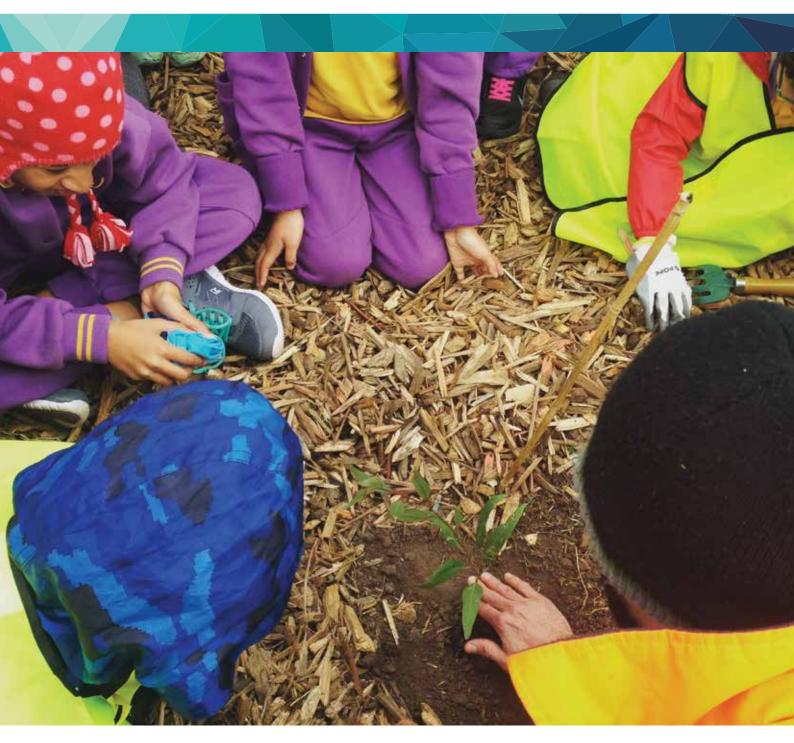
# Annual Report 2015









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# A Foreword from the Chairman and Managing Director

We are pleased to present City West Water's 2014-15 Annual Report. This report provides a summary of our operational performance, audited Financial Report, corporate governance statements and additional statutory information.

Overall, City West Water performed very well across our triple bottom line key performance indicators and met 29 out of 31 Essential Services Commission service standard targets.

The safety of our workforce and contractors maintains its position as a primary business concern, alongside a focus on customer service and improving our productivity and efficiency. Our objective to deliver the level of service our customers want at a lower price has been achieved this year.

Profit before tax was \$47.3 million compared to budget of \$32.5 million. This result was achieved through a number of factors: higher than budgeted developer revenues, higher gross profit associated with higher than forecast water sales and sewage disposal charges, lower than budgeted finance charges and strong management of capital and operating costs. The favourable result was partly offset by lower than budgeted service charges due to a decision not to introduce occupancy based service charges that were scheduled to come into effect during 2015. Water purchases were 107.3GL - above last year's 103.4GL and above budget of 98.9GL. Growth in our customer base was 3.3 per cent for the year.

During the year we returned a total of \$36.7 million to our residential customers through the Government Water Rebate issued between July and September 2014. The rebate was made possible through capital and operating efficiency initiatives and new revenue initiatives implemented during the year as well as Melbourne Water Corporation contributing approximately \$27.5m. It should be noted that these savings are above the significant operating efficiencies already embedded in our current prices.

City West Water's business transformation program, the Arrow Program, involving the staged replacement

of existing business systems and processes with an integrated suite of systems to enable faster, evidence based decision making and significant improvements in productivity and customer service is continuing. The design of the second stage of the program, the Asset Management module, is nearing completion and the build phase is expected to begin in the 2015-16 financial year.

To support the achievement of City West Water's strategic initiatives we implemented a new Financial Management Strategy during the year. The strategy focuses on providing a road map for achieving best practice financial leadership to enable City West Water to maintain its target of having the lowest water bill for residential customers in the Melbourne metropolitan area.

A highlight of the year was the relocation to new head office facilities in Footscray and two new maintenance depots in Brooklyn and Kensington. The relocation comes after many years of detailed planning and hard work by representatives from across the organisation.

Greening the West has continued to build momentum, culminating in a \$2 million grant from the Victorian Government for the rehabilitation of Stony Creek. Stony Creek is a concrete drain at the rear of City West Water's former head office in Sunshine which will be restored to a natural waterway. The rehabilitation of Stony Creek will create an important community asset and will enhance the future development of the site.

The Victorian Auditor-General's Office has issued a modified audit report on City West Water Corporation's 2014-15 Annual Report reflecting a difference in opinion on the valuation of infrastructure assets. City West Water is of the view that its valuation of infrastructure assets, as supported by an independent expert valuation report, remains appropriate and is in accordance with relevant accounting standards and directions. Further information on this matter is provided within the Annual Report.

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

n no la la

The Hon. Alan Stockdale Chairman

Melbourne 30 September 2015

Anne Barker Managing Director



# Report of Operations

#### **General information**

City West Water Corporation is a statutory water authority incorporated under the *Water Act 1989*. It is one of three retail water businesses in metropolitan Melbourne owned by the Victorian Government. The Minister responsible for City West Water for the period from 1 July 2014 to 3 December 2014 was the Hon. Peter Walsh MLA, Minister for Water. The Minister responsible for City West Water for the period from 4 December 2014 to 30 June 2015 was the Hon. Lisa Neville MP, Minister for Environment, Climate Change and Water.

City West Water's core business is the supply of water, sewerage, trade waste and where available, recycled water services to customers in accordance with the organisation's Customer Charter. City West Water services over 414,000 residential and business customers in Melbourne's central business district and inner and western suburbs.

Each year City West Water supplies around 100 billion litres of drinking water to customers and transfers approximately 94 per cent of sewage and trade waste collected to Melbourne Water's Western Treatment Plant in Werribee. The remaining six per cent is treated at City West Water's Altona Treatment Plant.

City West Water operates under statements of obligations issued by the Minister for Environment, Climate Change and Water under section 4I of the *Water Industry Act 1994*. The statements impose obligations on City West Water regarding the performance of its functions and exercise of its powers. City West Water is required to monitor compliance with the obligations set out in the statements, report on non-compliance and take remedial action as necessary.

The Essential Services Commission (ESC) is City West Water's economic regulator. The ESC approves the prices City West Water charges its customers as well as the standards of service the organisation delivers. City West Water is required to submit a five year Water Plan to the ESC which details outcomes that the organisation intends to achieve as well as proposed prices. The ESC undertakes a public review of City West Water's Water Plan in consultation with all stakeholders. The current Water Plan took effect from 1 July 2013.

City West Water's drinking water quality is regulated by the Department of Health and Human Services under the *Safe Drinking Water Act 2003* and its recycled water quality is regulated by the Environment Protection Authority (EPA) under the *Environment Protection Act 1970*. The management of the organisation's sewerage responsibilities is also regulated by the EPA.

#### Vision

To be a truly sustainable water business

#### Mission

Guarantee affordable and safe water for today and tomorrow

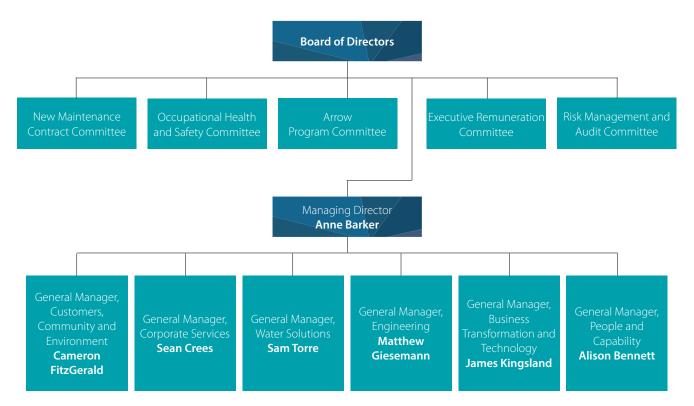
#### Values

Leadership, integrity, innovation, respect

The Green Gully Reserve Stormwater Harvesting Scheme is one of five stormwater harvesting sites operated by City West Water.



#### **Organisational Structure**



The Hon. Lisa Neville MP was appointed as the Minister for Environment, Climate Change and Water in December 2014. As Minister for Environment, Climate Change and Water the Minister is responsible for urban water, irrigation water, groundwater, water corporations and governance, allocation and trading, permanent water use rules and water restrictions.

The Minister for Environment, Climate Change and Water appoints the directors of City West Water and the Victorian Government sets their remuneration. Directors are eligible for reappointment for subsequent terms. The Board is responsible for setting and overseeing the policies, objectives and strategies of City West Water and ensuring that risk is appropriately managed.

The Board meets 11 times per year with additional meetings held on an as needed basis. It is committed to performing its role in accordance with the highest standards of corporate governance. There are five committees of the Board. The Risk Management and Audit Committee usually meets five times per year and the Occupational Health and Safety Committee meets four times per year. The Executive Remuneration Committee, the New Maintenance Contract Committee and the Arrow Program Committee meet as required.

The Board approves budgets and significant projects, reviews corporate policies and strategies and oversees progress on key issues affecting the organisation.

The Board comprises seven non-executive directors and the Managing Director. Each Director brings specialist skills to City West Water. All non-executive directors are independent.

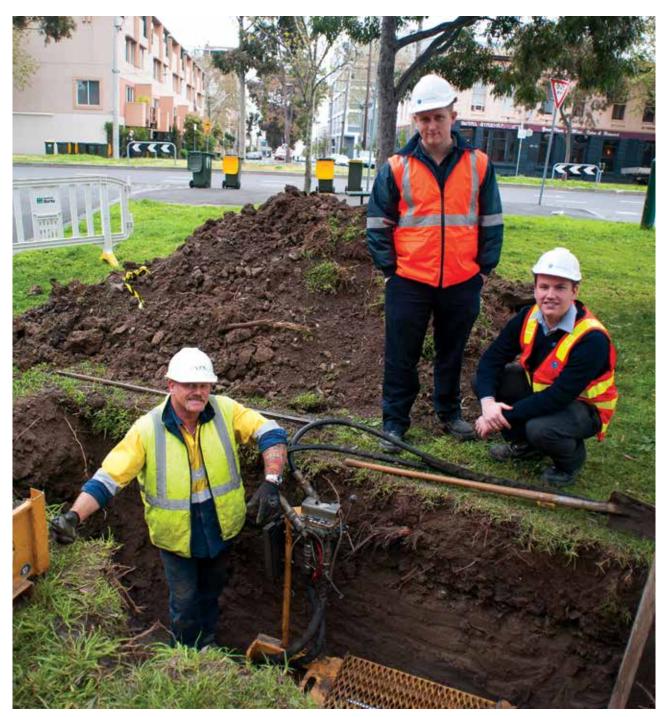
The Board reviews its own performance on a regular basis and reports to the Minister for Environment, Climate Change and Water and the Treasurer of Victoria on the outcomes of these reviews.



DIRECTOR	EXPERIENCE	COMMITTEE MEMBERSHIP
The Hon. Alan Stockdale Chairman LLB, BA, FAICD.	The Hon. Alan Stockdale was appointed as Chairman of City West Water on 1 October 2011. Alan Stockdale is a part-time consultant for Maddocks Lawyers, Metro Trains Melbourne Pty Ltd, the Ducere Group and Yarris Pty Ltd. He is Chairman of the Medical Research Commercialisation Fund (2007 - current) and KNOSYS Limited (April 2015- current) a CEO Syndicate for the CEO Institute and the MBAV Foundation (2008 - current); Immediate Past Federal President of the Liberal Party of Australia having been Federal President (2008 – 2014); a Director of NSW Treasury Corporation (2005 - current) and a member of the Advisory Board of Lazard Australia (2011 - current). He has extensive corporate experience including roles with Macquarie Infrastructure Group and Macquarie Bank and as Chairman or a Director of several ASX- listed companies. Mr Stockdale was a member of the Victorian Parliament (1985 - 1999) and was Victorian Treasurer (1992 - 1999) and Minister for IT and Multimedia (1996 - 1999). He holds Bachelor of Laws and Bachelor of Arts degrees and is a Fellow of the Australian Institute of Company Directors.	Executive Remuneration Committee (Chairman) Ex-officio member of all other Board committees except the New Maintenance Contract Committee
Anne Barker Managing Director LLB, MAICD.	Anne Barker was appointed as City West Water's Managing Director in November 2002. Ms Barker practised law before gaining broad management experience with Myer Stores and the ANZ Banking Group. Prior to joining City West Water, Ms Barker was the Executive Manager of the Commercial and Revenue divisions at SPI Powernet where she gained extensive experience working in a regulated utility environment. She is currently the Chair of Whitelion, and a Director of the Water Services Association of Australia.	Occupational Health and Safety Committee New Maintenance Contract Committee Arrow Program Committee
<b>Debra Goodin</b> B.Ec., FCA, MAICD.	Debra (Debbie) Goodin was appointed as a director of City West Water on 1 October 2011 and is also the Deputy Chairperson of the Board. Debbie is a professional non-executive Director and has previously held executive leadership positions in operations, finance, project delivery, corporate strategy, mergers and acquisitions and corporate services roles in both the public and private sectors. Debbie also has experience working globally and in publicly listed companies. Debbie is a Director of APA Group Limited, Senex Energy Limited and Ooh Media Limited. Debbie is also a member of the Finance and IT Committee for the Royal Women's Hospital. Debbie has a Bachelor of Economics, is a Chartered Accountant and Member of the Institute of Company Directors.	Risk Management and Audit Committee (Chairman) Executive Remuneration Committee Arrow Program Committee (Chairman)
Vivienne Nguyen B.Comm., M. App. Fin.	Vivienne Nguyen was appointed as a director on 1 October 2013. Vivienne was previously a director of Grampians Wimmera Mallee Water Corporation. Vivienne's most recent position was Principal Consultant with Oppeus International (2012 - June 2013) and she has previously held various senior executive roles with ANZ bank (2004 - 2011) including Group Head of Diversity and Senior Manager Risk Planning and Development. She was a member of the board of Western Health (2009 – 2013) and was a former Trust member of Queen Victoria Women's Centre (2006 - 2010). Vivienne has a Bachelor of Commerce and Master of Applied Finance.	Risk Management and Audit Committee
Jan Begg B.Sc. (Hons), MBA FAICD.	Jan Begg was appointed a Director on 1 October 2011. Jan is the Managing Director of Azulin Pty Ltd, an independent business and governance consultancy. She is an experienced non-executive director and an independent member of Department of Education and Training Portfolio Audit and Risk Committee (Vic), a member of the Monash University Department of Management Advisory Board and a member of Melbourne Business School. Ms Begg previously had senior executive roles in Australia, UK and USA. She is the AICD representative and chair of the Standards Australia committee on IT Governance and head of the Australian delegation for the international standards committee. She has undertaken research and authored academic papers in the areas of strategy implementation and project governance. Ms Begg has a Bachelor of Science (Honours) and a Master of Business Administration and is a Fellow of the Australian Institute of Company Directors.	Occupational Health and Safety Committee (Chair) Arrow Program Committee

DIRECTOR	EXPERIENCE	COMMITTEE MEMBERSHIP
Peter McKeown B.Ec, LLB, GradDipLaw, SJD.	Peter McKeown was appointed as a director on 1 October 2012. Peter is a consultant with a background as general counsel for public companies in the primary industry sector and prior to that as a legal practitioner in private and government practice. He is Company Secretary of Graziers' Investment Company Limited and GIC holdings Pty Ltd. He is a senior fellow in the law faculty at Monash University. He is a lay member on the St Vincent's Hospital Animal Ethics Committee and the external lawyer on the Australian Catholic University Human Research Ethics Committee. Peter McKeown was Chairman of the Executive Management Committee of Graziers Investment Company Limited (formerly Australian Wool Services Ltd) and General Counsel and Company Secretary for the Australian Wheat Board and AWB Limited. He has been Chairman of the Mount Lilydale College Advisory Board. Dr McKeown has a Bachelor of Economics, Bachelor of Laws, Graduate Diploma in Law and a Doctor of Juridical Science, all from Monash University. He is also an Australian Legal Practitioner.	Occupational Health and Safety Committee Risk Management and Audit Committee New Maintenance Contract Committee
Fiona Pearse B.Ec., FCPA, FAICD.	Fiona Pearse was appointed a director on 1 October 2012. She has extensive financial and commercial experience gained from a large variety of executive and non-executive director roles. Her executive career comprised various finance and tax roles at large global companies, mainly at BHP Billiton, the world's largest diversified resources company, and also at BlueScope Steel, one of Australia's largest manufacturers. She has worked in industries as diverse as petroleum, transport, utilities, insurance and steel in senior financial roles at the coalface, in financial and tax oversight, advisory and planning roles at corporate head office and as a non-executive director. She is currently an independent non-executive director at World Vision Australia, Australia's largest charity, and is a current non-executive director at one of Australia's leading independent schools, Scotch College. Fiona holds a Bachelor of Economics, majoring in accounting; she is a Fellow of CPA Australia and is also a Fellow of the Australian Institute of Company Directors.	Risk Management and Audit Committee Executive Remuneration Committee Arrow Program Committee New Maintenance Contract Committee
Philip Clark B. Eng., MBA, MAICD, MAusIMM	Philip Clark was appointed a director on 1 October 2013. Phil is a company director and private business advisor with Phil Clark and Associates (2010 - current). He has extensive experience in project development and operations in high capital intensive businesses. He was previously the Vice President Resource Development for BHP Billiton Coal (2005 - 2010) and had an extensive career with that company spanning over 30 years. He is a non-executive director and chair of Engineers Without Borders Australia Limited and a member of its Finance and Audit Committee (2010 – current) a director of Engineers Without Borders International Inc., a non-executive director of African Energy Resources Limited and chair of the Risk & Audit and Remuneration Committees (2011 – current), chair of the Melbourne Branch of the Australaian Institute of Mining and Metallurgy (2014 – current) and a director of Australia Japan Energy Developments (2014 – current). Phil has a Bachelor of Engineering and Master of Business Administration.	Occupational Health and Safety Committee New Maintenance Contract Committee (Chairman)





Crews utilise trenchless boring technology as part of our water supply maintenance and renewal programs.

#### **Board Committees**

#### **Risk Management and Audit Committee**

The Risk Management and Audit Committee assists the Board of Directors in fulfilling its corporate governance responsibilities by reviewing financial reports and other financial information produced by City West Water. In addition it provides oversight and direction to City West Water's internal control systems, legal and regulatory compliance processes, auditing and reporting processes and risk management systems. All members of the Risk Management and Audit Committee are independent.

#### Occupational Health and Safety Committee

The Occupational Health and Safety Committee assists the Board in fulfilling its corporate governance responsibilities in relation to workplace health and safety. It does this by providing oversight and direction to City West Water's occupational health and safety policies and procedures and related audit and reporting processes. In addition it ensures the continuous improvement of City West Water's policies and procedures for workplace health and safety.

#### **Executive Remuneration Committee**

The Executive Remuneration Committee is responsible for setting City West Water's policy on executive remuneration and individual remuneration packages for senior executives.

#### Arrow Program Committee

The Board asked three directors to form an informal advisory committee in 2013 to advise it on specific issues in relation to the Arrow Program, a business transformation program based on upgrading most business systems to a common enterprise platform. The Arrow Program Committee was formally constituted in June 2014 when the Board approved its charter.

#### New Maintenance Contract Committee

The Board has determined to constitute a committee to undertake detailed oversight of the procurement and implementation of the new maintenance contract. The committee assists the Board to discharge its responsibility to ensure that overall decision making is transparent, that the implementation of the new maintenance contract is well managed and delivers optimal outcomes for the business by providing assistance, oversight and direction, and to encourage and guide management's efforts to achieve the best possible outcomes from the implementation of the new maintenance contract.



	BOARD OF DIREC	CTORS	RISK MANAGEMI COMMITTEE ME		OCCUPATIONAL HEALTH AND SAFETY COMMITTEE MEETINGS				
	Eligible Attended		Eligible	Attended	Eligible	Attended			
The Hon. Alan Stockdale	11	10	6	4	4	3			
Anne Barker	11	11	n/a	61	4	3			
Debra Goodin	11	11	6	6	n/a	n/a			
Vivienne Nguyen	11	11	6	5	n/a	n/a			
Jan Begg	11	11	n/a	11	4	4			
Peter McKeown	11	11	6	6	4	4			
Fiona Pearse	11	11	6	6	n/a	n/a			
Philip Clark	11	11	n/a	11	4	4			

#### Attendance at Board and committee meetings

	EXECUTIVE REMUNERATION COMMITTEE MEETINGS		ARROW PROGRAM COMMITTEE MEETINGS		NEW MAINTENANCE CONTRACT	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
The Hon. Alan Stockdale	3	3	n/a	n/a	n/a	n/a
Anne Barker	n/a	31	3	3	4	4
Debra Goodin	3	3	3	3	n/a	n/a
Vivienne Nguyen	n/a	n/a	n/a	n/a	n/a	n/a
Jan Begg	n/a	n/a	3	3	n/a	n/a
Peter McKeown	n/a	n/a	n/a	n/a	4	4
Fiona Pearse	3	3	3	3	4	4
Philip Clark	n/a	n/a	n/a	n/a	4	4

<sup>1</sup> The Director attended but was not a member of the committee.

