

These environmental flows also greatly improve the outlook for vulnerable and important native animals such as Macquarie perch and platypus by providing habitat, increasing food sources (water bugs) and encouraging migration and breeding.

### Werribee River – environmental entitlement

In 2010, the first environmental entitlement was secured in our western catchments in Lake Merrimu which is a reservoir on Pyrites Creek – a tributary of the Werribee River, near Bacchus Marsh. The reservoir is used primarily by Western Water to supply drinking water to the urban communities of Melton and Bacchus Marsh. Southern Rural Water also operates Lake Merrimu to supply water to irrigators in the Werribee Irrigation District.

The environment has been allocated 10% of water that flows into Lake Merrimu. This water can be released from Lake Merrimu Reservoir and can also be re-released from Melton Reservoir to achieve ecological objectives in the lower reach of the Werribee River. This means releases can have a double benefit as we can release in the upper Werribee and recapture the release in Melton Reservoir to use at another time in the lower Werribee reaches.

These environmental flow releases can be used to improve conditions over winter when historically water has been held back to enable irrigation releases in the summer months. The lower Werribee experiences seasonal reversal through higher flows during the summer irrigation season and reduced flows in winter. The entitlement will enable us to address this reversal and improve winter conditions for native fish, macroinvertebrates and platypus.

## RELIEF AT LAST FOR WATERWAY DIVERTERS

Melbourne Water manages about 1900 licensed waterway diversifiers who extract water from the Yarra River, Maribyrnong River, Stony Creek, Kororoit Creek, Laverton Creek and Skeleton Creek catchments. Water is used mainly for agricultural, industrial, commercial and domestic and stock purposes.

In 2010/11, diverters experienced some welcome relief after enduring many years of limited access and bans on drawing water from rivers and streams. Consistent rainfall, even through summer, meant good access to water in all catchments with very few restrictions applied.

Even the normally dry conditions in the western area gave way to some decent river flows and our share of water held in Rosslynne Reservoir in the Maribyrnong catchment increased from just 38 million litres on the 1 July 2010 to 1,585 million litres in June 2011.

However, excessive rain led to widespread flooding and crop losses for some agricultural growers, resulting in overtopping of private dams in February and March and various degrees of dam failure. Melbourne Water employees inspected affected areas and held discussions with dam owners on the actions and works needed to repair their assets and protect local waterways. Melbourne Water continues to liaise with dam owners on many of these cases.

## Legal action

The wetter conditions over the past 12 months have led to less stress on our waterways and fewer demands for water extractions. Consequently, the number of compliance matters being managed by Melbourne Water also fell.

However, a potato farmer in Gembrook was successfully prosecuted in the Dandenong Magistrates' Court in August 2010 for taking water illegally from Cockatoo Creek. The farmer pleaded guilty to taking water in excess of his allocation and was fined \$9,000 and ordered to pay a further \$3,000 in costs.

A number of warning letters were issued to licence holders in 2010, mostly relating to overuse of water allocations.

## Service standards

Melbourne Water fully met the service standards set out in our Customer Charter for Diversion Services for the first year since the charter was developed in 2008. Concerted effort was made to achieve the target for determining applications within the specified time limits. The easing of drought conditions also assisted in achieving this goal.

## Improved monitoring and reporting

Following the success of a pilot program to install automated meter reading equipment on diversion licence holder meters within the Olinda, Stringybark and Steels Dixons Creek catchments, Melbourne Water secured an extra \$400,000 from the Department of Sustainability and Environment to install loggers and equipment on meters within the Woori Yallock Creek and Little Yarra River catchments. An additional 195 loggers were installed between March and June 2011, meaning about half of all Melbourne Water diversion licence meters are now equipped with data loggers.

Benefits apart from compliance include reduced labour costs in meter reading and improved monitoring of consumption demands and trends. The loggers also enable daily water usage information to be available to our customers via a web interface.

## FLOODING RESPONSE

Many parts of Victoria were hit hard by floods this year including much of Melbourne, which recorded its wettest summer on record.

Thankfully, the floods did not result in any loss of life. However, they created significant hardship for private property owners and major challenges for many authorities, including Melbourne Water.

The most severe storms and flooding occurred in early February 2011 with parts of Melbourne experiencing 1-in-500 year rainfall intensity. In addition to significant damage to residential, commercial and industrial properties, the stormwater surge caused extensive structural damage to riverbanks and surrounding infrastructure such as footbridges, paths, and in extreme cases, roads.

Stormwater also pushed a large volume of debris into rivers, including a vast quantity of litter that snagged on tree branches well above the normal water line across many kilometres of urban waterways.

Low-lying parts of the south-east were particularly badly affected. Many farmers in the Koo Wee Rup and Longwarry Flood Protection District, managed by Melbourne Water, were inundated. Subsequent investigations showed the 500 kilometres of drains running through the area performed well under the circumstances, but that no drainage system could have reasonably coped with the rainfall intensity experienced in the area. Importantly, nearby townships avoided significant flood damage.

Drainage infrastructure throughout the metropolitan area was severely tested by rainfall runoff amounts significantly in excess of their design capacity. Melbourne Water's 1,463 kilometre network of drains (in addition to 25,000 kilometres of drains managed by local

councils) performed well under the circumstances, as did our retarding basins and wetlands.

Despite a strong overall performance, the sheer intensity of the storms highlighted numerous areas for improvement in Melbourne's drainage infrastructure. We continue to work closely with local councils on ways to strengthen the system, particularly with climate change research suggesting more intense storms (but less rain overall) in future.

The clean-up from these floods involved months of work for Melbourne Water, including the removal of more than 2,000 cubic metres of rubbish and debris (about 250 truck loads) from waterways.

## Flood Management Strategy

Melbourne Water has made significant progress implementing its *Flood Management Strategy* including engaging local councils and the Victorian State Emergency Service on a program of developing 38 local government Flood Management Plans by 2013. This has involved work with 16 Councils so far, including nine in 2010/11.

We continued to make good progress on the Frankston Drainage Improvement Project, which will reduce the risk of flooding in Frankston's central activity district and help protect significant public infrastructure. Stage one, involving the construction of a 1.5 kilometre stormwater tunnel from Monash University to Kananook Creek, has been completed. More drains are being built in Frankston under Stage two of the project, which is progressing well. Stage three is in detailed design. This is the largest and most complex flood mitigation project undertaken by Melbourne Water with a cost of almost \$70 million.

# Environmental flows were progressively returned to the Yarra River in 2010 as water storage security increased due to the introduction of new supply projects and good rain over the water supply catchments

## Wet weather delays projects

Heavy rainfall during 2010/11 posed significant challenges and delays to project delivery across many sites. These ranged from delays to earthworks and piling works for several days, to suspending works on some sites for weeks.

The delays have affected construction of the Clayton Retarding Basin Wetland and work on the Dights Falls project has been impossible at times due to higher than normal flows in the Yarra River.

## Dights Falls project

Works to build a new weir and fishway at Dights Falls on the Yarra River in Abbotsford began in late 2010. The current weir is at the end of its useful life and is a barrier to the migration of native fish.

Dights Falls is an important Melbourne landmark dating to the early days of European settlement and the new weir's design takes these heritage values into account. Melbourne Water has worked closely with Heritage Victoria, the City of Yarra, the Wurundjeri tribe, river users and environment groups in designing the new weir and fishway.

## Clayton Retarding Basin Wetland

Works to increase the capacity of the Clayton Retarding Basin and construct a new wetland began in 2010 as part of a collaborative effort between Melbourne Water, the Federal Government and the Kingston City Council.

The project will harvest treated stormwater from the new wetland and use it to irrigate street trees, parks and sporting ovals. This is expected to save almost 100 million litres of drinking water a year – roughly the equivalent of 40 Olympic-size swimming pools.

Retarding basins protect against flash flooding by holding back water so that gutters and drains aren't overwhelmed. The works are expected to increase flood protection for more than 100 nearby properties.

## SAFER WORKING IN STORMWATER DRAINS

A near miss which resulted from a sudden and unexpected rise in water level while undertaking a routine inspection of a stormwater drain in 2009/10, has led to the implementation of a safer process for working in confined spaces.

A review of the incident identified several improvements which have been implemented. The changes have led to a greater focus on the likelihood of sudden and unexpected rise in water levels in drains and the improvements have been welcomed by field personnel.

Further discussions have led to the prototype development of an innovative device, which can be placed several hundred metres from the worksite and provide early warning of rising water levels to allow the personnel in the drain to leave the confined space safely.

## GUIDING URBAN GROWTH

### Developer works

Melbourne Water received \$52.8 million (\$44.3 million in 2009/10) in contributions from developers in 2010/11. These contributions are paid to Melbourne Water to fund infrastructure and water quality offset projects identified in development services schemes, and are required to provide a safe level of flood protection in developing areas and to protect the health of waterways.



It was another big year for capital expenditure in developer works, with \$68.8 million spent on 156 construction projects (\$52.5 million for 174 construction projects in 2009/10).

*Top: Flooding at Blackburn Retarding Basin*

*Above: Upgrade of Dights Falls weir on the Yarra River, Abbotsford*

Developers generated an additional \$23.3 million (\$22.0 million in 2009/10) of Melbourne Water assets, bringing the total asset value for the year to \$92.2 million.

We approved and implemented 16 new development services schemes to guide urban development and planning in urban growth areas to the north, west and south-east of Melbourne.

A major focus for the year has been our work with the Growth Areas Authority, local councils and the land development industry to ensure infrastructure is in place in new growth areas of Melbourne to provide flood protection, manage stormwater runoff, protect waterways and facilitate water sensitive urban design.

There have also been significant commitments made to meeting the requirements for having land ready for development and in managing the impacts of major infrastructure projects on our assets. These include the desalination pipeline - with 85 waterway crossings, and Peninsula Link road project - with 27 waterway crossings.

# ALTERNATIVE WATER SOURCES

## STRATEGIC GOALS

- > Secure water supplies for current and future generations by developing new, alternative and diverse water resources
- > Supply fit-for-purpose and reliable recycled water
- > Improve environmental outcomes from all aspects of the business
- > Listen to and engage the community to seek support for our projects and priorities
- > Conserve and improve biodiversity and ecosystems
- > Invest prudently and efficiently, taking account of environmental, social and financial considerations, whole-of-life costs, risks and service needs
- > Operate and maintain our assets efficiently, in accordance with sustainability principles

## KEY ACHIEVEMENTS

- > Partnered with City West Water to conduct a trial on managed aquifer recharge
- > The WTP Recycled Water Quality Management System was recertified against internationally recognised standards
- > Developed and implemented internet-based urban stormwater harvesting guidelines

## DISAPPOINTMENTS

- > The volume of water recycled was low (8.3%) in 2010/11 due to high rainfall leading to reduced recycled water demand
- > Compliance with retail requirements for reliability and quality of recycled water from ETP and WTP were not met mainly due to wet weather affecting reliability of supply and turbidity

## CHALLENGES

- > Integrating all sources of water to diversify supply, improve climate resilience and promote fit-for-purpose use to keep potable quality water for drinking
- > Supporting the Ministerial Advisory Council and Government objectives to enhance Melbourne as a liveable, healthy and prosperous city
- > Managing recycled water salinity in the west of Melbourne
- > Managing adverse impacts on the recycled water supply system from large storm events

# Melbourne Water is working with local councils and the retail water businesses to deliver stormwater harvesting projects for residential and open space end uses

## BENEFITS FOR COMMUNITIES, INDUSTRY, AGRICULTURE AND THE ENVIRONMENT

Alternative water sources include stormwater, recycled water and sewage. Managed aquifer recharge can be utilised to store water from alternative sources.

Drinking quality water makes up less than one-third of Melbourne's total water demand. The Department of Health requires that drinking water quality must be used for indoor taps, showers and selected industrial uses.

A lower quality of water can be used for toilet flushing, laundry use, domestic gardens, parks and gardens, some environmental purposes, industry and peri-urban agriculture. A fit-for-purpose approach to meeting demand enables Melbourne to preserve finite high quality water for specific uses.

There are multiple direct and indirect benefits associated with developing alternative water sources and increasing fit-for-purpose water use including:

- Community – healthy open spaces and sports fields, a reduced urban heat island effect and improving the resilience of the water supply system to climate change and variability
- Economic – opportunities for growth especially in industry and agriculture
- Environment – increasing the amount of water available for environmental flows, and reducing harmful discharges such as stormwater and treated wastewater.

Melbourne Water is working with local councils and the retail water businesses to deliver stormwater harvesting projects for residential and open space end uses.

We are also working with City West Water, Southern Rural Water, South East Water, and the Water Infrastructure Group to provide customers with recycled water produced at our sewage treatment plants. The fit-for-purpose recycled water is used for open space irrigation, agriculture, industry and for residential dual pipe schemes.

## STORMWATER HARVESTING

Under the *Water Act 1989*, Melbourne Water is delegated responsibility for the licensing of surface water from waterways and from its own works, which includes the requirement to licence stormwater.

There are currently 12 active stormwater licences issued by Melbourne Water, predominantly to councils and sports clubs, totalling 608 million litres.

Melbourne Water continues to work with local councils on stormwater projects such as the Clayton South Retarding Basin project (see page 19).

We have been working with Manningham City Council and Yarra Valley Water to service the Doncaster Hill Principal Activity Centre. This development will integrate reticulated stormwater and recycled water into the existing urban setting. Melbourne Water is also partnering with South East Water and VicUrban on the Troupes Creek development to deliver third pipe systems for stormwater.

Melbourne Water, Yarra Valley Water and Moreland City Council are working together to treat stormwater from two existing drains to service the Central Coburg precinct and surrounds.

Melbourne Water, Western Water, Southern Rural Water, Melton Council and land developers have worked together to develop the Toolern Precinct Structure Plan at Melton South, which is part of an Integrated Water Management



Plan prepared by the Growth Areas Authority. Stormwater will be captured, then filtered through Melbourne Water's wetlands and transferred to storages (including Melton Reservoir) for environmental, agricultural and community uses.

Melbourne Water, South East Water and Southern Rural Water are developing an *Integrated Water Management Strategy* to guide investment in projects in the south east. Opportunities that contribute to the vision of a 'Productive, Liveable and Sustainable' region in 2050 are being identified in collaboration with local councils. The strategy will be completed in late 2011.

## MANAGED AQUIFER RECHARGE

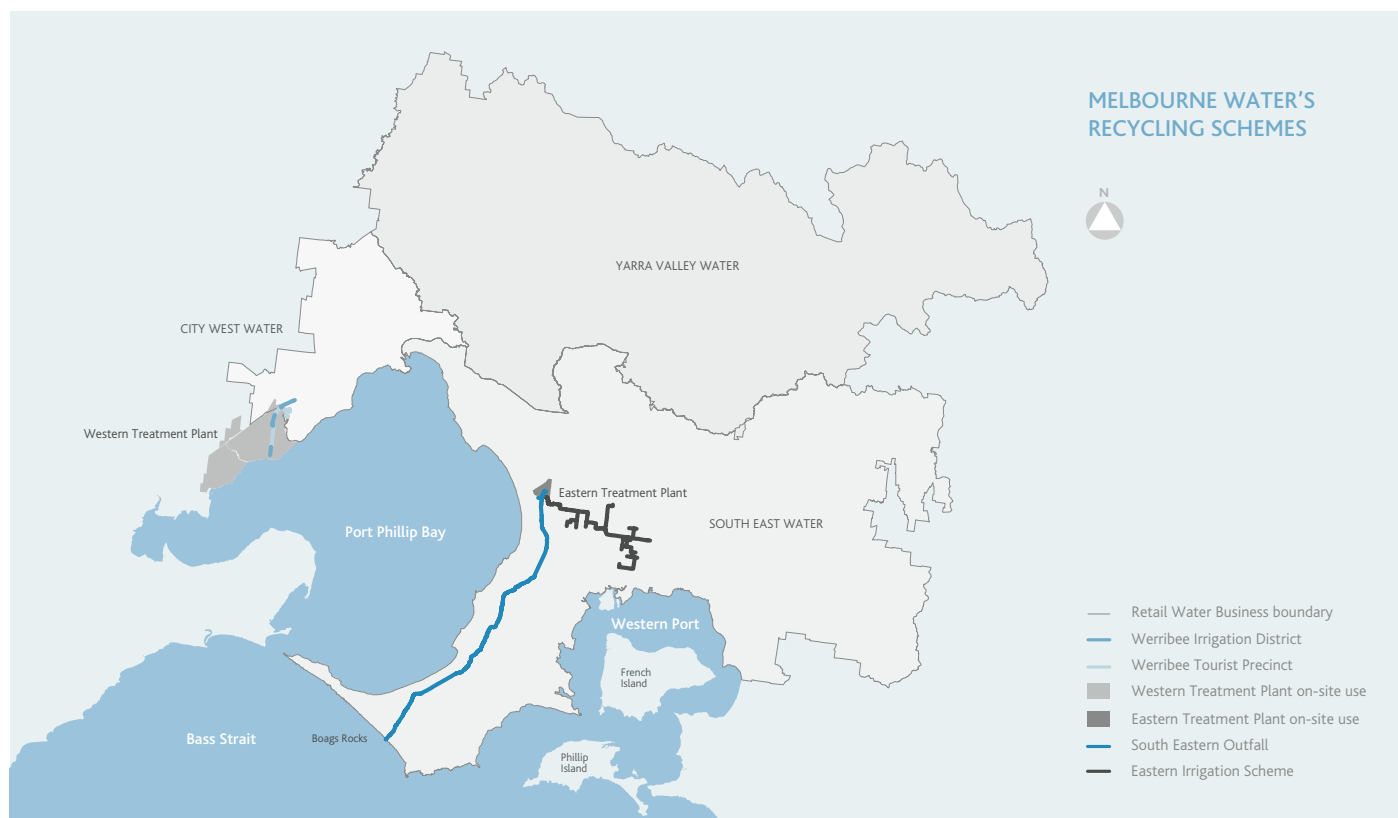
Managed aquifer recharge is the actively managed recharge of water to aquifers for subsequent recovery and use, or environmental benefit. It creates storage by utilising aquifers to store excess water during times of surplus to meet future demand. Deposits are made in times of surplus (commonly during winter) and extraction of the stored water occurs during peak demand times when traditional supplies struggle to meet demand (summer).

Above: Police Road Retarding Basin, Dandenong Creek, Rowville

Multi-year balancing is also possible for long term-storage. Typically, managed aquifer recharge involves the capture and use of treated stormwater or recycled water to recharge an aquifer for future recovery and use.

Managed aquifer recharge is proposed as a key component of City West Water's West Werribee Dual Pipe Scheme. To enhance the efficiency of the project by operating the WTP salt reduction plant at full capacity throughout the year, the potential of managed aquifer recharge is being investigated as an option to store excess salt-reduced recycled water. This will balance short-term seasonal demands as well as ensuring security of supply for the coming decades. Melbourne Water is continuing to partner with City West Water on the West Werribee Aquifer Storage and Recovery trial. The most recent phase includes documentation and planning, extended trial and analysis and functional design.

# ALTERNATIVE WATER SOURCES



In 2010/11, City West Water and Melbourne Water:

- Collaboratively developed the scope for Phase two of the trial, which included investigating storage for recycled water and stormwater
- Consulted with stakeholders and regulators on a draft risk management plan
- Submitted the risk management plan to Southern Rural Water for approval to conduct a long-term trial and a functional scheme
- Melbourne Water also began investigations into managed aquifer recharge opportunities at our sewage treatment plants.

## RECYCLED WATER

### Managing water quality and reliability of supply

Recycled water quality was maintained at the Eastern and Western Treatment Plants this year through quality management systems and supply frameworks, consistent with EPA Victoria guidelines.

Melbourne Water has continued to work with the retail water businesses to reduce salt discharges to sewer and is reviewing the salinity reduction strategy with the aim of providing fit-for-purpose recycled water for customers. A review was considered timely due to changing circumstances such as easing of drought conditions, possible impacts from the City West Water salt reduction plant and construction of the Victorian Government's desalination plant at Wonthaggi.

The objective of the salt reduction strategy review is to fill gaps in knowledge and determine the lowest community cost options for salt management. This will be informed by salt sensitivity analysis to establish impacts of salinity and sodicity from recycled water and the cost for its management, and an infiltration study to investigate and identify sources of salt infiltration into the Hobson's Bay Main sewer catchment. An engagement plan has been developed and will be used to identify and incorporate stakeholder views in the revised strategy.

A duplicate Class C pipeline at the Western Treatment Plant is being constructed to increase the flexibility of the plant's recycled water system, and ensure a more reliable supply can be maintained to customers. The pipeline is due to be operational by 2012.

Algal blooms can occur in the treatment lagoons at WTP in summer when increased sunlight and warmer weather coincide with high nutrient concentrations and lower flows.

Research initiatives associated with blue-green algal blooms were undertaken in 2010/11 to reduce the risk of algal blooms impacting on the availability of recycled water. These include:

- Further refining the use of field test-kits that provide rapid indication of blue-green algal toxin levels in Class A recycled water
- Establishing the effectiveness of chlorination for destruction of the blue-green algal toxin, Microcystin
- Assessing the sensitivity of an on-line meter for detection of the proliferation of blue-green algae
- Evaluating the effectiveness of ultrasonic destroyers for blue-green algal control

# Melbourne Water has continued to work with the retail water businesses to reduce salt discharges to sewer and is reviewing the *Salinity Reduction Strategy* with the aim of providing fit-for-purpose recycled water for customers



*Above: Recycled water being used on a golf course*

- Developing rapid molecular tools to determine the percentage of the blue-green algae with toxin genes.

## Water recycling west of Melbourne

The Western Treatment Plant supplied 11,249 million litres of recycled water to customers in 2010/11 (37,122 million litres last year). This comprises 9,328 million litres of recycled water used onsite (24,337 million litres last year), mostly Class C water for pasture irrigation and land and salinity management, and 1,921 million litres of Class A recycled water supplied to Southern Rural Water and City West Water for offsite customers (12,785 million litres last year).

In addition, 18,723 million litres was provided for conservation purposes in the Ramsar-listed wetlands (17,199 million litres last year). Including the conservation flow, 13.9% of Melbourne Water's treated wastewater was recycled.

## Supply to Southern Rural Water

Southern Rural Water was Melbourne Water's largest Class A recycled water customer, with 1,789 million litres supplied (12,483 million litres last year).

Of this total, 1,746 million litres was supplied for growers in the Werribee Irrigation District (12,381 million litres last year) and 43 million litres for customers in the Werribee Tourist Precinct (102 million litres last year).

## Supply to City West Water

Melbourne Water supplied 132 million litres of Class A recycled water to City West Water (303 million litres last year) for the Werribee Employment Precinct, MacKillop College and standpipes for water carters.

In the Werribee Employment Precinct, recycled water is used by City West Water commercial customers for wash-down, industrial processes at Melbourne Water's Hoppers Crossing Pump Station and open space irrigation. During the year, 94 million litres was supplied to City West Water for this precinct (138 million litres last year).

City West Water was supplied with 16 million litres of recycled water for MacKillop College (38 million litres last year).

Water carters were supplied with 22 million litres of recycled water from City West Water standpipes at WTP (127 million litres last year) for a range of applications.

## Water recycling east of Melbourne

The Eastern Treatment Plant at Bangholme currently produces Class C recycled water. This year 16,741 million litres of recycled water (20,496 million litres in 2009/10) was supplied from ETP, including 14,597 million litres onsite (14,179 million litres last year).

Work has continued on the upgrade of the plant (see Sewerage, page 11). The upgrade will improve the quality of recycled water and enable a broad range of non-drinking applications including toilet flushing, watering sports grounds and irrigating vegetables. Melbourne Water is working with South East Water and Southern Rural Water to investigate opportunities for new recycled water projects, including the Bunyip Food Belt, once the upgrade is complete in late 2012.

## Supply to Water Infrastructure Group

Melbourne Water supplied 1,666 million litres of Class C recycled water (5,182 million litres last year) to the Water Infrastructure Group. This was supplied for treatment to Class A recycled water for use in the Eastern Irrigation Scheme.

The Eastern Irrigation Scheme operates under the brand TopAq, a wholly owned subsidiary of Water Infrastructure Group. TopAq distributes the recycled water to more than 80 customers for horticulture, open space irrigation and industrial processes.

TopAq also supplies South East Water with the recycled water for dual pipe schemes in residential developments where the water is used for toilet flushing, garden watering, streetscape and open space irrigation.

## Supply to South East Water

Melbourne Water supplied 478 million litres of Class C recycled water to South East Water via the South Eastern Outfall pipeline (1,135 million litres last year).

The pipeline transports recycled water from ETP and smaller South East Water treatment plants to Boags Rocks on the Mornington Peninsula.

South East Water customers along the pipeline use this recycled water for agricultural and horticultural activities, root crop irrigation, flower growing and drip irrigation of vineyards, and for watering golf courses and sports grounds. There are now 53 customers using recycled water from the South Eastern Outfall (50 last year).

# Melbourne Water is working with South East Water and Southern Rural Water to investigate opportunities for new recycled water projects, including the Bunyip Food Belt

## RECYCLED WATER VOLUMES

	Actual 2009/10		Actual 2010/11		Forecast 2010/11	
	ML	%*	ML	%*	ML	%*
<b>WESTERN TREATMENT PLANT</b>						
Onsite recycling	24,337	9.0	9,328	2.8	30,000	10.9
Supply to Southern Rural Water						
Werribee Irrigation District	12,381	4.6	1,746	0.5	10,650	3.9
Werribee Tourist Precinct	102	0.0	43	0.0	200	0.1
Supply to City West Water						
West Werribee Dual Pipe Project	0	0.0	0	0.0	0	0.0
Werribee Employment Precinct	138	0.1	94	0.0	360	0.1
MacKillop College	38	0.0	16	0.0	50	0.0
Water tankers / standpipes	127	0.0	22	0.0	200	0.1
<b>WTP Total</b>	<b>37,122</b>	<b>13.7</b>	<b>11,249</b>	<b>3.4</b>	<b>41,460</b>	<b>15.1</b>
<b>EASTERN TREATMENT PLANT</b>						
Onsite recycling	14,179	5.2	14,597	4.3	13,800	5.0
Supply to Water Infrastructure Group						
Eastern Irrigation Scheme	5,182	1.9	1,666	0.5	5,000	1.8
Supply to South East Water						
South Eastern Outfall	1,135	0.4	478	0.1	1,600	0.6
<b>ETP Total</b>	<b>20,496</b>	<b>7.6</b>	<b>16,741</b>	<b>5.0</b>	<b>20,400</b>	<b>7.4</b>
<b>TOTAL RECYCLED</b>	<b>57,618</b>	<b>21.3</b>	<b>27,990</b>	<b>8.3</b>	<b>61,860</b>	<b>22.5</b>
Treated wastewater available for recycling	271,108		335,764			
Conservation flows at WTP	17,199	6.3	18,723	5.6		
<b>TOTAL INCL. CONSERVATION FLOW</b>	<b>74,817</b>	<b>27.6</b>	<b>46,713</b>	<b>13.9</b>		

\* Refers to percentage of treated wastewater produced at Melbourne Water's treatment plants  
ML = million litres

# PROTECTING OUR NATURAL ENVIRONMENT

## STRATEGIC GOALS

- > Improve environmental outcomes from all aspects of our business
- > Respond to climate change through mitigation and adaptation measures
- > Improve the health and amenity of waterways and marine environments
- > Conserve and improve biodiversity and ecosystems
- > Minimise waste disposal and maximise resource efficiency
- > Invest prudently and efficiently, taking account of environmental, social and financial considerations, whole-of-life costs, risks and service needs
- > Operate and maintain our assets efficiently, in accordance with sustainability principles

## KEY ACHIEVEMENTS

- > Increased electricity generation at the Western Treatment Plant to a 100% self sufficiency level in the last quarter of the year
- > Developed a standard operating procedure for estimating our greenhouse gas emissions in accordance with the National Greenhouse and Energy Reporting System (NGERS)
- > Began investigating opportunities for algae grown in wastewater to generate energy and recover nutrients
- > Won a clean technology award at the 2010 Banksia Environmental Awards for mini hydro-electricity plants constructed at Melbourne Water reservoirs
- > Ranked top of a global sustainability benchmarking study
- > Developed a strategy outlining plans to reduce our reliance on disposing waste to landfill
- > Integrated all climate change risks and adaptation actions into our Risk Management Framework

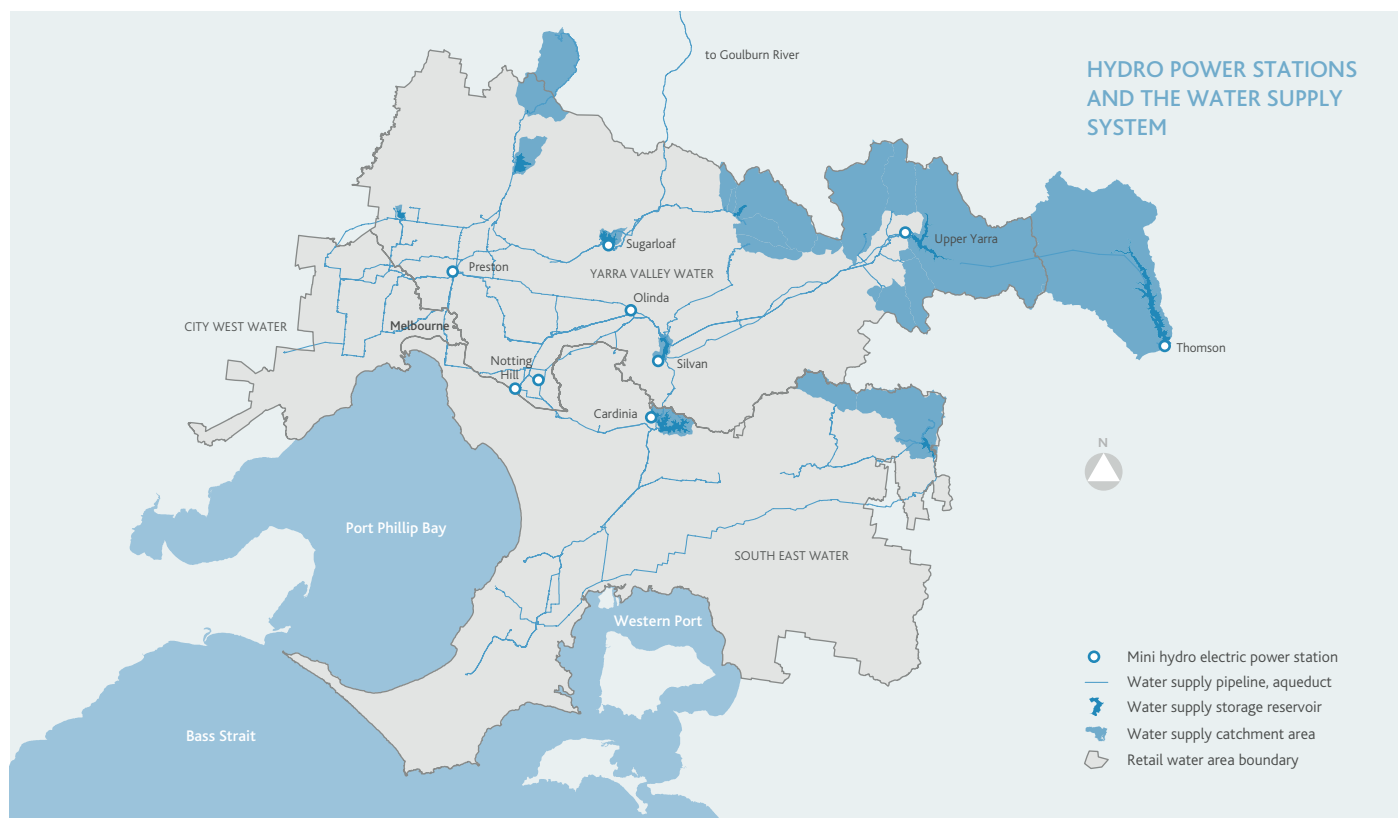
## DISAPPOINTMENTS

- > Did not progress investigations into greenhouse gas emissions at our sewage treatment plants as rapidly as anticipated
- > Did not progress investigations into a replacement Greenhouse and Energy Data Management System as quickly as anticipated

## CHALLENGES

- > Incorporating our 2018 renewable energy and greenhouse emission targets into the next Water Plan
- > Continuing to improve system methodologies to more accurately measure emissions from our sewage treatment plants
- > Minimising waste volumes and converting waste to valuable resources
- > Improving biodiversity and ensuring it continues to be protected and conserved on land and waterways managed by Melbourne Water

# PROTECTING OUR NATURAL ENVIRONMENT



## OUR COMMITMENT

Melbourne Water is committed to protecting, conserving and improving natural assets and using natural resources sustainably. *Our Environment Policy* specifies actions and outcomes to achieve maximum net environmental benefits to society and to promote sustainable resource management and use.