#### **Occupational health and safety**

City West Water is committed to providing healthy and safe workplaces for all employees, contractors, customers and the public who access City West Water's workplaces. To this end City West Water works towards a safety culture of shared attitudes, values and beliefs concerning occupational health and safety (OH&S).

City West Water has in place an OH&S policy which is reviewed by the Board every two years. The policy adopts the general principles outlined in the standard *AS 4801:2001 (Occupational Health and Safety Management Systems)* which describes a systematic management approach that assists in sustained occupational health and safety improvement. The policy seeks to support the objectives of ensuring:

- compliance with relevant OH&S legislation and regulations including the Occupational Health & Safety Act 2004 and the Occupational Health & Safety Regulations 2007;
- that all employees and contractors are made aware of the health and safety requirements of City West Water;
- the development, implementation and enhancement of the City West Water OH&S management system;
- systematic auditing and review of the OH&S management system; and
- implementation of risk management processes involving the identification, analysis, assessment, treatment and ongoing monitoring of risks to the safety of City West Water staff, customers, visitors, contractors and the public.

The following table outlines City West Water's OH&S performance:

CITY WEST WATER EMPLOYEES	2014-15	2013-14	2012-13
Hazards reported per 100 full time equivalent staff	3.6	2.7	3.3
Incidents per 100 full time equivalent staff <sup>1</sup>	7.7	8.1	3.1
Lost time standard claims per 100 full time equivalent staff	0.72	0.25	-
Average cost per claim <sup>2</sup> (including payments to date and estimated outstanding claim costs)	\$22,314	\$2,107	-

<sup>1</sup> The increase in incidents in 2014-15 and 2013-14 compared to 2012-13 is due to improved reporting processes.

<sup>2</sup> The increase in lost time injury claim costs in 2014-15 was caused by one incident in which an employee

was injured when an almost new chair broke due to poor build quality.

#### Initiatives and key achievements

#### The Arrow Program

The Arrow program is a business transformation program based on upgrading most business systems to an enterprise platform. When complete it will enable significant improvement in the efficiency of City West Water's business processes and operations. The first stage of the program was successfully implemented in 2013 and the design of the second stage of the program, the Asset Management module, which was scheduled to be completed by the end of the 2014-15 financial year, is nearing completion. Implementation of this stage of the program is expected to begin in the 2015-16 financial year.

#### **Financial Management Strategy**

City West Water implemented a new Financial Management Strategy that will deliver greater efficiency from key cost areas of the business, improve the organisation's procurement processes, and allow for improved analysis of capital and operational expenditure programs. The strategy will enable City West Water to deliver best practice financial analysis that will enhance decision making, build analytical and advisory expertise within the business and create measures that can track performance and contribute towards peak efficiency. The Financial Management Strategy was approved by City West Water's Board in July 2014 and implementation of the associated initiatives is progressing.

#### West Werribee Dual Water Supply

The West Werribee Dual Water Supply project is the largest single capital expenditure project City West Water has undertaken to date. When complete, the project will provide high quality Class A recycled water to 35,000 customers in West Werribee and is expected to save more than 3 billion litres of drinking water every year. Construction of the Salt Reduction Plant is currently underway and is due for completion in 2017.



#### Workforce data

City West Water complies with the *Public Administration Act 2004*. Employees are selected on the basis of ability, knowledge and skills in fair and open competition that ensures equal opportunity. Promotion and advancement of qualified individuals within City West Water is based on these same principles, relevant to the position involved.

City West Water has in place a disability policy and a Disability Action Plan. City West Water aims to meet its obligations under the *Disability Act 2006*, the *Disability Discrimination Act 1992*, the *Equal Opportunity Act 1995* and the *Charter of Human Rights and Responsibilities Act 2006* by taking actions identified in its Disability Action Plan to eliminate barriers for people with a disability from accessing goods, services and facilities and obtaining and maintaining employment with City West Water. Both of these goals have been achieved at City West Water's new head office in Footscray. The new facility is fully compliant with all legislated access requirements and has facilities required for the employment of people with a disability. Employees receive fair and equitable treatment without regard to race, colour, sexual preference, age, physical or mental disability, pregnancy, religion, political opinion, national extraction or social origin.

City West Water has policies for the prevention of harassment and bullying and for equal employment. These policies support the right of all people to work in an environment free from harassment, bullying and discrimination. Behaviour to the contrary will result in disciplinary action up to and including dismissal.

City West Water provides equal employment opportunity and bullying prevention training to all employees. Employee Support Officers are available to provide information to employees about their rights and obligations relating to the prevention of harassment, bullying and discrimination.

	2014-15	2013-14
Full time	364	368
Part time	72	74
Casual/fixed term	14	5
Total employees	450	447
Key management personnel	8	7
Executives	12	14
Administration staff	430	426
Total employees	450	447
Full time equivalent	416.3	407.5
Average age of employees	41.7	40.8
Female staff	189	186
Male staff	261	261
Per cent female	42.0%	41.6%
Per cent male	58.0%	58.4%

#### Comparative workforce data

#### **Financial information**

#### **Financial highlights**

Profit before tax for the year was \$47.3m compared to budget of \$32.5m. This result was achieved by a combination of higher than budgeted developer revenues, gross margin associated with higher water sales and sewage disposal charges, lower than budgeted finance charges and strong management of capital and operating costs. The favourable result was partly offset by lower than budgeted service charges due to a decision not to introduce occupancy based service charges.

City West Water made total dividend payments of \$15.6m and paid income tax equivalent of \$14.1m to the Victorian Government during 2014-15.

Total borrowings increased by \$33.2m for the year. The increase in borrowings was mainly to fund the required capital expenditure to support growth in the organisation's service area as well as continued investment in network and IT infrastructure assets. Capital expenditure for the year was \$77.2m. The capital program for the year included two significant projects for City West Water: the West Werribee

Dual Water Supply scheme and the Arrow Program. The West Werribee Dual Water Supply scheme will supply drinking and recycled water for 35,000 customers in existing and new residential estates in West Werribee. The Arrow Program is a business transformation program based on upgrading most business systems to an enterprise platform. It will enable significant efficiencies in City West Water's business processes.

Return on equity was 4.8 per cent (2013-14 3.6 per cent) while cash interest cover was 2.2 times (2013-14 1.7 times). Gearing, as measured by total debt/(debt + equity) decreased to 57.0 per cent (2013-14 58.3 per cent). The improvement in these key financial indicators is a result of City West Water's strong profit performance for the year.

There were no significant matters which affected City West Water's financial position during the reporting period.

There were no significant changes or factors which affected City West Water's performance during the reporting period.

	2014-15 (\$'000)	2013-14 (\$'000)	2012-13 (\$'000)	2011-12 (\$'000)	2010-11 (\$'000)
Sales revenue	533,128	561,707	422,912	429,867	364,856
Developer contributions	20,517	15,773	15,934	16,753	17,344
Developer contributed assets	19,120	13,391	17,454	23,184	25,948
Other revenue	26,269	19,466	17,349	19,555	21,848
Total revenue	599,034	610,337	473,649	489,359	429,996
Bulk charges	323,595	353,408	227,223	225,509	168,450
Finance costs	62,892	60,266	52,422	45,879	39,734
Depreciation and amortisation	41,982	39,852	37,398	35,293	30,507
Employee benefits	37,185	37,439	34,319	30,201	26,441
Operating contracts	32,211	31,472	34,661	31,924	30,287
Other expenses	53,879	51,755	42,763	48,852	46,878
Total expenses	551,744	574,192	428,786	417,658	342,297
Profit before tax	47,290	36,145	44,863	71,701	87,699

#### Summary of financial results



#### Summary of financial position

	2014-15 (\$'000)	2013-14 (\$'000)	2012-13 (\$'000)	2011-12 (\$'000)	2010-11 (\$'000)
Current assets	108,082	93,638	116,073	77,715	62,353
Non-current assets	2,090,034	1,988,309	1,837,812	1,938,297	1,805,999
Total assets	2,198,116	2,081,947	1,953,885	2,016,012	1,868,352
Current liabilities	152,296	186,511	173,439	186,168	135,692
Non-current liabilities	1,248,010	1,164,073	1,110,234	992,605	901,556
Total liabilities	1,400,306	1,350,584	1,283,673	1,178,773	1,037,248
Net assets	797,810	731,363	670,212	837,239	831,104
Net cash flows from operating activities	63,505	19,224	47,586	46,741	65,738
Payments for property, plant, equipment and intangibles	81,713	150,873	163,987	126,900	92,691

#### Summary of capital expenditure

	2014-15	2013-14	2012-13	2011-12	2010-11
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
City West Water funded capital expenditure	77,209	120,590	182,217	144,884	122,432

City West Water manages a number of capital projects. For information on recent capital projects by City West Water and the broader Victorian public sector refer to the most recent Budget Paper 4 State Capital Program (BP 4) available on the Department of Treasury and Finance's website. This publication also contains information on the department's and its related portfolio agencies' asset investment programs.

#### Summary of financial performance

	2014-15	2013-14	2012-13	2011-12	2010-11
Cash interest cover (times)	2.2	1.7	2.3	2.9	3.5
Gearing ratio (%) (total debt (including finance leases) / total assets)	48.1	49.2	47.5	37.2	34.2
Internal financing ratio (%)	58.6	9.6	13.9	1.0	47.2
Current ratio (times)	0.8	0.5	0.7	0.4	0.5
Return on assets (%)	5.1	4.8	4.9	6.0	7.3
Return on equity (%) (net profit after tax / average total equity)	4.8	3.6	4.5	6.1	7.9
EBITDA margin % (EBITDA/total revenue)	25.6	22.3	28.5	31.5	37.2

Further information on current year financial performance can be found in the Performance Report section of this report.

# Matters subsequent to the end of the financial year

On 8 April 2015 the Minister for Environment, Climate Change and Water, the Hon. Lisa Neville MP, announced a review of all 135 Victorian water corporation board Director positions. Expressions of interest were invited during April and May 2015 with new boards to be in place by 1 October 2015. Water corporations remain governed by a properly constituted Board of Directors and will do so following 1 October 2015 when any new appointments are due to begin.

No matter or circumstance has arisen since 30 June 2015 which has significantly affected, or may significantly affect:

- the corporation's operations;
- the results of those operations; or
- the corporation's state of affairs in the financial year subsequent to 30 June 2015.

#### Consultancies

During 2014-15, City West Water engaged two consultants on various engagements where the total fees payable to the consultant was less than \$10,000 (GST exclusive). The total expenditure incurred during 2014-15 in relation to these consultancies was \$13,790 (GST exclusive).

During 2014-15, City West Water engaged 14 consultants on various consultancies where the total fees payable to the consultant was \$10,000 or greater (GST exclusive). The total expenditure during 2014-15 in relation to these consultancies was \$1,187,549 (GST exclusive). Details of individual consultancies can be viewed at citywestwater.com.au.

These consultancies include arrangements where an individual or organisation is engaged to provide expert analysis to facilitate decision making and perform a specific one-off task that involves skills or perspective which would not normally be expected to reside within the organisation.

City West Water engages a number of individuals and organisations to provide works or services on behalf of the organisation. These contract services are not considered to be consultants and are not included in the above numbers.

#### **Other information**

#### **Freedom of Information**

City West Water is subject to the *Freedom of Information Act 1982* (the Act). The Act allows the public a right of access to documents held by City West Water.

In 2014-15 City West Water received nine requests for access to documents under the Act.

NO.
0
6
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1
2
9

Access to documents may be obtained through written request to the Freedom of Information Manager, as detailed in section 17 of the Act. The requirements for making a request are:

- it should be in writing;
- it should identify as clearly as possible which document is being requested; and
- it should be accompanied by the application fee (the fee may be waived in certain circumstances).

Requests for documents in the possession of City West Water should be addressed to:

Freedom of Information Officer City West Water Locked Bag 350 Sunshine VIC 3020

Requests can also be lodged online at foi.vic.gov.au.

Each application for information attracted a \$26.50 fee (\$27.20 from 1 July 2015).



Access charges such as photocopying, search and retrieval charges may also apply once documents have been processed and a decision on access is made.

General enquiries relating to Freedom of Information may be made by contacting the Freedom of Information Officer on (03) 9313 8320. City West Water staff authorised to make decisions on requests for access to documents are:

Sean Crees (Principal Officer) General Manager, Corporate Services

Andrew Jessop (Authorised Officer) Manager, Corporate Administration

Further information regarding Freedom of Information can be found at foi.vic.gov.au.

#### **Building Act 1993**

The purpose of the *Building Act 1993* (the Act) is to regulate building work and standards. City West Water maintains its buildings in accordance with the building and maintenance provisions of the Act.

#### Protected Disclosure Act 2012

#### Compliance with the Protected Disclosure Act 2012

The *Protected Disclosure Act 2012* (the Act) enables people to make disclosures about improper conduct by public officers and public bodies. The Act aims to ensure openness and accountability by encouraging people to make disclosures and protecting them when they do.

#### What is a 'protected disclosure'?

A protected disclosure is a complaint of corrupt or improper conduct by a public officer or a public body. City West Water is a public body for the purposes of the Act.

#### What is 'improper or corrupt conduct'?

Improper or corrupt conduct involves substantial:

- mismanagement of public resources;
- risk to public health or safety or the environment; or
- corruption.

The conduct must be criminal in nature or a matter for which an officer could be dismissed.

#### How do I make a 'Protected Disclosure'?

You can make a protected disclosure about City West Water or its Board members, officers or employees by contacting the Independent Broad-based Anti-corruption Commission on the contact details provided below.

City West Water is not able to receive protected disclosures.

# How can I access City West Water's procedures for the protection of persons from detrimental action?

City West Water has established procedures for the protection of persons from detrimental action in reprisal for making a protected disclosure about City West Water or its employees. You can access City West Water's procedures on its website at citywestwater.com.au.

#### Contacts

Independent Broad-based Anti-corruption Commission (IBAC) Victoria

Level 1, North Tower, 459 Collins Street, Melbourne Victoria 3000 GPO Box 24234 Melbourne Victoria 3001 ibac.vic.gov.au 1300 735 135

Email: see the website above for the secure email disclosure process, which also provides for anonymous disclosures.

#### **National Competition Policy**

Under National Competition Policy the guiding legislative principle is that legislation, including future legislative proposals, should not restrict competition unless it can be demonstrated that:

- the benefits of the restriction to the community as a whole outweigh the costs; and
- the objectives of the legislation can only be achieved by restricting competition.

Competitive neutrality requires government businesses to ensure that where services compete or potentially compete with the private sector any advantage arising solely from their government ownership be removed if it is not in the public interest. Government businesses are required to cost and price these services as if they were privately owned and thus be fully cost reflective. Competitive neutrality policy provides government businesses with a tool to enhance decisions on resource allocation. This policy does not override other policy objectives of government and focuses on efficiency of the provision of services.

City West Water has an independent Board of Directors with independent and objective performance monitoring. The organisation pays income tax equivalent and dividends to the Victorian Government and pays a Financial Accommodation Levy to the Victorian Government for its borrowings through Treasury Corporation of Victoria. City West Water operates in an environment where the Essential Services Commission (ESC) determines cost based pricing. City West Water submitted a Water Plan to the ESC to enable it to make a price determination for the period 2013-14 to 2017-18. The ESC made a final determination on prices in June 2013. These prices took effect from 1 July 2013.

With regards to the above, City West Water's processes continue to be consistent with the objectives of National Competition Policy agreements and the requirements of the *Competitive Neutrality Policy Victoria* policy statement. These principles apply generally to Government Business Enterprises throughout Australia.

#### **Major Contracts**

City West Water did not award any major contracts (valued at \$10 million or more) during 2014-15.

#### **Environmental performance**

City West Water's vision is to be a truly sustainable water business. Sustainability involves balancing social, environmental and economic objectives. City West Water has in place an Environmental Policy which outlines how the organisation seeks to meet the following environmental objectives:

- optimise the sustainable use of alternative water through integrated water cycle management;
- balance the needs of customers and the environment in managing the supply of and demand for water;
- protect the environment and minimise any adverse impact of City West Water's business on the environment;
- towards zero waste;
- enable customers to become efficient water users and clean and efficient producers;
- be a community leader and advocate in water cycle management; and
- partner for sustainable outcomes and a healthier urban habitat.

The table overleaf outlines City West Water's environmental targets and its performance against those targets.



ENVIRONMENTAL TARGETS				
ESC regulated standards	2014-15 Actual	2014-15 Target	Variance (%)	2013-14 Actual
Sewer blockages per 100km of sewer main (No.)	17.1	26.6	35.7	16.5
Interruptions to sewerage services restored within five hours (%)	99.1	97.0	2.2	99.4
Unaccounted for water (%)	9.4	9.3	(1.1)	9.3
Average time to attend sewer spills and blockages (minutes)	25.5	45.0	43.3	25.7
Sewer spills per 1,000 properties (No.)	0.50	1.30	61.3	0.47
Other targets				
Response to sewer spills within 1 hour (%)	99.5	100.0	(0.5)	100.0
Spills due to pump station equipment failure (No.)	0	0	0.0	0
Non-food waste customers non-compliant with trade waste agreements (%)	1.12	≤ 2.0	0.4	1.06
Compliance with EPA licence for discharge quality limits from Altona Treatment Plant (%)	100.0	100.0	0.0	100.0
ISO 14001: 2004 (Environmental Management)	Retained	Retain	-	Retained
HACCP (Water Quality)	Retained	Retain	-	Retained

#### **Victorian Industry Participation Policy**

The Victorian Industry Participation Policy Act 2003 requires departments and public sector bodies to report on the implementation of the Victorian Industry Participation Policy (VIPP). Departments and public sector bodies are required to apply VIPP in all procurement activities valued at \$3m or more in metropolitan Melbourne and state wide projects, and \$1m or more for procurement activities in regional Victoria.

#### Contracts began to which the VIPP applied

During 2014-15, City West Water began one contract valued at \$3.17m for which a VIPP plan was required. This project is located in metropolitan Melbourne.

The outcomes expected from the implementation of the VIPP to this project where information was provided are as follows:

- an estimate of 86 per cent of local content commitment was made;
- a total of five annual employee equivalent (AEE) jobs were committed to, being the retention of five existing jobs (AEE); and
- a total of two positions for apprentices were committed to, being the retention of two positions.

The commitments to the Victorian economy in terms of skills and technology transfer include upskilling of employees via certified training in construction, safety and environmental awareness.

#### Contracts completed to which the VIPP applied

During 2014-15 City West Water completed one VIPP applicable project valued at \$3.22m. The outcomes reported from the implementation of the VIPP where information was provided were as follows:

- an average of 31 per cent of local content outcome was recorded;
- a total of one (AEE) position was created; and
- no new apprenticeships/traineeships were created and no existing apprenticeships/traineeships retained.

The benefits to the Victorian economy in terms of retention of skills from the completed project include general internal training in quality, environment and safety management, adding to the overall skill base in Victoria.

#### Government advertising expenditure

City West Water did not incur any expenditure on government advertising campaigns above the threshold disclosure amount of \$150,000 during either the current or previous reporting periods.

#### **Privacy of information**

City West Water complies with the information privacy principles set out under the *Victorian Information Privacy Act* 2000. City West Water's Privacy Policy and Customer Charter refer to the organisation's commitment to protect the privacy of customers. City West Water ensures that the information it holds is protected and actively prevents any unauthorised access to or improper use of customer information.

A copy of City West Water's Privacy Policy can be viewed at citywestwater.com.au.

#### **Financial Management Act 1994**

Other information as required under the *Financial Management Act 1994*, but not specifically referred to, has been retained by the Accountable Officer and is available to the Minister, Members of Parliament and the public on request.

#### Other information available on request

In compliance with the requirements of the Standing Directions of the Minister for Finance, details in respect of the items listed below have been retained by City West Water and are available on request, subject to the provisions of the *Freedom of Information Act 1982*:

- a statement that declarations of pecuniary interests have been duly completed by all relevant officers;
- details of shares held by a senior officer as nominee or held beneficially in a statutory authority or subsidiary;
- details of publications produced by the organisation about itself and how these can be obtained;
- details of changes in prices, fees, charges, rates and levies charged by City West Water;
- details of any major external reviews carried out on City West Water;
- details of major research and development activities undertaken by City West Water;
- details of overseas visits undertaken including a summary of the objectives and outcomes of each visit;
- details of major promotional, public relations and marketing activities undertaken by City West Water to develop community awareness of the organisation and its services;
- details of assessments and measures undertaken to improve the occupational health and safety of employees;
- a general statement on industrial relations within the organisation and details of time lost through industrial accidents and disputes;
- a list of major committees sponsored by City West Water, the purpose of each committee and the extent to which that purpose has been achieved; and
- details of all consultancies and contractors including:
  - consultants and contractors engaged;
  - services provided; and
  - expenditure committed to for each engagement.

#### Valuation of Infrastructure Assets

The Victorian Auditor-General's Office has issued a modified audit report on the organisation's 2014-15 Annual Report in respect of the methodology used to determine the fair value of infrastructure assets.

The organisation's infrastructure assets are measured at fair value, using the income approach, in accordance with relevant Australian Accounting Standards and Ministerial Financial Reporting Directions (FRDs). The income approach estimates the fair value of infrastructure assets by discounting reliable estimates of the organisation's future free cash flows to their present value to arrive at an enterprise value range. Net debt is deducted from the enterprise value range to obtain the equity value. The valuation of infrastructure assets is derived from the equity value after deducting all other assets and liabilities and then grossing up the value of infrastructure assets with a deferred tax liability.

In order to assess the reasonableness of the valuation outcome, valuation cross checks are performed to confirm that earnings multiples implied by the enterprise value are consistent with those observed for comparable listed companies. Similarly, regulated asset value (RAV) multiples are also consistent with RAV multiples observed by comparable companies. Judgement is applied in selecting the appropriate valuation within the enterprise range.

This approach has been applied since the inception of fair value accounting for infrastructure assets in 2009-10. The organisation's annual valuation of its infrastructure assets using this approach has been performed independently by an expert valuer, Deloitte Touche Tohmatsu, since 2009-10. Further information on the organisation's accounting policy, approach and actual results relating to valuation of infrastructure assets is outlined in Note 1(r) and 13 (e).

The Victorian Auditor-General's Office has expressed an opinion that the valuation model used for financial reporting purposes contains an error in the underlying treatment of deferred income tax resulting in a potential overstatement of the fair value of infrastructure assets as at 30 June 2015. The organisation disagrees with the assertion that the model contains an error but rather a difference in judgement relating to the quantum of the deferred tax liability associated with the valuation of infrastructure assets.

In response to the concerns raised by the Victorian Auditor-General's Office over this matter, the organisation's independent valuation expert has considered an alternate valuation approach. The result of the alternate valuation scenario indicates that the organisation's existing valuation estimate is within the range of the alternate valuation, which further supports the organisation's and the independent valuer's view that the existing fair value of infrastructure assets remains appropriate and is in accordance with Australian Accounting Standards and other mandatory professional reporting requirements.



#### Water consumption and drought response reporting

#### Water consumption

Water consumption in City West Water's service area is detailed in the following table:

DISTRICT	RESIDENTIAL CUSTOMERS				NC	NON-RESIDENTIAL CUSTOMERS			
	Number (No)	Potable water volume (ML)	Recycled waste water volume (ML)	Recycled stormwater volume (ML)	Number (No.)	Potable water volume (ML)	Recycled waste water volume (ML)	Recycled stormwater volume (ML)	Total number of customers (No.)
City West Water	375,524	55,740	-	-	38,738	41,491	311	63	414,262
Total	375,524	55,740	-	-	38,738	41,491	311	63	414,262

	NON-REVENUE WATER											
Total potable water volume (ML)	Total recycled water volume (ML)	Total consumption (ML)	Average annual consumption (ML) <sup>1</sup>	Weekly residential potable water consumption (ML)	Leakage (ML) <sup>2</sup>	Authorised unbilled usage (ML) <sup>3</sup>	Other (ML) ⁴	Total non- revenue water (ML)	Total water all sources (ML)			
97,231	374	97,605	91,211	1,072	7,508	537	2,052	10,097	107,702			
97,231	374	97,605	91,211	1,072	7,508	537	2,052	10,097	107,702			

<sup>1</sup> Average annual consumption calculated between 2010-11 and 2014-15.

<sup>2</sup>Balance of non-revenue water, known as real losses which includes bursts, leaks and background losses.

<sup>3</sup> Authorised unbilled usage includes fire fighting, fire service charges, water haulers' usage, water main flushing and sewer cleaning.

<sup>4</sup>Other non-revenue water is known as apparent losses unauthorised usage and includes theft, misuse, illegal tampering and meter under registration.

#### Drought response reporting

Metropolitan water retailers are required to prepare a Drought Response Plan with four levels of water restrictions that control the use of drinking water outdoors. Permanent water use rules remain in place for metropolitan Melbourne as at 30 June 2015.

In accordance with its Drought Response Plan City West Water is required each year to collaborate with South East Water, Yarra Valley Water and Melbourne Water to publish an annual Water Outlook.

The Water Outlook is a report that is prepared and published by 1 December each year. It is an adaptive management tool which is used by the metropolitan water utilities to:

- monitor the dynamic balance of supply and demand each year;
- guide the implementation of actions identified previously by long term strategic planning exercises to influence the observed and potential future balance of supply and demand; and
- regularly provide information regarding the balance of supply and demand, and any actions being undertaken by the water utilities.

On 1 December 2014 the Water Outlook outlined a number of individual and joint industry short and medium term actions to improve future drought response. Below is a summary of the agreed joint short term and medium term actions.

- · review desalinated water order process;
- establish fora and processes to ensure transfer of information about the operations and optimisation of headworks systems;
- develop a common set of criteria for defining levels of service with each water retailer to develop its security of supply targets and develop supply demand plans;
- review the approach to managing water security in the context of entitlement reform and whole of water cycle management outcomes;
- identify and document issues, benefits and costs of further market based approaches to water security subject to agreed criteria for assessment;
- review the effectiveness of bulk water management arrangements and levels of service criteria;
- continue to inform the community about the rules that ensure the wise use of water at all times;
- annually review the level of water security and advise on the need for desalinated water;

- provide fit for purpose alternative water supply to service new urban development and public open spaces;
- partner with local government to deliver stormwater harvesting projects for irrigation;
- · use aquifers to store alternative water;
- provide fit for purpose alternative water supply to industries in the Altona Industrial Precinct;
- develop a servicing strategy for the western growth area using an integrated water management approach;
- continue to work with non-residential customers to deliver the voluntary Water Management Action Plan program;
- promote the Living Victoria Water Rebate program for small businesses;
- undertake active leak detection, reticulation mains renewals, pressure management, intelligent network technologies and rapid response to bursts and leaks;
- investigate how to reinstate the main outfall sewer to maximise its benefit to liveability in Melbourne's west;
- develop a servicing strategy for the East Werribee employment precinct using an integrated water management approach; and
- deliver the Greening the West program, a preventative health initiative to link sustainable water supplies to enable healthy communities through increased urban greening.

Further information can be found by visiting citywestwater.com.au.

#### Corporate water consumption <sup>1</sup>

2014-15	2013-14
Water consumed 1,199 kL	Water consumed: 2,157 kL
2.61kL per full time	3.49kL per full time
equivalent employee	equivalent employee
194.44 litres per m <sup>2</sup>	314.78 litres per m <sup>2</sup>
of office space	of office space

<sup>1</sup> Due to City West Water moving head office on 28 July 2014 it is not possible to compare water consumption between years. Water consumption for 2014-15 is reported for the period 28 July 2014 to 30 June 2015 only. The measure includes all water used at City West Water's head office. It does not include water used at depots or by third party contractors.



#### **Environmental sustainability**

Responsibly managing environmental aspects of operations is an integral part of achieving City West Water's vision and mission. City West Water has environmental and sustainability policies to guide decision making in these areas. Both policies are publicly available on City West Water's website and are reviewed annually by the Board.

City West Water is a member of the metropolitan Water Security Group (WSG). The purpose of the WSG is to provide timely advice and recommendations on matters relating to short and long term water security for Melbourne.

The WSG is in place to:

- prepare, monitor, and oversee the delivery and review of long term strategic responses as outlined in water supply demand strategies or their successors;
- co-ordinate implementation of timely and efficient actions to achieve water security objectives in a manner that sustains the health, liveability and prosperity of Melburnians; and
- ensure preparedness to proactively manage any periods of water shortage.

#### **Sustainability Policy**

City West Water's Sustainability Policy guides the organisation's strategic planning processes, particularly the development of the annual Corporate Plan. The policy defines sustainability as living and working in ways that do not jeopardise current and future social, environmental and economic resources. The policy is implemented through the organisation's integrated quality, environmental, water quality, sewage quality, occupational health and safety and financial management systems.

#### **Environmental Policy**

City West Water's Environmental Policy provides guidance on meeting the organisation's environmental obligations and strategic objectives to achieve significantly more with significantly less. The policy outlines the following environmental management measures:

- maintaining an ISO14001 accredited environment management system to manage environmental aspects and impacts;
- aligning environmental strategic objectives with targets and actions through City West Water's Environmental Sustainability Plan (ESP);
- reviewing targets and actions set out in the ESP at regular intervals;
- reporting progress against targets and actions set out in the ESP to the City West Water Board; and
- publicly reporting on environmental performance.

#### Sustainable water use

#### Integrated Water Cycle Management Strategy

City West Water's Integrated Water Cycle Management Strategy includes a broad range of fit for purpose supply solutions to meet the needs of the organisation's growing customer base. The objectives of the strategy will be achieved through implementing a suite of infrastructure solutions that provide cost effective water supply and sewerage services and improve the environmental sustainability and resilience of the water management system.

#### **Alternative water schemes**

Alternative water supply projects progressed during 2014-15 to advance integrated water cycle management and engage the community include the following:

#### West Werribee Dual Supply Scheme

The West Werribee Dual Supply Scheme will supply Class A recycled water from the Werribee Recycled Water Plant through dual reticulation to homes in the Werribee and Wyndham Vale areas.

#### Aquifer Storage and Recovery

Aquifer Storage and Recovery (ASR) will enable surplus recycled water produced in times of low demand to be stored in an underground aquifer. When summer demand exceeds production capacity, the stored recycled water will be extracted from the aquifer to add to the supply to customers.

City West Water has completed investigations into aquifers at the Western Treatment Plant, Wyndham Vale, Mount Cottrell and Ravenhall. These investigations have involved drilling test bores and conducting pumping tests to determine the aquifer's feasibility for an ASR scheme. Results indicate that the Western Treatment Plant and Wyndham Vale sites are the most promising for ASR schemes.

The Western Treatment Plant site is adjacent to City West Water's salt reduction plant. After a successful investigation this project progressed to the construction phase and is expected to be completed in December 2015, with injection beginning in 2016.

The Wyndham Vale site is located at the City West Water tank site on the corner of Ballan Road and Cobbledicks Ford Road, Wyndham Vale. Drilling has begun on bores required for the trial. If successfully implemented, ASR will significantly increase storage capacity for recycled water at this site.

#### Point Cook Sustainable Alternative Water Scheme (Carranballac College)

The Point Cook Sustainable Alternative Water Scheme involves supplying 12 million litres of recycled water per year sourced from the Western Treatment Plant for the irrigation of Carranballac College school oval and Wyndham City Council's Dunnings Road Oval. The college, in partnership with City West Water, received \$399,000 of funding from the Department of Environment, Land, Water and Planning (DELWP) for the construction of a recycled water pipeline to connect into an existing recycled water supply at Point Cook. The project is expected to be completed in 2015-16.

#### Stormwater harvesting projects

City West Water has been partnering with councils within the organisation's service area to deliver stormwater harvesting projects to irrigate public open space. In the City of Moonee Valley, the Afton Street stormwater harvesting project was completed during 2014-15. This project involves diversion of about 20 million litres of stormwater per year from a drain into a constructed wetland system where, after treatment through the wetlands, the water will be used to irrigate sports grounds.

The City of Melton, in partnership with City West Water, obtained \$705,000 of funding from DELWP for the construction of a stormwater harvesting scheme in Caroline Springs which is expected to be complete by the end of 2015-16.

The costs of servicing City West Water's growth areas with the above alternative water schemes are funded by the beneficiaries of these schemes or by government contributions.

#### **Drinking water quality**

City West Water produces an annual *Drinking Water Quality Report* available at citywestwater.com.au. This report provides comprehensive details of water quality testing and results. Results show that the organisation's water quality is better than the required standards and health related *Australian Drinking Water Quality Guidelines*.





#### Sustainable and resilient water services systems

# Community involvement and water awareness campaigns

City West Water has an active community involvement and water awareness presence tailored to meet the diverse needs of the organisation's service area. In 2014-15 the following community involvement and water awareness campaigns were launched or continued:

- launch of the City West Water Reconciliation Action Plan, actively engaging the Wurundjeri people in its development. A 'Welcome to Country' ceremony was held at the City West Water head office in June 2015;
- promotion of the Healthy Urban Habitat website which links the community to information on the program and resources to create thriving green spaces in a water efficient manner;
- offering a range of resources tailored to primary and secondary schools and an education program tailored to English as a Second Language schools in the community;
- in conjunction with Melbourne's other water retailers City West Water continued to participate in the Water Learn it! Live it! program by providing a suite of curriculum resources to teachers of prep to year 10;
- providing teacher resources including a lending library and complementary incursion program and a water testing kit for school use;
- maintaining a regular presence at community festivals and events including providing mobile water fountains;
- continuing to work with Whitelion as an employer partner, providing a job for a disadvantaged, at-risk young person;
- delivering tailored presentations to community groups in order to provide relevant information on a variety of topics including household water saving programs, sources of water, transactions and interactions with water retailers and water wise gardening; and
- partnering with a number of organisations that directly support and work within the communities in the organisation's service area.

#### **Customer Committee**

The Customer Committee comprises members from across City West Water's service area including community groups, residential and key customers. The committee meets four times a year and is also invited to participate in focus groups and stakeholder engagement from time to time. The committee provides valuable feedback on programs aimed at improving services to customers.

During the past year the Customer Committee has provided support and feedback on programs being offered by the Business Customer Programs Team and the Community and Social Involvement Team, as well as ongoing feedback into the development of a new customer bill. In addition, the committee has actively worked to explore additional ways it can support City West Water and promote the work of the committee.

#### **Community Liaison Committee**

The Community Liaison Committee helps City West Water understand local community environmental expectations as well as contributing to the development and performance of the organisation's Environmental Sustainability Plan. The committee comprises community members representing a broad cross section of the organisation's customer base including residential customers, industrial customers, peak industry body representatives, local government representatives and academics. The Community Liaison Committee meets four times a year.

#### Greening the West

Greening the West is a regional initiative that aims to deliver positive health and social outcomes and enhanced liveability for communities in the western suburbs of Melbourne. Facilitated by City West Water, Greening the West is driven by a steering committee of partners including local councils, Parks Victoria, the Department of Environment, Land, Water and Planning, the Department of Health and Human Services, VicRoads and community and industry representatives. The initiative's vision is to enable sustainable, liveable, healthy communities though urban greening. In order to achieve this, the steering committee has adopted a regional approach that fosters projects and activities that will increase vegetation and encourage greater public interaction with green space.

#### Work undertaken with householders and businesses

Integrated and sustainable use of water resources is encouraged by a number of water efficiency programs that City West Water offers its customers, including:

- the Showerhead Exchange Program;
- · the Toilet Retrofit Program;
- the Healthy and Sustainable Gardens Program; and
- business customer programs.

#### Uniform Drought Response Plan and By-Law

The Uniform Drought Response Plan in its current form has been in place since June 2012, with the Permanent Water Use Plan in place since November 2011.

Under Permanent Water Use Rules playing fields and other open spaces are able to be watered all year round. The water restrictions schedule (which is contained in the City West Water Corporation Water Restrictions By-law 001/2012 as enacted by the Drought Response Plan) also allows for an Approved Water Use Plan at all four stages of restrictions. This is designed to allow watering to take place during water restrictions to maintain open spaces and playing fields so as to be available all year round.

#### Other environmental aspects and impacts

City West Water's Environmental Management System (EMS) provides the framework for managing the organisation's environmental aspects and impacts. The EMS follows the 'plan, check, do, and act' cycle outlined in the ISO14001 Environmental Management System standard. Recertification was obtained for the system in 2014-15.

The EMS has an Aspects and Impacts Register which ensures the organisation has in place appropriate controls to manage environmental risks and meet statutory obligations. The EMS also provides a framework for City West Water to contribute to broader environmental outcomes through the delivery of the Environmental Sustainability Plan (ESP). Statutory requirements and City West Water's participation in state wide environmental protection initiatives are outlined below.

#### Victorian Biodiversity Strategy

The dominant vegetation class in City West Water's service area is western basaltic plains grassland interspersed with riparian plains woodland and coastal salt marsh around rivers and coasts respectively. The landscape is highly modified and the remaining vegetation is home to a range of unique and threatened species.

Flora and fauna management is one of eight focus areas of the ESP. It provides a strategic approach to conservation and management of flora and fauna in western Melbourne, focusing on ecosystems, stakeholders and resilience. Implementing the strategy will improve the effectiveness with which City West Water manages statutory obligations.

City West Water has created a native vegetation offset site on its land in Ballan Road, Wyndham Vale. The site is actively managed to offset native vegetation removed to construct water supply assets. City West Water will actively restore and improve the site over a 10 year period prior to maintaining it in perpetuity. Projects undertaken regularly at the site to improve habitat value include:

- · management of weeds and pests;
- maintenance of fencing and security;
- · assessment of the habitat; and
- conducting ecological burning.

The Ballan Road tank site has rich biodiversity. Current inhabitants include a number of threatened and endangered species such as the fat tailed dunnart and the striped legless lizard. A number of spiny rice flowers also populate the site. The site allows for research into effective methods to restore degraded grasslands, which is poorly understood.

#### Waterway management

The Victorian Waterway Management Strategy emphasises the proactive minimisation of impacts on waterways by water corporations and catchment management authorities. City West Water continues to work with Melbourne Water Corporation and local councils to maximise the use of water sources such as stormwater and recycled water while balancing use from traditional catchments and dams by implementing integrated water cycle management projects as detailed in the alternative water schemes section of this report.

#### State environment protection policy requirements

The State Environment Protection Policy (Waters of Victoria) governs how City West Water and other agencies must work together to protect and restore Victoria's surface water environments.

City West Water operates a sewage treatment plant at Altona which has an effluent discharge licence from the Environment Protection Authority (EPA). The organisation has complied with its water discharge licence conditions, minimising impacts to the protected beneficial uses of Port Phillip Bay. A summary of Altona Treatment Plant performance is reported to EPA Victoria on an annual basis. Additionally, water quality and flow data is reported to the Essential Services Commission and the National Pollutant Inventory.

City West Water meets the requirements of the policy through a range of activities, including:

- asset renewal and preventative maintenance to minimise spills and seepage of wastewater through sewer overflows, leakages and collapses;
- complying with the EPA's guidelines on environmental management for managing wastewater reuse and recycling;
- ensuring that beneficial uses are met outside the licensed mixing zone, as verified by monitoring in accordance with an EPA approved monitoring program; and
- entering into trade waste agreements to divert contaminated stormwater to sewer.

City West Water runs a sewer hydraulic compliance program to progressively bring the sewerage system into compliance with the one-in-five containment standard in the policy. Non-compliant catchments are identified through standardised hydraulic modelling exercises in line with the rest of the industry. From there, options are developed to address any identified deficiencies and put forward for approval. Currently Taylors Lakes, Stony Creek and Steele Creek catchments are known non-compliant catchments while others are waiting for assessment. Engineering solutions are limited for Taylors Lakes so City West Water will apply the Water Quality Offsets Framework in accordance with the offsets clause of the policy.



#### Environmental flow contributions

City West Water is required to contribute to environmental flows through bulk water entitlements. For detailed information on how these obligations are met refer to Appendix 3 of this report.

#### Stormwater management

City West Water has worked with Melbourne Water Corporation, councils, the Metropolitan Planning Authority, businesses and developers to deliver integrated water cycle management solutions including water sensitive urban design and localised stormwater harvesting. The treatment and use of stormwater has multiple benefits, one of which is to help meet objectives for removal of suspended solids, total phosphorus, nitrogen and litter as well as retaining flows outlined in the *Best Practice Environmental Management Guidelines for Victorian Urban Stormwater*. City West Water currently has five operational stormwater harvesting and treatment schemes.

City West Water adheres to all planning permit conditions, including sediment controls to minimise stormwater runoff and prevent erosion. Environmental management plans are in place for construction works, guided by water quality objectives in the *State Environment Protection Policy (Waters of Victoria)*, the organisation's obligations under the *Environment Protection Act 1970* and the Civil Contractors Federation Environmental Guidelines for Civil Construction. This ensures that construction practices such as site de-watering and groundwater management do not put at risk any beneficial use of receiving water.