We have an Environmental Management System certified to the International Standard ISO 14001, which establishes management requirements to protect the environment, prevent pollution and improve environmental performance.

We also use our Stakeholder, Environment and Public Health Assessment process and triple bottom line guidelines to help assess and plan for potential impacts on the environment from

our activities, while balancing benefits to the community and meeting efficiency requirements for public spending.

## MANAGING CLIMATE CHANGE AND VARIABILITY CHALLENGES

Climate change is a significant challenge for Melbourne Water, influencing our efforts to protect the natural environment and posing a critical impact on our water supply, sewerage, waterways and drainage assets, operation and strategic planning.

Climate change projections for south-east Australia indicate increased temperature and evaporation, reduced annual rainfall, increased rainfall intensity during storms, increased risk of bushfires in Melbourne's water supply catchments and a rise in sea levels.

## Adaptation measures

In the past year, Melbourne Water has focused on three key areas in climate change adaptation: risk management, research and stakeholder engagement.

All climate change risks and adaptation actions have been integrated into Melbourne Water's Risk Management Framework. Key climate change risks have been identified and adaptation actions have been initiated or planned across the business.

We are continuing to engage in and support collaborative research initiatives in partnership with institutions including the CSIRO, the Bureau of Meteorology, universities and major government and industry partners. The aim of this research is to:

- Improve our understanding of past, current and future hydro-climate conditions

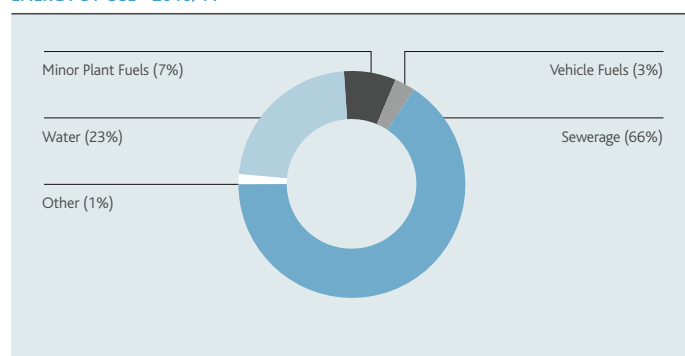
- Establish regionally relevant scientific information for use in conducting modelling, analysis, impact assessments and in developing adaptation actions.

Melbourne Water worked with the Water Services Association of Australia in planning and carrying out a national climate change adaptation workshop. We are engaging with stakeholders including the Department of Sustainability and Environment in developing the climate change scenarios for the *Water Supply Demand Strategy*.

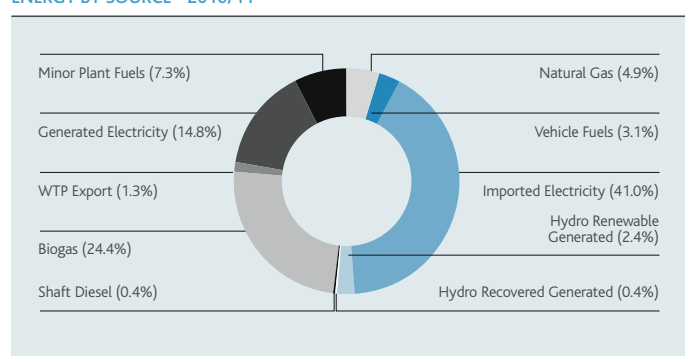
We also instigated the Melbourne Water Industry Climate Change Committee which consists of key employees from our business and the retail water businesses. We have and will continue to meet to discuss key adaptation and mitigation challenges facing our industry.

# In the past year, Melbourne Water has focused on three key areas in climate change adaptation: risk management, research and stakeholder engagement

ENERGY BY USE - 2010/11



ENERGY BY SOURCE - 2010/11



## ENERGY AND GREENHOUSE GAS MANAGEMENT

Melbourne Water's management of climate change includes a mitigation strategy. As a business, we have committed to actively managing our own contribution to greenhouse gas emissions by establishing a target to reduce net greenhouse gas emissions to zero and increase the use or export of renewable energy to 100% of total energy used by 2018.

We completed a comprehensive *Greenhouse and Renewable Energy Strategy* in 2008/09 to identify how these targets could be met most efficiently.

### Our performance

Melbourne Water uses significant amounts of energy to deliver water and sewerage services to its customers and the community. We are among the top 15 electricity users in Victoria and the top 150 in Australia.

In 2010/11, we used 1.602 million gigajoules of energy, 1.638 million gigajoules in 2009/10, (reduction due to changed biogas measurement methodologies at ETP), and emitted total net greenhouse gas emissions including:

Water treatment and pumping	123,750 tCO <sub>2</sub> e
Wastewater treatment	307,726 tCO <sub>2</sub> e
Transport	4,138 tCO <sub>2</sub> e
Other Energy use (Inc. Offices)	15,421 tCO <sub>2</sub> e
Offsets purchased	79,275 tCO <sub>2</sub> e

Melbourne Water spent \$23.1 million this year on energy compared with \$20.2 million in 2009/10.

## Greenhouse gas emissions

Melbourne Water achieved a 48.7% reduction in greenhouse gas emissions this year compared with 2000/01 emissions, exceeding the 42% target.

Emissions during the year totaled 371,760 tonnes of carbon dioxide equivalent. This included the purchased renewable energy certificates used to achieve the renewable energy target, using our own renewable energy and offsetting emissions from office energy use (4,296 tCO<sub>2</sub>e), vehicle fuels (3,767 tCO<sub>2</sub>e) and air travel (280 tCO<sub>2</sub>e) by employees.

## National Greenhouse and Energy Reporting System

We report to the Federal Department of Climate Change and Energy Efficiency under the National Greenhouse and Energy Reporting System (NGERS). Under NGERS methodologies, Melbourne Water emitted 390,000 tonnes of carbon dioxide equivalent in 2008/09 and 420,000 tonnes last year. Our preliminary estimation of 2010/11 emissions is 451,035 tonnes of carbon dioxide equivalent.

Discussions with the Department of Climate Change, through the Water Services Association of Australia, continued this year to support development of system methodologies that more accurately represent emissions from our sewage treatment plants.

### Securing renewable sources

Power company AGL is supplying Melbourne Water with renewable electricity under a 20 year contract which began in July 2010. This will help to achieve our goal of zero net greenhouse emissions by 2018 through the use of 100% renewable energy.

AGL is also Melbourne Water's power provider at the Western Treatment Plant and operates a biogas-fuelled generation facility there. The 10-megawatt facility supplied 86% of the plant's annual electricity needs over the past year, including net electricity export in April, May and June 2011.

Our use and generation of renewable energy was 763,454 gigajoules in 2010/11 (846,000 gigajoules in 2009/10). The amount of renewable energy we used and generated as a proportion of total energy used decreased from 51.6% to 47.7%. The reduction was due to changed biogas measurement methodologies at ETP.

However, we had to surrender 50,497 renewable energy certificates to achieve our target of 59% of renewable energy used or exported as a percentage of total energy used.

Since commissioning six mini-hydro electricity plants at our reservoirs, Melbourne Water has investigated sites for additional mini-hydros and has identified five suitable sites. These projects are in their early design phase.

### Prestigious clean energy award

The hydro-electricity plants are helping to reduce our greenhouse gas emissions and our work in this area was recognised when the mini-hydro project was successful in winning the 'Clean Technology – Harnessing Opportunities' category award in the prestigious 2010 Banksia Environmental Awards.

# PROTECTING OUR NATURAL ENVIRONMENT

## Energy efficiency studies

Melbourne Water submitted its third public report under the Federal Government's Energy Efficiency Opportunities Program, which requires large energy-using businesses to conduct energy efficiency studies at key sites.

This year's report examined opportunities at the Eastern Treatment Plant. The report, completed in December, identified opportunities likely to yield a 7% improvement in energy use at the plant. The opportunities included an upgrade of the existing aeration blowers and optimisation of blower operation, speed control of the outfall pumping station pumps, fixing air header leaks in the low pressure air system, and moving to open valve control on the aeration tanks to operate at minimum header pressure.

## Environmental Resource Efficiency Plans

Melbourne Water has three sites required to participate in EPA Victoria's Environmental Resource Efficiency Plans program – Winneke water treatment plant and the Eastern and Western sewage treatment plants.

Work on the plans submitted to the EPA continued. Approval for the plan for WTP was achieved and plans for Winneke and ETP were further developed according to EPA requirements. Plan actions are being implemented to reduce energy and water use and waste, with most actions exceeding the better than three-year payback period requirement.

Hoppers Crossing Pumping Station was granted an exemption from the program because recycled water has largely replaced the use of drinking water for pump cooling.



## MEETING ENVIRONMENTAL SUSTAINABILITY OBLIGATIONS

### REGIONAL CATCHMENT MANAGEMENT STRATEGY

Management and protection of Melbourne Water's forested water supply catchments are governed by the following principles:

- (a) Protect water quality, including regulating human activities for this purpose
- (b) Protect water production capacity, including regulating human activities
- (c) Maintain and conserve biodiversity
- (d) Provide fire protection

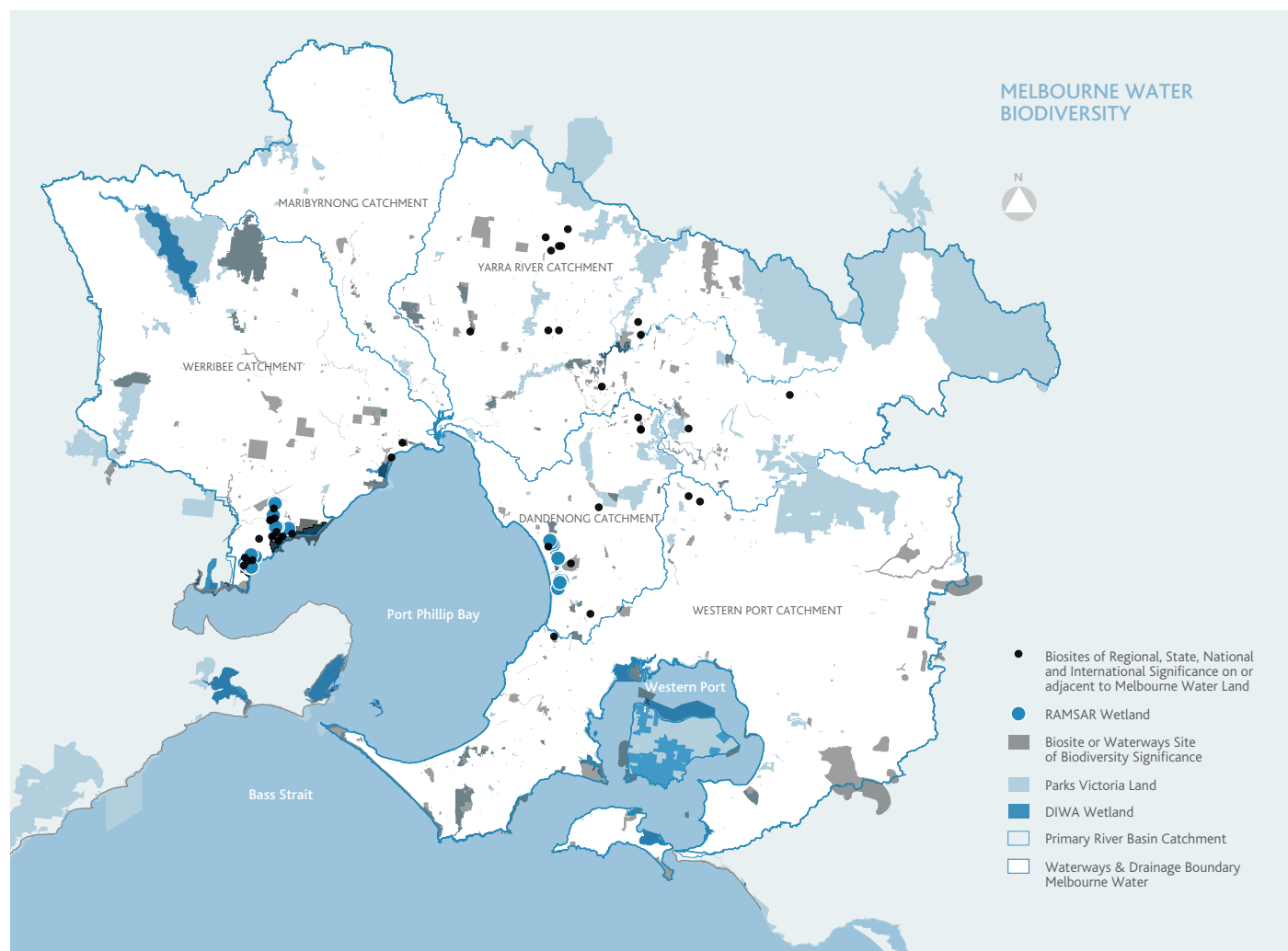
- (e) Maintain and conserve features of natural scenic significance and cultural heritage.

If a conflict arises in carrying out any duties, greater weight must be given to principles (a) and (b).

To achieve its objectives and meet the above principles, Melbourne Water runs programs including:

- Maintaining a fire detection and suppression capacity including staffing four fire towers; providing 110 fire-fighters consisting of permanent employees and 50 summer casuals supported by fire tankers and bulldozers; and has a water bombing helicopter on standby to protect the catchments
- Maintaining a road network to allow quick access to the catchments for bushfire response. Considerable planning goes into ensuring roads and bridges are constructed and maintained to best practice to manage sediment runoff into the catchment
- Undertaking targeted pest animal and plant control with Parks Victoria and Department of Sustainability and Environment to protect water quality and conserve biodiversity
- Maintaining security fencing and security patrols to regulate human activities to protect water quality.

## Our mini hydro project was successful in winning the 'Clean Technology – Harnessing Opportunities' category award in the prestigious 2010 Banksia Environmental Awards



### PROTECTING BIODIVERSITY

Melbourne Water is a significant landholder and waterways manager within the Port Phillip and Westernport region. We actively develop and implement strategies and projects that support biodiversity, in compliance with the *Victorian Biodiversity Strategy*.

#### Biodiversity Strategy

Melbourne Water's *Biodiversity Strategy* establishes a consistent approach to biodiversity management across the organisation. The strategy sets priority actions over the next five years for biodiversity improvement.

Some of these actions completed in 2010/11 included:

- Developing flora and fauna survey assessment documents to determine the level of ecological assessment required for a project that may have an impact on a site's biodiversity
- Implementing our pest animal documents - *Pest Animal Strategy* (provides a strategic framework and priority sites for pest animal management), pest animal guidelines (provides a technical reference for pest animal management), and the local pest animal action plan (provides a template to guide planning pest animal programs)
- Development of an organisation-wide pest plant guideline, to provide a technical reference for managing pest plants.

### Biodiversity conservation management

Melbourne Water owns and manages 56 sites of biodiversity significance. These sites contain important biological communities of rare or threatened species of plants or animals.

Ten sites lie within the Ramsar-listed Western Treatment Plant, which is one of the most important waterbird refuges in Victoria. It also possesses significant native grassland remnants and a large population of the nationally endangered Growling Grass Frog.

Several research projects were commissioned in 2010/11 to improve our knowledge and understanding of ecosystem functioning at this site.

Nine nationally significant faunal populations were monitored against defined benchmarks and during 2010, three management 'trigger points' were reached. Further investigation and management actions will be implemented. Results were reported to the Commonwealth Department of Sustainability, Environment, Water, Population and Communities.

The Ramsar-listed Edithvale-Seaford Wetlands are included within the larger Carrum Wetlands Important Bird Area. It includes the Eastern Treatment Plant and several adjacent wetland areas, both constructed and natural. This wetland complex is most important for its waterbird and wetland vegetation values.

# PROTECTING OUR NATURAL ENVIRONMENT

At Edithvale-Seaford Wetlands, monitoring of waterbirds continued, fox and cat control was trialled, and a water level study was undertaken to determine the most useful flows for enhancing biodiversity at the site. Weed mapping was also undertaken to track trends and inform controls.

Other biodiversity research undertaken this year included:

- A management plan was prepared for the Tarnuk Retarding Basin
- Fox and cat control was trialled at The Inlets on Westernport, a site that supports southern brown bandicoots
- Sites in Melbourne's west with grassland remnants were surveyed for threatened species of grassland fauna including four sites for the fat-tailed dunnart and three sites for the striped legless lizard
- A water level study was undertaken at Tirhatuan Wetlands to provide recommendations to improve habitat for the threatened species of small fish, Dwarf Galaxias.

Melbourne Water continues to prepare and update management plans for each of our sites of biodiversity significance. Management effectiveness is assessed through monitoring of key fauna or flora at least every five years.

## Leader in sustainability

Melbourne Water participated in our fourth Sustainable Asset Management (SAM) benchmarking study for sustainability, benchmarking against worldwide publicly listed water utility companies on the Dow Jones Sustainability World Indexes (DJSI).

The study results confirmed Melbourne Water's leadership status in this survey. We outranked the best company score, and achieved an overall result of 81% (the comparable best company score was 77%).

## River health strategies

River health strategies are covered in Waterways (see pages 16-17).

For compliance with environmental obligations in bulk entitlements (Please refer to bulk entitlements compliance data in Statutory Information, (pages 114-118).

## Streamflow Management Plans

Streamflow Management Plans are developed with the aim of sharing the available water within a catchment sustainably between all users. This ensures that the licensed diverters and the environment receive the water they need.

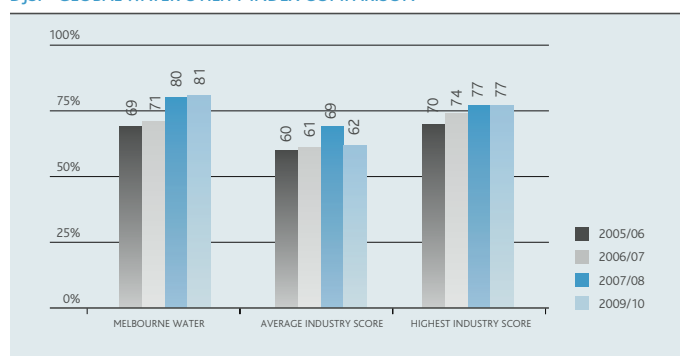
Each plan is developed by a ministerially appointed committee, which is made up of local licensed diverters, representatives from local and state government, Environment Victoria and Melbourne Water. Melbourne Water also provides executive and technical support to these committees.

Streamflow Management Plans include management arrangements that:

- Recognise historical rights to water in the catchment
- Establish environmental flows, including minimum flows and other aspects of the flow regime
- Outline conditions that are placed on licences to protect the environment or to protect other water users
- Define the total volume of water that can be taken under licence in any year (a cap on diversions)
- Establish trading rules that will apply to transfers of water entitlements into, and within, the catchment.

Melbourne Water's *Biodiversity Strategy* establishes a consistent approach to biodiversity management across the organisation. The strategy sets priority actions over the next five years for biodiversity improvement.

DJSI - GLOBAL WATER UTILITY INDEX COMPARISON



Melbourne Water has prepared plans for Diamond Creek, Hoddles Creek, Plenty River, Olinda Creek, Stringybark Creek and Steels, Pauls and Dixons Creeks. The Little Yarra and Don and Woori Yallock Streamflow Management Plans are the last two plans being prepared in the Yarra catchment. These two plans were released for consultation in May and June 2011.

## Waste to Landfill Strategy

Melbourne Water generates a wide range of waste streams in delivering its services. It disposes water treatment solids, wastewater grit and screenings, bio-filter media, office waste,

roots and rag mass, contaminated sediments, litter, debris and some construction and demolition wastes to landfill each year.

In 2010/11, Melbourne Water developed a *Waste to Landfill Strategy* which outlines the approach the business plans to take to reduce its reliance on disposing waste to landfill to 2020. Implementation of the strategy will enable the business to gain a better understanding of the characteristics of its waste streams and identify potential end uses and market opportunities for recycling.

# OUR RELATIONSHIPS

## STRATEGIC GOALS

- > Work collaboratively with stakeholders and strengthen relationships
- > Listen to and engage the community to seek support for our projects and priorities
- > Ensure our suppliers and partners apply sustainable business practices
- > Support a culture of information and knowledge sharing
- > Preserve and promote cultural heritage

## KEY ACHIEVEMENTS

- > Achieved very strong results on community engagement and consultation with community committees in independent evaluation surveys
- > Improved community engagement by expanding social media
- > Created an in-house training program for employees focusing on improving awareness and delivery of engagement relating to their projects and programs
- > Developed a plan to improve our approach to customer service
- > Developed an innovative 'engaged compliance' model with the Indigenous communities with whom we work
- > Constructed a Discovery Centre at the Edithvale-Seaford Wetlands to help educate students and the community about the importance of wetlands and the plants and animals that they support

## DISAPPOINTMENTS

- > Our failure to apply Cultural Heritage management processes to a maintenance project near a sewerage pipeline in Brimbank Park near the Maribyrnong River has the potential to challenge strong existing relationships with stakeholders and expose the organisation to penalties

## CHALLENGES

- > Consider a number of grouped project approvals at once to provide stakeholders with increased clarity and ensure that negotiations are taking place in the most efficient manner possible
- > Working with communities and local councils around major project sites to help deliver community legacy projects within agreed timelines
- > Increasing community confidence in our waterway and drainage management at Patterson Lakes and Koo Wee Rup
- > Implementing a *Customer Focus Strategy* to better meet the needs and expectations of customers, and deliver value for money

# OUR RELATIONSHIPS

## BUILDING STRONG RELATIONSHIPS

Achieving our goals and delivering our commitments to the community, customers and key stakeholders rests on our ability to build and maintain mutually beneficial and genuine relationships.

Actions within our *Stakeholder Engagement Strategy* continue to increase our employees' understanding of the value of good communications and engagement and increase their capacity to deliver it on behalf of their projects and programs. This is providing real benefits to us, our project partners and customers.

Independent evaluation surveys returned increased results on the already strong effectiveness of our community committees and consultation processes, from scores of around 85% in 2009/10 to scores around 95% in 2010/11.

Melbourne Water's major capital projects and its Alliances also recorded great results in independent evaluation surveys conducted over the past year, achieving a minimum score of 85% on satisfaction with community engagement.

The significant increase in our capital program in recent years resulted in the need for a greater degree of communications and engagement. Most big capital projects have now been completed or are nearing completion and Melbourne Water's focus will switch to consolidating business efficiencies.

The integration of communications and engagement practitioners working within teams who are delivering projects, programs and policy activities helps ensure that existing strong relationships with customers, stakeholders and the community achieve the best outcomes for all participants.

## KEEPING COMMUNITY AND STAKEHOLDERS INFORMED

### Flood management

After more than a decade of drought, this year Melburnians had to deal with floods. In particular, during the February 2011 floods, Melbourne Water crews were active in the north and south-east of the city responding to the impacts of flood. We worked closely with a range of stakeholders, including the metropolitan retail water businesses, to respond to the heavy rain and its impacts on the drainage and sewerage network.

In Bangholme, our crews spent several weeks pumping floodwaters from around low-lying residential properties and farmland. During an extremely trying time for residents, we kept them informed of our works and listened to their concerns while teaming with stakeholders such as the local council and EPA Victoria to resolve issues.

Similarly, our customer information centre handled hundreds of calls from the community in the Koo Wee Rup flood protection district and around Cardinia, seeking assistance from our maintenance crews who service these areas. In addition to responding to these calls on-the-ground, we immediately teamed with local councils and key agencies to provide information to the affected communities through a series of community information sessions.

In response to stakeholder and community feedback, our flood protection team also began a targeted engagement process with affected communities, again working closely with councils and local MPs to look at planning for areas hit hard by February's floods. This has included individual visits to properties in the region by our hydrology experts to understand residents' experience of the behaviour of floodwaters and how this can inform our future flood protection works in these areas.



### Controlled release of wastewater

Another issue brought to light through the February floods was the controlled release of wastewater into drains and waterways from emergency release points along the sewerage network. Melbourne's sewerage network, like most across Australia, is designed to cope with up to 1-in-5 year storm events before controlled releases may be necessary to waterways. This issue resulted in significant dialogue between the community, key stakeholders, interest groups and Melbourne Water.

In response to community feedback and consultation with EPA Victoria, Melbourne Water and the retail water businesses instituted a process to inform the community of each controlled release to a waterway. To accompany this, we will be looking for ways to raise community awareness and have further conversations around the robustness of the sewerage system, how events such as the February floods can impact the system, and the design decisions made by water corporations to best balance the financial burden on customers that comes with building a system that can better manage extreme rain events.

## OUR RETAIL WATER CUSTOMERS

Melbourne Water collaborated closely this year with retail water businesses City West Water, South East Water, Yarra Valley Water and Western Water and regional water businesses such as Southern Rural Water, Gippsland Water and Barwon Water.

Work on the next Water Plan is well underway and our planning aims to meet the needs of a growing Melbourne and those of the retail water businesses to supply customers. We meet regularly with the retail water businesses to share information and views on one another's work and planning.

In addition, we are working with the metropolitan retail water businesses on the *Water Supply Demand Strategy*, due in March 2012. This 50-year strategy aims to balance the supply of water to meet Melbourne's residential, business and environmental needs.

Melbourne Water, South East Water and Southern Rural Water are developing an *Integrated Water Management Strategy*. The South East Water-led strategy, which includes a stakeholder reference group, aims to provide people in the south-east with a sustainable

## Actions within our *Stakeholder Engagement Strategy* continue to increase our employees' understanding of the value of good communications and engagement and increase their capacity to deliver it on behalf of their projects and programs



*Far left: Melbourne Main Sewer Replacement (MMSR), Community engagement day*

*Left: Working with Registered Aboriginal Parties*

mix of water solutions in urban and rural areas by considering every element of the water cycle.

Our work with City West Water in Melbourne's rapidly growing west included a project to supply Class A recycled water from our Western Treatment Plant to residents in Werribee West.

### Sharper customer focus

During the year, we developed a plan to improve our customer service approach within the organisational culture, and review and identify potential process and system improvements.

A customer-focused culture is critical to achieving our vision of a sustainable water future and enabling us to better anticipate and meet customer needs. A *Customer Focus Strategy* will be implemented in 2012.

### Expanding our online presence

As more people embrace digital communications, Melbourne Water continues to increase its online presence.

Overall traffic to the Melbourne Water website increased 83% this year to about 5.5 million visits. The website remained a key

destination for people wanting information on storage and river levels, especially following heavy rain. However, visits to our website on non-storm days have risen to about 10,000 per day.

Direct engagement with the community through social media (particularly Twitter) has created a new 'shop front' for us to answer questions, provide information and take part in discussions.

Our free iPhone application for storage levels has been updated several times since its launch in May 2010, and has been downloaded a total of 27,576 times.

### CULTURAL HERITAGE

Melbourne Water continues to develop and deepen our relationship with Registered Aboriginal Parties (RAPs) and Traditional Owner groups.

To ensure we protect Aboriginal Heritage as we deliver our on-the-ground projects, we also work to hear and understand what is important to the Traditional Owners within the landscape. Melbourne Water regularly meets with all RAPs and we continue to co-develop education and training packages, through which we learn from each other.

### COMMUNITY EDUCATION AND MONITORING

#### Edithvale-Seaford Wetlands Discovery Centre

Seven years after commissioning a feasibility study into a wetlands education facility in Melbourne's south-east, construction of the \$3 million Wetlands Discovery Centre at Edithvale is scheduled for completion in August 2011.

This world-class learning facility will provide school students and the general community with an opportunity to participate in practical, hands-on activities showcasing how the wetlands work, its plants and animals, and local, European and Indigenous history. The centrepiece will be a flight simulator that provides a dragonfly's-eye view of the wetland and how it functions.

Melbourne Water has worked with local schools and the Friends of Edithvale-Seaford Wetlands in the development of new education resources. Local schools will be invited to pilot the new wetlands curriculum before the official launch of the education program, which will coincide with the start of the new school year in 2012.

The Discovery Centre has been built to strict environmentally sustainable guidelines and in accordance with the Edithvale-Seaford Wetlands Ramsar Management Plan to ensure the ecological values of the wetlands are protected. The facility provides Melbourne Water with an opportunity to improve community understanding and appreciation about the importance of the wetlands, and the actions people can take to help protect this wonderful natural asset.

### Educating and engaging youth

Melbourne Water maintains its commitment to engaging younger people through sponsoring the annual Kids Teaching Kids Conference.

More than 450 students and teachers from a record 52 schools participated in the 2011 conference. This year's theme, 'Waterways Superhero', encouraged students to think and act locally to improve waterway health.

### ENERGY AND WATER OMBUDSMAN

The Energy and Water Ombudsman (Victoria) investigates and resolves disputes between Victorians and their energy and water service providers. Melbourne Water is one of 22 Victorian water businesses that are members of the scheme.

This year we responded to 30 investigated cases, three more cases than the previous year. Inquiries covered issues including maintenance and clearing of land over easements, drainage maintenance, drainage charge, flood management, jetty access, land access and property damage.

We are working to resolve two of these cases that remain open, both relating to flooding.

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# OUR PEOPLE AND OUR WORKPLACE

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## STRATEGIC GOALS

- > Provide a safe, healthy and enjoyable working environment
- > Attract and retain a diverse, motivated and skilled workforce
- > Promote a culture that encourages constructive behaviours in all our activities
- > Encourage our people to develop and achieve their full potential
- > Develop a learning organisation with a focus on innovation and knowledge sharing
- > Embrace sustainable work practices and behaviours

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## KEY ACHIEVEMENTS

- > Met our targets for office water, energy and paper use and waste to landfill
- > Implemented an engagement program to support innovation and strengthen organisational capability to deliver better customer service and community outcomes
- > Began the process of improving our safety culture with an organisation-wide survey
- > An electronic permit to work system was introduced at the Eastern Treatment Plant, supporting efforts to improve health and safety
- > Completed a three year Leadership Development Program
- > Continued to build our preferred culture through leadership impact testing

## DISAPPOINTMENTS

- > Recorded 15 (employee and contractor) lost time injuries (LTIs), failing to meet our zero target
- > Did not meet our absenteeism target of 2.7 days per person per year (2.8 result)

## CHALLENGES

- > Improving health and safety performance by creating a zero harm culture throughout Melbourne Water, and with our alliances and contractor partners
- > Providing comprehensive support to our people to improve employee wellbeing - a key aspect of our zero harm approach to health and safety
- > Creating our preferred culture through programs that foster collaboration, high performance and innovation
- > Continuing to develop leadership capability through education, experience and strong relationships
- > Building on high performing teams through team planning and development
- > Preparing for the move in mid-2012 to our new corporate office including planning ways to further reduce our office water, energy and paper use and waste to landfill

# Melbourne Water continues to attract and retain a diverse, motivated and skilled workforce, bringing required talent into the organisation through a variety of measures



## SAFE AND HEALTHY WORKPLACE

Melbourne Water aims to foster a constructive work culture and safe workplace and continue to attract, retain and develop highly talented people whose personal values align with those of the organisation.

We failed to achieve our goal of zero lost time injuries (LTIs) for employees and contractors on behalf of Melbourne Water in 2010/11, with 15 LTIs (compared with nine last year). Three were serious injuries that have required long-term rehabilitation of the employees who may not be able to return to pre-injury duties.

In April 2011, we began a Safety Culture Survey. The survey aims to address leadership and behavioural issues that affect our decision making. We will use these results to create an action plan to address deficiencies identified in our Safety Culture.

## Electronic permit to work system

An electronic permit to work system has been introduced at the Eastern Treatment Plant, replacing paper-based procedures and forms. A six month trial of the new system began in April 2011, but is already showing promising signs of reducing risk and improving health and safety at the treatment plant.

The system has so far delivered all of the expected benefits including:

- Substantially reducing the risks associated with management of the paper-based system
- Automatically flagging health and safety issues associated with various assets to improve safety and efficiency
- Preventing the use of two permits on one asset without conflicts being identified to the issuing operator
- Not allowing a work permit to be issued to a recipient who has not been trained or for whom training has expired.

The new system has been well received by operators and maintenance technicians. Subject to the continuing success of the trial, the system will be introduced throughout Melbourne Water.

## CONSTRUCTIVE CULTURE

Our culture change program was introduced in 2005 to foster innovative and positive behaviour in the workplace to help achieve our vision of a sustainable water future.

The culture program is the means by which we achieve outstanding results, by working constructively together and with our project partners and other stakeholders. Constructive behaviours are part of employee performance and development plans and our Enterprise Agreement.

We provide regular sessions to new starters to help them understand our constructive culture and how they can make a difference. All of our engagement programs are developed to ensure they support and continue to build our preferred organisation culture.

## Equal opportunities for all

Melbourne Water is dedicated to supporting a work-life balance for all our employees. As such, many different types of flexible working arrangements are available. These include a variety of leave options, opportunities to work

part time and flexibly during the day, as well as working from home and other Melbourne Water sites to help family/lifestyle commitments and a return to study.

Refresher diversity and Equal Employment Opportunity awareness training has begun to ensure people are aware of their legal responsibilities, how to identify acceptable and non-acceptable behaviours, what to do if an issue arises and what support is available. The program has been designed for teams to attend together to encourage discussion.

## Leadership development

Melbourne Water completed a Leadership Development Program this year for all senior employees with people management responsibilities.

The three year program, which builds capability in areas such as leading change, systems thinking, managing performance and delegation, was completed by 190 leaders.

The program focused on education, relationships and experience.

# OUR PEOPLE AND OUR WORKPLACE

Education was delivered through training and a structure that built relationships as employees from different sites and backgrounds came together to learn.

Experience was gained through an action learning approach with small teams working on a business-related team project and a personal change project.

Learning has continued with delivery of a Leadership Impact Program that has enabled participants to better understand the impact their leadership style has on others, and delivery of a master class to all senior managers and executives on 'courageous conversations'. This is consistent with our efforts to create a constructive culture.

## OUR WORKFORCE

Melbourne Water continues to attract and retain a diverse, motivated and skilled workforce, bringing required talent into the organisation through a variety of measures.

These include engaging graduates, trainees and vacation students, and facilitating a range of development opportunities such as job rotations and secondments between internal teams and external organisations. These measures encourage our people to understand and be engaged with the organisation, develop their full potential and support the delivery of organisational outcomes.

### Opportunities for graduates and students

Our three year graduate program continued and we recruited six new engineering graduates, taking our total to 29.

We continued to support three trainees who are gaining on-the-job training and experience, and an opportunity to complete a Certificate III qualification in our water operations and developer services teams.

## Melbourne Water will consolidate most of its office-based operations into one of the most sustainable and efficient buildings of its kind in Australia.

### MELBOURNE WATER WORKFORCE DISTRIBUTION

	2010/11		2009/10		2008/09	
	Male	Female	Male	Female	Male	Female
Executives	48	9	42	8	43	8
Technical/professional	352	214	348	206	343	184
Operational	148	2	148	3	150	3
Administration	15	53	18	55	21	55
<b>Total</b>	<b>563</b>	<b>278</b>	<b>556</b>	<b>272</b>	<b>557</b>	<b>250</b>
<b>Total male and female</b>	<b>841</b>		<b>828</b>		<b>807</b>	

Over the university summer holidays, we hosted 15 vacation students who worked in teams across Melbourne Water sites and groups. After their placement, 12 of the students accepted Melbourne Water's offer of part-time work while continuing their studies.

### Workforce distribution

The percentage of females in our workforce has increased by more than 10% in less than a decade, partly because of our constructive culture and workplace flexibility.

### By the numbers

At 30 June 2011:

- Our total workforce was 841 (compared with 828 at 30 June 2010)
- The proportion of women in our workforce was 33.1% (32.9% in 2009/10)
- The average age of Melbourne Water employees was 41.8 years (41.1 in 2009/10)

In 2010/11:

- The average age of new starters was 35.9 years (33.6 in 2009/10)
- 151 roles were filled – 82 by new starters (65 in 2009/10) and 69 by Melbourne Water people (67 in 2009/10)
- Turnover was 8.1% (6.2% in 2009/10). This is within Melbourne Water's accepted range and industry norms.

### Recognition and wellbeing

More than 320 of our people were nominated by their peers in our Employee Recognition Program.

This program acknowledges significant performance or contribution beyond the day-to-day role of an individual or team. It celebrates and rewards achievements especially in areas such as innovation, sustainability, constructive behaviours, and health and safety.

Our employee wellness program aims to improve the health and wellbeing of employees. We continued to support our people's health and wellbeing through subsidised gym and sporting club memberships and information sessions (for example, nutrition).

## SUSTAINABILITY IN OUR WORKPLACE

An analysis of how Melbourne Water people think about sustainability was undertaken in late 2010. The analysis used a new approach to behaviour change measurement, which identified sustainable behaviours and barriers to change.

The results were consistent across all sites and business groups and were encouragingly high (regularly scoring 4 or more on a scale of 1-5) - a measure that sustainability at work and home is well supported by our people. Highest scores related to the organisation's perceived strong leadership and commitment to sustainability.

### Sustainable offices

#### New head office at 990 Latrobe Street

Melbourne Water will consolidate most of its office-based operations into one of the most sustainable and efficient buildings of its kind in Australia.



*Left: Construction of Melbourne Water's new head office*

The building, being constructed at 990 Latrobe Street, Docklands, will be the organisation's headquarters from mid-2012.

Business efficiency and sustainability will be increased by consolidating our corporate offices into one building that supports a more cohesive work environment, uses less water and energy, and takes advantage of competitive lease costs at Docklands consistent with Government planning policy to consolidate activity centres.

#### **Meeting our OfficeSmart targets**

Melbourne Water's office sustainability program promotes sustainability through upgrades of offices (Sustainable Sites) and behavioural change by employees (OfficeSmart).

OfficeSmart covers all major Melbourne Water sites including East Melbourne, Eastern Treatment Plant, Brooklyn, Winneke, Western Treatment Plant and Tarago Reservoir. Some offices have become more sustainable by reducing potable water use through the installation of rainwater tanks for toilet flushing and operational needs.

We have key performance indicators to measure office-based sustainability performance based on targets for water (see Water, page 9), energy, paper and waste to landfill. All these targets were met in 2010/11.

#### **Energy**

Even though the number of full-time equivalent employees (FTEs) and our data centre power needs increased at our East Melbourne offices, electricity use remained reasonably steady on 1704.5 kilowatt hours this year. We recorded 3.7 megawatt hours (MWh) per FTE per year compared with our target of 4.2 MWh/FTE/year.

Continuing energy conservation by employees (such as switching off lights and computer screens when not in use) was complemented by an upgrade of facilities, particularly the continued replacement of desktop computers with more energy-efficient laptops. Due to the change to laptops, the amount of power used by our computer fleet dropped by 13.05%.

As part of our commitment to the CitySwitch Green Office program, we have achieved a 4-star energy tenancy rating under the National Australian Built Environment Rating System for one of our offices in Wellington Parade, East Melbourne. We expect to achieve improved energy results for our main office (100 Wellington Parade) when the new sustainable IT data centre at Brooklyn is commissioned later in 2011.

#### **A greener fleet**

Under a Sustainable Management Vehicle Policy, Melbourne Water has moved to buy only the most sustainable vehicles for its managers. The management vehicles purchased under this new policy have delivered significant reductions in fuel consumed (25%) and carbon dioxide emitted (21%) relative to the vehicles acquired under the previous management vehicle policy.

#### **Offsetting corporate emissions**

We offset our emissions relating to vehicles, electricity used in the office, and employee air travel. In 2010/11, this amounted to about 8,341 tonnes of carbon dioxide equivalent.

#### **Paper**

Organisational paper use has remained steady, with our result of 8.1 reams/FTE/year against our target of 9.6 reams/FTE/year (compared with 8.1 reams/FTE/year in 2009/10). Efforts are being made with print tracking software to identify areas for improvement in business processes, allowing for further reductions in paper use.

#### **Waste to landfill**

There continued to be significant improvement in the key performance indicator for office waste to landfill, with a 19.3% reduction on the previous year's result. We recorded 11.7 kilograms/FTE/year compared with our target of 18.4 kilograms/FTE/year and the result of 14.5 kilograms/FTE/year in 2009/10.

Recycling and compost facilities are more widely available, and all Melbourne Water sites with more than 10 FTE now have commingle recycling and compost/organics recycling.

#### **Sustainable purchasing**

Melbourne Water's Sustainable Procurement Policy and Guidelines were reviewed in 2010 and shared with the business after an external audit of our practices. Training of sustainable procurement officers in the nominated key areas was completed in readiness for the first annual sustainable procurement reports. Melbourne Water won three Eco-Buy awards (see Business Efficiency chapter, page 40).

# BUSINESS EFFICIENCY

## STRATEGIC GOALS

- > Increase business value through capital and operating efficiency and effective risk management
- > Improve efficiency through innovative asset management and business practices
- > Invest prudently and efficiently, taking account of environmental, social and financial considerations, whole-of-life costs, risks and service needs
- > Maximise resource efficiency by embracing innovation and collaborating with key stakeholders and strategic partners
- > Operate and maintain our assets efficiently, in accordance with sustainability principles
- > Earn a commercial return on assets to fund operations and investments and to pay shareholder dividends
- > Ensure investment decisions are sustainable
- > Maintain sound governance

## KEY ACHIEVEMENTS

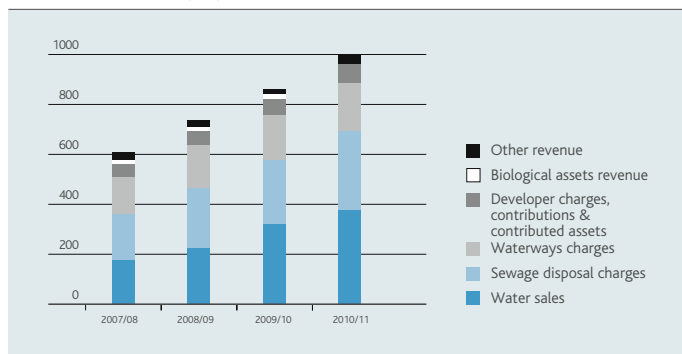
- > Delivered a net profit after tax of \$157.8 million
- > Successfully delivered \$753.1 million of capital works, mostly through our alliances
- > Cash returns to Government of \$173.1 million
- > Achieved 2011 'Overall Champion' Eco-Buy award for excellence in green purchasing
- > Completed a 5-star South East Regional Office building for the Waterways Group
- > Completed a joint legal services tender with the retail water businesses and appointed a new legal services panel
- > Replaced desktop computers with laptops and physical servers with 'virtual' servers, creating energy efficiencies

## CHALLENGES

- > Clarifying regulatory requirements and customer priorities for our next Water Plan (2013/14 to 2017/18) particularly given the impending implementation of the Victorian Government's desalination plant
- > Demonstrating to the Government and ensuring that the delivery of the capital plan provides value for money
- > Continuing to achieve business efficiencies in the context of expenditure targets set in the Victorian Competition and Efficiency Commission review
- > Ongoing delivery of \$3.6 billion of capital works on time and within budget (for the five years ending June 2013)
- > Demonstrating operating efficiency to our stakeholders
- > Increasing number of insurance claims, particularly in relation to flooding events
- > Responding to the future potential impacts of carbon tax

# Melbourne Water is delivering \$3.6 billion of infrastructure projects and programs in the five years ending in June 2013 through alliance contracts that provide commercial incentives for superior performance

OPERATING REVENUE (\$M)



## STRONG FINANCIAL PERFORMANCE

This year, we made payments to the Victorian Government of \$173.1 million (compared with \$175.9 million in 2009/10). This consisted of \$26.5 million in dividends, income tax equivalent payments of \$116.7 million, a financial accommodation levy of \$26.8 million and local government rate equivalents of \$3.1 million. We also incurred expenditure to Government of \$14.2 million in land tax (\$13.8 million in 2009/10) and \$4.1 million in payroll tax (\$3.9 million in 2009/10).

Operating revenue was \$997.3 million (\$858.4 million in 2009/10). The key driver for the increase compared to last year is due to increased water, sewerage and drainage revenue resulting from higher prices and growth. This increase was partly offset by a reduction in water flows as a result of higher than average rainfall reducing demand. The increased revenue is being used to fund our capital works program.

Operating expenditure was \$783.3 million (\$619.8 million in 2009/10). The key drivers for the increase compared to last year are due to increased depreciation and amortisation expense as a result of implementation of fair value on infrastructure assets for the first time in 2009/10 as well as the increase in the capital program and increased finance costs due to increased borrowings to fund our capital works program.

Net profit after tax was \$157.8 million (\$186.4 million in 2009/10). This is mainly due to the increase in operating expenditure (primarily depreciation and finance costs) above the increase in operating revenue (primarily water, sewerage and drainage).

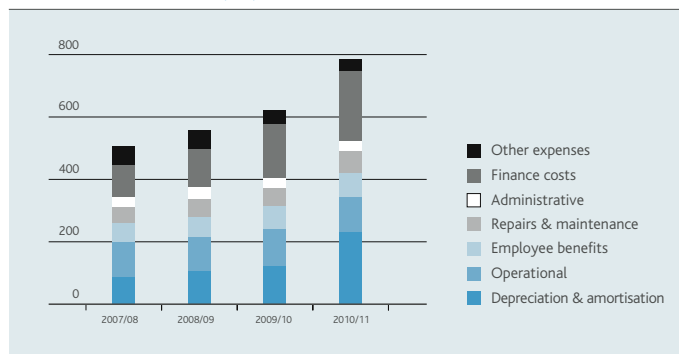
Total assets increased to \$9,754.5 million from \$8,948.3 million in 2009/10. The increase is mainly due to the investment of \$753.1 million (\$973.9 million in 2009/10) in capital works. Revaluation adjustments of \$225 million on land and buildings and \$16.1 million on infrastructure assets also contributed to the increase.

Total liabilities increased to \$5,379.7 million from \$4,929.8 million in 2009/10. The increase is mainly due to an increase in interest-bearing liabilities (borrowings) of \$547.4 million due to the funding required to deliver our capital program.

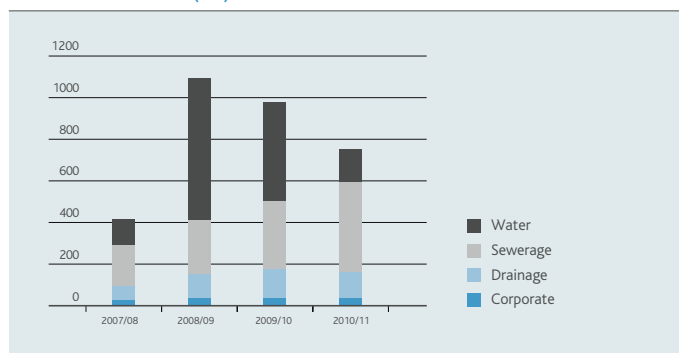
We achieved a return on equity (NPAT/Total Equity) of 3.6% compared with 4.6% in 2009/10, which was below our target of  $\geq 4.0\%$ . This is mainly due to higher than planned equity balances following first time implementation of fair value on infrastructure assets at 30 June 2010.

Our gearing ratio (Debt/Debt + Equity) of 45.3% (43.3% in 2009/10) and our cash interest cover ratio of 2.8 times (3.4 times in 2009/10) were both within our target ranges.

OPERATING EXPENDITURE (\$M)



CAPITAL EXPENDITURE (\$M)



## EFFICIENCY THROUGH COLLABORATION

Melbourne Water is delivering \$3.6 billion of infrastructure projects and programs in the five years ending in June 2013 through alliance contracts that provide commercial incentives for superior performance relating to cost, timing, social and environmental outcomes.

These alliances bring together skilled and experienced people from the design and construction industries to enhance innovation and increase efficiency.

This year, \$753.1 million of capital works was delivered through:

- Project teams working on the Melbourne Main Sewer Replacement, Northern Sewerage Project, Eastern Treatment Plant upgrade and the Cardinia Connection of the desalination plant to Melbourne Water's supply system

- Bundled projects through program alliances
- Minor works through maintenance service partners
- Other traditional project arrangements.

Strong governance is a key to the alliance model. This year, we continued a program of independent validation of project cost estimates; managed an audit program to ensure compliance with policy, procedures and agreed commercial terms; and administered a continual improvement program, performance/value reporting and post-project reviews.

Melbourne Water will work closely with its partners to deliver the remaining two years of capital projects in an efficient and effective manner.

The building incorporates rainwater harvesting for gardens and toilet flushing, solar panels, certified timber products and recycled materials, water sensitive landscaping and use of waste heat from the treatment plant for heating and cooling.



## RESEARCH AND TECHNOLOGY

To ensure that Melbourne Water continues to provide high quality services, research and development is undertaken to enhance knowledge for strategic purposes and to improve efficiency through scientific excellence, innovation and the adoption of new technology.

Key initiatives in 2010/11 included:

- The discovery and development (in conjunction with Latrobe University) of a novel, naturally occurring virus that destroys the foam-producing bacteria, GALO, responsible for significant operational issues at the Eastern Treatment Plant
- The completion of the multi-agency Western Port Scientific Review which consolidated current knowledge about Western Port environmental issues and will be used to set future research projects
- Continued investigation of the presence and nature of the protozoan parasite *Cryptosporidium* in native and feral animals in our protected water supply catchments, the results of which support Melbourne Water's unfiltered status

- Involvement in the National Centre for Excellence for Recycled Water with a position on the Research Advisory Council and representation on a major project to set national validation guidelines for recycled water, aimed at ensuring science-based sensible guidance
- Implementation of a major research program aimed at better understanding the impact of toxicants including pesticides on aquatic ecosystems in waterways through a new research centre, the Victorian Centre for Aquatic Pollution Identification and Management, which opened in 2010.

### New legal services panel

Melbourne Water appointed a new shared legal services panel with the retail water businesses in December 2010. The appointment of the panel has resulted in increased efficiency and value for money in procuring external legal services.

## SUSTAINABILITY INVESTMENT

A new building for the Waterways South East Regional Office has been completed at Worsley Road in Bangholme, with the provision to house up to 80 staff. The building was occupied in February 2011.

This building has achieved a 5-star Green Star 'Design' certification from the Green Building Council of Australia (GBCA), which rates it in the 'Australian Excellence' category.

The building incorporates rainwater harvesting for gardens and toilet flushing, solar panels, certified timber products and recycled materials, water sensitive landscaping and use of waste heat from the treatment plant for heating and cooling.

### Information technology improvements

Melbourne Water continues to implement initiatives to make its IT infrastructure more efficient and sustainable including:

- Replacement of desktop computers with laptops, which are more energy efficient. Laptops are about 30% more efficient than an equivalent desktop and 74% of the fleet has so far been replaced

*Above: New Waterways South East Regional Office*

- The replacement of physical servers with equivalent 'virtual' servers, creating efficiencies in both energy usage and maintenance costs. The first phase has seen 74 servers virtualised, with an efficiency gain of about 20%.

### Excellence in green purchasing

Melbourne Water had great success at the 2011 ECO-Buy Awards, winning three awards including the overall champion for excellence in green purchasing.

This award recognises excellence in all five dimensions of sustainable procurement: people, policy, process, engaging suppliers and measurement, and is an indication of how highly regarded our sustainable procurement policy is viewed externally.

# CORPORATE GOVERNANCE AND RISK MANAGEMENT

Goals related to corporate governance and risk management:

- Maintain sound governance
- Increase business value through capital and operating efficiency and effective risk management

## Ethics and values

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

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

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

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

## Our governance procedures

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

This year improvements made to Board processes included the development of a Communication and Engagement Plan for Directors that incorporated increased community and stakeholder engagement and training opportunities.

A number of new processes have been established in response to the Code of Practice for Water Authorities endorsed by the Minister for Water on 5 October 2010.

## RISK MANAGEMENT

Melbourne Water adopts a balanced approach to risk management that considers our commercial, social and environmental responsibilities having regard to short-term and long-term goals.

Risk management is utilised to ensure Melbourne Water understands our business risks and that they are managed consistently. The effective and efficient management of risk is central to the achievement of our vision.

Melbourne Water adopts a 'whole of business' approach by considering risks on a group, team and project basis. Trends and commonalities are also identified across these areas.

To effectively manage risks across the organisation, risk assessments are conducted on a regular basis to identify the:

- Likelihood or probability of a risk occurring
- Consequence of a risk occurring
- Effectiveness of mitigating strategies in place to manage risks.

The capital prioritisation process uses risk assessment as a key tool for determining the need for and relative timing of investments. Operational risks are managed by the organisation daily and through specialised management systems.

## Improving operational security

A \$10 million project was undertaken to increase Melbourne Water's operational security by replacing the communications network that connects all of its sites, the Common Wide Area Network (CWAN). This is the backbone network along which all internal Melbourne Water electronic data travels.

Melbourne Water operates an extensive Supervisory Control and Data Acquisition (SCADA) and PCS (Process Control System) integrated systems network as a critical part of the operation of its core business. The SCADA system remotely monitors and controls water, sewerage and drainage assets.

The project was initiated in response to a review of Melbourne Water's information technology (IT) security that identified and evaluated risks to key assets and recommended appropriate security measures to mitigate those risks.

The implementation of the CWAN project began in January 2010 and was completed in June 2011. It has replaced more than 125 network devices and managed more than 350 WAN production changes across 38 Melbourne Water sites.

The CWAN project has:

- Increased Melbourne Water's operational security particularly in relation to SCADA
- Refreshed Melbourne Water's ageing communications network infrastructure
- Positioned our communications network infrastructure with increased flexibility and agility to respond to current challenges such as Voice Over IP, video conferencing and CCTV.

## Strategic risk

To assist in the strategic management of risks at an organisational level, Melbourne Water has identified key strategic risks and assessed each risk based on the current risk level.

Melbourne Water actively manages strategic risk with a strong focus on continuous improvement. Melbourne Water's risks will continue to be managed through a risk management framework comprising major elements such as certified management systems; appropriately skilled people and sound operational procedures; a robust capital works program and sound technological applications such as our SCADA, Asset Management and GIS systems; and close working relationships with the water industry, government departments, local government, customers, developers and the community.

Melbourne Water has identified the following key strategic risks:

- Health, safety and security of people, property and environment
- Environmental damage to Melbourne's waterways/bays
- Financial and governance framework
- Recycled water (quantity and quality)
- Engage, understand and manage key stakeholders and the community
- Water supply
- Water quality
- Asset lifecycle
- Capital delivery
- Impact of flood on the community
- 2018 greenhouse and renewable energy targets
- Recruit, develop and retain our people
- Deliver obligations in the Water Plan
- Biosolids and by-products (quantity and quality).

# CORPORATE GOVERNANCE AND RISK MANAGEMENT

## Insurance and incident management framework

To further mitigate the commercial, social and environmental impact of risk events, Melbourne Water has an emergency and incident management framework coupled with a comprehensive insurance portfolio.

As part of this framework, Melbourne Water has developed emergency management and contingency plans, which are regularly tested and reviewed.

In addition to local emergency management arrangements, Melbourne Water has assisted in the development of industry response plans and protocols with the retail water businesses and government departments/agencies that prescribe roles and responsibilities in the event of a large-scale incident. These plans are also tested and reviewed with the retail water businesses.

## Audits and risk reviews

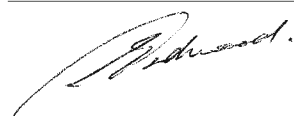
Melbourne Water seeks to continually reassess its risk profile through external reviews by subject matter specialists and a comprehensive risk-based internal audit program.

In addition to these reviews, Melbourne Water undertakes quarterly self-assessments on the current management of risks and the identification of new or emerging risks and opportunities. The results of these reviews are presented to the Board via the Audit and Corporate Risk Committee, which actively oversees risk management at Melbourne Water.

## Attestation on Compliance with the Australian/New Zealand Risk Management Standard

I, Eleanor Underwood, certify that:

- Melbourne Water Corporation has risk management processes in place consistent with the Australian/New Zealand Risk Management Standard (AS/NZS ISO 31000:2009)
- An internal control system is in place that enables the executive to understand, manage and satisfactorily control risk exposures
- The Audit and Corporate Risk Committee verifies this assurance
- The risk profile of Melbourne Water Corporation has been critically reviewed within the last 12 months.



**Eleanor Underwood**  
Chairman  
Melbourne Water Corporation

## Statements of Obligations

Two *Statements of Obligations*, issued by the Minister for Water pursuant to Section 41 of the *Water Industry Act 1994*, are applicable to Melbourne Water:

- 1) The *Statement of Obligations* applicable from July 2004 formalises Melbourne Water's obligations in relation to the performance of functions and exercise of powers including the areas of:
  - The Water Plan
  - Governance and risk management
  - Planning and service delivery
  - Environmental management
  - Waterways and drainage
  - Reporting
  - Compliance.
- 2) The *Statement of Obligations* applicable from 1 July 2009:
  - (a) Imposes obligations on Melbourne Water in relation to our water supply function established under section 171B of the *Water Act 1989*, and the exercise of our powers
  - (b) Clarifies Melbourne Water's role as manager of the Melbourne headworks system in relation to the obligations of the metropolitan retail water businesses as holders of certain water entitlements.

Melbourne Water's Board monitors compliance with these *Statements of Obligations* and reports any significant non-compliance to the Minister.

## Board of Directors

The Minister for Water, in consultation with the Treasurer, appoints our directors for terms of up to four years and the Victorian Government sets their remuneration. Directors are eligible for reappointment for subsequent terms.

In making new appointments to the Board, the Government ensures the Board has the necessary combination of skills and experience. The Managing Director is appointed by the Board, subject to the approval of the Minister in consultation with the Treasurer, for a term of up to five years. Annual reviews are conducted of the performance of the Board as a whole and of individual members.

Pursuant to a *Statement of Obligations* issued by the Minister, the outcomes of the performance review are reported to the Treasurer and Minister. The Board of Directors currently comprises a non-executive Chairman, six non-executive directors and the Managing Director.

# BOARD OF DIRECTORS



**Eleanor Underwood**  
*Chairman*

Eleanor Underwood took up the position of Chairman in April 2010. Ms Underwood came to Melbourne Water after serving 10 years on the South East Water Board, including five years as its Chair. Before that, she was Deputy Chairman of South Gippsland Water and a Director of Audit Victoria and the Water Training Centre. Ms Underwood is a management consultant and has private sector experience in general management and accounting and marketing, and was a senior academic planner at RMIT University.



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

Mary Anne Hartley was appointed to the Board on 1 July 2002. A barrister, she was appointed as a Senior Counsel on 24 November 2009. Ms Hartley has been a director of several government corporations in the maritime and energy sectors. Before joining the Bar in 1997, Ms Hartley was a partner in a national law firm where she practised insurance and health law.



**Terry Larkins**  
**PSM**  
*Director*

Terry Larkins was appointed to the Board on 1 January 2004. Mr Larkins was appointed Chairman of Western Water in 2001. He has extensive experience in the water industry and local government including Secretary of the former Gisborne Water Board and Chief Executive of the Shire of Gisborne. He has been a member of the VicWater Board since 2005 and chair from 2007/08. He is active in a number of community groups in health services, conservation and education.



**Maria Wilton**  
*Director*

Maria Wilton was appointed to the Board on 1 October 2009. Ms Wilton is a chartered financial analyst with 20 years experience in the investment management industry, and was Director of the Transport Accident Commission Board until 30 June 2009. Ms Wilton is also the Managing Director of Franklin Templeton Investments Australia Ltd.



**Merran Kelsall**  
**B.Com (Hons), FCA, MBA**  
*Deputy Chairman*

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



**Warren Hodgson**  
*Director*

Warren Hodgson was appointed to the Board on 1 July 2008. Mr Hodgson was previously Secretary, Department of Innovation, Industry and Regional Development, and before that, Under Secretary, Department of Treasury and Finance. Mr Hodgson has a background in the manufacturing industry, qualifications in science and engineering, and is a graduate of the Australian Institute of Company Directors.



**Peter Vines**  
*Director*

Peter Vines was appointed to the Board in October 2005. Mr Vines has extensive experience in chief executive and executive management positions in the energy and infrastructure sector, including directorships in various utility companies in Australia and internationally.



**Shaun Cox**  
*Managing Director*

Shaun Cox commenced as Managing Director of Melbourne Water on 8 March 2011. Shaun is currently a Board Member (and former Chair) of the Smart Water Fund and the Water Services Association of Australia. He holds a degree in Civil Engineering and a Masters of Engineering and Technology Management and is an Adjunct Professor at the University of Queensland. Before joining Melbourne Water, Mr Cox held the position of Managing Director of South East Water and Chief Executive Officer of Gold Coast Water.

## Rob Skinner

Rob Skinner resigned as Managing Director effective as of 11 March 2011.

# CORPORATE GOVERNANCE AND RISK MANAGEMENT

## Powers and accountability

Since 1 July 2007, Melbourne Water has operated under the *Water Act 1989*.

Melbourne Water has two current by-laws, *Water Supply Protection No 1 (2006)* and *Waterways, Land and Works Protection and Management (2009)*.

The Minister for Water has delegated powers of management under the *Water Act* 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 from the Information Victoria bookshop, 356 Collins Street, Melbourne (telephone 1300 366 356).

The Honourable Tim Holding, Minister for Water, was the Minister responsible for Melbourne Water from 1 July 2010 until 2 December 2010. The Honourable Peter Walsh, Minister for Water, was the responsible Minister from 2 December 2010 to 30 June 2011. Melbourne Water works with officers of the Department of Sustainability and Environment and the Department of Treasury and Finance. Statutory and other reports are provided covering Melbourne Water's performance against the objectives and performance indicators in the *Corporate Plan*.

## 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 1989* and other applicable legislation including the *Public Administration Act 2004*. The Board makes plans to achieve specific objectives, which include:

- Achievement of long-term outcomes based on a triple bottom line approach
- Approval of budgets 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 Policy*.

Key features of the Board's activities are that:

- It has formal Board meetings 11 times a year, undertakes site visits and participates in business strategy workshops with Melbourne Water's leadership team
- Monthly updates on Board activities are made available to all employees
- Regular strategy workshops are held with relevant stakeholder groups
- A structured induction program exists for new Board and committee members
- 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 annually, with procedures for updating that information between declarations
- There is an annual review of Board performance.

## Committees

The Board has four sub-committees, each comprising at least three non-executive directors, who meet periodically to focus on audit and corporate risk, people and safety, environment and public health, and capital planning and delivery.

The Managing Director attends meetings of committees by invitation. The Board approves each committee's charter.

### Audit and Corporate Risk Committee

Assists the Board of Directors in fulfilling its responsibilities relating to risk management, financial management and operational control practices, and compliance with relevant laws and regulations.

At 30 June 2011, the committee comprised Merran Kelsall (Chairman), Peter Vines, Warren Hodgson, Maria Wilton and Eleanor Underwood. A report about the activities of the committee in fulfilling its charter is prepared annually.

### People and Safety Committee

Assists the Board in fulfilling its responsibilities relating to human resources issues, remuneration, and workplace health and safety. For details of directors' and executives' remuneration, refer to notes 35 and 36 of the Financial Statements.

At 30 June 2011, the committee comprised Warren Hodgson (Chairman), Terry Larkins, Merran Kelsall, Mary Anne Hartley and Eleanor Underwood. A report about the activities of the committee in fulfilling its charter is prepared biennially.

### Environment and Public Health Committee

Assists the Board in fulfilling its responsibilities relating to environmental sustainability and public health.