Field auditors, project managers and environment staff audit City West Water construction projects to ensure that the organisation complies with legal requirements. Field auditors also audit construction works for shared and gifted assets constructed by developer contractors and can issue service improvement requests where non-compliance with requirements is observed.

#### Greenhouse gas emissions and net energy consumption

City West Water uses energy in the transportation and treatment of water and sewage, production of alternative water, and office administration.

#### Table 1: Corporate energy targets and performance

CORPORATE TARGET	PERFORMANCE
Implement cost effective efficiency opportunities	Developed a green lease with City West Water's new office owners to achieve a NABERS 4.5 star energy rating, which achieved a decrease in office energy consumption of 52 per cent.

#### Table 2: Corporate energy performance 2014-15<sup>1</sup>

	ML	kWh	kWh/ML	MJ	tCO <sub>2</sub> -e	tCO <sub>2</sub> -e/ML
Water treatment and pumping	107,702	265,365	2.464	-	313	0.00290617
Wastewater treatment <sup>2</sup>	4,822	5,348,943	1,109.371	-	7,787	1.57603285
Waste disposal	-	-	-	-	703	-
Energy use (non-fleet)	-	-	-	8,644,725	1,846	-
Vehicle fleet	-	-	-	16,238,200	1,131	-
Other activities	-	-	-	-	25	-
Offsets Purchased	-	-	-	-	-	-
Total					11,805	

<sup>1</sup> 2014-15 emissions only includes Scope 1 and Scope 2 emissions, except for Scope 3 emissions from waste. This is to meet the

requirements of Ministerial Directions to align reporting with ESC indicators which include only Scope 1 and Scope 2 emissions.

<sup>2</sup> Wastewater treatment volumes are supplied only for sewage treated at City West Water sewage treatment plants. The majority of sewage is conveyed to Melbourne Water's Western Treatment Plant. Energy expended by City West Water in this conveyance is included in the energy use figure.



#### Table 3: Historical performance information

	2013-14	2012-13	2011-12	2010-11	2009-10							
	Emissions (tCO <sub>2</sub> -e)											
Water treatment and pumping	290	312	286	272	342							
Wastewater treatment	7,424	9,693	10,612	8,778	7,840							
Waste disposal	618	617	40.52	37.76	29.5							
Energy use (non-fleet)	1,747	2,115	2,051	1,830	2,069							
Vehicle fleet	1,124	1,374	1,300	1,459	1,515							
Other	125	213	166	175	192							
		Offsets (tCO <sub>2</sub> -	e)									
Green Balance	-	-	-	-	(4,968)							
Showerhead exchange program (Carbon Abatement Program)	-	-	-	-	(3,936)							
Green Energy	-	-	-	-	-							
Verified Carbon Offsets	(400)	-	(12,007)	(12,600)	(3,500)							
Renewable energy certificates	-	(2,360)	(2,602)	-	-							
Net greenhouse gas emissions	10,928	11,964	(152)	(47.92)	(483)							
Water treatment and pumping kWh/ML	2.308	2.465	2.012	2.037	3.058							
Wastewater treatment kWh/ML	1,062.498	1,371.460	1,318.283	943.195	1,070.394							

#### **Social sustainability**

#### **Community Service Obligations**

City West Water provided the following community service obligations during the current and prior financial years.

	2014-15 (\$'000)	2013-14 (\$'000)
Rebates paid to not for profit organisations under the water and sewerage rebate scheme	537	483
Provision of concessions to customers	22,032	21,095
Water concessions to those on life support machines (haemodialysis)	20	19
Utility relief grant scheme	302	273

# Rebates paid to not for profit organisations under the water and sewerage rebate scheme

The State Revenue Office (SRO) defines certain organisations as not for profit. Such organisations serve the community in the fields of education, health or nursing care, religious worship, charity, outdoor sporting and recreation activities or war veterans' organisations. These organisations are entitled to pay a concession amount on the service charge portion of their bills. City West Water invoices the SRO for the value of these concessions.

#### Provision of concessions to customers

Customers who hold a pension concession card, Department of Veterans Affairs gold card, or health care card are entitled to a 50 per cent concession on water and sewerage charges up to an annual maximum. The 2014-15 maximum was \$291.00. If a customer is receiving only one service they are entitled to a concession of up to half the annual maximum. City West Water invoices the Department of Health and Human Services for the value of these concessions.

# Water concessions to those on life support machines (haemodialysis)

Residential customers that require in home haemodialysis are entitled to a rebate on water usage and sewage disposal charges. The Department of Health and Human Services determines the rebate amount based on the average annual water usage of an in home haemodialysis machine of 168,000 litres per year. The rebate is in addition to any other pension or concession a customer may be entitled to. City West Water invoices the Department of Health and Human Services for the value of these concessions.

#### **Utility Relief Grant Scheme**

The Utility Relief Grant Scheme provides assistance to residential customers who are unable to pay their utility bills as a result of a temporary financial crisis. Assistance is provided to low income households suffering a short term (within the last the 12 months) financial crisis who are unable to pay for a current account and are at risk of restriction of supply. A grant is only available to a holder of a pension concession card, a health care card or a Department of Veterans Affairs gold card which is not marked 'dependant'. Applicants must meet certain criteria to demonstrate that unexpected hardship has left them unable to meet their water bill obligations. City West Water invoices the Department of Health and Human Services for the value of these concessions.



# Performance Report

FINANCIA	AL PERFORMANCE INDICATORS							
KPI Number	Key performance indicator	2013-14 Result	2014-15 Result	2014-15 Target	% Variance to prior year	Notes	% Variance to target	Notes
F1	Cash interest cover Net operating cash flows before net interest and tax / net interest payments	1.7	2.2	1.9	29.4%	1	15.8%	2
F2	Gearing ratio Total debt (including finance leases) / total assets *100	49.2%	48.1%	52.5%	-2.2%		-8.4%	
F3	Internal financing ratio Net operating cash flow less dividends / net capital expenditure * 100	9.6%	58.6%	33.2%	510.4%	3	76.5%	4
F4	Current ratio Current assets / current liabilities (excluding long term employee provisions and revenue in advance)	0.5	0.8	0.8	60.0%	5	0.0%	
F5	Return on assets Earnings before net interest and tax / average assets * 100	4.8%	5.1%	5.1%	6.2%		0.0%	
F6	Return on equity Net profit after tax / average total equity *100	3.6%	4.8%	3.3%	33.3%	6	45.5%	7
F7	<b>EBITDA Margin</b> Earnings before interest, tax, depreciation and amortisation / total revenue *100	22.3%	25.6%	21.9%	14.8%	8	16.9%	9

- 1. Cash interest cover increased compared to 2013-14 mainly as a result of higher receipts from customers and lower payments to suppliers during 2014-15. In addition, lower than expected interest payments as a result of lower than expected borrowings to fund the organisation's capital program and lower than expected interest rates had an effect on this measure.
- 2. Cash interest cover was above target mainly due to lower than expected net interest payments for the year. Net interest payments were lower than expected due to lower than expected interest rates and lower than expected capital expenditure during 2014-15.
- 3. The internal financing ratio increased compared to 2013-14 due to higher net operating cash flows and lower payments to suppliers and for infrastructure, property, plant, equipment and intangibles. In addition, lower than expected interest payments as a result of lower than expected borrowings to fund the organisation's capital program and lower than expected interest rates had an effect on this measure.
- 4. The internal financing ratio was above target mainly as a result of lower than expected expenditure on property, plant, equipment and intangibles for the year as well as higher than expected net operating cash flows. The lower than expected expenditure on property, plant, equipment and intangibles was mainly due to the deferral of some expenditure on the West Werribee Dual Supply Scheme and the Arrow Program.

- 5. The current ratio increased compared to 2013-14 mainly due to lower current borrowings. The current ratio was not explicitly stated in City West Water's 2014-15 Corporate Plan. The target ratio was derived from the target current assets and current liabilities in the Corporate Plan.
- 6. Return on equity increased compared to 2013-14 due to an increase in net profit after tax. This increase was due to increased developer revenues and increased gross margin associated with higher water sales and sewage disposal charges, partly offset by the impact of an increased asset revaluation surplus in 2014-15.
- 7. Return on equity was above target due to higher than expected net profit after tax. This result was mainly due to higher than expected developer revenues.
- 8. EBITDA margin increased compared to 2013-14 mainly as a result of higher profit before tax. Profit before tax was higher mainly due to increased developer revenues and increased gross margin associated with higher water sales and sewage disposal charges.
- 9. EBITDA margin was above target mainly due to higher than expected earnings before interest, tax, depreciation and amortisation. This was mainly due to higher than expected developer revenues.

# Performance Report (continued)

WATER AN	WATER AND SEWERAGE SERVICE PERFORMANCE INDICATORS										
KPI Number	Key performance indicator	2013-14 Result	2014-15 Result	2014-15 Target	% Variance to prior year	Notes	% Variance to target	Notes			
WS1	Unplanned water supply interruptions Number of customers receiving five unplanned water supply interruptions in the year / total number of water (domestic and non- domestic) customers *100	0.0%	0.0%	0.0%	0.0%		0.0%				
WS2	Interruption time Average duration of unplanned water supply interruptions (minutes)	115.3	111.7	131.9	-3.1%		-15.3%	1			
WS3	Restoration of unplanned water supply interruptions Unplanned water supply interruptions restored within five hours / total unplanned water supply interruptions *100	97.9%	98.0%	95.3%	0.1%		2.8%				
SS1	<b>Containment of sewer spills</b> Sewer spills from reticulation and branch sewers contained within five hours / total sewer spills from reticulation and branch sewers *100	100.0%	100.0%	100.0%	0.0%		0.0%				
SS2	Sewer spills interruptions Number of residential sewerage customers affected by sewerage interruptions restored within 5 hours	100.0%	98.0%	97.0%	-2.0%		1.0%				

1. Benign weather conditions during the year reduced the number of interruptions, allowing crews to plan works to achieve lower interruption times.



CUSTOME	CUSTOMER RESPONSIVENESS PERFORMANCE INDICATORS										
KPI Number	Key performance indicator	2013-14 Result	2014-15 Result	2014-15 Target	% Variance to prior year	Notes	% Variance to target	Notes			
CR1	Water quality complaints Number of complaints per 100 customers	0.045	0.060	0.100	33.3%	1	-40.0%	2			
CR2	Sewerage service quality complaints Number of complaints per 100 customers	0.005	0.003	0.056	-40.0%	3	-94.6%	4			
CR3	Sewage odour complaints Number of complaints per 100 customers	0.029	0.023	0.056	-20.7%	5	-58.9%	6			
CR4	Billing complaints Number of complaints per 100 customers	0.154	0.117	0.130	-24.0%	7	-10.0%	8			

- Inspection and maintenance works at one site during the year resulted in a long closed valve being inadvertently opened. This caused discolouration of water in the Parkville area as a result. A total of 81 complaints of discoloured water were received. The incident was considered to be an aesthetic rather than a health related issue. City West Water has a procedure that instructs maintenance contract employees to contact City West Water before opening any long closed valves. In this case the procedure was not followed. City West Water has re-emphasised the importance of this procedure with its maintenance contractor to ensure this does not happen again.
- 2. Benign weather conditions resulted in fewer bursts and leaks than the long term average. This was reflected in continued good water quality and fewer complaints than expected.
- Benign weather conditions resulted in fewer blockages and fewer interruptions to service. This led to fewer complaints than last year.

- 4. Active condition monitoring and renewal programs had better than expected success in reducing the number of sewerage service quality complaints during the year when comparing against target.
- 5. Benign weather conditions resulted in fewer blockages meaning less odour and less complaints than last year.
- 6. Active condition monitoring and renewal programs had better than expected success in reducing the number of sewerage odour complaints during the year.
- 7. During 2013-14 City West Water received a number of billing complaints relating to the return of desalination plant costs. This was not a factor during 2014-15 and as a result billing complaints dropped.
- 8. The introduction of the Government Water Rebate in the first quarter of 2014-15 contributed to a greater than expected reduction in billing complaints during the year

# Performance Report (continued)

ENVIRONMENTAL PERFORMANCE INDICATORS								
KPI Number	Key performance indicator	2013-14 Result	2014-15 Result	2014-15 Target	% Variance to prior year	Notes	% Variance to target	Notes
E1	Effluent reuse volume (end use) Effluent reuse volume (%)	2.2%	2.4%	2.2%	9.1%	1	9.1%	2
E2	<b>Total net CO<sub>2</sub> emissions</b> Net tonnes CO <sub>2</sub> equivalent	10,928.0	11,805.0	13,370.0	8.0%	3	-11.7%	4

- 1. Effluent reuse volume as a percentage was higher in 2014-15 than 2013-14 due to lower inflow into the treatment plant, however the same volume of water was reused as in 2013-14.
- 2. Effluent reuse volume was above target due to lower inflow into the treatment plant, but the same reuse volume as in 2013-14. A target for effluent reuse volume was not stated in City West Water's 2014-15 Corporate Plan. The target was determined using the actual figure for the 2013-14 year as the 2014-15 reuse profile of the treatment plant was anticipated to be similar to the previous year. In years prior to 2013-14 other factors affected reuse volume which were not applicable to the 2013-14 or 2014-15 years. Using these prior year results to determine a target was not deemed to be suitable methodology.
- 3. Net CO<sub>2</sub> emissions were higher in 2014-15 than 2013-14 mainly due to the fact that City West Water did not purchase any carbon offsets in 2014-15 compared to a purchase of 400 tonnes in 2013-14. City West Water does not expect to purchase carbon offsets in the foreseeable future. The sale of City West Water's old head office site during 2015-16 will result in an estimated saving of between 400 and 500 tonnes of emissions.
- 4. City West Water's target for net CO<sub>2</sub> emissions is based on average emissions for the past three years (2011-12 to 2013-14). The organisation outperformed this target in 2014-15 mainly due to higher emissions from wastewater treatment in prior years.



# Certification of Performance Report

We certify that the accompanying Performance Report of City West Water Corporation in respect of the 2014-15 financial year is presented fairly in accordance with the *Financial Management Act 1994*.

The Performance Report outlines the relevant performance indicators for the financial year as determined by the then Minister for Water and as set out in the 2014-15 Corporate Plan, the actual and comparative results achieved for the financial year against predetermined performance targets and these indicators, and an explanation of any significant variance between the actual results and performance targets and between the actual results of the current year and the previous year.

As at the date of signing, we are not aware of any circumstances which would render any particulars of the Performance Report to be misleading or inaccurate.

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The Hon. Alan Stockdale Chairman

Melbourne 30 September 2015

Anne Barker Managing Director



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#### INDEPENDENT AUDITOR'S REPORT

#### To the Board Members, City West Water Corporation

#### The Performance Report

The accompanying performance report for the year ended 30 June 2015 of the City West Water Corporation which comprises the performance report, the related notes and the certification of performance report has been audited.

#### The Board Members' Responsibility for the Performance report

The board members of the City West Water Corporation are responsible for the preparation and fair presentation of the performance report and for such internal control as the board members determine is necessary to enable the preparation and fair presentation of the performance report that is free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the performance report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the performance report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the performance report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the performance report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the performance report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the overall presentation of the performance report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.



#### Independent Auditor's Report (continued)

#### Independence

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

#### Basis for Qualified Opinion

My audit of the 2014-15 financial report of the City West Water Corporation identified an estimated error in the fair value of infrastructure assets of an overstatement of \$161.9 million for the year ending 30 June 2015 (an overstatement of \$155.0 million for the year ending 30 June 2014). Consequently certain values used to calculate the following financial performance indicators should be adjusted.

If the total assets, average assets and average total equity were adjusted for the impact of this estimated error, the adjusted financial performance indicators in the performance report for the City West Water Corporation would be:

KPI Number	Key performance indicator	2013-14 Adjusted Result	2014-15 Adjusted Result
F2	Gearing ratio	53.1%	51.9%
F5	Return on assets	5.0%	5.6%
F6	Return on equity	4.0%	6.0%

#### Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the performance report of the City West Water Corporation in respect of the financial year ending 30 June 2015 presents fairly, in all material respects, in accordance with the *Financial Management Act 1994*.

MELBOURNE 16 October 2015

Dr Peter Frost Acting Auditor-General

Auditing in the Public Interest

# Major non-residential water users 2014-15

#### Table 1: Customers by volume range

VOLUMETRIC RANGE – ML PER YEAR	NUMBER OF CUSTOMERS
Equal to or greater than 200ML and less than 300ML	5
Equal to or greater than 300ML and less than 400ML	7
Equal to or greater than 400ML and less than 500ML	2
Equal to or greater than 500ML and less than 750ML	2
Equal to or greater than 750ML and less than 1000ML	0
Greater than 1000ML	4
Total number of customers	20

#### Table 2: Names of major customers and their participation in Water Management Action Plans

NAME OF CUSTOMER	WATERMAP STATUS
Asahi Premium Beverages Pty Ltd	Yes, WaterMAP developed
Australian Vinyls Corporation Ltd	Yes, WaterMAP developed
Baiada Poultry Pty Ltd	Yes, WaterMAP developed
Carlton & United Breweries, Abbotsford Brewery	Yes, WaterMAP developed
Coogee Energy	Yes, WaterMAP developed
CSF Proteins	Yes, WaterMAP developed
JBS Australia Pty Limited	Yes, WaterMAP developed
Melbourne Airport	Yes, WaterMAP developed
Mobil Refining Australia	Yes, WaterMAP developed
Nufarm Chemicals	Yes, WaterMAP developed
Onesteel	Yes, WaterMAP developed
Peerless Holdings Pty Ltd	Yes, WaterMAP developed
Qenos Olefins <sup>1</sup>	Yes, WaterMAP developed
Melbourne Health (Royal Melbourne Hospital)	Yes, WaterMAP developed
Schweppes Australia Pty Ltd	Yes, WaterMAP developed
Sugar Australia	Yes, WaterMAP developed
Victoria Wool Processors	Yes, WaterMAP developed
Toyota Motor Corporation Australia	Yes, WaterMAP developed
University of Melbourne	Yes, WaterMAP developed
Victoria Racing Club	Yes, WaterMAP developed

<sup>1</sup> Includes recycled water use.



#### Other water efficiency reporting

City West Water's Business Customer Programs Team works with business customers (industrial, commercial, institutional and local government) to improve overall resource efficiency, in particular saving water and energy and reducing critical or problem contaminants in trade waste. Business Customer Programs are designed to help businesses:

- analyse and understand water and energy use and trade waste generation patterns within their business;
- develop a WaterMAP (Water Management Action Plan);
- implement initiatives to drive water and energy saving improvements;
- reduce total dissolved solids and other critical contaminants in trade waste;
- investigate alternative water options including rainwater and stormwater harvesting at an individual customer or precinct level;
- support resource efficiency behavioural change initiatives; and
- source and match third party funding opportunities to initiate implementation of resource efficiency projects.

City West Water's Business Customer Programs Team consists of engineers and scientists with proven experience in the water industry who work one-on-one to assist business customers. The team has a long history of working closely with business customers to enable them to meet their water, energy and trade waste obligations.

The Business Customer Programs Team also collaborates with City West Water's Water Innovations Team to work with businesses and local government to explore opportunities to utilise local water supplies.

A summary of water efficiency initiatives offered to City West Water's business customers in 2014-15 is provided in Table 3 overleaf.

# Major non residential water users 2014-15 (continued)

#### Table 3: Summary of water efficiency initiatives offered to City West Water's business customers

PROGRAM NAME	PROGRAM DATE	PROGRAM DESCRIPTION	ESTIMATED EFFICIENCIES	PARTICIPANTS
National Business Water Efficiency Benchmarking (NBweb) nbweb.com.au	Website launched October 2013	<ul> <li>Water suppliers across Australia have collaborated to develop the National Business Water Efficiency Benchmarking project (NBweb). NBweb is designed to gather water use information across a wide range of business sectors to enable:</li> <li>businesses to compare their water use to industry averages and be able to identify their own ways to use water in the most efficient manner and therefore save costs; and</li> <li>water suppliers to share their experience and pool resources to develop a nationally consistent</li> </ul>	Website users remain anonymous, so efficiencies achieved as a result of NBweb are unable to be quantified.	Approximately 80 visitors per day.
		business customer benchmarking framework. The project is sponsored by the Victorian Government, the Smart Water Fund, City West Water and water businesses across Australia.		
Clean in Place Efficiency Program	Completed November 2014	Provided assessments to assist businesses to improve water, energy, chemical and production efficiency of Clean In Place (CIP) systems. CIP is a method of cleaning the interior surfaces of pipes, vessels, and associated process equipment without disassembly. It is common in food, beverage, and pharmaceutical industries.	<ul> <li>Potential savings identified:</li> <li>31.9ML water per year;</li> <li>30.4ML trade waste per year;</li> <li>445GJ gas per year;</li> <li>29,000L chemicals per year; and</li> <li>1,040 hours downtime per year.</li> </ul>	Eight audits.
Open Space Optimisation	Currently underway	<ul> <li>City West Water, in partnership with Victorian</li> <li>Government agencies, local councils and key industry</li> <li>stakeholders has initiated a project to determine best</li> <li>practice for optimising open space management using</li> <li>principles of water efficiency and to demonstrate the</li> <li>business case of applying best practice. Achieving</li> <li>high water use efficiency and functional performance</li> <li>of the space will be core elements of the study.</li> <li>Stage 1: best practice options and</li> <li>business case for trial sites;</li> <li>Stage 2: operation of trial sites; and</li> <li>Stage 3: evaluation and recommendations –</li> <li>adoption strategies and costing based on results.</li> </ul>	Water savings expected as a result of implementing best practice are approximately 20 - 30 per cent. This will be confirmed in Stage 2 of the project when trial sites are operated.	Input from stakeholders across the state will be guided by industry specialists from local government, water authorities, private open space managers, irrigation and sports turf specialists, the Melbourne Cricket Club and the Melbourne and Olympic Parks Trust.



#### Table 3: Summary of water efficiency initiatives offered to City West Water's business customers (continued)

PROGRAM NAME	PROGRAM DATE	PROGRAM DESCRIPTION	ESTIMATED EFFICIENCIES	PARTICIPANTS
Water and Energy Efficiency Program	Ongoing	<ul> <li>In September 2014 City West Water, Toyota and Hobsons Bay City Council (HBCC) formed a partnership to deliver a water and energy audit program to assist schools and businesses in the HBCC area.</li> <li>The key objectives of this program are to: <ul> <li>improve the water and energy efficiency of selected schools and businesses in the HBCC area;</li> <li>develop relationships and connections with the community to promote further uptake of and participation in sustainable practices; and</li> <li>promote existing water and energy efficiency resources.</li> </ul> </li> </ul>	<ul> <li>On average 14 improvement opportunities have been identified per audit to date.</li> <li>Below provides a breakdown of the areas of improvement and the average number of recommendations per area:</li> <li>water 3.0;</li> <li>lighting 4.0;</li> <li>heating, ventilation and air conditioning 3.0;</li> <li>process improvements 2.0;</li> <li>electrical 3.4; and</li> <li>behaviour change 3.9.</li> </ul>	17 audits completed to date.
Comprehensive Water Audits	Ongoing	In March 2015 City West Water began providing comprehensive water audits for larger business customers. The audits utilise interval water consumption information (water consumption data recorded every 15 minutes in an online database) and site inspections to develop operational profiles of each customer site. This information is used to identify trends in water use including identifying irregular water consumption. The reports identify water efficiency improvement opportunities as well as providing insights into where water is used onsite.	No quantitative studies have been performed to specifically assess these savings.	Two audits completed to date.
Resource Efficiency Assist Program	Completed January 2015	<ul> <li>City West Water worked in conjunction with the Australian Industry Group and Sustainability Victoria to help small and medium sized businesses cut costs and boost productivity through the Resource Efficiency Assist Program. As part of the program, companies with less than 200 employees accessed a range of free services, including:</li> <li>business assessments (water, trade waste, energy and materials);</li> <li>Level 1 energy assessments;</li> <li>Level 1 equivalent materials assessments;</li> <li>showcases (site visits to learn from leading companies); and</li> <li>online videos.</li> </ul>	Companies in the manufacturing sector (75 per cent) were the most active participants in the program followed by companies in the warehouse, storage and transport sector (seven per cent). Within manufacturing, companies in the metals (46 per cent) and food (19 per cent) sectors were the highest participants. Through the 22 Level 1 energy assessments, total annual savings of 4458MWh of electricity and 3387GJ of natural gas were identified. Through 42 business assessments, 443 water, trade waste, energy and materials actions were identified.	65 onsite assessments conducted (22 Level 1 energy audits, 42 business assessments, one materials assessment); 50 people attended master classes; 83 people attended showcases; and 377 views of online case studies.

# Major non residential water users 2014-15 (continued)

#### Table 3: Summary of water efficiency initiatives offered to City West Water's business customers (continued)

PROGRAM NAME	PROGRAM DATE	PROGRAM DESCRIPTION	ESTIMATED EFFICIENCIES	PARTICIPANTS
Business Showerhead Exchange Program	Ongoing	Exchange inefficient showerheads for water efficient showerheads in businesses including hotels, hospitals, aged care and recreational facilities.	Estimated savings (2014-15 only): • 18.7ML water per year; and • 2443GJ gas per year.	<ul> <li>1217 showerheads exchanged in 2014-15</li> <li>12 businesses participated.</li> </ul>
Government rebates	Ongoing	Ongoing promotion of the availability of government rebates to customers through business customer newsletters, City West Water programs including the Business Resource Efficiency Program and stakeholder networks.	Estimated savings (2014-15 only): • 10.2ML per year.	<ul> <li>218 rebates provided in 2014-15; and</li> <li>Rebates provided of \$370,009.</li> </ul>
Checkmeters and datalogging	Ongoing	City West Water offers free checkmeters to business customers to help them understand and monitor water usage within their site. A temporary datalogging service is also used to assist in performing water efficiency assessments for customers, understanding the water consumption profile of non- residential customer segments and providing assistance to business customers with suspected water leaks.	Checkmetering and datalogging assists in understanding water usage which may lead to improved efficiencies however does not provide direct water savings.	<ul> <li>64 checkmeters provided to 10 customers</li> <li>Datalogging provided to six customers.</li> </ul>



# **Risk Management Attestation**

I, Alan Stockdale, certify that City West Water Corporation has complied with Ministerial Standing Direction 4.5.5 - Risk Management Framework and Processes. City West Water's Risk Management and Audit Committee verifies this assurance.

tochale

**The Hon. Alan Stockdale** Chairman

Melbourne 30 September 2015

# Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2015

Note	30 June 2015 \$'000	30 June 2014 \$'000
Revenue 3	594,243	609,093
Other income 3	4,791	1,244
Total income	599,034	610,337
Expenses 4	(488,852)	(513,926)
Finance expenses 4	(62,892)	(60,266)
Total expenses	(551,744)	(574,192)
	(,,	()
Profit before income tax expense	47,290	36,145
Income tax expense 5(a)	(10,852)	(11,067)
Profit after income tax expense	36,438	25,078
Other Comprehensive Income/(Expense)		
Items that will not be reclassified to profit or loss		
Change in physical asset revaluation surplus 13(g)	65,800	53,400
Actuarial gain/(loss) on defined benefit superannuation plan 27(c)	(645)	4,847
Deferred income tax recognised in Other Comprehensive Income 5(c)	(19,547)	(17,474)
Other Comprehensive Income after tax	45,608	40,773
Total comprehensive income after tax	82,046	65,851

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.



# **Balance Sheet**

As at 30 June 2015

Note	30 June 2015 \$'000	30 June 2014 \$'000
ASSETS		
Current assets		
Cash and cash equivalents 8	526	410
Receivables 9	90,607	90,440
Prepayments 10	1,625	2,788
	92,758	93,638
Non-current assets classified as held for sale 11	15,324	-
Total current assets	108,082	93,638
Non-current assets		
Infrastructure, property, plant and equipment 13	1,910,150	1,812,365
Intangible assets 14	177,575	172,345
Defined benefit superannuation asset 27(c)	2,286	3,575
Receivables 12	23	24
Total non-current assets	2,090,034	1,988,309
TOTAL ASSETS	2,198,116	2,081,947
LIABILITIES		
Current liabilities		
Payables 15	54,315	59,041
Borrowings 16	64,200	101,000
Current tax liability 17	3,454	872
Provision for employee benefits 27(a)	12,278	11,486
Other provisions 18	2,401	2,255
Unearned income 19	4,235	2,609
Other liabilities 20	11,413	9,248
Total current liabilities	152,296	186,511
Non-current liabilities		
Borrowings 21	992,500	922,500
Deferred tax liabilities 6(b)	253,474	239,800
Provision for employee benefits 27(a)	2,036	1,773
Total non-current liabilities	1,248,010	1,164,073
TOTAL LIABILITIES	1,400,306	1,350,584
NET ASSETS	797,810	731,363
EQUITY		
Contributed equity 22(a)	217,608	217,608
Physical asset revaluation surplus 22(b)	249,679	203,619
Retained profits 22(c)	330,523	310,136
TOTAL EQUITY	797,810	731,363

The above Balance Sheet should be read in conjunction with the accompanying notes. Refer also to Note 25 - Contingent assets and liabilities, and Note 26 - Commitments for expenditure.

# Statement of Changes in Equity

For the year ended 30 June 2015

	Note	Contributed Equity	Physical asset revaluation surplus	Retained Profits	Total Equity
		\$′000	\$'000	\$′000	\$′000
Balance at 1 July 2013		217,608	166,239	286,365	670,212
Comprehensive income for the year					
Profit after income tax expense	22(c)	-	-	25,078	25,078
Other comprehensive income after tax	22(b), 22(c)		37,380	3,393	40,773
Total comprehensive income after tax		-	37,380	28,471	65,851
Transactions with the State in its capacity as owner					
Dividends paid	7	-	-	(4,700)	(4,700)
Total transactions with the State in its capacity as owner		-	-	(4,700)	(4,700)
Balance at 30 June 2014	22	217,608	203,619	310,136	731,363
Balance at 1 July 2014		217,608	203,619	310,136	731,363
Comprehensive income for the year					
Profit after income tax expense	22(c)	-	-	36,438	36,438
Other comprehensive income after tax	22(b), 22(c)	-	46,060	(451)	45,609
Total comprehensive income after tax		-	46,060	35,987	82,047
Transactions with the State in its capacity as owner					
Dividends paid	7	-	-	(15,600)	(15,600)
Total transactions with the State in its capacity as owner		-	-	(15,600)	(15,600)
Balance at 30 June 2015	22	217,608	249,679	330,523	797,810

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 2015

	Note	30 June 2015 \$'000	30 June 2014 \$'000
Cash flows from operating activities			
Receipts from customers, developers and others		616,725	580,547
Payments to suppliers and employees		(480,467)	(503,286)
Goods and Services Tax refunded from the Australian Tax Office $^{\scriptscriptstyle 1}$		13,031	20,714
Government Water Rebate <sup>2</sup>		(9,274)	-
Interest received		26	125
Income tax paid		(14,142)	(21,290)
Interest and other finance costs paid		(62,394)	(57,586)
Net cash provided by/(used in) operating activities	31	63,505	19,224
Cash flows from investing activities			
Payments for infrastructure, property, plant, equipment, and intangibles		(81,713)	(150,873)
Proceeds from sale of infrastructure, property, plant, equipment and intangibles	-	724	750
Net cash provided by/(used in) investing activities	-	(80,989)	(150,123)
Cash flows from financing activities			
Proceeds from borrowings		140,000	141,000
Repayment of borrowings		(106,800)	(45,000)
Dividends paid	-	(15,600)	(4,700)
Net cash provided by/(used in) financing activities	_	17,600	91,300
Net increase/(decrease) in cash and cash equivalents		116	(39,599)
Cash and cash equivalents at the beginning of the financial year	_	410	40,009
Cash and cash equivalents at the end of the financial year	8	526	410

 $^{\scriptscriptstyle 1}$  Goods and Services Tax refunded from the Australian Taxation Office is presented on a net basis.

<sup>2</sup> As a result of an efficiency review of Victoria's urban water corporations, City West Water returned a total of \$36.741m to its residential customers with a water usage charge through a \$100 rebate during the 2014-15 financial year. Melbourne Water Corporation's share of the rebate was \$27.467m. The two rebates are presented on a net basis.

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

For the year ended 30 June 2015

#### 1. Summary of significant accounting policies

#### (a) Basis of preparation

#### General

This is a general purpose financial report that consists of a Statement of Profit or Loss and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and notes accompanying these statements. This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board (AASB), the requirements of the *Financial Management Act 1994* and applicable Ministerial Directions. City West Water is a for profit organisation for the purpose of preparing these financial statements.

This financial report includes separate financial statements for City West Water as an individual reporting entity.

This financial report has been prepared on a going concern basis.

The accrual basis of accounting has been applied in the preparation of this financial report whereby assets, liabilities, equity, income and expenditure are included in the reporting period to which they relate, regardless of when cash is received or paid. This report is presented in Australian dollars, the functional and presentation currency of City West Water.

The annual financial statements were authorised for issue by the Board on 30 September 2015.

The principal address of the organisation is:

City West Water Corporation 1 McNab Avenue Footscray 3011

#### Historical cost convention

This financial report has been prepared under the historical cost convention as modified by the revaluation of defined benefit superannuation liabilities/(assets) and infrastructure, property, plant and equipment.

#### Critical accounting estimates and judgements

Judgements, estimates and assumptions are required to be made about the carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable in the circumstances. Actual results may differ from these estimates. Areas involving a high degree of estimates and assumptions which can materially impact the financial statements include:

 fair valuation of infrastructure, property, plant and equipment (these assumptions are discussed in Note 1(r) and Note 13(d));

- actuarial assumptions used to determine the assets and liabilities of City West Water's defined benefit superannuation fund (these assumptions and the related carrying amounts are discussed in Note 27(c));
- estimate of useful lives of assets (these assumptions are discussed in Note 1(j));
- impairment of assets (these assumptions are discussed in Note 1(l));
- provisions (these assumptions are discussed in Note 1(v));
- income tax (these assumptions are discussed in Note 1(e)); and
- unbilled revenue (these assumptions are discussed in Note 1(w)).

Unless otherwise stated, all accounting policies applied are consistent with those of the prior year.

#### Scope and presentation of financial statements

# Statement of Profit or Loss and Other Comprehensive Income

All non-owner changes in equity are presented in the Statement of Profit or Loss and Other Comprehensive Income. This presentation is consistent with the requirements of AASB 101 - *Presentation of Financial Statements*.

#### **Balance Sheet**

Assets and liabilities are presented on a current and non-current basis. Details of current and non-current assets and liabilities are disclosed in the notes where relevant.

#### Statement of Changes in Equity

The Statement of Changes in Equity presents reconciliations of each non-owner and owner equity opening balance at the beginning of the reporting period to the closing balance at the end of the reporting period. It shows separately changes due to amounts recognised in the comprehensive result and amounts arising from transactions with the State in its capacity as owner.

#### Statement of Cash Flows

Cash flows are classified according to whether they arise from operating activities, investing activities or financing activities. This classification is consistent with the requirements of AASB 107 - *Statement of Cash Flows*.

#### New and revised accounting Standards and Interpretations

City West Water has adopted all of the new and revised standards and interpretations issued by the AASB that are relevant to its operations and effective for the current financial year. The organisation has not early adopted any new or revised standards or interpretations. City West Water will adopt all new and revised accounting standards from the start of the reporting period after the effective date.



#### Standards issued that are applicable to City West Water, but not effective at 30 June 2015.

Certain new Australian Accounting Standards have been published that are not mandatory for the 30 June 2015 reporting period that are applicable to City West Water.

STANDARD	EFFECTIVE DATE	KEY CHANGES	ІМРАСТ
AASB 9 Financial Instruments	1 January 2018	Key changes include simplified requirements for the classification and measurement of financial assets, a new hedge accounting model and a revised impairment loss model to recognise impairment losses earlier as opposed to the current approach that recognises impairment only when incurred.	A preliminary assessment has identified that the financial impact of available for sale assets will now be reported through Other Comprehensive Income and no longer recognised in profit and loss. City West Water does not categorise any of its financial instruments as available for sale assets, therefore the impact of the standard is not assumed to be material.
AASB 14 Regulatory Deferral Accounts	1 January 2016	AASB 14 permits first time adopters of Australian Accounting Standards who conduct rate regulated activities to continue to account for amounts related to rate regulation in accordance with their previous generally accepted accounting principles.	Assessment has indicated that there will be no material impact on City West Water's accounts.
AASB 15 Revenue from Contracts with customers	1 January 2017 (Exposure Draft 263 - potential deferral to 1 January 2018)	The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer.	The changes in revenue recognition requirements in AASB 15 may result in changes to the timing and amount of revenue recorded in the financial statements. The standard will also require additional disclosures on service revenue and contract modifications. A preliminary assessment of the changes has not identified any material impact for City West Water.
AASB 2014-1 Amendments to Australian Accounting Standards (Part E Financial Instruments)	1 January 2018	Amends various AAS's to reflect the AASB's decision to defer the mandatory application date of AASB 9 to annual reporting periods beginning on or after 1 January 2018 as a consequence of Chapter 6 Hedge Accounting and to amend reduced disclosure requirements.	This amending standard will defer the application period of AASB 9 to the 2018-19 reporting period in accordance with the transition requirements.
AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation [AASB 116 & AASB 138]	1 January 2016	<ul> <li>Amends AASB 116 Property, Plant and Equipment and AASB 138 Intangible Assets to:</li> <li>a.) establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset and</li> <li>b.) prohibit the use of revenue based methods to calculate the depreciation or amortisation of an asset, tangible or intangible, because revenue generally reflects the pattern of economic benefits that are generated from operating the business rather than the consumption through use of the asset.</li> </ul>	Assessment has indicated that there is no expected impact as the revenue based method is not used by City West Water for depreciation and amortisation.

For the year ended 30 June 2015

#### 1. Summary of significant accounting policies (continued)

In addition to these new standards the AASB has issued a list of amending standards that are not effective for the 2014-15 reporting period (as listed below). In general these amending standards include editorial and reference changes that are expected to have insignificant impacts on reporting.

- AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010);
- AASB 2013-9 Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments;
- AASB 2014-1 Amendments to Australian Accounting Standards [Part D - Consequential Amendments arising from AASB 14 Regulatory Deferral Accounts only];
- AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15;
- AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014);
- AASB 2014-8 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) -Application of AASB 9 (December 2009) and AASB 9 (December 2010) [AASB 9 (2009 & 2010)];
- AASB 2015-2 Amendments to Australian Accounting Standards Disclosure Initiative: Amendments to AASB 101 [AASB 7, AASB 101, AASB 134 & AASB 1049]; and
- AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality.

#### (b) Changes in accounting policy

There have been no changes in accounting policy during the 2014-15 year.

#### REVENUE

#### (c) Revenue recognition

Revenue is measured as the fair value of consideration received or receivable. City West Water recognises revenue when the amount can be reliably measured, it is probable that future economic benefits will flow to the organisation and specific criteria have been met for each of the organisation's activities as described below.

Each form of revenue is recognised as follows:

- water and sewerage service charges which are billed quarterly in advance are recognised evenly throughout the financial year to reflect the pattern of revenue earned;
- water usage and sewage disposal charges are recognised as income when the service has been provided;
- trade waste charges are recognised as income when the service has been provided;

- recycled water usage charges are recognised as income when the service has been provided;
  - water trading revenue is recognised at the time of signing of a contract to transfer water to the purchaser;
  - the one off desalination cost return was recognised progressively throughout the 2012-13 year as the return was passed on to customers by way of lower bills, or in the case of customers that had left the City West Water service area, by way of refund. During 2014-15 an over-provision of \$0.184m was written back to revenue. The over-provision occurred due to an over-estimation of the value of returns to customers that have left the City West Water service area;
  - developer contributions represent charges levied on developers to recover the costs of augmenting or constructing infrastructure assets to meet the future demands of urban growth. Developers are required to make a fair and reasonable contribution towards the cost of developing City West Water's water supply distribution systems and sewage disposal systems. In accordance with the requirements of AASB Interpretation 18 - Transfers of Assets from Customers and AASB 118 -Revenue, recognition of income occurs upon receipt;
  - developer contributed assets arise where developers pay for the cost of construction of new assets and subsequently 'gift' these assets to City West Water which maintains them in perpetuity. In accordance with the requirements of AASB Interpretation 18 - *Transfers of Assets from Customers* and AASB 118 - *Revenue*, recognition of income occurs when the risks and rewards of ownership have been transferred to City West Water. This non-cash revenue is recorded as developer contributed assets. Where actual cost is not available City West Water recognises income by assessing the value of the works using a schedule of rates determined by the organisation. This schedule is based on historical cost tender information;
  - the Government Water Rebate is recognised as a rebate against revenue when the associated revenue is billed;
  - income from works and services provided to third parties is recognised when the service has been provided;
  - interest is recognised as revenue when earned and is accrued in accordance with the terms and conditions of the underlying financial instrument;
  - fees and charges are recognised as income when the service has been provided;
  - government grants relating to costs are deferred and recognised in the Statement of Profit or Loss and Other Comprehensive Income over the period necessary to match them with the costs that they are intended to compensate. Grants are recognised at their fair value where there is reasonable assurance that the grant will be received and the organisation has complied with any attached conditions; and
  - other revenue items are reported on an accrual basis.