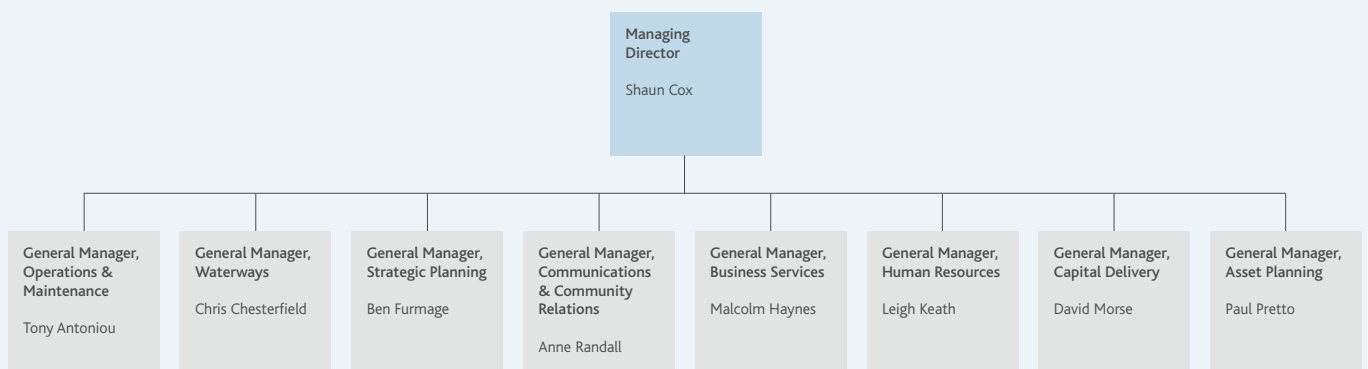
At 30 June 2011, the committee comprised Mary Anne Hartley (Chairman), Eleanor Underwood and Rob Joy (independent member). A report about the activities of the committee in fulfilling its charter is prepared biennially.

### Capital Planning and Delivery Committee

Assists the Board in fulfilling its governance responsibilities relating to the planning and delivery of capital projects. At 30 June 2011, the committee comprised Peter Vines (Chairman), Terry Larkins, Maria Wilton and Eleanor Underwood. A report about the activities of the committee in fulfilling its charter is prepared annually.

## ORGANISATIONAL STRUCTURE

Melbourne Water's organisational structure aims to facilitate a renewed focus on innovation to provide financial and environmental sustainability. It is based on the idea that our people and contractors responsible for operating and managing assets should have responsibility for maintaining them.



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# FINANCIAL REPORT

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## FIVE-YEAR FINANCIAL SUMMARY

### SUMMARY OF FINANCIAL RESULTS

#### STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June - Extract

	2011	2010	2009	2008	2007
	\$M	\$M	\$M	\$M	\$M
Revenue and other income	997.3	858.4	732.2	600.3	588.3
Operating and other expenses	328.0	326.6	330.6	318.5	246.9
Depreciation and amortisation expenses	231.9	122.0	105.8	87.5	77.4
Finance costs	223.3	171.3	122.0	100.8	86.6
<b>Net result from continuing operations before income tax expense</b>	<b>214.1</b>	<b>238.5</b>	<b>173.8</b>	<b>93.5</b>	<b>177.4</b>
Less: Income tax expense	56.2	52.1	45.8	25.9	43.9
<b>Profit for the period</b>	<b>157.8</b>	<b>186.4</b>	<b>128.0</b>	<b>67.6</b>	<b>133.5</b>
Dividends paid	26.5	79.8	72.0	99.4	86.6

#### STATEMENT OF FINANCIAL POSITION

As at 30 June - Extract

	2011	2010	2009	2008	2007
	\$M	\$M	\$M	\$M	\$M
Current assets	109.6	71.4	108.7	65.8	56.3
Non-current assets	9,644.8	8,876.9	5,312.4	4,369.7	3,912.6
<b>Total assets</b>	<b>9,754.5</b>	<b>8,948.3</b>	<b>5,421.1</b>	<b>4,435.5</b>	<b>3,968.9</b>
Current liabilities	1,365.5	1,096.5	862.3	541.5	382.2
Non-current liabilities	4,014.2	3,833.4	2,557.0	1,907.1	1,700.6
<b>Total liabilities</b>	<b>5,379.7</b>	<b>4,929.9</b>	<b>3,419.3</b>	<b>2,448.6</b>	<b>2,082.8</b>
<b>Net assets</b>	<b>4,374.8</b>	<b>4,018.4</b>	<b>2,001.8</b>	<b>1,986.9</b>	<b>1,886.1</b>
<b>Total equity</b>	<b>4,374.8</b>	<b>4,018.4</b>	<b>2,001.8</b>	<b>1,986.9</b>	<b>1,886.1</b>

#### STATEMENT OF CASH FLOWS

As at 30 June - Extract

	2011	2010	2009	2008	2007
	\$M	\$M	\$M	\$M	\$M
Net cash flows from operating activities	266.6	302.9	278.8	163.6	226.5
Payments for property, plant and equipment	814.3	955.5	939.2	367.8	213.3

## FIVE-YEAR FINANCIAL SUMMARY (CONTINUED)

### SUMMARY OF FINANCIAL PERFORMANCE

PERFORMANCE INDICATOR	2011	2010	2009	2008	2007
Internal Financing Ratio % = ((Net Operating Cashflow - Dividends)/Capital Expenditure)**	29.5%	23.4%	22.0%	17.5%	65.6%
Gearing Ratio % = (Total Debt/Total Assets)**	37.1%	34.3%	43.5%	36.7%	33.4%
Gearing Ratio % = (Total Debt/(Total Debt + Equity))*	45.3%	43.3%	54.1%	45.1%	41.3%
Interest Cover EBIT (Earnings Before Interest and Tax) Times = (EBIT/Net Interest Expense)**	2.0	2.4	2.4	1.9	3.0
Interest Cover (Cash) Times = (Cashflow from operations before net interest and tax payments/net interest payments)***	2.8	3.4	3.3	2.7	3.9
Return on Assets % = (Earnings Before Interest and Tax/Average Total Assets)**	4.7%	5.7%	6.0%	4.6%	6.8%
Return on Equity % = (Net Profit After Tax/Average Total Equity)**	3.8%	6.2%	6.4%	3.5%	7.2%
Return on Equity % = (Net Profit After Tax/Total Equity)*	3.6%	4.6%	6.1%	3.4%	7.1%
Cash Returns to Government \$M = (Dividends + Tax + Financial Accommodation Levy + Local Government Rates Equivalent Cash Payments)*	173.1M	175.9M	92.3M	114.6M	117.4M

#### Explanatory Notes:

\* Performance Indicator included in Melbourne Water's Corporate Plan

\*\* Performance Indicator mandated by the Minister for Water through Ministerial Reporting Direction 01 (Performance Reporting)

\*\*\* Performance Indicator mandated by the Minister for Water and included in Melbourne Water's Corporate Plan

During 2010/11 the Minister for Water issued Ministerial Reporting Direction 01 (Performance Reporting), which mandated the Corporation to report against a set of specific Performance Indicators. The Corporation was already reporting against a set of Board mandated financial Performance Indicators, most of which were measured on a different basis. Above is a five year summary of results for both the existing Board mandated and the new Minister for Water mandated financial Performance Indicators. Refer to the annual Performance Report at pages 102 to 110 for reporting of all 2010/11 Performance Indicators (financial and non financial) against targets with supporting explanations for any significant variations.

## DIRECTORS' REPORT

### Directors

The Directors of the Corporation in office, at the date of this report, are:

Eleanor Underwood (Chairman)	Mary Anne Hartley	Robert Skinner (Managing Director - resigned 11 March 2011)
Merran Kelsall (Deputy Chairman)	Terry Larkins	Shaun Cox (Managing Director - appointed 8 March 2011)
Warren Hodgson	Peter Vines	
	Maria Wilton	

Particulars of the Directors' qualifications, experience and special responsibilities are set out on pages 42, 43 and 44 of this report.

### Directors' meetings

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

Attendance at meetings of the Board and its Committees were:

	Board		Audit & Corporate Risk Committee		People & Safety Committee		Environment & Public Health Committee		Capital Planning & Delivery Committee	
	Attended	Maximum Possible	Attended	Maximum Possible	Attended	Maximum Possible	Attended	Maximum Possible	Attended	Maximum Possible
Eleanor Underwood	11	11	5	5	4	4	2	2	2	3
Merran Kelsall	10	11	5	5	2	4	-	-	3*	3
Warren Hodgson	9	11	3	5	3	4	-	-	-	-
Mary Anne Hartley	11	11	-	-	4	4	2	2	-	-
Terry Larkins	10	11	-	-	4	4	2*	2	2	3
Peter Vines	11	11	5	5	-	-	-	-	3	3
Maria Wilton	8	11	3	5	-	-	-	-	3	3
Robert Skinner <sup>^</sup>	6	7	1	4	2	3	1	1	1	2
Shaun Cox <sup>^ ^</sup>	4	4	1	1	1	1	1	1	1	1

\* Attended by invitation

<sup>^</sup> Resigned from the board on 11 March 2011

<sup>^ ^</sup> Appointed to the board on 8 March 2011

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## DIRECTORS' REPORT (CONTINUED)

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### **Director benefits**

No Director has received or become entitled to receive a benefit (other than a benefit included in Notes 37a and 37b 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 2011 or at any other time) with:

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

### **Director and officer liability insurance**

During the financial year, the Corporation paid insurance premiums in respect of director and officer liability insurance.

The policy does not specify a premium for individual directors and officers.

The director and officer liability insurance policy provides cover against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the Corporation) incurred in their position as director or officer unless the conduct involves a wilful breach of duty or an improper use of information or position to gain advantage.

The terms of the 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 financial year, other than the transactions detailed in Notes 37a and 37b to the Financial Statements.

### **Principal activities**

The Corporation is owned by the Victorian Government. The Corporation manages Melbourne's water supply catchments, removes and treats most of Melbourne's sewage, and manages rivers, creeks and major drainage systems throughout the Port Phillip and Westernport region. The Corporation also provides water and sewerage services to Melbourne's three retail water businesses: City West Water Ltd, South East Water Ltd and Yarra Valley Water Ltd.

### **Operating results and dividend**

The Corporation's net profit, after providing for income tax, was \$157.8 million (2009/10: \$186.4 million). The proposed interim and final dividend in relation to the 2010/11 financial year is \$45.8 million. Based on direction from DTF there was no interim dividend paid leaving \$45.8 million final payable (2009/10: \$73.3 million interim and final payable). This final amount payable is subject to final determination by the Treasurer after consultation with the Corporation's Board of Directors and the Minister for Water and consequently has not been recorded as a provision as at 30 June 2011.

### **Review of operations**

The Directors' review of the Corporation's operations during the financial period ended 30 June 2011, and the results of those operations are set out in the Managing Director's overview on page 2 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 2011.

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## ENVIRONMENTAL REGULATION

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The Corporation is subject to significant environmental regulation in respect of managing its sewage treatment plants, maintaining environmental flow requirements and managing Ramsar wetlands. Information on these topics is included in Melbourne Water's 2010/11 Annual Report.

### **Sewage treatment plants**

The Corporation's compliance with EPA Victoria discharge parameters was 100 per cent at the Eastern Treatment Plant and 100 per cent at the Western Treatment Plant. The other discharge licence requirements were met during the year.

EPA Victoria issued a Works Approval to Melbourne Water for an upgrade to the Eastern Treatment Plant in January 2010. The upgrade will improve treatment to reduce the impact from effluent discharged at Boags Rocks and will increase opportunities for recycled water from the Plant. The upgrade is scheduled to be completed by the end of 2012.

### **Ramsar sites at Western Treatment Plant and Edithvale Seaford Wetlands**

Melbourne Water has two sites that are listed under the Ramsar International Convention and these are broadly managed within the parameters of the Convention's "wise use" test, which aims to protect wetlands with internationally significant environmental values.

During the year the Ramsar Site Management Plan was revised for Western Treatment Plant and submitted to the Victorian Department of Sustainability and Environment and this revised Plan is being implemented as required. Improvement actions in the Compliance Plan, related to a referral under the Environment Protection and Biodiversity Conservation Act (EPBC) for Western Treatment Plant and improvements were implemented and performance against the Plan was reported as required during the year. A further referral for a Land Use Strategy at the site was a controlled action under the EPBC Act and preparation of a Compliance Plan for this started during the year. Once this Plan is approved a combined annual report will be prepared.

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The Edithvale-Seaford Wetlands Ramsar site Management Plan to ensure that site activities are managed as required was implemented as required. Actions required from a referral under the EPBC Act to construct and operate a Discovery Centre at the site were also implemented in the prescribed manner.

#### **Dandenong Treatment Plant**

The Corporation is rehabilitating the former Dandenong Treatment Plant site for redevelopment in partnership with VicUrban for both residential and industrial purposes. Remediation works to stockpile contaminated soils and biosolids, which was required under a Works Approval from EPA Victoria were completed during the year. A final report on the extent of clean up of groundwater was submitted to the EPA Victoria for their approval. Final approval on the audit is expected in 2011/12 so that this project can be completed.

#### **Environmental flow requirement - bulk entitlements**

The Corporation manages bulk entitlements to water from the Thomson, Maribyrnong and Yarra Rivers. During 2010/11, the qualifications on environmental flow requirements due to drought conditions were removed from the Yarra and Thomson Rivers. Requirements were met for all rivers with environmental flow entitlements.

#### **Environmental incidents**

During the year, there were two incidents related to works replacing water mains. Both incidents involved the discharge of turbid water to the stormwater system with one incident incurring a Penalty Infringement Notice from the EPA Victoria.

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## **IMPLEMENTATION OF THE VICTORIAN INDUSTRY PARTICIPATION POLICY**

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In accordance with the Victorian Industry Participation Policy Act 2003, the following Victorian Industry Participation Policy (VIPP) contracts commenced or were completed during the financial year 2010/11:

#### **Contracts commenced to which the VIPP applied:**

The Corporation commenced nine contracts totalling \$51.3 million in value to which VIPP applied. The total number and value of these relate to metropolitan contracts.


The commitments by contractors under VIPP included:

- An overall level of local content of 88.2 per cent of the total value of the contracts.
- 313 full time equivalent jobs.
- 11 full time equivalent apprenticeships and traineeships.
- A number of benefits to the Victorian economy in terms of skills and technology transfers were provided by contractors including:
  - Opportunities provided to subcontractors to work in partnership with the Pipelines Alliance to understand an alliance delivery contract;
  - Project specific training in new and emerging IT methodologies will be provided to contractor staff in partnership with Melbourne Water;
  - Training opportunities identified for first aid, confined space, working at heights and on plant and equipment, geomembrane welding and steel structure & roof cladding; and
  - Commitments were made to staff and apprentices for general training and skills development in green construction methodologies for a new data centre at Brooklyn Pumping Station.

#### **Contracts completed to which the VIPP applied:**

The Corporation completed eleven contracts totalling \$161.4 million in value to which VIPP applied. The total number and value of these relate to metropolitan contracts. The outcomes reported by contractors under VIPP included:

- An overall level of local content of 89.5 per cent of the total value of the contracts.
- 469 full time equivalent jobs.
- 6 full time equivalent apprenticeships and traineeships.
- All committed skills and technology transfer were achieved for these contracts. These skills included training in:
  - New skills developed in machine, mobile equipment, crane operating, operating pipe mill electronics and maintenance;
  - Employees and subcontractors developed new skills in GPS, Surveying, plant operator training including earth moving equipment and training in environmental management on site;
  - Training sessions for Melbourne Water staff on the operation and maintenance of the Mini Hydro Technology for the Sugarloaf Mini Hydro Plant. The construction of the plant promotes the generation of green electricity;
  - Operation of Tunnel Boring Machine;
  - First aid OHS, confined spaces and plant and equipment operation; and
  - Reo fixing, concrete formwork, concrete placement, concrete formwork, steel fixing and use of specialised mobile earthmoving equipment.



**Eleanor Underwood**  
Chairman



**Shaun Cox**  
Managing Director

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

		2011	2010
	Notes	\$'000	\$'000
Revenue	3(a)	975,231	848,116
Other Income	3(b)	22,077	10,255
Depreciation and amortisation expenses	4	(231,884)	(122,024)
Operational expenses	4	(111,223)	(119,514)
Employee benefits expenses	4	(75,065)	(72,504)
Repairs and maintenance expenses	4	(72,522)	(59,694)
Administrative expenses	4	(33,072)	(31,339)
Finance costs	4	(223,331)	(171,289)
Other expenses	4	(36,151)	(43,470)
<b>Net result from continuing operations before tax expense</b>		<b>214,060</b>	<b>238,537</b>
Tax expense	5 (a, b)	(56,218)	(52,121)
<b>Profit for the period after tax expense</b>	<b>26</b>	<b>157,842</b>	<b>186,416</b>
<b>Other comprehensive income/(expense) net of tax</b>			
Gain on revaluation of non-current assets	25	224,462	1,907,426
Net value (loss)/gain on cash flow hedges	25	(67)	79
<b>Total other comprehensive income/(expense) net of tax</b>		<b>224,395</b>	<b>1,907,505</b>
<b>Total comprehensive income for the period after tax expense</b>		<b>382,237</b>	<b>2,093,921</b>

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

## STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

		2011	2010
	Notes	\$'000	\$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6, 27	1,849	154
Trade and other receivables	7(a), 27	95,959	50,706
Other current assets	8	7,739	8,072
Other financial assets	10, 27	-	1,382
Biological assets	11	1,159	3,358
		<b>106,705</b>	<b>63,672</b>
Non-current assets classified as held for sale	9	2,937	7,716
<b>Total current assets</b>		<b>109,642</b>	<b>71,388</b>
<b>Non-current assets</b>			
Property, plant and equipment	12(a)	9,625,895	8,853,912
Intangible assets	12(b)	13,056	17,009
Other receivables	13, 27	5,679	5,427
Other non-current assets	14	200	547
<b>Total non-current assets</b>		<b>9,644,830</b>	<b>8,876,895</b>
<b>Total assets</b>		<b>9,754,472</b>	<b>8,948,283</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	15, 27	283,865	288,847
Interest bearing liabilities	16, 27	951,780	693,930
Provisions	17, 31, 32	94,618	51,961
Other financial liabilities	18, 27	-	1,197
Current tax liability	5(c)	35,232	60,537
<b>Total current liabilities</b>		<b>1,365,495</b>	<b>1,096,472</b>
<b>Non-current liabilities</b>			
Trade and other payables	19, 27	5,475	43,504
Interest bearing liabilities	20, 27	2,666,288	2,376,768
Provisions	21, 31, 32	8,492	57,760
Net deferred tax liabilities	22	1,326,931	1,345,374
Defined superannuation benefit liability	23, 33	6,976	9,953
<b>Total non-current liabilities</b>		<b>4,014,162</b>	<b>3,833,359</b>
<b>Total liabilities</b>		<b>5,379,657</b>	<b>4,929,831</b>
<b>Net assets</b>		<b>4,374,815</b>	<b>4,018,452</b>
<b>EQUITY</b>			
Contributed equity	24	559,952	559,326
Reserves	25	2,292,504	2,069,480
Retained profits	26	1,522,359	1,389,646
<b>Total equity</b>		<b>4,374,815</b>	<b>4,018,452</b>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

## STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

		Contributed Equity	Reserves	Retained Profits	Total
	Notes	\$000	\$000	\$000	\$000
Balance at 1 July 2010		559,326	2,069,480	1,389,646	4,018,452
<b>Comprehensive income for the period</b>					
Profit for the period after tax expense		-	-	157,842	157,842
Other comprehensive income for the period after tax expense		-	223,024	1,371	224,395
<b>Total comprehensive income for the period</b>	24, 25, 26	-	223,024	159,213	382,237
<b>Transactions with equity holders in their capacity as equity holders</b>					
Dividends paid	30	-	-	(26,500)	(26,500)
Net increase in contributed equity	24	626	-	-	626
<b>Total transactions with owners</b>		626	-	(26,500)	(25,874)
<b>Balance at 30 June 2011</b>	24, 25, 26	559,952	2,292,504	1,522,359	4,374,815
Balance at 1 July 2009		556,865	162,410	1,282,595	2,001,870
<b>Comprehensive income for the period</b>					
Profit for the period after tax expense		-	-	186,416	186,416
Other comprehensive income for the period after tax expense		-	1,907,070	435	1,907,505
<b>Total comprehensive income for the period</b>	24, 25, 26	-	1,907,070	186,851	2,093,921
<b>Transactions with equity holders in their capacity as equity holders</b>					
Dividends paid	30	-	-	(79,800)	(79,800)
Net increase in contributed equity	24	2,461	-	-	2,461
<b>Total transactions with owners</b>		2,461	-	(79,800)	(77,339)
<b>Balance at 30 June 2010</b>	24, 25, 26	559,326	2,069,480	1,389,646	4,018,452

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

		2011	2010
	Notes	\$000	\$000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of goods and service tax)		968,265	943,275
Payments to suppliers and employees (inclusive of goods and service tax)		(438,250)	(515,624)
Income tax paid		(116,625)	(74,107)
Interest received	3(a)	122	88
Interest and other costs of finance paid		(211,752)	(152,177)
Other receipts		64,865	101,486
<b>Net cash inflow from operating activities</b>	38	<b>266,626</b>	<b>302,941</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant, equipment and works in progress		(814,280)	(955,523)
Proceeds from sales of property, plant and equipment		28,479	19,315
<b>Net cash outflow from investing activities</b>		<b>(785,801)</b>	<b>(936,208)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	1(s), 2	1,394,179	1,839,321
Repayment of borrowings	1(s), 2	(846,379)	(1,125,021)
Repayments for outstanding finance lease liability		(430)	(1,245)
Dividends paid	30	(26,500)	(79,800)
<b>Net cash inflow from financing activities</b>		<b>520,870</b>	<b>633,255</b>
Net increase/(decrease) in cash and cash equivalents		1,695	(12)
Cash and cash equivalents at the beginning of the financial year		154	166
<b>Cash and cash equivalents at the end of the financial year</b>	6	<b>1,849</b>	<b>154</b>

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

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## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### **(a) Basis of Accounting**

#### ***(i) General***

These Financial Statements of Melbourne Water Corporation ('the Corporation') represent the audited general purpose financial report that consists of a Statement of 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 Australia interpretations, the requirements of the *Financial Management Act 1994* and applicable Ministerial Directions. These financial statements have been prepared on accrual and going concern bases. The Financial Statements were authorised for issue by the Directors on the 19th day of August 2011.

#### ***(ii) Accounting policies***

Unless otherwise stated, all accounting policies applied are consistent with those of the prior year. Where appropriate, comparative figures have been amended to accord with current presentation and disclosure made of material changes to comparatives.

#### ***(iii) Classification between current and non-current***

In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be realised or paid. The asset or liability is classified as current if it is expected to be turned over within the next twelve months, being the Corporation's operational cycle - see Note 1(l) for a variation in relation to employee benefits, and Note 1(s) 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, biological assets and financial instruments.

#### ***(vi) Critical accounting estimates***

The preparation of financial statements in conformity with Australian International Financial Reporting Standards (AIFRS) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Corporation's accounting policies. Areas involving a high degree of estimates and assumptions, which can materially impact the financial statements relate to the actuarial assumptions used to determine the Corporation's estimate of the fair value of infrastructure assets and defined superannuation benefit asset and employee benefit provisions. These assumptions and their related carrying amounts are discussed in Notes 1(l), 12, 17, 21, 31, 32 and 33.

### **(b) Revenue recognition**

#### ***(i) Water sales and sewage disposal charges***

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

Water sales and sewage disposal charges revenue is collected from the various retail water businesses.

The Essential Services Commission (ESC) regulates the prices and service standards for the provision of water and sewage 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*; and
- a Water Industry Regulatory Order made under section 4D of the *Water Industry Act 1994*.

#### ***(ii) Waterways charges***

Waterways charges are recognised in the year for which the rate is levied. Charges are levied either quarterly or annually. Waterways charges are collected by various retail water businesses on behalf of the Corporation. The Corporation engages the Victorian Auditor-General's Office to undertake an annual audit of collection processes and procedures by each of the retailers to ensure timely billing and collection. A lien is held over each property to ensure that any outstanding amounts are recovered upon sale of the property.

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

#### ***(iii) Developer charges and contributions and contributed assets***

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

#### ***(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 are recognised on signing of an unconditional contract of sale. Debtors are provided with commercial terms and are recognised in the Statement of Comprehensive Income on a net basis of sale proceeds less costs.

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## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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### **(vi) Government grants and contributions**

Grants from the Government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Corporation will comply with all required conditions.

Government Grants relating to costs are included as deferred income in liabilities and are recognised in the Statement of 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.

### **(c) 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, financial accommodation levy and the Treasury Corporation of Victoria administration fee.

### **(d) 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, plant and equipment assets used by the Corporation in its operations. Items with a cost or value in excess of \$500 (capitalisation threshold) and a useful life of more than one year are recognised as an asset.

All other assets acquired 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 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-current 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 DTF's Financial Reporting Direction 103D *Non-Current Physical Assets*.

Revaluations are conducted either independently (as required under FRD103D) or using management expertise and classified as a managerial revaluation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

The fair value of land and buildings is determined as the amount for which an asset could be exchanged between knowledgeable, willing parties, in an arm's length transaction. Crown land is measured with regard to the property's highest and best use after due consideration is made for any legal or constructive restrictions imposed on the asset. An independent valuation of the Corporations's land and buildings was performed by the Valuer General Victoria (VGV) in 2010/11 to determine the fair value of the land and buildings, in accordance with FRD 103D as explained in note 12(a)(i).

The fair value of infrastructure assets is determined using the 'income approach' (based on discounted cash flows), as explained further at Note 12 (a)(ii).

The fair value of the remaining plant and equipment (consisting of plant and equipment, leasehold improvements, fleet vehicles and works in progress) is determined based on cost less any accumulated depreciation and any accumulated impairment losses. This is deemed the most appropriate basis to approximate fair value given:

- there is no evidence that a reliable market based fair value or other relevant fair value indicators for these assets exists; and/or
- these assets are acquired and disposed of frequently, typically have short depreciable lives, and these assets are relatively low in value (with the exception of works in progress) compared to land and buildings and infrastructure assets.

#### **(iv) Impairment**

All 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. At 30 June 2011, no indicators of impairment were present.

#### **(v) Revaluations**

Revaluation increments are credited directly to equity in the revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of the same asset previously recognised as an expense in determining the net result, the increment is recognised as revenue in determining the net result.

Revaluation decrements are recognised immediately as expenses in the net result, except that, to the extent that a credit balance exists in the revaluation reserve in respect of the same class of asset, they are debited to the revaluation reserve.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (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.

### (e) *Depreciation and amortisation of non-current assets*

Where assets have separate identifiable components that have distinct useful lives and/or residual values, a separate depreciation rate is determined for each component.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, commencing from the time the asset is held ready for use. The assets residual values and useful lives are reviewed annually, and adjusted if appropriate, at the end of each reporting period.

Major depreciation and amortisation periods used are listed below and are consistent with the prior year:

Buildings	10 to 100 years
Leasehold improvements	3 to 10 years
Plant and equipment	3 to 50 years
Infrastructure assets	3 to 200 years
Fleet vehicles	3 to 10 years
Intangible assets	3 to 5 years

### f) *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 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 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 life of the asset.

#### (ii) *Operating leases*

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 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 to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a basis which reflects the time pattern in which economic benefits from the leased asset are consumed.

#### (iv) *Leasehold improvements*

Leasehold improvements are recognised at fair value less accumulated depreciation and accumulated impairment losses (as explained above in note 1(d)(iii)) and are amortised over the unexpired period of the lease or the estimated useful life of the improvement, whichever is the shorter.

### g) *Cash and cash equivalents*

For the purposes of the 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 three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Bank overdrafts (if applicable) are shown within interest bearing liabilities on the Statement of Financial Position.

### h) *Receivables*

All receivables are recognised at the amounts receivable less any allowance for doubtful debts. Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible 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 Comprehensive income.

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## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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### *i) Prepayments*

Other non-financial assets include prepayments which represent payments in advance of receipt of goods or services or that 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) Payables*

#### *(i) Trade and other payables*

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

#### *(ii) Creditors and accruals*

These amounts represent liabilities for goods and services provided to the Corporation prior to the end of the financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition or in accordance with contract terms.

#### *(iii) Interest payable*

Interest is 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.

### *l) Employee benefits*

#### *(i) Salaries and annual leave*

Liabilities for salaries, including non-monetary benefits expected to be settled within 12 months of the reporting period, are recognised in employee benefit liabilities in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled, at their nominal values. Employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Corporation, in respect of services rendered by employees up to the end of the reporting period. Regardless of the expected timing of settlements, provisions made in respect of employee benefits are classified as a current liability, unless there is an unconditional right to defer the settlement of the liability for at least 12 months after the reporting period, in which case it would be classified as a non-current liability.

#### *(ii) Sick leave*

Sick leave payments are made in accordance with relevant awards, determinations and Corporation policy. No provision is made in the financial statements for unused sick leave entitlements as these are non-vesting benefits.

#### *(iii) Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future salary levels, experience of employee departures and periods of service. Expected future cash payments are discounted using interest rates attached to the 10 year Commonwealth Government guaranteed securities as at the end of the reporting period with terms to maturity that closely match the estimated future cash outflows. Provisions made for unconditional long service leave (where the employee has a present entitlement to the benefit) are classified as a current liability. The non-current liability represents long service leave entitlements accrued for employees with less than 7 years of continuous service. Amounts expected to be paid within 12 months are measured at nominal value, and amounts expected to be paid beyond 12 months are measured at present value.

#### *(iv) Superannuation*

##### *Defined contribution plans*

Contributions to defined contribution superannuation plans are expensed when incurred.

##### *Defined benefit plans*

A liability or asset in respect of the Corporation's equisuper defined superannuation 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 superannuation plan's assets at that date. The present value of benefits at accrued benefits is based on expected future payments which arise from membership of the plans 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 rates of the 10 year Commonwealth Government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The amount brought to account in the Statement of Comprehensive Income in respect of superannuation represents the contributions made to the superannuation plan, adjusted by the movement in the defined benefit plan liability or asset which is determined annually by actuarial assessment.

#### *(v) Termination benefits*

Liabilities for termination benefits are recognised when the Corporation is demonstrably committed to terminating 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 Commonwealth Government bonds with terms to maturity that matches as closely as possible, the estimated future cashflows.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **(vi) Employee benefit 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 a percentage of the annual salary package provided under their contracts of employment. A liability is recognised and is measured as the aggregate of the amounts accrued under the term of the contracts at the end of the reporting period.

### **(viii) WorkCover**

The Corporation is registered as a self-insurer for workers compensation and is liable to the workers or workers' dependants to pay compensation under the *Accident Compensation Act 1985*. An independent actuarial assessment is obtained for outstanding claims incurred and not settled, and for claims incurred but not reported as at 30 June 2011 which are recognised as a liability. Other claims incurred and settled during the period are charged to the Statement of 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 WorkCover Authority as part of its WorkCover self insurance commitments.

Refer to note 32(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 WorkCare (now WorkCover) in 1985. An independent actuarial assessment is obtained for all outstanding workers compensation claims as at 30 June 2011, which are recognised as a liability.

Refer to note 32(ii) for details of the independent actuarial assessment.

### **m) Taxation**

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

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national corporate income tax rate of 30%, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rate expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantially enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences if they arose in a transaction, that at the time of the transaction did not affect either accounting profit or taxable profit or loss. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Current and deferred tax is recognised in 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.

### **n) Dividend policy**

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

### **o) Smart Water Fund**

The Smart Water Fund was established by the Victorian Government and is managed by the Corporation and the three retail water businesses for the purpose of providing grant funding to support the development of sustainable water use projects. Each water business has a 25 per cent interest in the Fund.

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

### **p) Goods and Services Tax**

Revenues, expenses and assets are recognised net of goods and services tax (GST), unless GST incurred is not recoverable from the ATO. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables (including commitments) 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 Cashflows on a gross basis (i.e. inclusive of GST).

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

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## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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### **q) Intangible assets and research & development costs**

#### **(i) Intangible assets**

Intangible assets (primarily consisting of Information Technology software) represent identifiable non-monetary assets without physical substance. Intangible assets are measured at cost less accumulated amortisation and impairment. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the Corporation.