#### **EXPENDITURE**

#### (d) Finance expenses

Finance expenses are recognised in the period in which they are incurred. All qualifying assets (being assets that necessarily take a substantial period of time to prepare for their intended use or sale) are measured at fair value. Any finance costs directly attributable to the acquisition, construction or production of these qualifying assets are not required to be capitalised and are instead expensed in the period in which they are incurred.

#### (e) Income tax

City West Water is subject to the National Tax Equivalent Regime pursuant to section 88(1) of the *State Owned Enterprises Act 1992.* Under this regime City West Water is required to pay to the Victorian State Government an amount equal to the tax liability applicable if City West Water was a private company. The tax equivalent rules are based on the *Income Tax Assessment Act 1997* (as amended).

Income tax expense or revenue for the period is the tax payable or receivable on the current period's taxable income based on the applicable tax rate adjusted by changes in deferred tax assets and deferred tax liabilities attributable to temporary differences.

Deferred income tax is provided for in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability that affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by balance date and are expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled.

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.

#### (f) Bulk charges

Bulk charges are levied by Melbourne Water Corporation for the cost of water City West Water purchases and for sewage treated at Melbourne Water's Western Treatment Plant. Variable charges are levied in arrears and are payable on a weekly basis. Fixed charges are levied once a month and are payable on the 15th of the month to which they refer. Any variable charges that remain outstanding at period end are accrued. The Government Water Rebate associated with bulk charges is recognised as a rebate against bulk charges upon receipt.

#### (g) Environmental Contribution

The Water Industry (Environmental Contributions) Act 2004 (the Act) amended the Water Industry Act 1994 to make provision for environmental contributions to be paid by water supply authorities. The Act establishes an obligation for authorities to pay into the consolidated fund annual contributions for the first period, from 1 October 2004 to 30 June 2008, in accordance with the pre-established schedule of payments which sets out the amounts payable by each corporation. Having been extended previously from 1 July 2008 to 30 June 2012 the contribution period has again been extended to cover the period 1 July 2012 until 30 June 2016.

The purpose of the Environmental Contribution is set out in the Act. Funds may be used for funding various water related initiatives that seek to promote the sustainable management of water or are likely to address adverse water related environmental impacts.

Consistent with the *Environmental Contributions Order 2012 to 2016* made under section 193 of the *Water Industry Act 1994* City West Water is paying a third tranche of the Environmental Contribution to the Victorian Government. These contributions are recognised as expenses when they occur.

#### (h) Employee benefits and agency labour

Employee benefits and agency labour refers to all payments made to employees during the year. It includes payments to all City West Water staff as well as contract and agency staff. Payments include ordinary time, overtime, allowances, on costs, Fringe Benefits Tax, redundancy costs and WorkCover. Employee benefits and agency labour is recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income.

#### (i) Leases

A lease is a right to use an asset for an agreed period of time in exchange for payment. Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidental to ownership. Leases are classified as operating leases whenever the terms of the lease retain substantially all the risks and rewards of ownership with the lessor. Payments made under operating leases are charged to the Statement of Profit or Loss and Other Comprehensive Income on a straight line basis over the period of the lease.

City West Water did not hold any finance lease arrangements during the current or previous reporting periods.

For the year ended 30 June 2015

#### 1. Summary of significant accounting policies (continued)

#### (j) Depreciation and amortisation

All infrastructure assets, buildings, plant and equipment, motor vehicles and other non-current physical assets (excluding items under operating leases, assets held for sale and investment properties) that have a limited useful life are depreciated. All intangible assets with a limited useful life are amortised.

Depreciation and amortisation are generally calculated on a straight line basis at rates that allocate an asset's value less any estimated residual value over its estimated useful life. The useful life and residual value of each group of assets is reviewed annually.

During 2014-15 an assessment of the useful lives of assets identified some assets which had useful lives outside the range previously reported for that asset category. As a result the estimate of the useful life range of asset categories has been revised below. The change in disclosed useful lives ranges had no impact on the current period result and will not have an impact on future period results. The estimated useful lives of assets are listed below.

	NEW RANGE	OLD RANGE
Buildings	5 - 90 years	10 - 50 years
Infrastructure assets	4 - 100 years	10 - 90 years
Plant and equipment	3 - 50 years	3 - 10 years
Motor vehicles	5 - 15 years	5 years
Leasehold improvements	7 - 20 years	n/a
Software	3 - 10 years	3 - 10 years

Depreciation of a new infrastructure asset begins in the month following the practical completion of works. Depreciation of other new assets begins in the month following acquisition. Amortisation of software begins in the month following commissioning.

#### (k) Repairs and maintenance

Routine maintenance, repair costs and minor asset renewal costs are expensed as incurred. Where the expenditure relates to the replacement of a component or the enhancement of an asset and the cost satisfies the requirements of an asset, the cost is capitalised and depreciated.

#### (I) Impairment of assets

Intangible assets with indefinite useful lives are tested annually as to whether their carrying value exceeds their recoverable amount. All other assets are assessed annually for indicators of impairment, except for:

- financial assets;
- non-current physical assets held for sale;
- deferred tax assets;
- financial instrument assets; and
- inventories.

If there is an indication of impairment the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount the difference is written off by a charge to the Statement of Profit or Loss and Other Comprehensive Income, except to the extent that the write down can be debited to an asset revaluation surplus amount applicable to that class of asset.

The recoverable amount for most assets is measured as the higher of depreciated replacement cost and fair value less costs to sell. Recoverable amounts for assets held primarily to generate net cash inflows are measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell. It is deemed that in the event of the loss of an asset the future economic benefits arising from the use of the asset will be replaced unless a specific decision to the contrary has been made.

A reversal of an impairment loss on a revalued asset is credited directly to equity under the heading physical asset revaluation surplus. However, to the extent that an impairment loss on the same class of asset was previously recognised in the Statement of Profit or Loss and Other Comprehensive Income, a reversal of that impairment loss is also recognised in the Statement of Profit or Loss and Other Comprehensive Income.

#### (m) Other expenditure

Other expenditure is reported on an accrual basis.



#### ASSETS

#### (n) Cash and cash equivalents

For Statement of Cash Flows presentation purposes cash and cash equivalents includes 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 and bank overdrafts. Bank overdrafts (if any) are shown within the borrowings component of current liabilities in the Balance Sheet.

#### (o) Receivables

Receivables are initially recognised at fair value and subsequently measured at fair value less provision for impairment. Trade receivables are due for settlement no more than 14 days from the date of recognition for water utility debtors and 14 days for other debtors. 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 where it is considered that the recovery of the outstanding debt is less than likely. The amount of the impairment loss is recognised in the Statement of Profit or Loss and Other Comprehensive Income as an element of expenses. When a receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period it is written off against the provision. Subsequent recovery of amounts previously written off is credited against impaired receivables in the Statement of Profit or Loss and Other Comprehensive Income.

#### (p) Prepayments

Prepayments represent payments made in advance of the receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period. Prepayments are recognised as an asset upon payment and subsequently expensed over the period the payment covers.

#### (q) Non-current assets classified as held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as being met only when a sale is highly probable and the asset's sale is expected to be completed within one financial year from the date of classification. These assets are measured at the lower of their carrying amount and fair value less costs to sell and are not subject to depreciation. Refer to Note 11 for further information regarding non-current assets held for sale.

#### (r) Infrastructure, property, plant and equipment

The cost method of accounting has been used for all acquisitions of assets during the year. Cost is determined as the fair value of the assets given up at the date of acquisition plus any costs directly attributable to the acquisition. Fair value at acquisition is deemed to be equal to cost.

The cost of non-current assets constructed by City West Water includes all costs in respect of their construction. In the case of developer contributed assets where actual cost is not available, cost is calculated using a schedule of rates determined by the organisation based on historical cost information.

An asset is capitalised when it is probable that future economic benefits associated with the item will flow to City West Water and the item can be measured reliably. City West Water has a policy of capitalising labour costs which are directly attributable to capital projects.

The carrying amount of a replaced or abandoned asset is written off in the Statement of Profit or Loss and Other Comprehensive Income as an element of expenses. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Subsequent valuation of infrastructure, property, plant and equipment is at fair value. Fair value is determined as the price to sell an asset in an orderly transaction between market participants at measurement date. City West Water uses observable market data for fair valuation as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques, as follows:

- Level 1 quoted prices (unadjusted) in active markets for identical assets;
- Level 2 inputs based on observable market data (either directly using prices or indirectly derived from prices); and
- Level 3 inputs not based on observable market data.

An asset's fair value is determined with regard to the asset's highest and best use after due consideration is made for any legal or constructive restrictions imposed on the asset or public announcements or commitments made in relation to the intended use of the asset.

When an event or change in circumstances causes a transfer between input levels City West Water deems the transfer to occur at the end of the reporting period in which the event takes place.

For the year ended 30 June 2015

#### 1. Summary of significant accounting policies (continued)

#### Land and buildings

Land and buildings are measured at fair value. Fair value is determined by an independent valuer using direct comparison to market based transactions for comparable properties in comparable areas, or alternatively, the capitalisation of net income approach.

# Plant and equipment, motor vehicles and leasehold improvements

Plant and equipment, motor vehicles and leasehold improvements are measured initially at cost and subsequently at fair value less accumulated depreciation and impairment losses (if applicable).

#### Infrastructure

Infrastructure assets are measured initially at cost and subsequently at fair value less accumulated depreciation and impairment losses (if applicable). Fair value is determined using the discounted cash flow method.

#### Revaluation of non-current physical assets

Non-current physical assets are measured at fair value. A full revaluation normally occurs every five years, but may occur more frequently if fair value assessments indicate material changes in values. Independent valuers are used to conduct these scheduled revaluations. A full revaluation was performed during 2010-11 for the entire portfolio. In 2014-15 management applied Valuer-General Victoria indices to land and buildings and the movement was considered immaterial. Infrastructure assets are revalued each year using the income approach (discounted cash flow) method. Refer to Note 13(d) for a full explanation of the income approach (discounted cash flow) method.

Revaluation increases or decreases arise from differences between an asset's carrying value and fair value.

Net revaluation increments (where the carrying amount of an asset is increased as a result of a revaluation) are recognised in Other Comprehensive Income and accumulated in the equity section of the Balance Sheet in physical asset revaluation surplus, except that a net revaluation increase is recognised in the net result when it reverses a net revaluation decrease in respect of the same class of property, plant and equipment previously recognised as an expense in the net result.

Net revaluation decreases are recognised immediately as expenses in the net result, except to the extent that the net revaluation decrease is recognised in Other Comprehensive Income when a credit balance exists in physical asset revaluation surplus in respect of the same class of property, plant and equipment. The net revaluation decrease recognised in Other Comprehensive Income reduces the amount accumulated in the equity section of the Balance Sheet in physical asset revaluation surplus.

#### (s) Intangible assets

Intangible assets are initially recognised at cost and subsequently at cost less accumulated amortisation and impairment losses (if applicable). Intangible assets consists of software, water entitlement rights and lease rights.

The water entitlement rights embodied in intangible assets have an indefinite useful life and as such are not amortised. Instead they are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired.

#### LIABILITIES

#### (t) Payables

Payables are amounts which represent liabilities for goods and services provided to City West Water prior to the end of the financial year which are unpaid at the end of the financial year. These amounts are unsecured and are usually paid within 30 days of recognition.

#### (u) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost.

Any difference between the initial amount recognised (net of transaction costs) and the redemption amount is recognised in the Statement of Profit or Loss and Other Comprehensive Income over the period of the interest bearing liabilities using the effective interest method.

Borrowings are classified as current liabilities unless the organisation has an unconditional right to defer settlement of the liability for at least 12 months after the Balance Sheet date.

City West Water has classified borrowings which mature within 12 months as non-current on the basis that the organisation will and has the discretion to refinance or roll over these loans with the Treasury Corporation of Victoria pursuant to section 8 of the *Borrowings and Investment Powers Act 1987*. Borrowings known as 11am debt are classified as current borrowings.

City West Water's principal financial instruments are loans sourced from the Treasury Corporation of Victoria. These loans include overnight borrowings, floating rate notes, fixed rate loans and flexi loans and are used to meet working capital requirements and fund capital expenditure.



#### (v) Provisions

Provisions are recognised when the organisation has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows using a discount rate that reflects the time value of money and risks specific to the provision.

When some or all of the economic benefits required to settle a provision are expected to be received 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.

#### (w) Other liabilities

Advances and deposits represents amounts received from developers in advance of the provision of goods and services or as security refundable upon the expiration of a warranty period after developer works have been completed. Advances and deposits are recognised on receipt at nominal value.

Deferred developer reimbursements represents amounts payable to developers for additional works performed at City West Water's request. Reimbursements are payable to the developer on the expiration of a works warranty period. Deferred developer reimbursements are recognised on receipt at nominal value.

Unearned income represents payments received in advance of the provision of goods or services or any legal or constructive obligation required to be performed by City West Water to settle the terms of receipt of unearned income. Unearned income is recognised on receipt at nominal value.

#### (x) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, termination benefits, performance bonuses, annual leave and long service leave for services rendered to the reporting date.

#### (i) Wages, salaries annual leave and sick leave

Liabilities for wages and salaries including non-monetary benefits, annual leave and sick leave are recognised in the provision for employee benefits as current liabilities as the organisation does not have an unconditional right to defer settlement of these liabilities. Depending on the expectation of the timing of settlement, liabilities for wages, salaries, annual leave and sick leave are measured at:

- nominal value component that the organisation expects to settle wholly within 12 months; and
- present value component that the organisation does not expect to settle wholly within 12 months.

#### (ii) Long service leave

A liability for long service leave (LSL) is recognised in the provision for employee benefits.

Unconditional LSL is disclosed in the notes to the financial statements as a current liability even where the organisation does not expect to settle the liability within 12 months because it will not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The components of current LSL liability are measured at:

- nominal value component that the organisation expects to settle wholly within 12 months; and
- present value component that the organisation does not expect to settle wholly within 12 months.

Conditional LSL is disclosed as a non-current liability. In this case there is an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service. This non-current LSL liability is recognised at present value. Any gain or loss following revaluation of the present value of the non-current LSL liability is recognised as an income or expense.

#### (iii) Employee benefit on-costs

Employee benefit on-costs such as payroll tax, WorkCover premiums, Fringe Benefits Tax and superannuation are included in the provision for employee benefits.

#### (iv) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee decides to accept an offer of benefits in exchange for the termination of employment. The organisation recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

For the year ended 30 June 2015

#### 1. Summary of significant accounting policies (continued)

#### (v) Performance bonuses

Performance bonuses for the organisation's executive officers 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 terms of the contracts to balance date.

#### (y) Superannuation

All City West Water employees are members of either City West Water's defined benefit fund or an approved accumulation fund of their choice. The amount charged to the Statement of Profit or Loss and Other Comprehensive Income in respect of superannuation represents the contributions made by City West Water to superannuation funds for the current service of current staff.

Contributions to accumulation funds are made in accordance with the Superannuation Guarantee (Administration) Act 1992.

Contributions to the defined benefit fund are based on the relevant rules of the fund.

Defined benefit members receive lump sum benefits (or a pension in limited cases) on retirement, death, disablement or withdrawal from the plan. The defined benefit plan was closed to new members on 31 December 1994. An actuarial assessment of the organisation's defined benefit position is undertaken on an annual basis.

A liability or asset in respect of defined benefits superannuation is recognised and measured as the difference between the present value of employees' accrued benefits at reporting date and the net market value of the superannuation plan's assets at that date. The present value of accrued benefits is based on expected future payments which arise from membership of the plan to reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using rates of Commonwealth Government bonds with terms to maturity that match, as closely as possible, future estimated cash outflows. Changes in the net defined benefit superannuation liability or asset are recognised in profit before tax in the period in which they occur, except for changes resulting from actuarial gains or losses, which are recognised in Other Comprehensive Income in the period in which they occur.

#### (z) Dividend payable

As City West Water is owned by government, it is required to pay a dividend in accordance with a determination by the Treasurer of Victoria under the *Water Act 1989*. An obligation to pay a dividend only arises after a formal determination is made by the Treasurer following consultation between the Board, the relevant portfolio Minister and the Treasurer. As this process has not been finalised at balance date, the Balance Sheet does not include a provision for final dividend for the 2014-15 financial year.

#### (aa) Goods and Services Tax

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

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from or payable to the ATO is included with receivables or payables on the balance sheet.

Cash flows are presented on a gross basis inclusive of GST. The GST components of cash flows arising from investing or financing activities which are recoverable from or payable to the ATO are presented as operating cash flows.

Commitments and contingent assets and liabilities are also stated inclusive of GST (where applicable).

#### (ab) Financial instruments

A financial instrument is recognised when the organisation becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when contractual rights to the cash flows from the assets expire. Financial liabilities are de-recognised if the organisation's obligations specified in the contract expire, are discharged, or cancelled.

Financial instruments are initially measured at fair value. Subsequent to recognition financial instruments are measured as follows:

- trade receivables and other receivables are recorded at amortised cost less impairment; and
- all financial liabilities including borrowings and payables are measured at cost.

#### Impairment

At each balance date, the organisation assesses whether there is objective evidence that a financial asset is impaired and the amount outstanding will not be recovered in full.



#### (ac) Rounding of amounts

Amounts in the financial statements are rounded to the nearest thousand dollars or in certain cases to the nearest dollar.

#### EQUITY

#### (ad) Contributed equity

Additions to net assets which have been designated as contributed equity by the Minister for Finance are recognised as contributed equity. Other transfers that are in the nature of contributions or distributions have also been designated as distributions to or contributions by owners. Transfers of net assets arising from administrative restructurings are treated as distributions to or contributions by owners.

#### (ae) Physical asset revaluation surplus

Physical asset revaluation surplus is used to record revaluation increments and decrements in the value of non-current physical assets.

#### (af) Retained profits

Retained profits represents accumulated retained profits over the lifetime of the organisation.

#### **OTHER**

#### (ag) Commitments

Commitments for future expenditure includes operating and capital commitments arising from contracts. These commitments are disclosed by way of note at their nominal value inclusive of GST payable. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the Balance Sheet.

#### (ah) Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the Balance Sheet but are disclosed by way of note, and if quantifiable are measured at nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively where applicable.

For the year ended 30 June 2015

#### 2. Financial risk management objectives and policies

City West Water's activities expose it to a variety of financial risks, principally market risk, credit risk, and liquidity risk. The Board of Directors has overall responsibility for the establishment and oversight of City West Water's risk management framework. City West Water's principal financial instruments comprise:

- cash assets;
- · receivables (excluding statutory receivables);
- · payables (excluding statutory payables); and
- borrowings.

City West Water's principal financial instruments are loans sourced from the Treasury Corporation of Victoria (TCV). These loans include overnight borrowings, floating rate notes, fixed rate loans and flexi loans and are used to meet working capital requirements and fund capital expenditure. City West Water has other financial assets and liabilities such as receivables and payables which arise directly from its operating activities. City West Water's overall financial risk management strategy is to manage its financial risks within an environment that is in accordance with the risk criteria established by the Board of Directors. The General Manager, Corporate Services evaluates and implements risk mitigation strategies in consultation with the organisation's relevant departments. The main purpose of holding financial instruments is to prudently manage the organisation's financial risks within government policy parameters.

City West Water uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk and aging analysis for credit risk. All interest income earned by City West Water is generated by cash at bank or 11am (short term) deposit with TCV. All interest expenses incurred by City West Water relate to borrowings.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised with respect to each class of financial asset and financial liability above are disclosed in Note 1 to the financial statements.

#### Financial risk exposures

#### Market risk

Market risk is the risk that changes in market prices will affect the fair value of future cash flows of City West Water's financial instruments. Market risk is comprised of interest rate risk, foreign exchange risk and other price risk. City West Water's exposure to market risk is purely through interest rates.

City West Water's exposure to market interest rates relates primarily to its floating rate debt, rolling over of fixed rate debt and new borrowings. City West Water's borrowings are sourced from TCV and are managed within the range of Board and Treasurer approved limits. Interest rates and borrowing requirements are monitored regularly. City West Water manages its exposure to interest rate changes by holding a mix of fixed and floating rate debt as well as the use of flexi loans, which allows interest rates to be reset to coincide with regulatory price resets. City West Water's Treasury Risk Management Policy requires it to limit the proportion of floating rate debt to a maximum of 30 per cent of total debt. City West Water has minimal exposure to interest rate risk through cash holdings and manages its interest rate exposure on cash by investing its surplus funds with TCV.

City West Water has no exposure to foreign exchange rate risk or other price risk.

The table overleaf summarises the sensitivity of City West Water's financial assets and financial liabilities to interest rate risk.



#### Sensitivity analysis

2013-14		Interest rate risk			
		-0.5%	6	+0.59	%
Financial assets	Total \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Cash (Note 8) <sup>1</sup>	410	(101)	(101)	101	101
Receivables (Note 9, 12) <sup>2</sup>	88,721	-	-	-	-
Total financial assets	89,131	(101)	(101)	101	101
Financial liabilities					
Payables (Note 15) <sup>2</sup>	55,796	-	-	-	-
Borrowings (Note 16, 21) <sup>3</sup>	1,023,500	3,044	3,044	(3,044)	(3,044)
Advances and deposits (Note 20)	4,113	-	-	-	-
Deferred developer reimbursements (Note 20)	4,854	-	-	-	-
Other (Note 20)	281	-	-	-	-
Total financial liabilities	1,088,544	3,044	3,044	(3,044)	(3,044)
Total increase/(decrease)		2,943	2,943	(2,943)	(2,943)

2014-15		Interest rate risk			
	_	-0.5%	6	+0.59	%
Financial assets		Profit \$'000	Equity \$′000	Profit \$′000	Equity \$'000
Cash (Note 8) 1	526	(2)	(2)	2	2
Receivables (Note 9, 12) <sup>2</sup>	89,234	-	-	-	-
Total financial assets	89,760	(2)	(2)	2	2
Financial liabilities					
Payables (Note 15) <sup>2</sup>	50,786	-	-	-	-
Borrowings (Note 16, 21) <sup>3</sup>	1,056,700	3,616	3,616	(3,616)	(3,616)
Advances and deposits (Note 20)	4,238	-	-	-	-
Deferred developer reimbursements (Note 20)	6,802	-	-	-	-
Other (Note 20)	373	-	-	-	-
Total financial liabilities	1,118,899	3,616	3,616	(3,616)	(3,616)
Total increase/(decrease)		3,614	3,614	(3,614)	(3,614)

 $^{\scriptscriptstyle 1}$  Calculation is based on average cash holdings of \$0.5m (2013-14 \$20.2m) .

 $^{\rm 2}$  Does not include statutory receivables and payables.

<sup>3</sup> Calculation is based on new borrowings, loans refinanced and forward rate agreements struck during the year of \$723.2m (2013-14 \$608.8m).

For the year ended 30 June 2015

#### 2. Financial risk management objectives and policies (continued)

#### Credit risk

Credit risk is the risk of financial loss to City West Water as a result of a customer or counterparty to a financial instrument failing to meet contractual obligations. Credit risk arises principally in connection with City West Water's receivables.

City West Water's exposure to credit risk is influenced by the individual characteristics of each customer. City West Water's receivables balance consists of amounts due from a large number of residential customers as well as non-residential customers spread across a diverse range of industries. Receivables balances are monitored on an ongoing basis. Where applicable, collection action is taken to ensure that exposure to bad debt is minimised. City West Water has in place a policy and a procedure for the collection of overdue receivables.

City West Water's maximum exposure to credit risk is the carrying amount of receivables. Further information on City West Water's receivables policy is disclosed in Note 1(o).

Further analysis of City West Water's receivable credit risk is disclosed in Note 9.

#### Liquidity risk

Liquidity risk is the risk that City West Water will no longer be able to meet its financial obligations as they fall due. City West Water's policy is to pay its accounts payable liabilities within 30 days or, in the event of dispute, within 30 days from the date of resolution.

City West Water manages liquidity risk by maintaining adequate bank overdraft and TCV borrowing facilities, continuous monitoring of forecast inflows and outflows, and matching the maturity profile of financial assets and financial liabilities where appropriate.

City West Water's borrowings are sourced from TCV while surplus funds are also invested with TCV through 11am (short term) deposits.

#### Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement and for disclosure purposes.

The carrying values less any impairment provisions of trade receivables and payables are assumed to approximate their fair value due to their short term nature. The fair value of financial liabilities for disclosure purposes are estimated by discounting future contractual cash flows at the current market interest rate that is available to City West Water for similar financial instruments.

Refer to Note 32 for the carrying amounts and fair values of financial instruments.

#### **Capital management**

City West Water manages its capital by maintaining a prudent gearing level in order to provide the Victorian Government with adequate returns and to ensure it can fund its operations as a going concern.

City West Water's objective is to maintain its gearing ratio within the Essential Services Commission's benchmark ratio of 60 per cent. City West Water's gearing ratio (debt/(debt + equity)) for the year was 57.0 per cent compared to 58.3 per cent in 2013-14.

The only externally imposed capital requirements applying to City West Water are:

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



#### 3. Revenue and other income

	30 June 2015 \$'000	30 June 2014 \$'000
Sales revenue		
Service charges - water	88,460	87,278
Volume charges - water	236,286	234,616
Service charges - sewerage	102,333	97,829
Volume charges - sewage	101,819	100,614
Trade waste charges	33,838	35,064
Recycled water charges	5,574	5,285
Water trading revenue	1,375	1,021
Desalination cost returns <sup>1</sup>	184	-
Government Water Rebate provided to customers <sup>2</sup>	(36,741)	-
Total sales revenue	533,128	561,707
Other revenue		
Developer contributions	20,517	15,773
Developer contributed assets	19,120	13,391
Works and services provided to third parties	5,854	6,567
Interest	27	131
Fees and charges	14,514	10,799
Lease income	201	346
Other	882	379
Total other revenue	61,115	47,386
Total revenue	594,243	609,093
Other income		
Government grants <sup>3</sup>	4,750	1,135
Gain on sale of non-current physical assets	41	109
Total other income	4,791	1,244
-		
Total revenue and other income	599,034	610,337

<sup>1</sup> Desalination cost returns represents the required one off return to City West Water's customers for the early collection of desalination charges. The one off return was in addition to the repayment through City West Water's price freeze effective from 1 July 2012 – 30 June 2013 in order to return the full early collection of desalination charges to the organisation's customers. The early collection of desalination costs occurred as a result of a delay in the commissioning of the Victorian Desalination Plant in comparison to the cost assumed in the prices set by the Essential Services Commission in 2009 for Melbourne Water Corporation's bulk charges. The return of this money was cost neutral to City West Water as the repayments were fully funded through lower bulk charges to City West Water from Melbourne Water. As there are no further repayments expected to be made the provision for desalination cost returns was written back during 2014-15 resulting in the recognition of \$0.184m of revenue.

<sup>2</sup> As a result of an efficiency review of Victoria's urban water corporations, City West Water and the other metropolitan retailers included

a \$100 bill reduction for every residential customer with a water usage charge in the first water bill of the 2014-15 year.

<sup>3</sup> City West Water received government funding during the year for the following:

• aquifer storage and recovery feasibility at the organisation's West Werribee Dual Water Supply project;

- contribution towards improved water resource management;
- education program to improve the efficiency of cooling towers; and
- water efficiency grants for small businesses (Small Business Grant Scheme).

There are no unfulfilled conditions or other contingencies attached to these grants. City West Water did not benefit directly from any other form of government assistance.

For the year ended 30 June 2015

#### 4. Expenses

	30 June 2015 \$'000	30 June 2014 \$'000
Bulk charges		
Bulk water and sewerage charges	351,824	353,408
Rebates received from Melbourne Water Corporation <sup>1,2</sup>	(28,229)	-
Total bulk charges	323,595	353,408
Operating expenses		
Environmental Contribution	18,563	18,563
Employee benefits and agency labour	37,185	37,439
Operating contracts	32,211	31,472
Information technology	6,057	6,773
Licence fees	436	667
Billing and collection	6,441	6,073
Rental expenses relating to operating leases	3,531	341
Grants and water conservation initiatives	709	1,279
Facilities maintenance	2,381	1,519
Insurance	1,150	1,223
Depreciation - buildings	434	1,742
Depreciation - infrastructure	29,396	26,393
Depreciation - plant and equipment	3,673	3,851
Depreciation - motor vehicles	817	870
Depreciation - leasehold improvements	278	-
Amortisation - software	7,384	6,996
Energy	1,202	1,307
Asset write offs/write downs	1,155	33
Impaired receivables	1,906	2,625
Other	10,348	11,352
Total operating expenses	165,257	160,518
Total expenses	488,852	513,926
Finance expenses		
Interest expense	50,653	49,391
Financial accommodation levy	12,187	10,862
Bank charges	7	13
Other	45	-
Total finance expenses	62,892	60,266

<sup>1</sup> As a result of an efficiency review of Victoria's urban water corporations, City West Water received a rebate from Melbourne Water Corporation on bulk water and sewerage charges of \$27.467m during 2014-15.

<sup>2</sup> As a result of the *Clean Energy Legislation (Carbon Tax Repeal) Act 2014* City West Water received a rebate from Melbourne Water Corporation of \$0.762m during 2014-15.



#### 5. Income tax

	30 June 2015 \$'000	30 June 2014 \$'000
(a) Income tax expense		
Current tax	16,725	12,073
Deferred tax relating to temporary differences	(5,873)	(1,006)
Total income tax expense	10,852	11,067
Income tax expense is attributable to:		
Profit from continuing operations	10,852	11,067
Total income tax expense	10,852	11,067
Deferred income tax expense/(benefit) included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	(447)	416
Increase/(decrease) in deferred tax liabilities	(5,426)	(1,422)
Total deferred income tax expense/(benefit)	(5,873)	(1,006)
(b) Reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	47,290	36,145
Tax at the Australian tax rate of 30 per cent (2013-14 30 per cent)	14,187	10,844
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	925	553
Non-deductible depreciation	886	886
Additional deductible expenses/non-assessable income	(5,146)	(1,216)
Total income tax expense	10,852	11,067
(c) Deferred income tax recognised in Other Comprehensive Income		
Gain/(loss) on revaluation of infrastructure	19,071	16,020
Gain/(loss) on revaluation of land and buildings	669	-
Actuarial gain/(loss) on defined benefit superannuation plan	(193)	1,454
Total deferred income tax recognised in Other Comprehensive Income	19,547	17,474

For the year ended 30 June 2015

#### 6. Deferred tax assets and deferred tax liabilities

	30 June 2015 \$'000	30 June 2014 \$'000
(a) Deferred tax assets		
The balance of deferred tax assets comprises temporary differences attributable to:		
Amounts recognised in the Statement of Profit or Loss and Other Comprehensive Income		
Accrued expenses	21	26
Provisions	6,219	5,749
Amortisation of intellectual property	20	23
Defined benefit superannuation fund liability	12	-
Prepayments	18	45
Total deferred tax assets	6,290	5,843
Movements:		
Opening balance at the start of financial year	5,843	6,553
Credited/(charged) to the Statement of Profit or Loss and Other Comprehensive Income (Note 5a)	447	(416)
Credited/(charged) to equity	-	(294)
Closing balance at the end of financial year	6,290	5,843
Deferred tax assets expected to be recovered within 12 months	5,662	5,291
Deferred tax assets expected to be recovered after more than 12 months	628	552
Total deferred tax assets	6,290	5,843
Set off of deferred tax assets pursuant to set off provisions	(6,290)	(5,843)
Net deferred tax assets	-	-



	30 June 2015 \$'000	30 June 2014 \$'000
(b) Deferred tax liabilities		
The balance of deferred tax liabilities comprises temporary differences attributable to:		
Amounts recognised in the Statement of Profit or Loss and Other Comprehensive Income		
Fixed assets - depreciation	89,696	94,043
Developer contributed assets	62,371	63,256
Defined benefit superannuation fund asset	686	1,073
Amounts recognised in equity		
Land and buildings revaluation	10,035	9,366
Infrastructure assets revaluation	96,976	77,905
Total deferred tax liabilities	259,764	245,643
Movements:		
Opening balance at the start of the financial year	245,643	229,885
(Credited)/charged to the Statement of Profit or Loss and Other Comprehensive Income (Note 5a)	(5,426)	(1,422)
(Credited)/charged to equity	19,547	17,180
Closing balance at the end of financial year	259,764	245,643
Deferred tax liabilities expected to be settled within 12 months	669	-
Deferred tax liabilities expected to be settled after more than 12 months	259,095	245,643
Total deferred tax liabilities	259,764	245,643
Set off of deferred tax assets pursuant to set off provisions	(6,290)	(5,843)
Net deferred tax liabilities	253,474	239,800

For the year ended 30 June 2015

#### 7. Dividends

	30 June 2015 \$'000	30 June 2014 \$'000
Interim dividend paid during 2014-15 in respect of 2014-15	(4,200)	-
Final dividend paid during 2014-15 in respect of 2013-14	(11,400)	-
Final dividend paid during 2013-14 in respect of 2012-13		(4,700)
Total	(15,600)	(4,700)

As the 2014-15 final dividend has not been determined by the Treasurer it has not been provided for at reporting date. The Board's preliminary final dividend estimate is \$9.8m. Refer to Note 22(c) for dividend payments made during the year and to Note 1(z) for dividend policy.

#### 8. Current assets - Cash and cash equivalents

Cash at bank	403	254
Deposits at call	123	156
Total current assets - Cash and cash equivalents	526	410

#### 9. Current assets - Receivables

Unbilled receivables - contractual	58,007	58,506
Account receivables - contractual	35,217	33,840
Less: Provision for impaired contractual receivables <sup>1</sup>	(4,013)	(3,649)
Total current assets - Contractual receivables	89,211	88,697
Account receivables - statutory	1,396	1,743
Total current assets - Statutory receivables	1,396	1,743
Total current assets - Receivables	90,607	90,440

<sup>1</sup> As at 30 June 2015, contractual account receivables of the corporation with a nominal value of \$4.013m (2013-14 \$3.649m) were impaired. The individually impaired receivables relate to aged debts where it is considered that the recovery of the outstanding debt is less than likely.



	30 June 2015 \$'000	30 June 2014 \$'000
Contractual receivables not past due and not impaired 1	84,288	83,395
Contractual receivables past due but not impaired	4,923	5,302
Total current assets - Contractual receivables	89,211	88,697

Movements in the provision for impaired contractual receivables are as follows:

Opening balance at the start of the year	(3,649)	(2,658)
Provision for impaired contractual receivables recognised during the year	(2,524)	(3,579)
Contractual receivables written off during the year as uncollectible	2,160	2,588
Closing balance at the end of the year	(4,013)	(3,649)

As at 30 June 2015, contractual receivables of \$4.923m (2013-14 \$5.302m) were past due but not impaired. The ageing of these receivables is as follows:

30-59 days past due	3,051	3,610
60-89 days past due	787	750
90 days and greater past due	1,085	942
Contractual receivables past due but not impaired	4,923	5,302

#### 10. Current assets - Prepayments

Prepayments - general	1,585	2,394
Prepayment - Smart Water Fund	40	394
Total current assets - Prepayments	1,625	2,788

<sup>1</sup> In order to enhance readability, the layout of this note had been modified slightly from prior year layout. This has led to a change in the previously stated value for 2013-14 contractual receivables not past due and not impaired.

For the year ended 30 June 2015

#### 11. Current assets - Non-current assets classified as held for sale

	30 June 2015 \$'000	30 June 2014 \$'000
Land	11,143	-
Buildings	4,181	-
Total current assets - Non-current assets classified as held for sale	15,324	-

City West Water is in the process of selling its former head office site at St Albans Road, Sunshine following the relocation of its head office to Footscray. The sale is expected to be completed during 2015-16.

#### Fair value measurement prior to the decision for assets to be classified as held for sale

Prior to the decision to classify land and buildings as held for sale, fair value of specialised land was determined using the direct comparison method adjusted for Community Service Obligations (CSO's) due to the public purpose use of the land. Because a CSO is considered to be a significant unobservable input this is a Level 3 fair value measurement as per the fair value hierarchy set out in Note 1(r). Fair value of buildings was determined using the market based direct comparison approach. This is a Level 2 fair value hierarchy measurement as per the fair value hierarchy set out in Note 1(r).

#### Fair value measurement subsequent to the decision for assets to be classified as held for sale

Subsequent to the decision to classify assets as held for sale land and buildings have been measured 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. City West Water considers that the sale of these assets is highly probable and that the assets are available for immediate sale in their present condition. These assets are not depreciated while classified as held for sale. Prior to reclassification as land held for sale the CSO adjustment attributable to the land at St Albans Road was removed. As a result of the removal of this significant unobservable input land held for sale was transferred from a Level 3 fair value hierarchy asset to a Level 2 fair value hierarchy asset. As buildings do not contain significant unobservable inputs they remain classified as Level 2 fair value hierarchy assets after their transfer to assets held for sale.

#### 12. Non-current assets - Receivables

Receivables - Contractual 1	23	24
Total non-current assets - Receivables	23	24

<sup>1</sup> Non-current receivables - contractual are past due but not impaired.



### 13. Non-current assets - Infrastructure, property, plant and equipment

	30 June 2015 \$'000	30 June 2014 \$'000
Specialised land at fair value	20,848	29,762
Non-specialised land at fair value	3,742	3,742
Total land	24,590	33,504
Non-specialised buildings at fair value	7,275	9,754
less accumulated depreciation	(4,267)	(3,945)
Total buildings	3,008	5,809
Infrastructure assets at fair value	1,676,689	1,508,424
Total infrastructure	1,676,689	1,508,424
Plant and equipment at fair value	27,901	23,569
less accumulated depreciation	(21,732)	(18,706)
Total plant and equipment	6,169	4,863
Motor vehicles at fair value	4,130	4,532
less accumulated depreciation	(1,474)	(1,298)
Total motor vehicles	2,656	3,234
Leasehold improvements at fair value	6,040	-
less accumulated depreciation	(278)	-
Total leasehold improvements	5,762	-
Works in progress at cost	191,276	256,531
Total infrastructure, property, plant and equipment	1,910,150	1,812,365

For the year ended 30 June 2015

#### 13. Non-current assets – Infrastructure, property plant and equipment (continued)

#### 13(a) Infrastructure, property, plant and equipment by fair value hierarchy level

	- ·	Fair value measurement using:		
2013-14	Carrying Amount \$'000	Level 1 <sup>1</sup> \$'000	Level 2 <sup>2</sup> \$'000	Level 3 <sup>3</sup> \$'000
Freehold land at fair value	33,504	-	-	-
Non-specialised land		-	3,742	-
Specialised land		-	-	29,762
Non-specialised buildings at fair value	5,809	-	5,809	-
Infrastructure assets at fair value	1,508,424	-	-	1,508,424
Plant and equipment at fair value	4,863	-	-	4,863
Motor vehicles at fair value	3,234	-	-	3,234
Leasehold improvements at fair value		-	-	-
Total infrastructure, property, plant and equipment	1,555,834	-	9,551	1,546,283
2014-15				
Freehold land at fair value	24,590	-	-	-
Non-specialised land		-	3,742	-
Specialised land		-	-	20,848
Non-specialised buildings at fair value	3,008	-	3,008	-
Infrastructure assets at fair value	1,676,689	-	-	1,676,689
Plant and equipment at fair value	6,169	-	-	6,169
Motor vehicles at fair value	2,656	-	-	2,656
Leasehold improvements at fair value	5,762	_	-	5,762
Total infrastructure, property, plant and equipment	1,718,874	-	6,750	1,712,124

<sup>1</sup> Quoted prices (unadjusted) in active markets for identical assets.

<sup>2</sup> Inputs based on observable market data (either directly using prices or indirectly derived from prices).

 $^{\scriptscriptstyle 3}\,$  Inputs not based on observable market data.

There have been no transfers between levels during the period except for the transfer of specialised land associated with the former head office site in St Albans Road, Sunshine, which was transferred from Level 3 to Level 2 when reclassified to a non-current asset held for sale.



#### 13(b) Reconciliation of Level 3 fair value movements

2013-14	Specialised land \$'000	Infrastructure assets \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Leasehold improvements \$'000
Opening balance at 1 July 2013	29,762	1,432,827	8,034	3,054	-
Purchases (sales)	-	-	680	1,050	-
Transfers in (out) of Level 3	-	-	-	-	-
Developer contributed assets	-	13,354	-	-	-
Transfers	-	35,236	-	-	-
Gains or losses recognised in profit after income tax					
Depreciation	-	(26,393)	(3,851)	(870)	-
Impairment loss	-	-	-	-	-
Subtotal	-	(26,393)	(3,851)	(870)	-
Gains or losses recognised in Other Comprehensive Income					
Revaluation gain	-	53,400	-	-	-
Subtotal	-	53,400	-	-	-
Closing balance at 30 June 2014	29,762	1,508,424	4,863	3,234	-
2014-15					
Opening balance at 1 July 2014	29,762	1,508,424	4,863	3,234	-
Purchases (sales)	-	(805)	(291)	(581)	-
Transfers in (out) of Level 3	(11,143)	-	-	-	-
Developer contributed assets	-	19,079	-	-	-
Transfers	-	115,816	5,270	820	6,040
Gains or losses recognised profit after income tax					
Depreciation	-	(29,396)	(3,673)	(817)	(278)
Impairment loss	-	-	-	-	-
Subtotal	-	(29,396)	(3,673)	(817)	(278)
Gains or losses recognised in Other Comprehensive Income					
Revaluation gain	2,229	63,571	-	-	-
Subtotal	2,229	63,571	-	-	-
Closing balance at 30 June 2015	20,848	1,676,689	6,169	2,656	5,762

On 30 June 2015 City West Water transferred the specialised land that makes up its former head office site at St Albans Road, Sunshine from a Level 3 fair value hierarchy asset to a Level 2 fair value hierarchy asset. As the asset is for sale freehold, the Community Service Obligation (CSO) adjustment that was previously applied to the land has been removed. The CSO was a significant unobservable input that required the asset to previously be recorded as a Level 3 fair value hierarchy asset.