Amortisation is allocated to intangible assets with finite useful lives on a systematic basis over the asset's useful life. Amortisation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each annual reporting period. In addition, an assessment is made at each reporting 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.

#### **(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 as incurred.

### **r) Biological assets**

Livestock, including cattle and sheep, are held in connection with operating the Corporation's Werribee Agriculture Operations.

#### **Determination of net increment/decrement of fair value less estimated point-of-sale costs**

Livestock is measured at fair value less estimated point of sale costs. The fair value of trading livestock is determined with reference to market prices at the end of each reporting period. The fair value of non-trading livestock is determined by independent valuation at the end of each reporting period.

Changes to the fair value of livestock assets are recognised as a gain or loss in the Statement of Comprehensive Income in the period in which it arises.

### **s) Interest Bearing Liabilities**

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

The Corporation's borrowings currently comprises of floating rate note (FRN) loans, fixed interest loans and an overnight loan facility. Floating Rate Note (FRNs) loans are fixed term loans with a margin that is reset to a variable interest rate every ninety days. Generally, these notes are issued with maturity terms between 3 and 5 years. Fixed interest loans are interest only loans with the full face value repaid at maturity or refinanced for a new term. Most have maturity terms set between 1 and 12 years (2009/10: 1 and 12 years). The overnight loan facility interest rates are floating rates that fluctuate with the cash rate.

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest 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. See Note 2 for further details on financing arrangements and risk management.

### **t) 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.

### **u) Cash flow hedges**

In order to hedge the effect of foreign exchange rate movements on the fair values of assets purchased, the Corporation occasionally enters into forward foreign exchange contracts. These hedges are classified as cash flow hedges with the associated gains or losses recognised directly in equity. As the hedged firm commitment results in the recognition of an asset, the associated gains/losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost. These are accounted for at settlement date. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Comprehensive Income.

At any point in time, any cumulative gain or loss on the cash flow hedge is retained in equity until the forecast transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Statement of Comprehensive Income.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **v) Provisions, Contingent Assets and Contingent Liabilities**

Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at 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.

Provisions for Gainshare on Capital Projects and Remediation Works are included within the cost of the non-current physical assets they are directly attributable to in accordance with criteria in note 1(d).

Contingent assets and contingent liabilities are not recognised in the Financial Statements but are disclosed by way of a note, and if quantifiable, are measured at nominal value.

### **w) 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.

The Corporation assesses project costs of all commitments for inclusion in pricing submissions to the Essential Services Commission.

### **x) Contributed equity**

Additions/disposals to net assets are designated as contributed equity when approved by the Minister for Finance and have met the requirements of FRD 119 *Contributions By Owners*. Other transfers that are in the nature of contributions or distributions have also been designated as contributed equity.

### **y) New Accounting Standards and Interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Corporation has not and does not intend to adopt these standards early. The Corporation's assessment of the impact of these new standards and interpretations is set out below:

#### **(i) AASB 9 Financial Instruments, AASB 2009-11 and AASB 2010-7 (December 2010) Amendments to Australian Accounting Standards arising from AASB 9**

The revised AASB 9 is effective for annual reporting periods commencing on or after 1 January 2013. It address the classification and measurement of financial assets. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. The Corporation is currently assessing the impact and expects that it will not be significant as all financial assets are currently measured at amortised cost.

#### **(ii) AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards arising from AASB 124**

The revised AASB 124 is effective for annual reporting periods commencing on or after 1 January 2011. It provides a partial exemption from related party disclosure requirements for government-related entities, clarifies the definition of a related party. The Corporation is currently assessing the impact and expects a reduction in compulsory related party disclosures.

#### **(iii) AASB 1053 Application of Different Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements**

AASB 1053 and AASB 2010-2 are applicable to annual reporting periods commencing on or after 1 July 2013. AASB 1053 establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements. AASB 2010-2 makes amendments to many Australian Accounting Standards, including Interpretations, to introduce reduced disclosure requirements to the pronouncements for application by certain types of entities. The Corporation meets the requirements for reduced disclosures. However, it does not expect any material changes as it is expected that Tier 1 will be mandated to apply.

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## 2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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### **(a) Principal financial instruments**

The Corporation's principal financial instruments comprise of (as per Note 27):

- (i) Cash assets;
- (ii) Receivables;
- (iii) Derivatives;
- (iv) Payables;
- (v) Lease liabilities;
- (vi) Advances; and
- (vii) Borrowings.

### **(b) Financial risk management objectives**

The objectives of the Corporation's Financial Risk Management Guidelines and Procedures are to;

- (i) Manage the daily and long term liquidity needs of the Corporation;
- (ii) Optimise cash resources, in such a way as to minimise net financing costs and maximise the repayment of debt within acceptable levels of risk;
- (iii) Ensure that all financial and treasury management operational exposures are fully identified, quantified, planned, approved and managed; and
- (iv) Safeguard the organisation's financial resources by maintaining appropriate internal control over the corporate treasury functions.

These objectives are consistent with the Corporate Risk Management Policy and Framework of the Corporation, the Corporation's Commercial Management Policy, the Treasury Management Guidelines issued by the Department of Treasury and Finance and the Victorian Public Sector Debt Management Objectives.

### **(c) Financial risk management strategy**

The Corporation manages financial risk by maintenance of approved debt portfolio structure and strategic targets. This includes:

#### **(i) Portfolio composition (i.e. fixed, floating, indexed exposure):**

The Corporation's debt portfolio is managed within the bands of:

Floating interest rate borrowings	10-40%
Fixed interest rate borrowings	60-90%

#### **(ii) Physical maturity profile:**

Debt maturity of fixed and floating interest rate borrowings (excluding 11 am account) is not to exceed 20% of the total debt portfolio in any year

#### **(iii) Interest rate risk profile:**

Fixed and floating interest rate borrowings to be re-priced within one year do not exceed 40% of the total debt portfolio.

Forward rate agreements are used occasionally where it is perceived that a lower interest rate can be achieved. The purchase of forward agreements is limited in terms of volume and time, and is subject to a maximum term of 18 months forward.

### **(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 annual approval, permitting new borrowings and the refinancing of all loan maturities for that year. All funding is sourced from the Treasury Corporation of Victoria.

The Corporation's total approved maximum borrowing of \$3,914.7 million (2009/10: \$3,456.8 million) was not exceeded at any stage throughout 2010/11.

### **e) Capital Management**

The Corporation manages its finances in order to maintain a satisfactory gearing ratio, to provide adequate returns, maintain its current credit rating and to ensure that it can fund its operations as a going concern.

There have been no changes to the strategy adopted by the Corporation to manage its finances during the year. The current gearing levels are considered appropriate given the Corporation's current and future funding requirements.

The only externally imposed capital requirements of the Corporation are that:

- financial accommodation does not exceed the approval limits set by the Treasurer of Victoria pursuant to the *Borrowing and Investment Powers Act (1987)*; and
- the Corporation, with the exception of a trading account with overdraft facilities, is required to borrow exclusively with the Treasury Corporation of Victoria.

The Corporation's gearing ratio (debt/(debt+equity)) for 30 June 2011 was 45.3% (2009/10: 43.3%). The increase compared to 2009/10 is mainly attributed to increased borrowing as a result of capital expenditure on projects.

Gearing is one of a number of commercial benchmarks that are considered by the Board when considering the capital structure and are approved via the Corporate Plan.

## 2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### ***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 comprises 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. There is insignificant exposure to foreign exchange and other price 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 assets purchased in excess of AUD\$100k (This has been increased to AUD\$1million for the 2011/12 financial year). The Corporation's policy requires all hedging to be undertaken through the Treasury Corporation of Victoria in the form of forward foreign exchange contracts.

Forward rate agreements are used occasionally where it is perceived that a lower interest rate can be achieved. The purchase of forward agreements is limited in terms of volume and time, and is subject to a maximum term of 18 months forward.

At 30 June 2011, the Corporation does not have any material forward exchange contracts.

#### ***(ii) Price risk***

The Corporation is not exposed to any material commodity price risk.

#### ***(iii) Interest rate risk sensitivity analysis***

Exposures arise predominantly from liabilities bearing variable interest rates as the Corporation intends to hold fixed rate liabilities to maturity. At 30 June 2011, if interest rates had changed by +/- 50 basis points from the year end rates with all other variables held constant, pre-tax profit would have been \$4.3 million higher/lower (2009/10: \$3.7 million).

### ***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 doubtful debts. Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written-off. A provision for doubtful debts is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of receivables.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of Comprehensive Income.

As Trade Debtors are made up predominantly by the metropolitan retail water businesses, the Corporation's exposure to credit risk is minimal. 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 14 days.

The major exposure to credit risk arises from Other Receivables, which have been recognised net of any provision for doubtful debts. The receivable balance consists of a large number of residential and business customers which are spread across a diverse range of industries. Receivable balances are monitored on an on-going basis to ensure that exposure to bad debts is not significant. The Corporation has in place a policy and procedure for the collection of overdue receivables.

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

### ***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 Department of Treasury and Finance (DTF) for new borrowings, borrowings to refinance maturing and non-maturing loans and temporary purpose borrowing facilities.

The Corporation's financial risk management policies are driven towards optimal utilisation of cash with all funds invested repaid in borrowings. This results in a working capital deficiency of \$1,255.6 million (2009/10: \$1,025.1 million) at the end of the reporting period. The deficiency occurs at a point in time only due to timing of revenue receipt and does not reflect the permanent situation of the Corporation. This deficiency is funded by the financing arrangement with the Treasury Corporation of Victoria and there is no reason to indicate that the Corporation cannot pay its debts as and when they fall due.

The Corporation's financial liability maturities have been disclosed in Note 27.

### 3 REVENUE AND OTHER INCOME

		2011	2010
	Notes	\$000	\$000
<b>a) Revenue</b>			
<b>Sales revenue</b>			
Water sales		379,702	325,463
Sewage disposal charges		308,156	249,233
Waterways charges		197,849	182,947
		<b>885,707</b>	<b>757,643</b>
<b>Other revenue</b>			
Developer charges and contributions		52,837	44,341
Developer contributed assets	38	23,250	21,985
Interest revenue		122	88
Biological assets		6,001	15,269
Licence fees received		2,619	2,471
Bad and doubtful debt expenses recovered		-	10
Miscellaneous		4,695	6,309
		<b>89,524</b>	<b>90,473</b>
<b>Total revenue</b>		<b>975,231</b>	<b>848,116</b>
<b>b) Other income</b>			
Defined benefit plan superannuation income	33(e)	1,040	-
Net gain on disposal of property, plant and equipment	38	16,288	2,003
Government grants*		3,211	3,928
Gain/(loss) arising from changes in fair value less estimated point of sale costs of biological assets		10	(640)
Gain arising from initial recognition of agricultural produce		1,528	4,964
<b>Total other income</b>		<b>22,077</b>	<b>10,255</b>
<b>Total revenue and other income</b>		<b>997,308</b>	<b>858,371</b>

#### \*Government grants

Government grants of \$3.2 million (2009/10: \$3.9 million) were recognised as other income by the Corporation during 2010/11 for various projects including the \$10 million stormwater project and Water Watch program.

All conditions attached to Government grants have been satisfied prior to their recognition in the Statement of Comprehensive Income. The recognition of Government grants with unfulfilled conditions have been recognised as deferred income (included in advances within trade and other payables) in the Statement of Financial Position.

## 4 EXPENSES

		2011	2010
	Notes	\$'000	\$'000
<b><i>Depreciation and amortisation expenses</i></b>			
<b>Depreciation</b>			
Buildings	12(c)	767	806
Leasehold improvements	12(c)	518	564
Plant and equipment	12(c)	7,756	6,728
Infrastructure assets	12(c)	213,428	106,687
Fleet vehicles	12(c)	692	94
<b>Total depreciation</b>		<b>223,161</b>	<b>114,879</b>
<b>Amortisation</b>			
Infrastructure assets under finance leases	12(c)	2,115	1,621
Intangible assets	12(d)	6,608	5,524
<b>Total amortisation</b>		<b>8,723</b>	<b>7,145</b>
<b>Total depreciation and amortisation expenses</b>	<b>12(c)</b>	<b>231,884</b>	<b>122,024</b>
<b><i>Operational expenses</i></b>			
Materials, chemicals and laboratory expenses		13,705	12,789
Energy expenses (including renewable energy)		23,121	20,221
Agricultural expenses		8,454	21,536
External expenses		2,923	3,954
Transport expenses		4,859	6,264
Grants and contributions expenses		11,941	11,321
External professional services expenses		10,330	9,391
Contract works		28,427	27,735
Other expenses		7,464	6,303
<b>Total operational expenses</b>		<b>111,223</b>	<b>119,514</b>
<b><i>Employee benefits expenses</i></b>			
Salary expenses		56,017	51,857
Post employment benefits		4,860	5,007
Annual, long service and shift leave expenses		7,242	7,655
Other employee expenses		6,946	7,985
<b>Total employee benefits expenses</b>		<b>75,065</b>	<b>72,504</b>
<b><i>Repairs and maintenance expenses</i></b>			
Repairs and maintenance		69,431	57,447
Information technology maintenance		3,091	2,247
<b>Total repairs and maintenance expenses</b>		<b>72,522</b>	<b>59,694</b>
<b><i>Administrative expenses</i></b>			
Waterways charges billings and collection		9,941	9,380
Information technology & telecommunication expenses		11,781	10,981
Legal expenses		1,071	1,678
Education and training expenses		2,912	3,123
Advertising expenses		609	1,094
Other expenses		6,758	5,083
<b>Total administrative expenses</b>		<b>33,072</b>	<b>31,339</b>

#### 4 EXPENSES (CONTINUED)

		2011	2010
	Notes	\$000	\$000
<b><i>Finance costs</i></b>			
Interest expense		194,530	150,942
Treasury Corporation of Victoria fees		18	40
Financial accommodation levy		28,783	20,307
<b>Total finance costs</b>		<b>223,331</b>	<b>171,289</b>
<b><i>Other expenses</i></b>			
Government rates and taxes (including land tax, FBT and other)		20,647	20,179
Rental and lease expenses		3,209	3,670
Bad and doubtful debt expenses		46	-
Assets written off/written down	38	10,005	14,774
Defined benefit superannuation expense	33(e)	-	3,002
Other expenses		2,244	1,845
<b>Total other expenses</b>		<b>36,151</b>	<b>43,470</b>
<b>Total expenses</b>		<b>783,248</b>	<b>619,834</b>

#### 5 INCOME TAX

		2011	2010
	Notes	\$000	\$000
<b><i>(a) Components of tax expense</i></b>			
Current tax		93,362	81,731
Deferred tax relating to temporary differences		(35,092)	(27,334)
Adjustments for current tax of prior periods		(2,052)	(2,276)
		<b>56,218</b>	<b>52,121</b>
<b><i>(b) Numerical reconciliation of income tax to prima facie tax payable</i></b>			
Profit before income tax expense		214,060	238,537
Tax at the Australian tax rate of 30% (2009/10: 30%)		64,218	71,561
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Adjustment in respect of income tax of previous year		(2,052)	(2,276)
Non assessable and non deductible for income tax purposes		(917)	420
Deductible expenses not booked		(1,226)	(16,133)
Research and development concession		(3,806)	(1,451)
<b>Income tax as reported in the Statement of Comprehensive Income</b>		<b>56,218</b>	<b>52,121</b>
<b><i>(c) Income tax (payable)/receivable</i></b>			
Current tax (payable)/receivable		(35,232)	(60,537)
<b>Total income tax (payable)/receivable</b>		<b>(35,232)</b>	<b>(60,537)</b>
<b><i>(d) Income tax recognised in other comprehensive income</i></b>			
Deferred tax arising on items recognised in other comprehensive income:			
Gain on revaluation of infrastructure assets	25	4,826	817,469
Gain on revaluation of land and buildings	25	11,844	-
Net value (loss)/gain on cash flow hedges	25	(26)	14
<b>Total income tax recognised in other comprehensive income</b>	<b>22, 25</b>	<b>16,644</b>	<b>817,483</b>

## 5 INCOME TAX (CONTINUED)

### *(e) Change in tax rate*

During the 2009/10 financial year, the Australian Government announced its intention to reduce the company tax rate to 29% for the 2013-14 tax income year and to 28% from the 2014-15 tax income year. At the date of this financial report, the proposed changes have not been substantively enacted. Accordingly, any potential financial impact of these changes has not been recognised in the financial statements.

## 6 CURRENT ASSETS - CASH AND CASH EQUIVALENTS

		2011	2010
	Notes	\$000	\$000
Cash on hand		18	15
Cash at bank		1,812	139
Cash advances		19	-
<b>Total current assets - cash and cash equivalents</b>	<b>27</b>	<b>1,849</b>	<b>154</b>

## 7 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

		2011	2010
	Notes	\$000	\$000
<b><i>(a) Current assets - Trade and other receivables</i></b>			
Trade debtors	27	32,690	21,233
<b>Other receivables</b>			
Other receivables		27,121	21,467
Other receivables - Northern Victoria Irrigation Renewal Project	28 (g)	29,300	-
Net GST receivable from the Australian Tax Office		6,895	8,007
Less: provision for impaired other receivables		(47)	(1)
	27	63,269	29,473
<b>Total current assets - trade and other receivables</b>		<b>95,959</b>	<b>50,706</b>

### *(b) Ageing Analysis of Receivables*

All receivables are recognised at the amounts receivable less any allowance for impaired receivables. Collectability of receivables is reviewed on an ongoing basis. Debts, which are known to be uncollectable, are written-off.

A provision for impaired receivables 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 Comprehensive Income.

30 June 2011		Current				Past Due but not Impaired		Total
		0-30 days	31-60 days	61-90 days	91 days +	Impaired		
Notes		\$000	\$000	\$000	\$000	\$000	\$000	
Receivables								
Trade debtors	7(a)	12,786	14,358	5,526	20	-		32,690
Other receivables	7(a), 13	26,014	7,446	14,928	20,606	(47)		68,948
<b>Total Receivables</b>		<b>38,800</b>	<b>21,804</b>	<b>20,454</b>	<b>20,626</b>	<b>(47)</b>		<b>101,638</b>

## 7 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES (CONTINUED)

30 June 2010		Current	Past Due but not Impaired			Impaired	Total
		0-30 days	31-60 days	61-90 days	91 days +		
Notes		\$000	\$000	\$000	\$000	\$000	\$000
<b>Receivables</b>							
Trade debtors	7(a)	9,916	8,733	2,487	97	-	21,233
Other receivables	7(a), 13	29,187	275	11	5,428	(1)	34,900
<b>Total Receivables</b>		<b>39,103</b>	<b>9,008</b>	<b>2,498</b>	<b>5,525</b>	<b>(1)</b>	<b>56,133</b>

## 8 CURRENT ASSETS - OTHER CURRENT ASSETS

	2011	2010
Notes	\$000	\$000
Prepayments	2,308	2,685
Stores	5,430	5,387
<b>Total current assets - other current assets</b>	<b>7,739</b>	<b>8,072</b>

## 9 CURRENT ASSETS - NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	2011	2010
Notes	\$000	\$000
Property, plant and equipment - held for sale*	2,937	7,716
<b>Total current assets - non-current assets classified as held for sale</b>	<b>2,937</b>	<b>7,716</b>

\* The Corporation currently holds 171 lots of land for sale as part of the Riverwalk (Western Treatment Plant) and Dandenong Treatment Plant developments. These lots were being marketed for private sale by VicUrban during the 2010/11 financial year. At 30 June 2011, these lots were still on the market and an active program is underway to locate buyers.

Of the 151 lots of surplus land recorded as held for sale at 30 June 2010, 148 were sold in the 2010/11 financial year and are no longer recorded within held for sale assets. The remaining lots were still on the market and an active program is underway to locate buyers at 30 June 2011.

## 10 CURRENT ASSETS - OTHER FINANCIAL ASSETS

	2011	2010
Notes	\$000	\$000
Forward foreign exchange contracts	-	1,382
<b>Total current assets - other financial assets</b>	<b>27</b>	<b>1,382</b>

In order to hedge the effect of foreign currency exchange rate movements on the fair values of assets purchased from overseas, the Corporation enters into forward exchange agreements to facilitate payments to suppliers.

These forward contracts are hedging highly probable forecast purchases. The contracts are timed to mature when payments for assets are scheduled to be made. However, the timing of payment is dependent on delivery of the assets. At 30 June 2011, there were no foreign purchase payments outstanding (2009/10: three payments outstanding).

No foreign exchange gain or loss was transferred to the Statement of Comprehensive Income and a loss of \$78k (2009/10: gain of \$93k) was recognised in equity during the reporting period.

## 11 CURRENT AND NON-CURRENT ASSETS - BIOLOGICAL ASSETS

### (a) Nature of Biological assets

The Corporation operates an agricultural trading operation (Werribee Agriculture (WAG)) managing 623 cattle (2009/10: 5,546) and 2,821 sheep (2009/10: 3,453) at 30 June 2011. This operation is based principally at the Western Treatment Plant (WTP).

In 2009/10, the Corporation and MPH Agriculture (MPH), finalised outsourcing arrangements consistent with the implementation of the Corporation's *Western Treatment Plant Land Use Strategy*. The Corporation is working collaboratively with MPH to enable a greater understanding of the site and determine the business plan best suited to the long term sustainable management of the farm. During the two year initial collaborative period (ending in April 2012), MPH will take responsibility for the operation of WAG prior to entering into a twenty year lease agreement. The first stage of the arrangements includes the sale of the Corporation's livestock, which has resulted in a significant decrease in biological assets at 30 June 2011, with the reduction of remaining livestock numbers via sale within the next 12 months.

### (b) (i) Reconciliation of fair value of livestock biological assets for 2010/11

	Cattle	Sheep	Total
	\$000	\$000	\$000
<b>Biological Assets</b>			
Fair value at beginning of period	2,674	305	2,979
Gain arising from changes in fair value less estimated point of sale costs attributable to physical changes	962	-	962
Gain arising from changes in fair value less estimated point of sale costs attributable to price changes	38	20	58
Increases attributable to births	48	-	48
Decreases attributable to sales	(3,239)	(54)	(3,293)
Decreases attributable to death	(57)	(9)	(66)
<b>Fair value at end of period</b>	<b>426</b>	<b>262</b>	<b>688</b>

### (b) (ii) Reconciliation of fair value of livestock biological assets for 2009/10

	Cattle	Sheep	Total
	\$000	\$000	\$000
<b>Biological Assets</b>			
Fair value at beginning of period	10,936	1,638	12,574
Increases due to purchases	288	170	458
Gain arising from changes in fair value less estimated point of sale costs attributable to physical changes	1,740	27	1,767
Loss/(gain) arising from changes in fair value less estimated point of sale costs attributable to price changes	(716)	150	(566)
Increases attributable to births	1,635	925	2,560
Decreases attributable to sales	(10,962)	(2,554)	(13,516)
Decreases attributable to death	(247)	(51)	(298)
<b>Fair value at end of period</b>	<b>2,674</b>	<b>305</b>	<b>2,979</b>

## 11 CURRENT AND NON-CURRENT ASSETS - BIOLOGICAL ASSETS (CONTINUED)

### *(c) Reconciliation of fair value of wool and hay/crops biological assets*

	2011	2010
Notes	\$000	\$000
Fair value at beginning of period	379	683
Fair value less estimated point of sale costs of agricultural produce harvested during the period	518	637
Loss arising from changes in fair value less point of sale costs attributable to price changes	(48)	(74)
Decreases attributable to sales	(238)	(927)
Decreases attributable to internal consumption	(259)	-
Increases due to purchases	119	60
<b>Fair value at end of period</b>	<b>471</b>	<b>379</b>

### *(d) Representing Biological Assets:*

	2011	2010
Notes	\$000	\$000
Current biological assets	1,159	3,358
<b>Total Biological Assets</b>	<b>1,159</b>	<b>3,358</b>

### *(e) Significant Assumptions*

Market values for each herd type are determined after assessing a number of key independent market indicators to ensure the values determined are representative of the full herd.

#### **Cattle:**

##### *Trading cattle*

Prices for these cattle generally reflect the shorter term spot prices available in the market place. Relevant market indicators include the carcass weight rates published by the Meat and Livestock Australia Ltd (MLA).

#### **Sheep:**

##### *Trading sheep*

Prices for these sheep generally reflect the shorter term spot prices available in the market place. Relevant market indicators include the carcass weight rates published by MLA.

#### **Herd numbers**

	2011	2010
Notes	\$000	\$000
<b>Cattle</b>		
Trading	623	5,546
<b>Sheep</b>		
Trading	2,821	3,453
<b>Total</b>	<b>3,444</b>	<b>8,999</b>

## 12 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	2011	2010
Notes	\$000	\$000
<b><i>(a) Classes of property, plant and equipment</i></b>		
<b>Land</b>		
Crown land at fair value	133,774	88,292
Freehold land at fair value	1,007,921	823,766
<b>Total land (i)</b>	<b>1,141,695</b>	<b>912,058</b>
<b>Buildings</b>		
Buildings at fair value	19,575	19,523
Less: accumulated depreciation	(23)	(2,619)
<b>Total buildings (i)</b>	<b>19,552</b>	<b>16,904</b>
<b>Leasehold improvements</b>		
Leasehold improvements at fair value	7,054	7,054
Less: accumulated depreciation	(6,761)	(6,243)
<b>Total leasehold improvements</b>	<b>293</b>	<b>811</b>
<b>Plant and equipment</b>		
Plant and equipment at fair value	67,960	65,826
Less: accumulated depreciation	(50,622)	(48,991)
<b>Total plant and equipment</b>	<b>17,338</b>	<b>16,836</b>
<b>Fleet vehicles</b>		
Fleet vehicles at fair value	4,746	1,442
Less: accumulated depreciation	(797)	(94)
<b>Total fleet vehicles</b>	<b>3,949</b>	<b>1,348</b>
<b>Infrastructure assets</b>		
Infrastructure assets at fair value	6,700,657	6,466,163
Less: accumulated depreciation	-	-
<b>Sub total infrastructure assets</b>	<b>6,700,657</b>	<b>6,466,163</b>
Infrastructure assets under finance lease at fair value	39,490	41,551
Less: accumulated amortisation	-	-
<b>Sub total infrastructure assets under finance lease at fair value</b>	<b>39,490</b>	<b>41,551</b>
<b>Total infrastructure assets (ii)</b>	<b>6,740,147</b>	<b>6,507,714</b>
<b>Capital works in progress at fair value</b>	<b>1,702,921</b>	<b>1,398,241</b>
<b>Total non-current assets - property, plant and equipment</b>	<b>9,625,895</b>	<b>8,853,912</b>

### ***(i) Valuations of land and buildings***

An independent valuation of the Corporations's land and buildings was performed by the Valuer General Victoria (VGV) in 2010/11 to determine the fair value of the land and buildings, in accordance with Financial Reporting Direction 103D (Non-Current Physical Assets). The valuation, which conforms to Australian Valuation Standards, was determined by reference to recent market transactions on arm's length terms. The effective date of the revaluation was 30 June 2011.

## 12 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

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

	2011	2010
Notes	\$000	\$000
Land	742,344	743,953
Buildings	27,239	23,575
<b>Total</b>	<b>769,583</b>	<b>767,528</b>

### (ii) Valuations of infrastructure assets

A fair value assessment of infrastructure assets has been performed by management at 30 June 2011, using the 'income approach' (discounted cash flow) method. The discounted cash flow method estimates fair market value by discounting reliable estimates of future cash flows to their present values. An independent review of the Weighted Average Cost of Capital input into the fair value assessment was performed by Deloitte. There were no major changes to the significant assumptions used in determining fair value since 30 June 2010 as summarised below:

- Nominal after tax discount rate in the range of 6.25% to 6.5%
- Long term inflation of 2.5%
- Eight year valuation model life (based on two water plan periods, one known and one estimated)

The last independent valuation of infrastructure assets was performed at 30 June 2010 by Deloitte.

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

	2011	2010
Notes	\$000	\$000
Infrastructure assets - Owned	4,059,666	3,758,666
Infrastructure assets - Under finance lease	22,532	24,153
<b>Total</b>	<b>4,082,198</b>	<b>3,782,819</b>

### (iii) Impairment

Property, plant and equipment is assessed for indicators of impairment on an annual basis. At 30 June 2011, no indicators of impairment were identified (30 June 2010: Nil).

### (b) Intangible assets

	2011	2010
Notes	\$000	\$000
Intangible assets at cost	35,938	37,713
<b>Less: accumulated amortisation</b>	<b>(22,882)</b>	<b>(20,704)</b>
<b>Total non-current assets - intangible assets</b>	<b>13,056</b>	<b>17,009</b>

### (c) (i) Reconciliation of movement in property, plant and equipment and intangible assets for 2010/11

2010/11	Crown Land at fair value	Freehold land at fair value	Buildings at fair value	Leasehold improvements at fair value	Plant and equipment at fair value	Fleet Vehicles at fair value	Infrastructure assets at fair value	Infrastructure assets under finance lease at fair value	Works in progress at fair value	Total	Intangible assets at cost
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Carrying amount at 1 July 2010	88,292	823,766	16,904	811	16,836	1,348	6,466,163	41,551	1,398,241	8,853,911	17,009
Additions	627	10,432	7,068	-	8,304	3,294	438,822	-	-	468,547	3,456
Disposals	-	(11,904)	(31)	-	(46)	-	(9,243)	(40)	-	(21,264)	(801)
Depreciation/amortisation	-	-	(767)	(518)	(7,756)	(692)	(213,428)	(2,115)	-	(225,276)	(6,608)
Transfers between classes	-	-	(2,352)	-	-	-	2,352	-	-	-	-
Decrease in assets classified as held for sale	-	4,165	-	-	-	-	-	-	-	4,165	-
Revaluation increments	44,855	181,462	-	-	-	-	15,991	94	-	242,402	-
Revaluation decrements	-	-	(1,270)	-	-	-	-	-	-	(1,270)	-
Capital expenditure	-	-	-	-	-	-	-	-	753,055	753,055	-
Capitalisation of works in progress	-	-	-	-	-	-	-	-	(448,375)	(448,375)	-
<b>Carrying amount at 30 June 2011</b>	<b>133,774</b>	<b>1,007,921</b>	<b>19,552</b>	<b>293</b>	<b>17,338</b>	<b>3,949</b>	<b>6,700,657</b>	<b>39,490</b>	<b>1,702,921</b>	<b>9,625,895</b>	<b>13,056</b>

**12 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)*****(c) (ii) Reconciliation of movement in property, plant and equipment and intangible assets for 2009/10***

2009/10	Crown Land at fair value	Freehold land at fair value	Buildings at fair value	Leasehold improvements at fair value	Plant and equipment at fair value	Fleet Vehicles at fair value	Infrastructure assets at cost	Infrastructure assets under finance lease at cost	Works in progress at fair value	Total	Intangible assets at cost
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Carrying amount at 1 July 2009	88,293	836,276	17,035	1,375	13,886	-	3,039,059	25,774	1,267,161	5,288,859	9,072
Additions	-	4,259	890	-	9,327	1,442	840,132	-	-	856,050	13,461
Disposals	(1)	(9,667)	(215)	-	(104)	-	(13,383)	-	(1,171)	(24,541)	-
Depreciation/amortisation	-	-	(806)	(564)	(6,728)	(94)	(106,687)	(1,621)	-	(116,500)	(5,524)
Transfers between classes	-	-	-	-	455	-	(455)	-	-	-	-
Increase in assets classified as held for sale	-	(7,102)	-	-	-	-	-	-	-	(7,102)	-
Revaluation increments	-	-	-	-	-	-	2,707,497	17,398	-	2,724,895	-
Revaluation decrements	-	-	-	-	-	-	-	-	-	-	-
Capital expenditure	-	-	-	-	-	-	-	-	973,881	973,881	-
Capitalisation of works in progress	-	-	-	-	-	-	-	-	(841,630)	(841,630)	-
Carrying amount at 30 June 2010	88,292	823,766	16,904	811	16,836	1,348	6,466,163	41,551	1,398,241	8,853,912	17,009

**13 NON-CURRENT ASSETS - OTHER RECEIVABLES**

	Notes	2011 \$000	2010 \$000
Other receivables		61	61
Sugarloaf pipeline security deposit	13(a)	5,618	5,366
<b>Total non-current assets - other receivables</b>	<b>27</b>	<b>5,679</b>	<b>5,427</b>

(a) The Corporation was required to deposit \$5 million with the Treasury Corporation of Victoria (TCV) on 4 September 2008 as an environmental security deposit in relation to the Sugarloaf Pipeline project. This deposit is classified as non current as the security is fixed and cannot be withdrawn by the Corporation until project environmental conditions have been fulfilled satisfactorily. Interest is received at a floating rate.

**14 NON-CURRENT ASSETS - OTHER NON-CURRENT ASSETS**

	Notes	2011 \$000	2010 \$000
Prepayments		200	547
<b>Total non-current assets - other non-current assets</b>		<b>200</b>	<b>547</b>

**15 CURRENT LIABILITIES - TRADE AND OTHER PAYABLES**

	Notes	2011 \$000	2010 \$000
Creditors		29,531	45,491
Interest payable		58,498	49,349
Accruals - Other		48,780	28,885
Accruals - Capital		138,283	157,896
Advances		8,773	7,226
<b>Total current liabilities - trade and other payables</b>	<b>27</b>	<b>283,865</b>	<b>288,847</b>

## 16 CURRENT LIABILITIES - INTEREST BEARING LIABILITIES

		2011	2010
	Notes	\$'000	\$'000
* Lease liabilities	28(d)	480	430
* Borrowings		951,300	693,500
<b>Total current liabilities - interest bearing liabilities</b>	<b>27</b>	<b>951,780</b>	<b>693,930</b>

\* Current interest bearing liabilities are unsecured (note - The Victorian Government does provide a guarantee to the Treasury Corporation of Victoria over its liabilities as detailed in note 2).

## 17 CURRENT LIABILITIES - PROVISIONS

		2011	2010
	Notes	\$'000	\$'000
Employee benefits	32	22,518	21,758
Insurance claims	31	415	694
Remediation works	31	514	4,643
Gainshare on capital projects	31	68,618	22,375
Other provisions	31	2,553	2,491
<b>Total current liabilities - provisions</b>		<b>94,618</b>	<b>51,961</b>

## 18 CURRENT LIABILITIES - OTHER FINANCIAL LIABILITIES

		2011	2010
	Notes	\$'000	\$'000
Forward foreign exchange contracts		-	1,197
<b>Total current assets - financial assets</b>	<b>27</b>	<b>-</b>	<b>1,197</b>

## 19 NON-CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

		2011	2010
	Notes	\$'000	\$'000
Creditors		53	524
Advances		5,422	3,570
Capital accruals		-	39,410
<b>Total non-current liabilities - trade and other payables</b>	<b>27</b>	<b>5,475</b>	<b>43,504</b>

## 20 NON-CURRENT LIABILITIES - INTEREST BEARING LIABILITIES

		2011	2010
	Notes	\$'000	\$'000
Lease liabilities *	28(d)	6,288	6,768
Borrowings *		2,660,000	2,370,000
<b>Total non-current liabilities - interest bearing liabilities</b>	<b>27</b>	<b>2,666,288</b>	<b>2,376,768</b>

\* Non-current interest bearing liabilities are unsecured (note - The Victorian Government does provide a guarantee to the Treasury Corporation of Victoria over its liabilities as detailed in note 2).

**21 NON-CURRENT LIABILITIES - PROVISIONS**

		2011	2010
	Notes	\$000	\$000
Employee benefits	32	8,294	7,978
Insurance claims	31	198	396
Gainshare on capital projects	31	-	49,386
<b>Total non-current liabilities - provisions</b>		<b>8,492</b>	<b>57,760</b>

**22 NON-CURRENT LIABILITIES - NET DEFERRED TAX LIABILITIES**

		2011	2010
	Notes	\$000	\$000
The balance comprises temporary differences attributable to:			
<b><u>Amounts recognised in Profit or Loss</u></b>			
Property, plant and equipment		472,791	505,562
Employee entitlements		(7,154)	(6,818)
Developer contributions		14,545	17,205
Finance lease		2,619	2,928
Defined benefit obligation		(2,093)	(2,986)
Provisions		(2,245)	(3,118)
Revenue in advance		(2,864)	(2,121)
Other		174	210
		<b>475,773</b>	<b>510,862</b>
<b><u>Amounts recognised in Other Comprehensive Income</u></b>			
Gain on revaluation of land and buildings		28,873	17,029
Gain on revaluation of infrastructure assets		822,295	817,469
Net value (loss)/gain on cashflow hedges		(11)	14
<b>Net deferred tax liability</b>		<b>1,326,930</b>	<b>1,345,374</b>
<b><u>Movements:</u></b>			
Opening balance at 1 July		1,345,374	555,825
(Credited)/debited to Profit or Loss		(35,092)	(27,334)
Credited/(debited) to Other Comprehensive Income	5(d), 25	16,644	817,483
Prior year correction		4	(600)
<b>Closing balance at 30 June</b>		<b>1,326,930</b>	<b>1,345,374</b>
Net Deferred tax liabilities to be recovered after more than 12 months		1,333,767	1,352,892
Net Deferred tax liabilities to be recovered within 12 months		(6,837)	(7,518)
<b>Total non-current liabilities - Deferred tax liabilities</b>		<b>1,326,930</b>	<b>1,345,374</b>

**23 NON-CURRENT LIABILITIES - DEFINED SUPERANNUATION BENEFIT LIABILITY**

		2011	2010
	Notes	\$000	\$000
Defined superannuation benefit liability	33	6,976	9,953
<b>Total non-current liabilities - defined superannuation benefit liability</b>		<b>6,976</b>	<b>9,953</b>

## 24 CONTRIBUTED EQUITY

		2011	2010
	Notes	\$'000	\$'000
Opening balance		559,326	556,865
<i>Capital transactions with the State in its capacity as owner arising from:</i>			
Adjustments relating to the transfers of Crown assets from/(to) the Government		626	2,461
<b>Total contributed equity at the end of the year</b>		<b>559,952</b>	<b>559,326</b>

## 25 RESERVES

		2011	2010
	Notes	\$'000	\$'000
<b>Asset revaluation reserve</b>			
<b>Land</b>			
Opening balance		160,439	160,843
Revaluation increment on non-current physical assets	12(c)	226,317	-
Revaluation reserves transferred to retained profits on derecognition of asset	26	(1,363)	(404)
Increment in deferred tax on asset revaluation	22	(12,225)	-
<b>Closing balance</b>		<b>373,168</b>	<b>160,439</b>
<b>Buildings</b>			
Opening balance		1,574	1,605
Revaluation decrement on non-current physical assets	12(c)	(1,270)	-
Revaluation reserves transferred to retained profits on derecognition of asset	26	(8)	(31)
Decrement in deferred tax on asset revaluation	22	381	-
<b>Closing balance</b>		<b>677</b>	<b>1,574</b>
<b>Infrastructure assets</b>			
Opening balance		1,907,426	-
Revaluation increment on non-current physical assets	12(c)	16,085	2,724,895
Increment in deferred tax on asset revaluation	22	(4,826)	(817,469)
<b>Closing balance</b>		<b>1,918,685</b>	<b>1,907,426</b>
<b>Closing balance (total asset revaluation reserve)</b>		<b>2,292,530</b>	<b>2,069,439</b>
<b>Summary of movements in asset revaluation reserve</b>			
Opening balance		2,069,439	162,448
Revaluation increment on non-current physical assets		241,132	2,724,895
Revaluation reserves transferred to retained profits on derecognition of asset		(1,371)	(435)
Increment in deferred tax on asset revaluation		(16,670)	(817,469)
<b>Closing balance (total asset revaluation reserve)</b>		<b>2,292,530</b>	<b>2,069,439</b>

The asset revaluation reserve is used to record asset revaluation increments and decrements in the value of non-current physical assets.

<b>Cash flow hedge reserve</b>			
Opening balance		41	(38)
(Loss)/Gain taken to equity	10	(78)	93
Decrement/(Increment) in deferred tax on cashflow hedges	22	11	(14)
<b>Closing balance</b>		<b>(26)</b>	<b>41</b>

The cash flow hedge reserve represents the gain or loss on conversion to Australian dollars of the cash flow hedge.

<b>Total reserves at the end of the year</b>		<b>2,292,504</b>	<b>2,069,480</b>
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## 26 RETAINED PROFITS

		2011	2010
	Notes	\$000	\$000
Retained profits at the beginning of the year		1,389,646	1,282,595
Net profit for the period after tax expense	38	157,842	186,416
Transfer from asset revaluation reserve	25	1,371	435
Dividends paid	30	(26,500)	(79,800)
<b>Retained profits at the end of the year</b>		<b>1,522,359</b>	<b>1,389,646</b>

## 27 FINANCIAL INSTRUMENTS

### (a) Categorisation of financial instruments

30 June 2011		Derivative financial instruments	Contractual financial assets - loans and receivables	Contractual financial liabilities at amortised cost	Total Carrying Amount
	Notes	\$000	\$000	\$000	\$000
<b>Financial assets</b>					
Cash	6	-	1,849	-	1,849
Trade debtors	7a	-	32,690	-	32,690
Other receivables	7a, 13	-	68,948	-	68,948
<b>Total financial assets</b>		-	<b>103,487</b>	-	<b>103,487</b>
<b>Financial liabilities</b>					
Creditors, accruals & interest payable	15, 19	-	-	(275,145)	(275,145)
Lease liabilities	16, 20	-	-	(6,768)	(6,768)
Advances	15, 19	-	-	(14,195)	(14,195)
<b>Borrowings:</b>					
11am Cash	16, 20	-	-	(641,300)	(641,300)
Floating rate notes	16, 20	-	-	(160,000)	(160,000)
Fixed interest	16, 20	-	-	(2,810,000)	(2,810,000)
<b>Total financial liabilities</b>		-	-	<b>(3,907,408)</b>	<b>(3,907,408)</b>

30 June 2010		Derivative financial instruments	Contractual financial assets - loans and receivables	Contractual financial liabilities at amortised cost	Total Carrying Amount
	Notes	\$000	\$000	\$000	\$000
<b>Financial assets</b>					
Cash	6	-	154	-	154
Trade debtors	7a	-	21,233	-	21,233
Derivatives	10	1,382	-	-	1,382
Other receivables	7a, 13	-	34,900	-	34,900
<b>Total financial assets</b>		<b>1,382</b>	<b>56,288</b>	-	<b>57,670</b>
<b>Financial liabilities</b>					
Creditors, accruals & interest payable	15, 19	-	-	(321,555)	(321,555)
Lease liabilities	16, 20	-	-	(7,197)	(7,197)
Advances	15, 19	-	-	(10,797)	(10,797)
Derivatives	18	(1,197)	-	-	(1,197)
<b>Borrowings:</b>					
11am Cash	16, 20	-	-	(368,500)	(368,500)
Floating rate notes	16, 20	-	-	(235,000)	(235,000)
Fixed interest	16, 20	-	-	(2,460,000)	(2,460,000)
<b>Total financial liabilities</b>		<b>(1,197)</b>	-	<b>(3,403,049)</b>	<b>(3,404,246)</b>

## 27 FINANCIAL INSTRUMENTS (CONTINUED)

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

30 June 2011		Net holding gain/(loss)	Total interest income/(expense)	Fee income/ (expense)	Impairment loss	Total
	Notes		\$000	\$000	\$000	\$000
<b>Financial assets</b>						
Financial assets - loans and receivables	4	(46)	-	-	-	(46)
Derivative financial instruments	25	(78)	-	-	-	(78)
<b>Total financial assets</b>		<b>(124)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(124)</b>
<b>Financial liabilities</b>						
Financial liabilities at amortised cost	4	-	(223,331)	-	-	(223,331)
<b>Total financial liabilities</b>		<b>-</b>	<b>(223,331)</b>	<b>-</b>	<b>-</b>	<b>(223,331)</b>

30 June 2010		Net holding gain/(loss)	Total interest income/(expense)	Fee income/ (expense)	Impairment loss	Total
	Notes		\$000	\$000	\$000	\$000
<b>Financial assets</b>						
Financial assets - loans and receivables	3(a), 4	10	88	-	-	98
Derivative financial instruments	25	93	-	-	-	93
<b>Total financial assets</b>		<b>103</b>	<b>88</b>	<b>-</b>	<b>-</b>	<b>191</b>
<b>Financial liabilities</b>						
Financial liabilities at amortised cost designated at fair value	4	-	(171,289)	-	-	(171,289)
Derivative financial instruments		-	-	-	-	-
<b>Total financial liabilities</b>		<b>-</b>	<b>(171,289)</b>	<b>-</b>	<b>-</b>	<b>(171,289)</b>

### *(c) Interest rate exposure*

At 30 June 2011, the Corporation has no significant interest-bearing assets. As such, the Corporation's income and operating cash flows are not materially exposed to changes in market interest rates.

For 2010/11, the Corporation is exposed to interest rate risk on outstanding interest bearing liabilities. The mix of floating and fixed rate debt is managed strategically within a range of Board approved parameters, in order to minimise exposure to fluctuations in variable rates and to minimise the long-term net cost of funding. Refer to Note 2(c)(iii) for more details.

## 27 FINANCIAL INSTRUMENTS (CONTINUED)

		Interest Rate Exposure				Total Carrying Amount
		Weighted average interest	Floating interest rate	Fixed interest rate	Non interest bearing	
30 June 2011	Notes	%	\$000	\$000	\$000	\$000
<b>Financial assets</b>						
Cash	6	4.56	1,849	-	-	1,849
Trade debtors	7a		-	-	32,690	32,690
Other receivables	7a, 13	4.70	5,618	-	63,330	68,948
<b>Total financial assets</b>			<b>7,467</b>	<b>-</b>	<b>96,020</b>	<b>103,487</b>
<b>Financial liabilities</b>						
Creditors, accruals & interest payable	15, 19		-	-	(275,145)	(275,145)
Lease liabilities	16, 20	11.03	-	(6,768)	-	(6,768)
Advances	15, 19		-	-	(14,195)	(14,195)
<b>Borrowings:</b>						
11am Cash	16, 20	4.92	(641,300)	-	-	(641,300)
Floating rate notes	16, 20	4.74	(160,000)	-	-	(160,000)
Fixed interest	16, 20	6.09	-	(2,810,000)	-	(2,810,000)
<b>Total financial liabilities</b>			<b>(801,300)</b>	<b>(2,816,768)</b>	<b>(289,340)</b>	<b>(3,907,408)</b>

		Interest Rate Exposure				Total Carrying Amount
		Weighted average interest	Floating interest rate	Fixed interest rate	Non interest bearing	
30 June 2010	Notes	%	\$000	\$000	\$000	\$000
<b>Financial assets</b>						
Cash	6	3.62	154	-	-	154
Trade debtors	7a		-	-	21,233	21,233
Derivatives	10	0.51	-	1,382	-	1,382
Other receivables	7a, 13	3.89	5,366	-	29,534	34,900
<b>Total financial assets</b>			<b>5,520</b>	<b>1,382</b>	<b>50,767</b>	<b>57,670</b>
<b>Financial liabilities</b>						
Creditors, accruals & interest payable	15, 19		-	-	(321,555)	(321,555)
Lease liabilities	16, 20	11.03	-	(7,197)	-	(7,197)
Advances	15, 19		-	-	(10,797)	(10,797)
Derivatives	18	0.51	-	(1,197)	-	(1,197)
<b>Borrowings:</b>						
11am Cash	16, 20	4.67	(368,500)	-	-	(368,500)
Floating rate notes	16, 20	4.68	(235,000)	-	-	(235,000)
Fixed interest	16, 20	6.06	-	(2,460,000)	-	(2,460,000)
<b>Total financial liabilities</b>			<b>(603,500)</b>	<b>(2,468,395)</b>	<b>(332,352)</b>	<b>(3,404,246)</b>

## 27 FINANCIAL INSTRUMENTS (CONTINUED)

### (d) Fair value

#### *(i) Fair value measurement hierarchy*

As of 1 July 2009, the Corporation adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements on financial assets and liabilities by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following tables present the Corporation's financial assets and liabilities measured and recognised at fair value at 30 June 2011.

30 June 2011		Fair value measurement at end of reporting period using:			
		Level 1	Level 2	Level 3	Total
	Notes	\$000	\$000	\$000	\$000
<b>Financial assets</b>					
Derivative financial instruments	10	-	-	-	-
<b>Total</b>		-	-	-	-
<b>Financial liabilities</b>					
Derivative financial instruments	18	-	-	-	-
<b>Total</b>		-	-	-	-

30 June 2010		Fair value measurement at end of reporting period using:			
		Level 1	Level 2	Level 3	Total
	Notes	\$000	\$000	\$000	\$000
<b>Financial assets</b>					
Derivative financial instruments	10	1,382	-	-	1,382
<b>Total</b>		1,382	-	-	1,382
<b>Financial liabilities</b>					
Derivative financial instruments	18	(1,197)	-	-	(1,197)
<b>Total</b>		(1,197)	-	-	(1,197)

**27 FINANCIAL INSTRUMENTS (CONTINUED)**(iii) *The carrying amounts and net fair values of financial assets and liabilities at balance date are:*

	2011		2010	
	Book value	Net fair value*	Book value	Net fair value*
	\$000	\$000	\$000	\$000
<b>Financial assets</b>				
Cash	1,849	1,849	154	154
Trade debtors	32,690	32,690	21,233	21,233
Derivatives	-	-	1,382	1,382
Other receivables	68,948	68,948	34,900	34,900
<b>Total financial assets</b>	<b>103,487</b>	<b>103,487</b>	<b>57,670</b>	<b>57,670</b>
<b>Financial liabilities</b>				
Creditors, accruals & interest payable	(275,145)	(275,145)	(321,555)	(321,555)
Lease liabilities	(6,768)	(6,768)	(7,197)	(7,197)
Advances	(14,195)	(14,195)	(10,797)	(10,797)
Derivatives	-	-	(1,197)	(1,197)
<b>Borrowings:</b>				
11am Cash	(641,300)	(643,462)	(368,500)	(369,700)
Floating rate notes	(160,000)	(159,876)	(235,000)	(234,600)
Fixed interest	(2,810,000)	(2,946,437)	(2,460,000)	(2,591,300)
<b>Total financial liabilities</b>	<b>(3,907,408)</b>	<b>(4,045,883)</b>	<b>(3,404,246)</b>	<b>(3,536,346)</b>

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

*Net fair values of financial instruments are determined as follows:*

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

Other borrowings are estimated based on the present value of expected future cash flows discounted at current market interest rates quoted for securities issued by the Treasury Corporation of Victoria. Derivative financial instruments are measured at fair value.

**(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 2011	Total Carrying Amount	Total Contractual Cashflows	1 year or less	1 to 5 years	Over 5 years
	\$000	\$000	\$000	\$000	\$000
<b>Financial liabilities</b>					
Non-interest bearing	(289,340)	(289,340)	(283,865)	(5,475)	-
Variable rate	(801,300)	(852,902)	(756,614)	(96,289)	-
Fixed rate	(2,816,768)	(4,113,197)	(244,543)	(1,052,118)	(2,816,536)
<b>Total financial liabilities</b>	<b>(3,907,408)</b>	<b>(5,255,439)</b>	<b>(1,285,021)</b>	<b>(1,153,882)</b>	<b>(2,816,536)</b>

30 June 2010	Total Carrying Amount	Total Contractual Cashflows	1 year or less	1 to 5 years	Over 5 years
	\$000	\$000	\$000	\$000	\$000
<b>Financial liabilities</b>					
Non-interest bearing	(332,352)	(332,352)	(288,847)	(43,504)	-
Variable rate	(603,500)	(656,309)	(464,199)	(192,110)	-
Fixed rate	(2,468,395)	(3,536,941)	(266,825)	(1,045,001)	(2,225,115)
<b>Total financial liabilities</b>	<b>(3,404,246)</b>	<b>(4,525,601)</b>	<b>(1,019,871)</b>	<b>(1,280,616)</b>	<b>(2,225,115)</b>

## 28 COMMITMENTS

Commitments are shown inclusive of GST.

	2011	2010
	\$000	\$000
<b><u>(a) Capital commitments</u></b>		
Total capital expenditure contracted for the construction of water, sewerage and waterways and drainage infrastructure at balance date but not provided for in the accounts:		
Property, plant and equipment payable:		
Within one year	236,290	310,543
Later than one year but not later than five years	46,130	109,112
<b>Total capital commitments</b>	<b>282,419</b>	<b>419,655</b>

Significant projects forming the capital commitments balance above include: Northern Sewerage Upgrade, Melbourne Main Sewer Replacement, Eastern Treatment Plant Tertiary Upgrade, and the remaining contribution to the Department of Sustainability & Environment (DSE) for Desalination Plant establishment costs.

### **(b) Operating lease commitments**

#### **(i) Melbourne Water as lessee**

The Corporation's East Melbourne building is held under a non-cancellable operating lease expiring on 15 June 2012. The Corporation also leases five other buildings under non-cancellable operating leases.

These building lease agreements have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. The Corporation also leased land, photocopiers and motor vehicles under non-cancellable operating leases.

	2011	2010
	\$000	\$000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	6,879	8,026
Later than one year but not later than five years	32,056	27,793
Later than five years	118,042	115,951
<b>Total operating lease commitment</b>	<b>156,977</b>	<b>151,770</b>
Lease incentives on non-cancellable operating leases included in trade creditors is as follows:	74	148
Representing operating lease liability:		
Current (part of note 15)	74	74
Non-current (part of note 19)	-	74
<b>Total operating lease liability</b>	<b>74</b>	<b>148</b>

#### **(ii) Melbourne Water as lessor**

Operating leases relate to land owned by the Corporation with lease terms generally for a period of 10 years. All operating lease contracts contain market review clauses. The lessee does not have an option to purchase the land at the expiry of the lease period.

	2011	2010
	\$000	\$000
Commitments for minimum lease payments in relation to non-cancellable operating leases are receivable as follows:		
Within one year	1,371	1,426
Later than one year but not later than five years	2,455	3,015
Later than five years	341	409
<b>Total operating lease commitment</b>	<b>4,167</b>	<b>4,850</b>

## 28 COMMITMENTS (CONTINUED)

*(c) Smart Water Fund*

The Corporation has a commitment to the Victorian Government's Smart Water Fund in the amount of \$5.2 million over the next 5 years (2009/10: \$3.0 million, 3 years). The timing of such payments cannot be reliably estimated and as such have not been disclosed in yearly bands.

*(d) Finance lease commitments*

The Corporation has a finance lease agreement with TopAq Pty Ltd. The agreement involves the development of a water recycling project that uses effluent sourced from the Corporation's Eastern Treatment Plant and treats this effluent to produce and supply Class A Water to customers in the project area. This agreement commenced on 29 April 2005 and expires on 30 April 2020.

	2011	2010
	\$000	\$000
The carrying amount of the finance lease is:		
Commitments in relation to finance lease are payable as follows:		
Within one year	1,203	1,203
Later than one year but not later than five years	4,810	4,810
Later than five years	4,610	5,812
<b>Minimum lease payments</b>	<b>10,623</b>	<b>11,825</b>
Less: Future finance charges	(3,855)	(4,627)
<b>Total finance lease liability</b>	<b>6,768</b>	<b>7,198</b>
Representing finance lease liability:		
Current (refer to note 16)	480	430
Non-current (refer to note 20)	6,288	6,768
<b>Total finance lease liability</b>	<b>6,768</b>	<b>7,198</b>

*(e) Other operating commitments*

	2011	2010
	\$000	\$000
Total operating expenditure (excluding leases) contracted for at balance date but not provided for in the accounts is payable as follows:		
Not later than one year	11,767	13,093
Later than one year but not later than five years	11,887	18,797
Later than five years	5,275	5,275
<b>Total other operating commitments</b>	<b>28,929</b>	<b>37,165</b>

*(f) Build, Own and Operate (BOO) commitments*

On 25 February 2000, the Corporation signed a Build, Own and Operate (BOO) contract with Australian Gas and Light Ltd (AGL) to purchase a minimum of 21.2 GWh of electricity generated from biogas per year for a period of 10 years. AGL has a contractual obligation to supply the minimum amount.

Under this contract, AGL will build, own and operate the power generation plant which has been constructed on land owned by the Corporation at Western Treatment Plant. This arrangement became fully operational on 1 July 2003. On 1 January 2006, this was replaced by a contract with a new term of 15 years.

This new agreement requires AGL to expand generation at its plant to approximately 51GWh of electricity generated from biogas per year for the period of the contract.

The minimum obligation (excluding the effect of inflation) for the term of the arrangement is \$24.7 million at 30 June 2011 (2009/10: \$27 million).

This calculation has been based on best estimates of volume throughput, peak and off peak electricity consumption and other relevant variables as detailed in the contract.

## 28 COMMITMENTS (CONTINUED)

	2011	2010
	\$'000	\$'000
<b>Future minimum obligations</b>		
Fixed costs, payable within:		
Not later than one year	2,360	2,293
Later than 1 year but not later than 5 years	10,142	9,856
Later than 5 years	12,208	14,853
<b>Total value of future minimum obligations</b>	<b>24,710</b>	<b>27,002</b>

### ***(g) Food Bowl Modernisation Commitment***

Stage 1 of the Victorian Government's Northern Victoria Irrigation Renewal Project (NVIRP) has planned total expenditure of \$1.004 billion.

The previous Victorian Government mandated that the Corporation will contribute \$330 million (including GST) towards the total investment in the project, and an agreement has been reached for the three metropolitan retail water businesses to make direct payments to the Corporation to finance this contribution.

At 30 June 2011, \$275 million (including GST) has been invoiced by DSE to the Corporation, and accordingly the Corporation has invoiced \$275 million to the retailers. Of this \$275 million, the entire balance has been paid to DSE and \$245.7 million has been reimbursed by the retailers. A further \$14.7m has been received after 30 June 2011. The associated income and expense flows have been offset in the Statement of Comprehensive Income and the Statement of Financial Position to reflect the substance of the transaction being that the Corporation is merely a "pass through" agent.

	2011	2010
	\$'000	\$'000
The remaining commitment payable to DSE and correspondingly receivable from the retailers is as follows:		
Not later than one year	22,000	88,000
Later than 1 year but not later than 5 years	33,000	55,000
<b>Total commitment</b>	<b>55,000</b>	<b>143,000</b>

### ***(h) Victorian Desalination Project Commitment***

On 30 July 2009, the State of Victoria ('the State') through the Department of Sustainability and Environment (DSE) 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 will commence from the date of commercial acceptance, which is intended to occur by 30 June 2012.

The State has an obligation to make water security payments to the AquaSure consortium provided the plant is maintained to the appropriate standard. The water security payments comprise of an operating and maintenance component, a capital component and a finance lease component including GST, where applicable. The State also has an obligation to purchase the High Voltage Alternating Current (HVAC) transmission line assets from the AquaSure consortium.

A Statement of Obligations (SoO) was issued to Melbourne Water under section 41 of the Water Act on 26 June 2009. The SoO requires Melbourne Water to pay all costs under the Project Deed with AquaSure.

Melbourne Water is also entering into a Victorian Desalination Project 'Water Interface Agreement' (WIA) with the State to record the terms of the interface and financial arrangements between the Project and Melbourne Water.

At commencement of the desalination plant operations a lease liability will be recognised by DSE for the obligation under the Project Deed to pay water security payments to the AquaSure consortium. A corresponding lease receivable will also be recognised by DSE reflecting the sub-leasing arrangement with Melbourne Water set out under the WIA. Melbourne Water will recognise a lease liability and a leased asset under the WIA.

The desalination plant assets are intended to transfer from the State to the Corporation at the end of the project contract term presently planned for 2039.

As per information provided by DSE, subject to commercial acceptance of the desalination plant, the Corporation will recognise the following finance lease liability, and an asset of equal value:

**28 COMMITMENTS (CONTINUED)**

	2011	2010
	\$000	\$000
<b><i>(h) Victorian Desalination Project Commitment (continued)</i></b>		
Commitments in relation to future finance lease liabilities payable are as follows:		
Within one year	116,283	-
Later than one year but not later than five years	2,089,760	1,683,603
Later than five years	11,343,535	11,865,975
<b>Minimum future lease payments</b>	<b>13,549,578</b>	<b>13,549,578</b>
Less: Future finance charges	(9,437,164)	(9,437,164)
<b>Present value of future minimum lease payments</b>	<b>4,112,414</b>	<b>4,112,414</b>
The following expenditure commitments associated with the Victorian Desalination Project have not been recognised as liabilities in the financial statements:		
Other capital expenditure commitments:		
Not later than one year	-	-
Later than 1 year but not later than 5 years	286,652	281,282
Later than 5 years	644,269	649,639
<b>Total other capital expenditure commitments</b>	<b>930,921</b>	<b>930,921</b>
Other expenditure commitments - PPP operation and maintenance commitments:		
Not later than one year	11,227	-
Later than 1 year but not later than 5 years	208,355	164,672
Later than 5 years	2,039,412	2,094,322
<b>Total other expenditure commitments</b>	<b>2,258,994</b>	<b>2,258,994</b>

**29 CONTINGENT ASSETS AND LIABILITIES**

	2011	2010
Notes	\$000	\$000
<b><i>(a) Contingent assets</i></b>		
Details and estimates of maximum amounts of contingent assets for which no provision is included in the accounts, are as follows:		
Claims or possible claims by the Corporation arising out of various matters connected with the Corporation's business dealings.	17,000	-
<b>Total contingent assets</b>	<b>17,000</b>	<b>-</b>

	2011	2010
Notes	\$000	\$000
<b><i>(b) Contingent liabilities</i></b>		
Details and estimates of maximum amounts of contingent liabilities for which no provision is included in the accounts, are as follows:		
Claims or possible claims against the Corporation arising out of various matters connected with the Corporation's business dealings.	2,074	400
Possible gainshare payable by the Corporation on capital projects (not yet able to be measured with sufficient reliability as a provision)	33(iii), (v)	4,033
<b>Total contingent liabilities</b>	<b>35,245</b>	<b>4,433</b>

## 30 DIVIDENDS

		2011	2010
	Notes	\$'000	\$'000
Final dividend paid (relating to previous financial year)		26,500	33,000
Interim dividend paid (relating to current financial year)		-	46,800
<b>Total dividends paid</b>	<b>26</b>	<b>26,500</b>	<b>79,800</b>

The proposed interim and final dividend in relation to the 2010/11 financial year is \$45.8 million. There was no interim dividend paid this year, leaving the full amount payable (2009/10 \$73.3 million interim and final payable). This final amount payable is subject to final determination by the Treasurer after consultation with the Corporation's Board of Directors and the Minister for Water and consequently has not been booked as a provision as at 30 June 2011.

## 31 PROVISIONS (EXCLUDING EMPLOYEE BENEFITS)

### (i) Insurance Claims

The amount represents a provision for public liability, motor vehicle and property claims. The amount classified as current is expected to be settled within 12 months. The amount classified as non-current is expected to be settled later than 12 months. The provision amounts are based on an independent assessment of claim costs.

### (ii) Remediation Works

The amount represents a provision for remediation works at the Riverwalk Estate at Werribee (2009/10: Also included provision for remediation works at Dandenong Treatment Plant). The amount classified as current represents the expected completion of works within the next 12 months. The amount classified as non-current represents works expected to be completed later than 12 months.

### (iii) Gainshare on Capital Projects

The amount represents a provision for gainshare on capital projects. The amount classified as current represents the expected completion of works within the next 12 months. The amount classified as non-current represents works expected to be completed later than 12 months.

### (iv) Other provisions

The amount represents other provisions that satisfy the recognition requirements of AASB 137 Provisions, Contingent Liabilities and Contingent Assets. The amount is based on legal advice and is expected to be settled within 12 months.

### (v) Movements in Provisions

Movements in each class of provision, other than employee benefits, are set out below:

	Insurance Claims	Remediation Works	Gainshare on Capital Projects	Other Provisions	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July 2010	1,089	4,643	71,761	2,491	79,985
Additional provisions recognised	497	-	20,604	299	21,400
Amounts utilised during the year	(973)	(4,129)	(23,747)	(237)	(29,086)
Unused amounts reversed	-	-	-	-	-
<b>Carrying amount at 30 June 2011</b>	<b>613</b>	<b>514</b>	<b>68,618</b>	<b>2,553</b>	<b>72,299</b>

	Insurance Claims	Remediation Works	Gainshare on Capital Projects	Other Provisions	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July 2009	1,004	14,623	-	2,274	17,901
Additional provisions recognised	562	1,960	71,761	721	75,004
Amounts utilised during the year	(477)	(11,940)	-	(504)	(12,921)
Unused amounts reversed	-	-	-	-	-
<b>Carrying amount at 30 June 2010</b>	<b>1,089</b>	<b>4,643</b>	<b>71,761</b>	<b>2,491</b>	<b>79,985</b>

**32 EMPLOYEE BENEFITS**

	2011	2010
	\$000	\$000
Current:		
Accrued salaries (part of note 15)	2,787	2,126
Employee benefits expected to be settled within 12 months after the end of the period measured at nominal value (part of note 17)	8,003	7,895
Long service leave representing more than 7 years of continuous service measured at present value (part of note 17)	13,383	12,733
Other employee benefits (part of note 17)	1,132	1,130
<b>Total employee current benefits liability</b>	<b>25,306</b>	<b>23,884</b>
Non-current:		
Other employee benefits (part of note 21)	5,816	5,955
Long service leave representing less than 7 years of continuous service measured at present value (part of note 21)	2,479	2,023
<b>Total employee non-current benefits liability</b>	<b>8,295</b>	<b>7,978</b>
<b>Total employee benefits liability</b>	<b>33,600</b>	<b>31,862</b>

The aggregate employee benefit liability includes amounts for annual leave, shift leave, long-service leave, salaries, WorkCover, superannuation and termination benefits. All employees of the Corporation are entitled to superannuation benefits upon retirement, disability or death through membership of the funds disclosed in Note 33.

**(i) Workcover**

Based upon an independent actuarial assessment, a provision of \$5.709 million (2009/10: \$5.607 million) has been made for outstanding claims incurred and not settled, and for claims incurred but not reported at 30 June 2011.

The value of the bank guarantee to the Victorian WorkCover Authority (as part of the Corporation's WorkCover self insurance commitments) at 30 June 2011 is \$8.563 million (2009/10: \$8.411 million).

**(ii) Workers Compensation**

Based on an independent actuarial assessment, a provision of \$1.099 million (\$1.245 million in 2009/10) has been made for all outstanding workers compensation claims at 30 June 2011.

**33 DEFINED SUPERANNUATION BENEFIT****Defined benefit superannuation**

The equisuper superannuation fund provides lump sum benefits based on length of service and final superannuable salary for employees engaged up until 31 December 1993. Employees contribute at rates between 0 to 7.5 per cent of their superannuation salary. The Corporation contributes to the fund based on the Corporation's commitments under the Employee Participation Agreement and Contribution Policy with the Trustee of the Fund.

	2011	2010
	\$000	\$000
<b>(a) Employer contributions</b>		
Employer contributions to defined contribution funds	6,296	7,273
Employer contributions to employee nominated funds	1,069	819
<b>Total employer contributions</b>	<b>7,365</b>	<b>8,092</b>

### 33 DEFINED SUPERANNUATION BENEFIT (CONTINUED)

	2011	2010
	\$'000	\$'000
<b><i>(b) Reconciliation of the Present Value of the Defined Benefit Obligation</i></b>		
Balance at the beginning of the year	100,174	91,327
Current service cost	2,200	2,420
Interest cost	4,268	4,580
Contributions by Plan participants	1,210	1,078
Actuarial losses	242	3,638
Benefits paid	(2,817)	(2,382)
Taxes and premiums paid	(470)	(601)
Transfers in	-	114
<b>Present value of the defined benefit obligation at the end of the year</b>	<b>104,807</b>	<b>100,174</b>
<b><i>(c) Reconciliation of the Fair Value of Plan Assets</i></b>		
Balance at the beginning of the year	90,221	81,396
Expected return on Plan assets	5,979	5,492
Actuarial losses	1,771	2,144
Employer contributions	1,937	2,980
Contributions by Plan participants	1,210	1,078
Benefits paid	(2,817)	(2,382)
Taxes and premiums paid	(470)	(601)
Transfers in	-	114
<b>Fair value of Plan assets at the end of the year</b>	<b>97,831</b>	<b>90,221</b>
<b><i>(d) Reconciliation of the Assets and Liabilities Recognised in the Statement of Financial Position</i></b>		
Present value of the defined benefit obligation	104,807	100,174
Less: fair value of Plan assets	(97,831)	(90,221)
<b>*Net superannuation liability/(asset)</b>	<b>6,976</b>	<b>9,953</b>

#### *Defined contribution superannuation*

Employees engaged from 1 January 1994 are entitled to benefits under accumulation funds. The majority of these employees are covered by Vision Super Pty Ltd. Employees have the opportunity to make personal contributions to this fund (or other funds) at a self-nominated rate or amount. The minimum employer contribution to the fund, pursuant to the Superannuation Guarantee Charge was 9.0 per cent in 2010/11 (2009/10: 9.0 per cent).

\* The Corporation has recognised a liability in the Statement of Financial Position in respect of its defined superannuation benefit arrangements at 30 June 2011 (2009/10: liability). If a surplus exists in the Plan, the Corporation may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Plan's actuary. If a deficit exists in the Plan, the Corporation may be required to increase the required contribution rate, depending on the advice of the Plan's actuary consistent with the Plan's deed. The Corporation elected to do this during 2009/10 year with an increase in the contributions made. There have been no further increases in contributions during the year ended 30 June 2011.

**33 DEFINED SUPERANNUATION BENEFIT (CONTINUED)**

	2011	2010
	\$000	\$000
<b><u>(e) Expense Recognised in the Statement of Comprehensive Income</u></b>		
Service cost	2,200	2,420
Interest cost	4,268	4,580
Expected return on Plan assets	(5,979)	(5,492)
Actuarial (gain)/loss recognised in year	(1,529)	1,494
<b>Total superannuation expense/(income) (Note 3 &amp; 4)</b>	<b>(1,040)</b>	<b>3,002</b>
<b><u>(f) Categories of Plan assets</u></b>		
The percentage invested in each asset class at the Statement of Financial Position date was:		
Australian Equity	35%	37%
International Equity	27%	25%
Fixed Income	12%	13%
Property	10%	10%
Alternatives/Other	10%	9%
Cash	6%	6%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**(g) 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;
- b) any property occupied by, or other assets used by, the Corporation.

**(h) Expected Rate of Return on Plan Assets**

The expected return on Plan assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for the correlations of the investment returns between asset classes. The returns used for each asset class are net of investment tax and investment fees. An allowance for administration expenses has also been deducted from the expected return.

	2011	2010
	\$000	\$000
<b><u>(i) Actual return on Plan assets</u></b>	<b>7,750</b>	<b>7,636</b>
<b><u>(j) Principal Actuarial Assumptions at the Balance Sheet Date</u></b>		
Discount rate (active members)	4.5% pa	4.6% pa
Discount rate (pensioners)	4.9% pa	5.1% pa
Expected return on Plan assets (active members)	7.0% pa	7.0% pa
Expected return on Plan assets (pensioners)	7.5% pa	7.5% pa
Expected salary increase rate	5.0% pa	5.0% pa
Expected pension increase rate	3.0% pa	3.0% pa

### 33 DEFINED SUPERANNUATION BENEFIT (CONTINUED)

	2011	2010	2009	2008
	\$000	\$000	\$000	\$000
<b><i>(k) Historical Information</i></b>				
Present value of defined benefit obligation	104,807	100,174	91,327	76,509
Less: fair value of Plan assets	(97,831)	(90,221)	(81,396)	(89,678)
<b>(Surplus)/deficit in Plan</b>	<b>6,976</b>	<b>9,953</b>	<b>9,931</b>	<b>(13,169)</b>
Experience adjustments (gain)/loss - Plan assets	(1,771)	(2,144)	13,133	13,727
Experience adjustments (gain)/loss - Plan liabilities	(159)	(1,337)	5,124	6,227

#### ***(l) Expected Contributions***

Expected employer contributions for defined benefit members during the financial year ending 30 June 2012 are expected to be \$1.72 million.

### 34 RELATED PARTY TRANSACTIONS

#### ***(a) Parent entities***

DSE 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.

#### ***(b) Entities with significant influence - Department of Treasury and Finance***

The Department of Treasury and Finance (DTF) administers the Water Act 1989 and the Financial Management Act 1994, with which the Corporation is required to comply. DTF is responsible for protecting the shareholder's interest in respect of corporate business plans and capital project approvals above \$50 million (2009/10: \$50 million). DTF also collects income taxes and dividend payments from the Corporation.

#### ***(c) Other related parties***

The following entities have the same controlling entities as the Corporation, and therefore are considered to be related parties of the Corporation.

##### ***City West Water, 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 and Gippsland Water, Barwon Water and Southern Rural Water are Government owned water corporations. City West Water, South East Water and Yarra Valley Water have bulk water and sewerage supply agreements with the Corporation. Western Water has a bulk water supply agreement with the Corporation. Gippsland Water and Southern Rural Water have a bulk recycled water supply agreement with the Corporation. Barwon Water has a Biosolids Storage Fee arrangement with the Corporation. These agreements operated on normal terms and conditions during the reporting period.

##### ***Environment Protection Authority Victoria***

The Environment Protection Authority Victoria (EPAV) is responsible for environmental regulation. It issues licences which set environmental discharge standards for the Corporation's sewerage treatment plants. The standards cover discharges to water, land and air. EPAV is also responsible for issuing works approvals for capital works that may include a public consultation process. The Corporation has developed a Memorandum of Understanding with EPAV which assists in establishing a working relationship in respect of the operations of the sewerage system.

##### ***Treasury Corporation of Victoria***

The Treasury Corporation of Victoria (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 \$2million are also required to be invested with TCV.

##### ***Department of Primary Industries***

The Department of Primary Industries (DPI) promotes the sustainable development of primary industries, including agriculture and energy within Victoria. DPI uses a collaborative approach to influence improvements in industry performance and to encourage the adoption of new technologies and development practices.

##### ***State Revenue Office***

The State Revenue Office (SRO) is the Victorian Government's major tax collection agency. The SRO is a service agency of DTF, which falls within the portfolio responsibilities of the Treasurer of Victoria. The SRO administers Victoria's taxation legislation and collects a range of taxes, duties and levies.

##### ***Victorian Urban Development Authority***

Victorian Urban Development Authority (VicUrban) is the Victorian Government's sustainable urban development agency. The Corporation is involved with VicUrban in commercial arrangements associated with the development of land at the Dandenong Treatment Plant, surplus land at Werribee Treatment Plant and developer works.

##### ***Sustainability Victoria***

Sustainability Victoria is a Government owned agency that encourages and supports government, business and communities to promote environmental sustainability.

## 34 RELATED PARTY TRANSACTIONS (CONTINUED)

### *Parks Victoria*

Parks Victoria is a Government owned agency that is the custodian of a diverse estate of significant parks in Victoria and of the recreational management of Port Phillip Bay, Western Port and the Yarra and Maribyrnong rivers.

### *Vic Roads*

Vic Roads is a Government owned agency that is primarily responsible for managing the Victorian arterial road network and its use as an integral part of the overall transport system.

### *VicWater*

VicWater contributes to and influences the development and implementation of Government policies relating to water and wastewater services within Victoria.

	Notes	2011 \$000	2010 \$000
<b><u>(d) Transactions with related parties</u></b>			
<b>Receipts from related parties</b>			
Department of Sustainability and Environment		3,321	3,533
Other related parties			
City West Water Ltd		248,924	219,026
South East Water Ltd		353,737	306,775
Yarra Valley Water Ltd		357,401	315,960
Western Water		9,227	8,714
Southern Rural Water		552	2,186
Gippsland Water		50	9
Victorian Urban Development Authority		33,462	11,349
Vic Roads		541	26
<b>Payments to related parties</b>			
Department of Sustainability and Environment		103,476	141,662
Department of Treasury and Finance		176,021	117,355
Department of Primary Industries		677	687
Other related parties			
City West Water Ltd		3,784	3,280
South East Water Ltd		5,547	4,421
Yarra Valley Water Ltd		4,296	5,569
Western Water		132	142
State Revenue Office		18,429	22,647
Environment Protection Authority Victoria		924	1,010
Treasury Corporation of Victoria		136,050	101,633
Victorian Urban Development Authority		41,752	14,156
Sustainability Victoria		10	9
Parks Victoria		56	444
Vic Roads		1,472	2,102
VicWater		66	63
Southern Rural Water		57	64
<b>Dividend expense</b>			
Department of Treasury and Finance	26, 30	26,500	79,800
<b>Equity contributions (transfer of crown land)</b>			
Department of Sustainability and Environment	24	626	2,461

## 34 RELATED PARTY TRANSACTIONS (CONTINUED)

	Notes	2011 \$'000	2010 \$'000
<b><i>(e) Outstanding balances arising from sales/purchases of goods and services</i></b>			
The following balances are outstanding at the reporting date in relation to transactions with related parties:			
<b>Current receivables</b>			
Department of Sustainability and Environment		-	314
Other related parties			
City West Water Ltd		21,810	6,231
South East Water Ltd		8,909	7,894
Yarra Valley Water Ltd		32,529	6,902
Western Water		261	677
Southern Rural Water		-	4
Environment Protection Authority Victoria		642	898
Treasury Corporation of Victoria		5,619	5,366
Victorian Urban Development Authority		10	-
Westernport Water		-	11
Barwon Water		-	3
Central Highlands Water		-	25
<b>Current payables</b>			
Department of Sustainability and Environment		43,704	43,966
Department of Treasury and Finance		-	5,878
Department of Primary Industry		-	152
Other related parties			
City West Water Ltd		-	31
South East Water Ltd		937	587
Yarra Valley Water Ltd		-	285
Western Water		28	-
State Revenue Office		9,167	3,319
Treasury Corporation of Victoria	15, 16	1,009,798	742,849
Southern Rural Water		-	7
Parks Victoria		7	11
Sustainability Victoria		-	10
Victorian Urban Development Authority		10,242	8,699
<b>Non current payables</b>			
Department of Sustainability and Environment		-	43,351
Treasury Corporation of Victoria	20	2,660,000	2,370,000
Other related parties		-	-

### ***(f) Terms and conditions***

Transactions relating to dividends are subject to final determination by the Treasurer after consultation with the Corporation's Board of Directors and the Minister for Water.

Transactions relating to equity contributions are determined by the DSE in consultation with the Corporation.

Transactions relating to trading activities of the Corporation including sale of bulk water, sale of sewage services and collection of drainage rates are based on normal commercial terms and conditions.

Outstanding balances are unsecured and are repayable in cash.

### ***(g) Guarantees***

There are no guarantees given or received for the current and non-current payables, current receivables and borrowings.

## 35 RESPONSIBLE PERSONS DISCLOSURES

### *(a) Responsible persons*

The names of persons who were responsible persons at anytime during the financial year were:

- The Hon. Timothy Holding MP, Minister for Water (1 July 2010 to 2 December 2010)
- The Hon. Peter Walsh MP, Minister for Water (2 December 2010 to 30 June 2011)
- Board Members:

Chairman	Eleanor Underwood	1 July 2010 to 30 June 2011
Deputy Chairman	Merran Kelsall	1 July 2010 to 30 June 2011
Director	Warren Hodgson	1 July 2010 to 30 June 2011
Director	Mary Anne Hartley	1 July 2010 to 30 June 2011
Director	Terry Larkins	1 July 2010 to 30 June 2011
Director	Peter Vines	1 July 2010 to 30 June 2011
Director	Maria Wilton	1 July 2010 to 30 June 2011
Managing Director	Rob Skinner	1 July 2010 to 11 March 2011
Managing Director	Shaun Cox	8 March 2011 to 30 June 2011

### *Remuneration of responsible persons*

Remuneration paid to the Minister is reported in the Annual Report of the Department of Premier and Cabinet. Other relevant interests are declared in the Register of Members' Interests which each Member of Parliament completes.

The number of responsible persons whose remuneration from the Corporation was within the specified bands were as follows:

Income Band (\$)	Total Remuneration	
	2011	2010
	Number	Number
10,000 - 19,999	-	3
20,000 - 29,999	-	1
30,000 - 39,999	-	1
40,000 - 49,999	6	4
70,000 - 79,999	-	1
90,000 - 99,999	1	-
100,000 - 109,999	1	-
370,000 - 379,999	1	-
410,000 - 419,999	-	1
<b>Total numbers</b>	<b>9</b>	<b>11</b>

	\$000	\$000
<b>Total amount</b>	<b>865</b>	<b>784</b>

## 35 RESPONSIBLE PERSONS DISCLOSURES (CONTINUED)

### *(b) Related party transactions*

- There were no amounts paid by the Corporation in connection with the retirement of responsible persons of the Corporation during the financial year.
- There were no loans in existence by the Corporation to responsible persons or related parties during the financial year.
- Related party transactions involving Board Members are as follows:

	2011	2010
	\$000	\$000
(i) A Director, Terry Larkins, is the Chairman of Western Water and a Director at the Victorian Water Industry Association (VicWater).  Western Water is a Government owned water authority, which has a bulk water supply agreement with the Corporation that was operative on normal terms and conditions during the reporting period. VicWater is the peak industry association for water businesses and influences the development and implementation of Government policies relating to water and wastewater services. All dealings with this agency were on normal terms and conditions during the reporting period.		
Total revenue received from Western Water was:	9,227	8,714
Total payments made to Western Water were:	132	142
Total revenue received from VicWater was:	-	-
Total payments made to VicWater were:	66	63
(ii) The Deputy Chairman, Merran Kelsall, was the Chairman of the audit committee of Darebin City Council, which provides local government for a large municipality north of the central business district and a Director of the Royal Automobile Association of Victoria (RACV). Merran Kelsall is also the Chair of the risk and audit committee of the Environment Protection Authority Victoria (EPAV) and a member of the audit committee of the Department of Business and Innovation (DBI). All dealings with this agency were on normal terms and conditions during the reporting period. All dealings with these organisations were on normal terms and conditions during the reporting period.		
Total revenue received from Darebin City Council was:	1	2
Total payments made to Darebin City Council were:	3	184
Total revenue received from RACV was:	-	1
Total payments made to RACV were:	33	67
Total revenue received from EPAV was:	-	-
Total payments made to EPAV were:	924	1,010
Total revenue received from DBI was:	-	220
Total payments made to DBI were:	-	-
(iii) The Managing Director, Shaun Cox and the previous Managing Director, Robert Skinner (resigned 11 March 2011), are Directors of Water Services Association Of Australia (WSAA). WSAA provides water and wastewater services to approximately 16 million Australians and many of Australia's largest industrial and commercial enterprises. All dealings with this agency were on normal terms and conditions during the reporting period.		
Total revenue received from WSAA was:	-	-
Total payments made to WSAA were:	254	251

- All other transactions with related party entities were made on normal terms and conditions during the financial year.

## 36 REMUNERATION OF EXECUTIVES

The numbers of executive officers, other than responsible persons (as defined in *FRD 21A Responsible Person and Executive Officer Disclosures in the Financial Report*) whose remuneration (total and base) falls within the specified bands above \$100,000 are as follows:

(Total remuneration is inclusive of bonus payments, long-service leave payments, redundancy payments and retirement benefits paid and payable. Base remuneration excludes these components).

Income Band (\$)	Total Remuneration		Base Remuneration	
	2011	2010	2011	2010
	Number	Number	Number	Number
100,000 - 109,999	-	-	-	1
110,000 - 119,999	-	-	-	-
120,000 - 129,999	-	-	1	1
130,000 - 139,999	-	2	3	4
140,000 - 149,999	3	1	9	8
150,000 - 159,999	4	3	8	10
160,000 - 169,999	5	5	5	3
170,000 - 179,999	9	10	2	3
180,000 - 189,999	5	3	7	1
190,000 - 199,999	2	5	-	-
200,000 - 209,999	7	1	3	2
210,000 - 219,999	-	1	-	1
220,000 - 229,999	-	1	2	1
230,000 - 239,999	3	1	-	3
240,000 - 249,999	-	1	4	1
250,000 - 259,999	2	1	-	-
260,000 - 269,999	-	-	-	-
270,000 - 279,999	-	3	-	-
280,000 - 289,999	4	1	-	-
290,000 - 299,999	-	-	-	1
300,000 - 309,999	-	-	1	-
330,000 - 339,999	-	1	-	-
340,000 - 349,999	1	-	-	-
<b>Total numbers</b>	<b>45</b>	<b>40</b>	<b>45</b>	<b>40</b>

	\$000	\$000	\$000	\$000
<b>Total amount</b>	<b>8,719</b>	<b>7,797</b>	<b>7,906</b>	<b>6,803</b>

## 37 KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel (as defined in AASB 124 *Related Party Disclosures*) includes the Managing Director 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.

	2011	2010
	\$000	\$000
Short-term employment benefits	2,715	2,598
Post-employment benefits	-	-
Other long-term benefits*	527	489
Termination benefits	-	-
Share-based payment	-	-
<b>Total amount</b>	<b>3,242</b>	<b>3,087</b>

	Number	Number
<b>Total numbers</b>	<b>9</b>	<b>9</b>

\* Other long-term benefits represents long service leave.

## 38 RECONCILIATION OF NET CASH PROVIDED FROM OPERATING ACTIVITIES TO NET PROFIT

		2011	2010
	Notes	\$000	\$000
Profit for the period	26	157,842	186,416
<b>Plus/(less) non cash and investing items:</b>			
Depreciation	4	231,884	122,024
Net (gain)/loss on sale of non-current assets	3(b)	(16,288)	(2,003)
Assets written off/written down	4	10,005	14,774
Developer contributed assets	3(a)	(23,250)	(21,985)
<b>Changes in operating assets and liabilities (net of investing items):</b>			
(Increase)/decrease in trade and other receivables		(45,839)	26,340
Decrease in other assets		4,264	9,455
Increase/(decrease) in provision for impaired receivables	7(a)	46	(10)
Increase/(decrease) in trade and other payables		16,011	(3,940)
Decrease in provisions		(3,468)	(6,166)
(Decrease)/increase in other liabilities	18	(1,197)	1,197
(Decrease)/increase in current tax liability	5(c)	(25,305)	4,737
Net movement in defined benefit liability	33	(2,977)	22
Decrease in deferred tax liabilities	22	(35,102)	(27,920)
<b>Net cash provided by operating activities</b>		<b>266,626</b>	<b>302,941</b>

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## 39 REMUNERATION OF AUDITORS

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During the reporting period, the following fees were paid or payable for services provided by the Victorian Auditor General's Office:

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	2011	2010
	\$000	\$000
Audit of financial report	146	143
Other work performed	48	35
<b>Total amount paid/payable</b>	<b>194</b>	<b>178</b>

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## 40 EVENTS OCCURRING AFTER BALANCE SHEET DATE

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No matters or circumstances have arisen since the end of the reporting period which significantly affected or may significantly affect the operations of the Corporation, the results of those operations, or the state of affairs of the Corporation in future financial years.

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# MELBOURNE WATER CORPORATION

## STATEMENT BY DIRECTORS AND CHIEF FINANCE OFFICER

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We certify the attached Financial Statements for Melbourne Water Corporation have been prepared in accordance with Standing Direction 4.2 of the *Financial Management Act 1994*, applicable 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 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 2011 and the financial position of the Corporation as at 30 June 2011.

We are not aware of any circumstance which would render any particulars included in the Financial Statements to be misleading or inaccurate.

Dated at Melbourne on this 19th day of August 2011.

On behalf of the Board:



Eleanor Underwood  
Chairman



Shaun Cox  
Managing Director



Malcolm Haynes  
Chief Finance Officer



Victorian Auditor-General's Office

## INDEPENDENT AUDITOR'S REPORT

### To the Board Members, Melbourne Water Corporation

#### *The Financial Report*

The accompanying financial report for the year ended 30 June 2011 of the Melbourne Water Corporation which comprises the statement of 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 has been audited.

#### *The Board Members' Responsibility for the Financial Report*

The Board Members of the Melbourne Water Corporation are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, including the Australian Accounting Interpretations, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the Board Members determine is necessary to enable the preparation 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, 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.

#### *Independence*

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

Level 24, 35 Collins Street, Melbourne Vic. 3000

Telephone 61 3 8601 7000 Facsimile 61 3 8601 7010 Email [comments@audit.vic.gov.au](mailto:comments@audit.vic.gov.au) Website [www.audit.vic.gov.au](http://www.audit.vic.gov.au)

*Auditing in the Public Interest*

## Independent Auditor's Report (continued)

### *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 2011 and of its financial performance and its cash flows for the year then ended in accordance with applicable Australian Accounting Standards, including the Australian Accounting Interpretations, and the financial reporting requirements of the *Financial Management Act 1994*.

### *Matters Relating to the Electronic Publication of the Audited Financial Report*

This auditor's report relates to the financial report of the Melbourne Water Corporation for the year ended 30 June 2011 included both in the Melbourne Water Corporation's annual report and on the website. The Board Members of the Melbourne Water Corporation are responsible for the integrity of the Melbourne Water Corporation's website. I have not been engaged to report on the integrity of the Melbourne Water Corporation's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in the website version of the financial report.

MELBOURNE  
22 August 2011

  
for D D R Pearson  
Auditor-General

# PERFORMANCE REPORTING

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## PERFORMANCE REPORT

### FINANCIAL PERFORMANCE INDICATORS

MRD 01 Reference	Performance Indicator	2009/2010		2010/2011			Target Met	Notes
		Target	Result	Target	Result	Variance		
[1]								
F1	Internal Financing Ratio % - (Net operating cash flow - dividends / Capital expenditure)	N/A	23.0%	32.7%	29.5%	-9.8%	N	[2]
F2	Gearing Ratio % - (Total Debt / Total Assets)	N/A	55.0%	37.9%	37.1%	-2.1%	Y	
F3	Interest Cover - EBIT (Earnings before net interest and tax expense / net interest expense) - times	≥2.2	2.4	≥1.8	2.0	11.1%	Y	[3]
F4	Interest Cover - Cash (Cash flow from operations before net interest and tax payments / net interest payments) - times	≥3.0	3.4	≥2.7	2.8	3.7%	Y	[4]
F5	Return on Assets % (Earnings before net interest and tax / Average total assets)	N/A	6.0%	4.5%	4.7%	4.4%	Y	
F6	Return on equity % - (NPAT / Average Total Equity)	N/A	6.0%	3.6%	3.8%	5.6%	Y	

## SERVICE AND ENVIRONMENTAL AND OTHER PERFORMANCE INDICATORS

MRD 01 Reference	Performance Indicator	2009/2010		2010/2011			Target Met	Notes
[1]		Target	Result	Target	Result	Variance		
<b>S1</b>	<b>Water Quality</b>							
	<i>Compliance with BWSA water quality requirements:</i>							
S1.1	* Microbiological standards - E.coli %	100%	100%	100%	98.75%	-1.3%	N	[4],[5]
S1.2	* Disinfection by-products %	100%	100%	100%	100%	0.0%	Y	[4]
<b>E1</b>	<b>Reliability of Sewerage Collection Services</b>							
E1.1	Sewage spilt from emergency relief structures and pumping stations (% of volume transported)	N/A	N/A	N/A	N/A	N/A	N/A	[6]
<b>E2</b>	<b>Sewerage Treatment and Disposal - WTP</b>							
	<i>Compliance with EPA Victoria discharge licence requirements %</i>	100%	100%	100%	100%	0.0%	Y	[4]
E2.1	* Offensive odours beyond the boundary (number)	0	0	0	0	0.0%	Y	[4]
E2.2	* Raw sewage TDS (mg/L)	<1000	975	≤1000	1000 mg/l	0.0%	Y	[4]
<b>E3</b>	<b>Sewerage Treatment and Disposal - ETP</b>							
	<i>Compliance with EPA Victoria discharge licence requirements %</i>	100%	100%	100%	100%	0.0%	Y	[4]
E3.1	* Offensive odours beyond the boundary	0	0	0	0	0.0%	Y	[4]
E3.2	* Ammonia limit (mg/L)	≥5.0	2.5	≥5.0	3.3	34.0%	Y	[4]
<b>E4</b>	<b>River Health</b>							
E4.1	Currently known intolerable flood risks reduced by 10% by 2013	0	0	0	0	0.0%	Y	[4]
E4.2	Achieve Water Plan implementation targets assigned to Melbourne Water from the Regional River Health Strategy and Addendum	100%	100%	100%	100%	0.0%	Y	[4]
<b>E5.1</b>	<b>Recycled Water</b>							
E5.1	Capacity to supply recycled water of specified reliability and quality from ETP and WTP to enable retail water businesses to meet their targets for potable water substitution (volume)	>700ML	>700ML	736ML	1,338ML	0.0%	Y	[4]

### 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 annual performance indicator target was not achieved as cashflows from operating activities were below plan by \$35M mainly due to delay in receipt of \$29.3M of Northern Victoria Irrigation Renewal Project (NVIRP) payments from retail water businesses.
- [3] The % variance between the results achieved and targets set for these performance indicators are above the % thresholds mandated under MRD 01 defining significant variances requiring explanatory notes. Given that the targets were set at a range of "less than or equal to" rather than a specific number, and both results achieved were well within the less than or equal to range, these are not deemed as significant variances by Melbourne Water.
- [4] These performance indicators are mandated and measured consistently by both MRD 01 and by the Melbourne Water Board of Directors. Therefore the results have not been repeated within the 'Melbourne Water's Key Performance Indicators' section of the Performance Reporting chapter.
- [5] The annual performance indicator target was not achieved due to one site having *E.coli* detected in samples on two occasions during the year. An isolation valve was found to be leaking a small amount of untreated water through from the Yan Yean Reservoir. This flow was reversed to prevent water coming from the reservoir, the valve was overhauled and the tank cleaned and spot dosed. Operation of the tank has been altered to lower detention time and the tank spot dosed on a regular basis. The Department of Health was notified in accordance with the *Safe Drinking Water Act* on both occasions. There was no *E.coli* detected by the retail water business in zones supplied from this source at these times.
- [6] This performance indicator is no longer collected or reported on by Melbourne Water and is deemed to be very minor and insignificant in comparison to spills from rainfall events, which are disclosed within the 'Other Melbourne Water Performance Indicators' section of the Performance Reporting chapter under 'Sewerage Transfer System'.

Target Met Target has been assessed as met when actual result is greater than or equal to the target set for the performance indicator.

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## CERTIFICATION OF PERFORMANCE REPORT FOR 2010/11

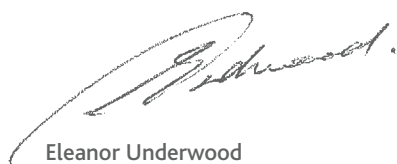
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We certify that the accompanying Performance Report of Melbourne Water in respect of the 2010/11 financial year is presented fairly in accordance with the *Financial Management Act 1994*.

The statement includes the relevant performance indicators as determined by the responsible Minister, the actual 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.

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.

Dated this 19th day of August 2011.



Eleanor Underwood  
Chairman



Shaun Cox  
Managing Director



Malcolm Haynes  
Chief Finance Officer



Victorian Auditor-General's Office

## INDEPENDENT AUDITOR'S REPORT

### To the Board Members, Melbourne Water Corporation

#### *The Performance Report*

The accompanying performance report for the year ended 30 June 2011 of the Melbourne Water Corporation comprises the performance indicators, the related notes and the statutory certification.

#### *The Board Members' Responsibility for the Performance Report*

The Board Members of the Melbourne Water Corporation are responsible for the preparation and the fair presentation of the performance report in accordance with the *Financial Management Act 1994* and for such internal control as the Board Members determine is necessary to enable the preparation of the performance report that is free of 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 judgment, 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.

#### *Independence*

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

Level 24, 35 Collins Street, Melbourne Vic. 3000

Telephone 61 3 8601 7000 Facsimile 61 3 8601 7010 Email [comments@audit.vic.gov.au](mailto:comments@audit.vic.gov.au) Website [www.audit.vic.gov.au](http://www.audit.vic.gov.au)

*Auditing in the Public Interest*

## Independent Auditor's Report (continued)

### *Opinion*

In my opinion, the performance report of the Melbourne Water Corporation in respect of the 30 June 2011 financial year presents fairly, in all material respects, and in accordance with the *Financial Management Act 1994*.

### *Matters Relating to the Electronic Publication of the Audited Performance Report*

This auditor's report relates to the performance report of the Melbourne Water Corporation for the year ended 30 June 2011 included both in the Melbourne Water Corporation's annual report and on the website. The Board Members of the Melbourne Water Corporation are responsible for the integrity of the Melbourne Water Corporation's website. I have not been engaged to report on the integrity of the Melbourne Water Corporation's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the performance report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited performance report to confirm the information contained in the website version of the performance report.

MELBOURNE  
22 August 2011

  
For  
D D R Pearson  
Auditor-General

# MELBOURNE WATER'S KEY PERFORMANCE INDICATORS

## FINANCIAL PERFORMANCE INDICATORS

Performance Indicator	2009/2010		2010/2011				
	Target	Result	Target	Result	Variance	Target Met	Notes
<b>Corporate</b>							
Maintain Financial Viability							
Meet regulated Water Plan operating expenditure \$M	292.8	282.6	313.0	307.0	1.9%	Y	
Cash Returns to Government \$M	175.5	175.9	205.7	173.1	-15.8%	N	[2]
Gearing % - (Debt/Debt + Equity)	<59.7%	43.3%	51.2%	45.3%	-11.5%	Y	
Return on equity % - (NPAT/Total Equity)	≥6.7%	4.6%	4.0%	3.6%	-10.0%	N	[3]
Efficient and effective delivery of the capital program;							
* On time	N/A	N/A	80.0%	59.0%	-26.3%	N	[1],[4]
* On budget	N/A	N/A	95.0%	82.0%	-13.7%	N	[1],[5]

## SERVICE AND ENVIRONMENTAL AND OTHER PERFORMANCE INDICATORS

Performance Indicator	2009/2010		2010/2011				
	Target	Result	Target	Result	Variance	Target Met	Notes
<b>Water</b>							
<b>Production and storage</b>							
Operate water supply system within environmental requirements - % compliance	100%	100%	100%	100%	0.0%	Y	
Maintain system losses as a % of water supplied to retail water businesses %	≤ 1.0%	1.08%	≤ 1.0%	1.41%	41.0%	N	[6]
<b>Water Transfer</b>							
Compliance with retail water businesses' pressure requirements as set out in BWSAs %	≥ 99.6%	100%	≥ 99.6%	100%	0.4%	Y	
<b>Water Quality</b>							
Compliance with BWSA water quality requirements:							
* Aesthetics – turbidity %	≥ 91.5%	89.30%	≥ 91.5%	100%	8.5%	Y	
* Aesthetics – Aluminium %	100%	100%	100%	100%	0.0%	Y	

# MELBOURNE WATER'S KEY PERFORMANCE INDICATORS

## SERVICE AND ENVIRONMENTAL AND OTHER PERFORMANCE INDICATORS (CONTINUED)

Performance Indicator	2009/2010		2010/2011				
Sewerage	Target	Result	Target	Result	Variance	Target Met	Notes
<b>ETP</b>							
<i>EPA Licence Compliance</i>							
Compliance with EPA Victoria discharge licence requirements %	100%	100%	100%	100%	0.0%	Y	
* Litter at beach [that results in a licence breach]	0	0	0	0	0.0%	Y	
<b>Sewerage Transfer System</b>							
<i>EPA Victoria SEPP System failure</i>							
* System failure – zero spills due to sewerage system failure	0	0	0	0	0.0%	Y	
* Hydraulic deficiency – progressively achieve zero spills due to storm events of a severity of up to 1-in-5 years	0	0	0	0	0.0%	Y	
Complaints relating to transfer system odour	< 10	20	< 10	16	60.0%	N	[7]
<i>Work with Water Retail businesses to improve sewage quality management</i>							
* Number of high risk non-compliant trade waste discharges to Melbourne Water's sewerage system	0	0	0	0	0.0%	Y	
<b>Biosolids Management</b>							
<b>Maximise sustainable re-use of biosolids:</b>							
* ETP- biosolids reuse of 90,000 cubic metres for construction fill by 2013	0	1,275m3	0	10,500m3	0.0%	Y	
* WTP- biosolids reuse	0	0	0	0	0.0%	Y	

Performance Indicator	2009/2010		2010/2011				
Waterways	Target	Result	Target	Result	Variance	Target Met	Notes
Achieve Waterways and Drainage Operating Charter performance targets	100%	94.9%	100%	100%	0.0%	Y	
<b>Drainage &amp; Flood Protection</b>							
All new development complies with flood protection standards	100%	100%	100%	100%	0.0%	Y	
<b>Stormwater Quality</b>							
Contribute to reducing the waterway nitrogen load to Port Phillip Bay through targeted stormwater action (tonnes)	100	100	102	102	0.0%	Y	
<b>Waterways Condition</b>							
Achieve Water Plan implementation targets assigned to Melbourne Water from the Regional River Health Strategy and Addendum	100%	100%	100%	100%	0.0%	Y	
<b>Land Development</b>							
Development and redevelopment services schemes prepared, implemented and reviewed according to the development planning program	100%	66.7%	100%	100%	0.0%	Y	
Statutory and agreed industry response times to be achieved for all development referrals	100%	100%	100%	100%	0.0%	Y	
<b>Streamflow Diversions</b>							
<i>Diversions to be managed:</i>							
* In accordance with rules specified in streamflow management plans, local management rules or drought responses plans	100%	100%	100%	100%	0.0%	Y	
* To meet the service requirements in Melbourne Water's Customer Charter [Diversion Services]	100%	100%	100%	100%	0.0%	Y	
<b>Community &amp; Stakeholder Engagement</b>							
Maintain at least 70% total community satisfaction with Waterways	70.0%	70.0%	70.0%	N/A	N/A	N/A	[8]

## SERVICE AND ENVIRONMENTAL AND OTHER PERFORMANCE INDICATORS (CONTINUED)

Performance Indicator	2009/2010		2010/2011				
Recycled Water	Target	Result	Target	Result	Variance	Target Met	Notes
<i>Compliance with retail BRWAs requirements for reliability and water quality;</i>							
* ETP	N/A	N/A	100%	50.0%	-50.0%	N	[1], [9]
* WTP	N/A	N/A	100%	90.0%	-10.0%	N	[1], [10]

Performance Indicator	2009/2010		2010/2011				
Corporate	Target	Result	Target	Result	Variance	Target Met	Notes
<b>Sustainability</b>							
Achieve sustainability performance score within 20% of the best score by global water utilities and Australian utilities, using the Dow Jones Sustainability World Indices (DJSI) - measured every two years	N/A	N/A	Within 20% of best score	Pass	0.0%	Y	[8]
<b>Natural Environment</b>							
<i>Renewable energy and greenhouse</i>							
* Renewable energy used or exported as % of total energy used	>58.0%	58%	>59.0%	59.0%	0.0%	Y	
* % reduction on 2000/01 greenhouse gas emissions	>42.0%	51.6%	>42.0%	46.5%	10.7%	Y	
<b>Biodiversity</b>							
For the 9 DSE designated sites of high biodiversity significance [BioSites], the number of BioSites that have:							
* Had management plans developed [cumulative]	4	4	8	9	12.5%	Y	
* Had management plans implemented [cumulative]	2	3	3	4	33.3%	Y	
<b>Our People / Our Workplace</b>							
Number of lost time injuries: * Melbourne Water people and contractors [injuries]	0	9	0	15	-100%	N	[11]
Maintain National Audit Tool accreditation	Yes	Yes	Yes	Yes	0.0%	Y	
Staff Turnover [%]	5-10%	6.2%	5-10%	8.1%	0.0%	Y	
Absenteeism - per person per year [days]	≤2.7	2.7	≤2.7	2.8	3.7%	N	[12]
<b>Minimise everyday environmental impacts:</b>							
* % reduction on 2006/07 office water consumption per FTE	≥3.5%	5.8%	3.50%	13.2%	277.1%	Y	
* % reduction on 2006/07 paper use per FTE	>10%	24.2%	12.0%	24.2%	101.7%	Y	
* % reduction on 2006/07 office waste to landfill per FTE	≥6%	27.3%	8.0%	41.6%	420.0%	Y	
* % reduction on 2006/07 office energy per FTE	>3.5%	15.2%	4.0%	14.5%	262.5%	Y	
* % offsetting greenhouse gas emissions from office energy use & travel	N/A	N/A	100%	100%	0.0%	Y	
Increase in constructive behaviours (measured every two years)	N/A	N/A	Achieved	N/A	N/A	N/A	[8]
Employee ranking of innovation in contribution to business performance	N/A	N/A	Improved	N/A	N/A	N/A	[13]
<b>Relationships - Customer, Community, Stakeholder</b>							
<i>Customers</i>							
* Complaints referred to EWOV responded to within EWOV established time	100%	100%	100%	100%	0.0%	Y	
<i>Community</i>							
* Effectiveness of community committee and community consultation processes	80.0%	N/A	85.0%	95.0%	11.8%	Y	[8]
* Effectiveness of community education programs	80.0%	N/A	85.0%	97.0%	14.1%	Y	[8]

## SERVICE AND ENVIRONMENTAL AND OTHER PERFORMANCE INDICATORS (CONTINUED)

### Notes - to Melbourne Water Key Performance Indicators:

- [1] New performance indicator for 2010/11
- [2] The annual performance indicator target was not achieved mainly due to deferral of the \$37.8M interim 2010/11 dividend (planned to be paid in April 2011) but deferred to October 2011 based on advice by the Department of Treasury and Finance.
- [3] The annual performance indicator target was not achieved mainly due to Equity being \$702.8M above our Corporate Plan target (primarily due to difference of \$537.6M to opening balances in the Plan compared to final 2009/10 actuals mainly as a result of the revaluation of infrastructure assets as at 30 June 2010 being above Plan). The remainder of the \$165.2M movement in Equity is mainly due to the 2010/11 land and buildings valuation increments being higher than planned.
- [4] The annual performance indicator target was not achieved. Further investigation and analysis will be undertaken to identify the underlying causes and initiatives implemented to improve performance.
- [5] The annual performance indicator target was not achieved. Investigations and analysis to identify the underlying causes will be completed and initiatives implemented to improve performance.
- [6] The annual performance indicator target was not achieved mainly due to an increase in losses from the aqueduct system. These losses are mainly due to the higher than average harvesting flows through these aqueduct systems. Further losses were recorded across Melbourne Water's water supply system due to flushing the Winneke-Preston Water Main and multiple major water main renewal works.
- [7] The annual performance indicator target was not achieved mainly due to ventilation associated with works being undertaken in the sewer network and sewer vents performing as designed. Other causes included sewer gases escaping around or through manhole covers damaged or unsealed by traffic or corrosion.
- [8] Performance indicator is measured every two years (if N/A performance indicator is not measured in 2010/11)
- [9] The annual performance indicator target was not achieved because we failed to meet recycled water turbidity and recycled water supply targets due to wet weather events and delay in completion of the aeration tanks project at Eastern Treatment Plant.
- [10] The annual performance indicator target was not achieved mainly due to wet weather affecting reliability.
- [11] The annual performance indicator target was not achieved as there were 15 lost time injuries incurred by staff and contractors. A safety culture survey has been undertaken to address leadership and behavioural issues that impact on our decision making. Results will be used to create an action plan to improve our safety culture and performance.
- [12] The annual performance indicator target was not achieved due to an increase in the average sick leave taken during August to October.
- [13] This annual performance indicator is now not able to be measured until the results of the innovation survey in October 2011 and accordingly will be reported on in the 2011/12 annual report.

Target Met Target has been assessed as met when actual result is greater than or equal to the target set for the performance indicator.

# STATUTORY INFORMATION

## DISCLOSURE INDEX

The Annual Report of Melbourne Water 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.

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<b><i>Building Act 1993</i></b>		
<b><i>Whistleblowers Protection Act 2001</i></b>		
<b><i>Victorian Industry Participation Policy Act 2003</i></b>		
<b><i>Financial Management Act 1994</i></b>		

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## CONSULTANTS

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During 2010/11, Melbourne Water engaged 14 consultants at less than \$100,000 each to undertake operational and capital works projects at a total cost of \$284,996 (exclusive of GST).

In addition, Melbourne Water engaged five consultants (see table below) at over \$100,000 to undertake the following projects (expenditure excludes GST):

Consultant	Project	Total fee approved	Expenditure 2010/11	Future expenditure
<b>CH2M HILL</b>	Wastewater Algae to Energy Study for ETP and WTP	<b>140,000</b>	<b>139,993</b>	-
<b>Atura</b>	Biosolids QRA sensitivity analysis	<b>197,517</b>	<b>194,332</b>	<b>75,000</b>
Black & Veatch	Energy, Fuels & Chemical recovery report	115,236	104,779	-
Black & Veatch	Carbon sequestration product market assessment report	30,000	30,000	-
<b>Total Black &amp; Veatch</b>		<b>145,236</b>	<b>134,779</b>	-
<b>PriceWaterhouseCoopers</b>	Maintenance & Low Risk Capital Delivery Strategy	<b>250,000</b>	<b>163,094</b>	<b>86,906</b>
<b>GHD</b>	Winneke Major Hazard Facility Re-licensing	<b>199,000</b>	<b>104,463</b>	<b>94,537</b>
<b>TOTAL &gt; \$100,000</b>		<b>931,753</b>	<b>736,660</b>	<b>256,443</b>

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## NATIONAL COMPETITION POLICY

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Melbourne Water submitted our 2009 Water Plan for water, sewerage and recycled water services to the Essential Services Commission (ESC) in November 2008 to enable the ESC to make a price determination for the four-year period commencing 2009/10. The 2009 Water Plan sets out proposed performance relative to the expenditures and outcomes included in the ESC's first determination as well as proposed outcomes, expenditures and prices for the second price determination period.

In December 2007, Melbourne Water submitted its 2008 Water Plan for waterways and drainage services, which enabled the ESC to make a price determination for these services commencing in 2008/09 for a five-year period.

These processes are consistent with the pricing and institutional reform objectives of the National Competition Policy.

Melbourne Water is corporatised and therefore has an independent Board, with independent and objective performance monitoring. We face equivalent tax treatment, borrowing requirements and regulations as a private business. As outlined above, we also operate in an environment where the ESC determines cost-based pricing. In this regard, our processes are consistent with the requirements of the Competitive Neutrality Policy Victoria.

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## FREEDOM OF INFORMATION

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Melbourne Water is subject to the *Freedom of Information Act 1982 (Vic.)* and is committed to making documents and information available to the community whenever it can. The designated persons for the purpose of the Act are:

Principal officer:  
Ms E Underwood

Chairman, Melbourne Water

Authorised officer:

Mr M Facciolo

Freedom of Information Officer, Melbourne Water

### ***Requests for Information***

This year we received 32 requests for access to documents under the Freedom of Information legislation.

## STATUTORY INFORMATION

We processed these requests as follows:

Access in full	11
Access in part	13
Access refused	0
Documents not located	3
Applicant did not proceed	2
Not finalised	2
Withdrawn	1

The applications received related to the following issues:

Personal	6
Water quality	4
Business administration	5
Water supply	1
Waterways management	1
Property	9
Tendering	0
Environment and Planning	4
Flooding	2

This year we received 1 request for an internal review.

The original decision was confirmed from this review.

Year/Number of requests	
2005/06	14
2006/07	20
2007/08	20
2008/09	35
2009/10	43
2010/11	32

Grounds for refusing release of documents: internal working documents and/or documents containing sensitive commercial information and/or documents affecting personal privacy.

### Access to Documents

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

Freedom of Information Officer  
Melbourne Water  
PO Box 4342  
Melbourne Victoria 3002

Each application must clearly identify the documents sought and be accompanied by the required application fee, currently \$24.40. General inquiries concerning Freedom of Information can be made by telephoning the Freedom of Information Officer on (03) 9235 1540 between 9am and 5pm, Monday to Friday or via email to: [foi@melbournewater.com.au](mailto:foi@melbournewater.com.au)

Information on our consultative arrangements, required under Section 7 of the Act, is available on our website, [melbournewater.com.au](http://melbournewater.com.au). Information on our publications, also required under Section 7, is included in this report.

### Categories of Documents

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

## PRICING

Consistent with the Essential Services Commission's Final Determination in the 2009 Water Price Review, Melbourne Water's water and sewerage prices increased by an average of 15.2% in real terms (excluding inflation) in 2010/11. In addition, Melbourne Water's waterways and drainage charges increased by an average of 3.6% in real terms in 2010/11.

## BULK ENTITLEMENTS

The three metropolitan retail water businesses (retailers) hold Bulk Entitlements to the water resources of the Yarra River, Thomson River, Tarago and Bunyip Rivers and Silver and Wallaby Creeks (Goulburn River Basin).

The entitlements have been established as a collective "pool". On 8 October 2010, the Minister for Water added to the "pool" by granting the retailers bulk entitlements for up to 150,000 ML per year of water from the Victorian Desalination Project. The desalinated water bulk entitlements also imposed obligations to supply Barwon Water, Western Water, Westernport Water and South Gippsland Water with water from the Melbourne "pool". As part of imposing the obligations to supply Western Water from the Melbourne "pool", the Minister removed existing obligations in the retailers Yarra River Bulk Entitlements to supply Western Water.

## BULK ENTITLEMENTS (CONTINUED)

**Table 1 – Compliance with all Bulk Entitlements held by the three Melbourne retail water businesses (retailers)**

Melbourne retail water businesses reporting obligation	Combined Yarra River, Silver and Wallaby Creeks, Thomson River	Yarra River <sup>2</sup>	Silver and Wallaby Creeks <sup>7</sup>	Thomson River <sup>9</sup>	Tarago and Bunyip Rivers <sup>12</sup>	Victorian Desalination Project <sup>15</sup>
The volume of water taken by the retailers in 2010/11	Clause 15.1 (a) 469,300 ML	Clause 15.1 (a) 456,400 ML	Clause 13.1 (a) 11,300 ML	Clause 15.1 (a) 1,600 ML	Clause 14.1 (a) 13,900 ML (Tarago) 2,200 ML (Bunyip)	Clause 11.1 (a) 0 ML <sup>16</sup>
Compliance with the long term average bulk entitlement diversion limit	Clause 15.1 (b) 427,800 ML <sup>1</sup>	Clause 15.1 (b) 289,100 ML <sup>3</sup>	Clause 13.1 (b) 17,700 ML <sup>8</sup>	Clause 15.1 (b) 133,400 ML <sup>10</sup>	Clause 14.1 (f) 13,900 ML (Tarago) <sup>13</sup> 2,200 ML (Bunyip) <sup>14</sup>	Clause 11.1 (e) 0 ML
The total annual consumption in 2010/11	343,600 ML	N/A	N/A	N/A	N/A	N/A
The retailers share of flow in 2010/11	N/A	Clause 15.1 (a) 436,500 ML	Clause 13.1 (a)N/A	Clause 15.1 (a) 194,000 ML	Clause 14.1 (a) 33,200 ML	Clause 11.1 (a) N/A
The retailers share of storage volume at 30/06/11	N/A	Clause 15.1 (a) 528,000 ML	N/A	Clause 15.1 (a) 406,100 ML	Clause 14.1 (a) 21,000 ML	N/A
Volume supplied to Primary Entitlement Holders	N/A	Clause 15.1 (a) N/A <sup>4</sup>	N/A	N/A	Clause 14.1 (a) 235 ML (Gippsland Water) 0 ML (Southern Rural Water)	Clause 11.1 (a) 7,881 ML <sup>17</sup> (Western Water)
Any assignment of water allocation or temporary/permanent transfers of the bulk entitlement	N/A	Clause 15.1 (c) Nil	Clause 13.1 (c) Nil	Clause 15.1 (c) Nil	Clause 14.1 (b) Nil	Clause 11.1 (b) Nil
Any temporary or permanent transfer of the bulk entitlement which may alter the flow in the waterway	N/A	Clause 15.1 (d) Nil	Clause 13.1 (d) Nil	Clause 15.1 (d) Nil	Clause 14.1 (a) Nil	N/A
Any amendment to the bulk entitlement	N/A	Clause 15.1 (e) Yes <sup>5</sup>	Clause 13.1 (e)Nil	Clause 15.1 (e) Nil	Clause 14.1 (d) Nil	Clause 11.1 (c) Nil
Any new bulk entitlement granted to the retailers	N/A	Clause 15.1 (f) Nil	Clause 13.1 (f) Nil	Clause 15.1 (f) Nil	Clause 14.1 (e) Nil	Clause 11.1 (d) Nil
Any failures to comply with any provision of the bulk entitlement	N/A	Clause 15.1 (g) Nil	Clause 13.1 (g) Nil	Clause 15.1 (g) Nil	Clause 14.1 (g) Nil	Clause 11.1 (f) Nil
Any difficulty experienced in complying with the bulk entitlement and if so, any remedial action taken or proposed	N/A	Clause 15.1 (h) Yes <sup>6</sup>	Clause 13.1 (h) Nil	Clause 15.1 (h) Yes <sup>11</sup>	Clause 14.1 (h) Nil	Clause 11.1 (g) Nil

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## BULK ENTITLEMENTS (CONTINUED)

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### *Combined Yarra River, Silver and Wallaby Creeks, Thomson River*

1. Compliance with the long term average diversion limit of 555,000 ML is assessed using a 15 year rolling average annual diversion.

#### *Yarra River*

2. The retailers hold the following Bulk Entitlements on the Yarra River

- Bulk Entitlement (Yarra River – Melbourne Water for City West Water Limited) Conversion Order 2006 – BEE049364
- Bulk Entitlement (Yarra River – Melbourne Water for South East Water Limited) Conversion Order 2006 – BEE049363
- Bulk Entitlement (Yarra River – Melbourne Water for Yarra Valley Water Limited) Conversion Order 2006 – BEE049362

3. Compliance with the long term average diversion limit of 400,000 ML is assessed using a 15 year rolling average annual diversion.

4. Water supplied to Western Water in 2010/11 is reported against the retailers Desalinated Water Bulk Entitlements.

5. On the 24 October 2010 the Minister for Water revoked obligations for the Melbourne retailers to supply Western Water from their Yarra River Bulk Entitlements.

6. One qualification of the Yarra River's Environmental Entitlement continued to supplement Melbourne's water supplies from the Yarra River in response to the continuing water shortage. It expired on 12 October 2010 when Melbourne's restriction levels were reduced to Stage 2. Melbourne Water continued to implement the water quality monitoring program and Yarra River Environmental Contingency Plan to monitor and manage the environmental impacts of the qualification. Melbourne Water and the retailers fully complied with the terms of the qualification and bulk entitlements.

### *Silver and Wallaby Creeks*

7. The retailers hold the following bulk entitlements on the Silver and Wallaby Creeks

- Bulk Entitlement (Silver & Wallaby Creeks – Melbourne Water for City West Water Limited) Conversion Order 2006 – BEE049475
- Bulk Entitlement (Silver & Wallaby Creeks – Melbourne Water for South East Water Limited) Conversion Order 2006 – BEE049474
- Bulk Entitlement (Silver & Wallaby Creeks – Melbourne Water for Yarra Valley Water Limited) Conversion Order 2006 – BEE049473

8. Compliance with the 3-year total diversion limit of 66,000 ML is assessed using a 3 year rolling total diversion.

#### *Thomson River*

9. The retailers hold the following bulk entitlements on the Thomson River

- Transfer of Bulk Entitlement (Thomson River – Melbourne Water Corporation) Conversion Order 2001 to City West Water Limited – BEE049361
- Transfer of Bulk Entitlement (Thomson River – Melbourne Water Corporation) Conversion Order 2001 to South East Water Limited – BEE049360
- Transfer of Bulk Entitlement (Thomson River – Melbourne Water Corporation) Conversion Order 2001 to Yarra Valley Water Limited – BEE049359

10. Compliance with the long term average diversion limit of 171,800 ML is assessed using a 15 year rolling average annual diversion.

11. Two qualifications of the Thomson River Environment Bulk Entitlement continued to retain water in Thomson Reservoir for Melbourne in response to the continuing water shortage. Both qualifications expired on 12 October 2010 when Melbourne's restriction levels were reduced to Stage 2. The retailers funded the development and implementation of an emergency management plan, overseen by West Gippsland Catchment Management Authority, to monitor and manage the environmental impacts of the qualifications. Melbourne Water and the retailers fully complied with the terms of the qualifications and bulk entitlements.

### *Tarago and Bunyip Rivers*

12. The retailers hold the following bulk entitlements on the Tarago and Bunyip Rivers

- Bulk Entitlement (Tarago and Bunyip Rivers – Melbourne Water for City West Water Limited) Conversion Order 2009 – BEE049358
- Bulk Entitlement (Tarago and Bunyip Rivers – Melbourne Water for South East Water Limited) Conversion Order 2009 – BEE049357
- Bulk Entitlement (Tarago and Bunyip Rivers – Melbourne Water for Yarra Valley Water Limited) Conversion Order 2009 – BEE049356

13. Compliance with the long term average diversion limit of 24,950 ML is assessed using a 5 year rolling average annual diversion.

14. Compliance with the long term average diversion limit of 5,560 ML is assessed using a 5 year rolling average annual diversion.

### *Victorian Desalination Project*

15. The retailers hold the following bulk entitlements to the Victorian Desalination Project

- Bulk Entitlement (Desalinated Water – City West Water Limited) Order 2010 – BEE050814
- Bulk Entitlement (Desalinated Water – South East Water Limited) Order 2010 – BEE050815
- Bulk Entitlement (Desalinated Water – Yarra Valley Water Limited) Order 2010 – BEE050816

16. The Victorian Desalination Project is expected to provide water to the Melbourne retailers by June 2012.

17. In October 2010, the retailers obligation to supply Western Water was transferred from their Yarra River Bulk Entitlements to their Desalinated Water Bulk Entitlements. In the event that water is not being taken from these bulk entitlements, Western Water must be supplied from the retailers other bulk entitlements. This figure represents the total volume supplied to Western Water in 2010/11, including the water supplied under the Yarra River Bulk Entitlements.

### *Non-Compliance in Goulburn System Bulk Entitlement 2009/10*

A correction to the 2009/10 compliance reporting for the Goulburn System Bulk Entitlements is required for a non compliance with daily pumping rate conditions experienced on 30 April 2010.

## BULK ENTITLEMENTS (CONTINUED)

The Melbourne retailers bulk entitlements for the Goulburn System were in effect at this time and Clause 11.3 (c) specified that the daily diversion rate from the Goulburn River may not change by more than 180 ML/day when the river flows at the Killingworth gauge are 1,500 ML/day or greater. On 30 April 2010, the river flows were 2,335 ML/day, but the 190 ML increase in the daily pumping rate exceeded the maximum permissible rate by 10 ML/day. The non-compliance occurred while the Pipeline was being regulated manually due to problems with the outlet control valve. The valve was replaced in August 2010 which has enabled the pipeline's automatic control systems to be used and prevent this type of non-compliance in future.

### 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.

**Table 2 – Compliance with the Maribyrnong River Bulk Entitlement held by Melbourne Water**

<u>Melbourne Water reporting obligation</u>	<b>Maribyrnong River</b>
The volume of water taken by MW to supply licence holders in 2010/11	Clause 19.1 (b) 114 ML
Compliance with the 5 year rolling average annual bulk entitlement diversion limit of 1,056 ML	187 ML
The MW share of flow into the Rosslynne Reservoir in 2010/11	Clause 19.1 (a,iii) 1,660 ML
The MW share of storage volume in the Rosslynne Reservoir at 30/06/11	Clause 19.1 (a,ii) 1,598 ML
Transfer and operating losses within the system	Clause 19.1 (a,iv) 0 ML
Releases made from the Rosslynne Reservoir to supply licence holders in 2010/11	Clause 19.1 (a, i) 0 ML
Releases from MW's share of flow to meet minimum flows	Clause 19.1 (a,v) 64 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 MW	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 <sup>1</sup>
Any amendment to the bulk entitlement	Clause 19.1 (g) nil
Any new bulk entitlement granted to MW	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

<sup>1</sup> One transfer of licence was made from Keilor to Keilor with 6 ML.

## STATUTORY INFORMATION

### BULK ENTITLEMENTS (CONTINUED)

#### Environmental Entitlements

Table 3 – Compliance with the Environmental Entitlements held by the Environment Minister

<u>Environmental Entitlements reporting</u>	Yarra River	Thomson River	Silver and Wallaby Creeks	Tarago and Bunyip Rivers
Environment's share of storage volume at 30/06/11	18,325 ML	2,794 ML	N/A	3,000 ML
Compliance with environmental flows	Yes	Yes	Yes	Yes

### PRIVACY LEGISLATION

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

Melbourne Water is committed to openness and transparency and welcomes any queries about our approach to privacy. We endeavour to resolve any privacy complaints quickly and effectively.

Melbourne Water was formally notified about one alleged privacy breach in 2010/11. The matter is currently before the Victorian Civil and Administrative Tribunal.

People wanting to make a privacy complaint or seek a copy of Melbourne Water's Privacy Policy should write to:

The Privacy Officer – Melbourne Water,  
PO Box 4342, Melbourne Victoria 3002.

### COMPLIANCE WITH BUILDING ACT 1993

Melbourne Water's major premises are compliant with the *Building Act 1993*. Melbourne Water has a program to refurbish our remote sites to ensure compliance with the Building Code of Australia (BCA).

In the last 12 months, *Disability Discrimination Act* (DDA) audits have been completed at all sites and recommendations are currently being considered. All sites that the Property Team is accountable for are Essential Safety Measure (ESM) compliant following audits completed over the last two years.

The Southern Eastern Regional Office (SERO) has been completed and is 5 Star Green Star Design (GBCA) rated, as well as compliant with BCA, DDA and ESM. Minor fit-out works and furniture replacement have been completed at Brooklyn and the Western Treatment Plant office complexes.

### INFORMATION AVAILABLE ON REQUEST

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 any major external review carried out upon Melbourne Water, 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 relations and marketing activities, assessments and measures to improve the occupational health and safety of employees, statement of industrial relations and details of time lost through industrial accidents and disputes, and major sponsorships. Please ring 131 722 (within Victoria) or (03) 9235 7100 (within the rest of Australia) or visit [melbournewater.com.au](http://melbournewater.com.au)

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## WHISTLEBLOWERS PROTECTION ACT

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The *Whistleblowers Protection Act 2001* began operation on 1 January 2002.

It aims to encourage and facilitate disclosure of improper conduct by public officers and public bodies.

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

- A reporting system was established with Protected Disclosure Officers reporting to the Protected Disclosure Coordinator, who in turn, reports to the Managing Director
- Melbourne Water will take all reasonable steps to protect the identity of a whistleblower and is committed to the protection of genuine whistleblowers against reprisals for making protected disclosures
- The principles of natural justice will be followed in any investigation of a public interest disclosure.

The following appointments were made to manage disclosures of improper conduct:

Protected Disclosure Coordinator  
Leigh Keath, General Manager, People and Safety

Protected Disclosure Officer  
Jane Denton, Corporate Secretary & Legal Counsel

Melbourne Water has established written procedures, which are contained in this report, at [melbournewater.com.au](http://melbournewater.com.au) or by contacting the Protected Disclosure Officer or the Protected Disclosure Coordinator at:

Melbourne Water  
100 Wellington Parade,  
East Melbourne Victoria 3002  
Telephone: 03 9235 7297

There were no whistleblower requests received by Melbourne Water this year.

### **Whistleblowers Protection and Procedures**

#### **Purpose**

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

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

#### **Scope**

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

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

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

#### **Performance Standards**

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

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### ***Definitions***

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

#### ***a) Improper conduct***

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

#### ***b) Corrupt conduct***

Corrupt conduct means:

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

#### ***c) Detrimental action***

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

Detrimental action includes:

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

### ***Legislation/Regulations***

*Whistleblowers Protection Act 2001*

Section 104 details reporting requirements

### ***References***

Melbourne Water Code of Conduct



Melbourne Water

100 Wellington Parade,  
East Melbourne  
PO Box 4342  
Melbourne Victoria 3001  
Telephone 131 722  
Facsimile 03 9235 7200  
melbournewater.com.au