It is City West Water's policy to transfer assets between fair value hierarchy levels at the end of the current reporting period.

For the year ended 30 June 2015

#### 13. Non-current assets – Infrastructure, property plant and equipment (continued)

#### 13(c) Land and buildings

Non-specialised land is valued using the market based direct comparison method. Under this valuation method assets are compared to comparable sales of comparable assets. As nonspecialised land does not contain significant unobservable inputs these assets are classified as Level 2 fair value assets.

Specialised land is also valued using the direct comparison method, although it is adjusted for community service obligations (CSOs) to reflect the specialised nature of the land being valued. The CSO adjustment is a reflection of the valuer's assessment of the impact of restrictions associated with an asset to the extent that is also equally applicable to market participants. This approach is in light of the highest and best use consideration required for fair value measurement and takes into account the use of the asset that is physically possible, legally permissible and financially viable. As adjustments for CSOs are considered to be significant unobservable inputs specialised land is classified as a Level 3 fair value asset.

All buildings held by City West Water are non-specialised in nature and classified as Level 2 fair value assets under the market based direct comparison approach.

An asset's fair value is determined with regard to the asset's highest and best use after due consideration is made for any legal or constructive restrictions imposed on the asset or public announcements or commitments made in relation to the intended use of the asset.

An independent valuation of land and buildings was undertaken by a registered valuer, Karl Cundall of Valuelt Pty Ltd, on behalf of Valuer-General Victoria as at 30 June 2011. At 30 June 2015 management made an assessment against Valuer-General indices and determined that no material movement had occurred.

The historical carrying amount of land and buildings was \$1.740m (2013-14 \$2.297m) and \$8.745m (2013-14 \$5.809m) respectively.

#### 13(d) Infrastructure

Infrastructure is valued using the income approach (discounted cash flow) method. This method calculates fair value by discounting estimated future cash flows to their present value. The significant assumptions used in determining fair value at 30 June 2015 were:

- a nominal after tax discount rate range of 6.00 to 6.25 per cent (2013-14 6.25 to 6.50 per cent);
- long term inflation of 2.5 per cent per annum (2013-14 2.5 per cent per annum); and
- ten year valuation model life.

The 2014-15 valuation resulted in an increment of \$63.6m compared to an increment of \$53.4m in 2013-14.

The assumptions adopted in calculating fair value in this manner are considered to be significant unobservable inputs. As such, infrastructure is classified as a Level 3 fair value asset.

An asset's fair value is determined with regard to the asset's highest and best use after due consideration is made for any legal or constructive restrictions imposed on the asset or public announcements or commitments made in relation to the intended use of the asset. A full valuation of City West Water's infrastructure assets was performed by Deloitte as at 30 June 2015. The historical carrying amount of infrastructure was \$1,382.2m (2013-14 \$1,273.2m).

The rate used to discount free cash flows to their present value is based on assumptions that market participants would reasonably be expected to use in determining the fair value of the business after taking into account the market cost of debt and equity. The valuation estimate is also cross checked against the earnings and regulated asset value multiples at which comparable organisations are trading and recent transactions in comparable assets. The valuation of infrastructure assets is derived from the valuation estimate after allowing for working capital, noninfrastructure assets, deferred tax liabilities and borrowings.



The valuation of infrastructure assets has been determined in accordance with an independent valuation. Deloitte was engaged by City West Water as experts for this purpose. The valuation is at fair value based on the income approach (discounted cash flow) method. For the purpose of the opinion provided, fair value is defined as the amount at which an asset would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell.

City West Water considers this definition to be consistent with the definition of fair value as set out in AASB 13 *Fair Value Measurement* which defines fair value as the 'price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. Further, fair value as defined in AASB 13 is a concept of value which may or may not equal the 'purchase/ sale price' that could be obtained if the asset were sold to a special purchaser in an actual transaction in the open market.

Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source

2013-14

of material supply or sales, or to achieve cost savings or other synergies arising on business combinations which could only be enjoyed by the special purchaser.

The valuation of infrastructure assets is not premised on the existence of a special purchaser.

## 13(e) Plant, equipment, motor vehicles and leasehold improvements

Plant, equipment, motor vehicles and leasehold improvements are held at carrying value (depreciated replacement cost) which is fair value. When plant and equipment is specialised in use such that it is rarely sold other than as part of a going concern depreciated replacement cost is considered to be fair value. Unless there is market evidence that current replacement cost is significantly different to the original acquisition cost it is considered unlikely that depreciated replacement cost will be materially different from the existing carrying value.

There were no changes in valuation techniques throughout the year to 30 June 2015 except for those assets transferred to non-current assets classified as held for sale.

ASSET	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUT	RANGE <sup>1</sup> (WEIGHTED AVERAGE)	SENSITIVITY OF THE INPUT TO FAIR VALUE
Specialised land	Market approach	Community Service Obligation (CSO) adjustment	9% - 43% (23%)	A significant increase or decrease in a CSO adjustment would result in a significantly lower or higher fair value.
		Discount rate	6.25% - 6.50% (6.38%)	A significant increase or decrease in estimated discount rate would result in a significantly lower or higher fair value.
Infrastructure assets	Income approach (discounted cash flow) method	Inflation rate	2.50% (2.50%)	A significant increase or decrease the inflation rate would result in a significantly higher or lower fair value.
		Useful life	4 - 100 years (75.9 years)	A significant increase or decrease in the estimated useful life of an asset would result in a significantly higher or lower valuation.
Plant and Depreciated equipment replacement cost		Cost per unit		A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value.
		Useful life	3 - 20 years (7.2 years)	A significant increase or decrease in the estimated useful life of an asset would result in a significantly higher or lower valuation.
	Cost per unit		\$20,000 - \$95,000 (\$35,000)	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value.
Motor vehicles	Depreciated replacement cost	Useful life	5 – 15 years (5 years)	A significant increase or decrease in the estimated useful life of an asset would result in a significantly higher or lower valuation.

## 13(f) Description of significant unobservable inputs to Level 3 valuations

## <sup>1</sup> During 2014-15 an assessment of the useful lives of assets identified some assets which had useful lives outside the range previously estimated for that asset category. As a result the estimate of the useful life range of asset categories has been revised. Refer to Note 1(j).

Notes to and forming part of the Financial Statements (continued) For the year ended 30 June 2015

## 13. Non-current assets – Infrastructure, property plant and equipment (continued)

2014-15				
ASSET	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUT	RANGE <sup>1</sup> (WEIGHTED AVERAGE)	SENSITIVITY OF THE INPUT TO FAIR VALUE
Specialised land	Market approach	Community Service Obligation (CSO) adjustment	9% - 43% (23%)	A significant increase or decrease in a CSO adjustment would result in a significantly lower or higher fair value.
		Discount rate	6.00% - 6.25% (6.13%)	A significant increase or decrease in estimated discount rate would result in a significantly lower or higher fair value.
Infrastructure assets	Income approach (discounted cash flow) method	Inflation rate	2.50% (2.50%)	A significant increase or decrease the inflation rate would result in a significantly higher or lower fair value.
	now) method	Useful life	4 - 100 years (78.1 years)	A significant increase or decrease in the estimated useful life of an asset would result in a significantly higher or lower valuation.
Plant and Depreciated equipment replacement cost		Cost per unit		A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value.
		Useful life	3 - 50 years (7.6 years)	A significant increase or decrease in the estimated useful life of an asset would result in a significantly higher or lower valuation.
Motor vehicles	Depreciated	Cost per unit	\$2,000 - \$64,000 (\$33,000)	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value.
	replacement cost	Useful life	5 - 15 years (5 years)	A significant increase or decrease in the estimated useful life of an asset would result in a significantly higher or lower valuation.
l easehold	Depreciated	Cost per unit	\$5,000 - \$629,000 (\$208,000)	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value.
Leasenoid improvements	Depreciated replacement cost	Useful life	7 - 20 years (16.1 years)	A significant increase or decrease in the estimated useful life of an asset would result in a significantly higher or lower valuation.

<sup>1</sup> During 2014-15 an assessment of the useful lives of assets identified some assets which had useful lives outside the range previously estimated for that asset category. As a result the estimate of the useful life range of asset categories has been revised. Refer to Note 1(j).

# 13(g) Reconciliations

Reconciliations of the carrying amounts of each class of non-current assets at the beginning and end of the current and prior financial years are set out below.

	Specialised land	Non- specialised land	Non- specialised Buildings	Infrastructure	Plant and equipment	Motor Vehicles	Leasehold improvements	Works in progress	Total
	\$'000	\$,000	\$/000	000,\$	000,\$	\$,000	\$,000	000,\$	\$'000
2013-14									
Opening balance at 1 July 2013	29,762	3,742	7,531	1,432,827	8,034	3,054	ı	194,785	1,679,735
Additions	I		20	I	681	1,690	I	110,369	112,760
Developer contributed assets	I	ı	I	13,354	ı	ı	I	(13,354)	ı
Transfers	I		I	35,236		ı	I	(35,236)	
Revaluation (decrement)/ increment	ı	I	ı	53,400	ı	ı	I	I	53,400
Disposals	I	ı	I	ı	(1)	(640)	I	(33)	(674)
Depreciation expense	I	ı	(1,742)	(26,393)	(3,851)	(870)	I	I	(32,856)
Transfers to assets held for sale	I	I	1	1	I	I		1	
Closing balance at 30 June 2014	29,762	3,742	5,809	1,508,424	4,863	3,234		256,531	1,812,365
2014-15									
Opening balance at 1 July 2014	29,762	3,742	5,809	1,508,424	4,863	3,234	ı	256,531	1,812,365

# 5

2014-15									
Opening balance at 1 July 2014	29,762	3,742	5,809	1,508,424	4,863	3,234	ı	256,531	1,812,365
Additions	I	ı		I	ı	I		84,405	84,405
Developer contributed assets	ı	ı	ı	19,079	ı	ı	,	(19,079)	,
Transfers	ī	I	1,848	115,816	5,270	820	6,040	(130,551)	(757)
Revaluation (decrement)/ increment	2,229	I	ı	63,571	I	ı	I	I	65,800
Disposals <sup>1</sup>	I	ı	(34)	(805)	(291)	(581)		(30)	(1,741)
Depreciation expense	ı	ı	(434)	(29,396)	(3,673)	(817)	(278)	ı	(34,598)
Transfers to assets held for sale	(11,143)	I	(4,181)	I	I	1		ı	(15,324)
Closing balance at 30 June 2015	20,848	3,742	3,008	1,676,689	6,169	2,656	5,762	191,276	1,910,150
							-		

Disposals for 2014-15 includes the recognition of an impairment of \$1.090m of infrastructure and plant and equipment assets associated with the Altona Recycled Water Plant. The impairment was recognised as part of refurbishment work required to restart supply of recycled water from the plant.



For the year ended 30 June 2015

## 14. Non-current assets - Intangible assets

	30 June 2015 \$'000	30 June 2014 \$'000
Software at cost less accumulated amortisation	86,755 (38,294)	75,061 (31,023)
Total software	48,461	44,038
Water entitlements at cost	96,916	96,916
Other intangibles at cost	757	-
Works in progress at cost	31,441	31,391
Total intangible assets	177,575	172,345

## Software

Software assets are initially recognised at cost and subsequently recognised at cost less accumulated amortisation and impairment losses (if applicable).

## Water entitlements

Water entitlements have an indefinite useful life as they are held in perpetuity. As such they are not amortised. Instead they are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired. Testing at balance date found no indication of impairment of water entitlements.

## Other intangibles

Other intangibles are initially recognised at cost and subsequently recognised at cost less accumulated amortisation and impairment losses (if applicable).

## Reconciliations

Reconciliations of the carrying amounts of each class of intangible assets at the beginning and end of the current and prior financial years are set out overleaf.



	Software \$'000	Water entitlements <sup>1</sup> \$'000	Other intangibles \$'000	Works in progress \$'000	Total \$'000
2013-14					
Opening balance at 1 July 2013	48,277	96,916	-	12,860	158,053
Additions	-	-	-	21,288	21,288
Transfers	2,757	-	-	(2,757)	-
Disposals	-	-	-	-	-
Amortisation expense	(6,996)	-	-	-	(6,996)
Closing balance at 30 June 2014	44,038	96,916	-	31,391	172,345
2014-15					
Opening balance at 1 July 2014	44,038	96,916	-	31,391	172,345
Additions	-	-	-	11,939	11,939
Transfers	11,889	-	757	(11,889)	757
Disposals	(82)	-	-	-	(82)
Amortisation expense	(7,384)	-	-	-	(7,384)
Closing balance at 30 June 2015	48,461	96,916	757	31,441	177,575

<sup>1</sup> Water entitlements represents City West Water's bulk water entitlements held in Northern Victoria as a result of its investment in Stage 1 of the Goulburn-Murray Water Connections Project. The project was originally established in 2007 as the Northern Victoria Irrigation Renewal Project (NVIRP). On 1 July 2012 NVIRP was merged with Goulburn-Murray Water to form the Goulburn-Murray Water Connections Project. The metropolitan water retailers contributed \$300m to the \$1 billion Stage 1 investment. Stage 1 will generate long term average annual water savings of 225GL which will be shared equally between irrigators, the metropolitan water retailers and the environment. The carrying amount at balance date represents City West Water's share of contributions, net of the share of contributions from four regional urban water businesses with access to Melbourne's pooled entitlement.

For the year ended 30 June 2015

## 15. Current liabilities - Payables

	30 June 2015 \$'000	30 June 2014 \$'000
Toda contractor	22.010	20.102
Trade - contractual	32,819	38,103
Other - contractual	17,967	17,693
Total current liabilities - contractual payables	50,786	55,796
Trade - statutory	470	410
Other - statutory	3,059	2,835
Total current liabilities - statutory payables	3,529	3,245
Total current liabilities - Payables	54,315	59,041

In line with City West Water's terms of trade, all payables are expected to be settled within 30 days.

## 16. Current liabilities - Borrowings

Treasury Corporation of Victoria	64,200	101,000
Total current liabilities - Borrowings	64,200	101,000

Borrowings comprises both fixed and floating rate securities (refer Note 32).

No security has been provided in respect of any existing liability.

All of City West Water's borrowings are made through the Treasury Corporation of Victoria and are Government guaranteed pursuant to the *Borrowing and Investment Powers Act 1987*. City West Water paid an administration fee of \$1,186,700 (2013-14 \$1,059,607) for this facility.

## 17. Current liabilities - Current tax liability

Current tax liability	3,454	872
Total current liabilities - Current tax liability	3,454	872



## 18. Current liabilities - Other provisions

	30 June 2015 \$'000	30 June 2014 \$'000
Other provisions	2,401	2,255
Total current liabilities - Other provisions	2,401	2,255
Other provisions are made up of the following:	503	600
Insurance provision	583	660
Biosolids management and desludging of ATP lagoon	200	116
Desalination cost returns <sup>1</sup>	-	225
Relocation allowance	10	450
Other sundry provisions	1,608	804
Total current liabilities - Other provisions	2,401	2,255

<sup>1</sup> Desalination cost returns represents the required one off return to City West Water's customers for the early collection of desalination charges. The one off return is in addition to the repayment through City West Water's price freeze effective from 1 July 2012 - 30 June 2013 in order to return the full early collection of desalination charges from City West Water's customers. The early collection of desalination costs occurred as a result of a delay in the commissioning of the Victorian Desalination Plant in comparison to the cost assumed in the prices set by the Essential Services Commission in 2009 for Melbourne Water Corporation's bulk charges. The return of this money to customers is cost neutral to City West Water as the repayments are fully funded through lower bulk charges to City West Water from Melbourne Water. As there are no further repayments expected to be made the provision for desalination returns was written back during 2014-15.

#### Movement in other provisions

	Insurance \$'000	Biosolids/ desludge \$'000	Desalination cost returns \$'000	Relocation allowance \$'000	Other \$'000	Total \$'000
Carrying amount as at 1 July 2014	660	116	225	450	804	2,255
Additional provisions recognised	472	200	(184)	(93)	1,016	1,411
Payments/other sacrifices of economic benefit	(549)	(116)	(41)	(347)	(212)	(1,265)
Carrying amount as at 30 June 2015	583	200		10	1,608	2,401

For the year ended 30 June 2015

## 19. Current liabilities - Unearned income

	30 June 2015 \$'000	30 June 2014 \$'000
Unearned income	4,235	2,609
Total current liabilities - Unearned income	4,235	2,609

## 20. Current liabilities - Other

Advances and deposits	4,238	4,113
Deferred developer reimbursements	6,802	4,854
Other	373	281
Total current liabilities - Other	11,413	9,248

## 21. Non-current liabilities - Borrowings

Treasury Corporation of Victoria	992,500	922,500
Total non-current liabilities - Borrowings	992,500	922,500

Borrowings comprises both fixed and floating rate securities (refer Note 32).



## 22. Equity

	30 June 2015 \$'000	30 June 2014 \$'000
Contributed equity	217,608	217,608
Physical asset revaluation surplus	249,679	203,619
Retained profits	330,523	310,136
Total equity	797,810	731,363

## (a) Contributed equity

Contributed equity represents an amount equivalent to the net assets transferred to City West Water Limited from Melbourne Water Corporation on the formation of City West Water Limited on 1 January 1995 of \$196.988m plus the amount of paid up equity reclassified as contributed equity upon transition of City West Water Limited to a statutory authority known as City West Water Corporation on 1 July 2012 of \$20.620m, totalling \$217.608m.

## (b) Physical asset revaluation surplus

Physical asset revaluation surplus at the beginning of the financial year	203,619	166,239
Infrastructure assets revaluation, net of tax	44,500	37,380
Land and buildings revaluation, net of tax	1,560	-
Physical asset revaluation surplus at the end of the financial year	249,679	203,619
(c) Retained profits		
Retained profits at the beginning of the financial year	310,136	286,365
Profit after income tax expense	36,438	25,078
Interim dividend paid during 2014-15 in respect of 2014-15 (Note 7)	(4,200)	-
Final dividend paid during 2014-15 in respect of 2013-14 (Note 7)	(11,400)	-
Final dividend paid during 2013-14 in respect of 2012-13 (Note 7)	-	(4,700)
Actuarial gain/(loss) on defined benefit superannuation plan (net of tax)	(451)	3,393

Retained profits at the end of the financial year

330,523

310,136

For the year ended 30 June 2015

## 23. Responsible persons and executives

The relevant Minister and directors of City West Water are deemed to be responsible persons by Ministerial Direction pursuant to the provisions of the *Financial Management Act 1994*.

## **Responsible persons**

Persons who held the	positions of res	ponsible	persons at any	y time during	the financial	vear

The Hon. Lisa Neville MP	Minister for Environment, Climate Change and Water	4 December 2014 - 30 June 2015
The Hon. Peter Walsh MLA	Minister for Water	1 July 2014 - 3 December 2014
The Hon. Alan Stockdale	Chairman	1 July 2014 - 30 June 2015
Ms Anne Barker	Managing Director	1 July 2014 - 30 June 2015
Ms Debra Goodin	Director	1 July 2014 - 30 June 2015
Ms Vivienne Nguyen	Director	1 July 2014 - 30 June 2015
Ms Jan Begg	Director	1 July 2014 - 30 June 2015
Dr Peter McKeown	Director	1 July 2014 - 30 June 2015
Ms Fiona Pearse	Director	1 July 2014 - 30 June 2015
Mr Philip Clark	Director	1 July 2014 - 30 June 2015

#### Persons who held the positions of responsible persons at any time during the prior financial year

The Hon. Peter Walsh MLA	Minister for Water	1 July 2013 - 30 June 2014
The Hon. Alan Stockdale	Chairman	1 July 2013 - 30 June 2014
Ms Anne Barker	Managing Director	1 July 2013 - 30 June 2014
Ms Debra Goodin	Director	1 July 2013 - 30 June 2014
Ms Vivienne Nguyen	Director	1 October 2013 - 30 June 2014
Ms Jan Begg	Director	1 July 2013 - 30 June 2014
Dr Peter McKeown	Director	1 July 2013 - 30 June 2014
Ms Fiona Pearse	Director	1 July 2013 - 30 June 2014
Mr Philip Clark	Director	1 October 2013 - 30 June 2014
Prof. Marilyn Anderson	Director	1 July 2013 – 30 September 2013
Mr Derek Skues	Director	1 July 2013 – 30 September 2013

Amounts relating to the ministers are reported in the financial statements of the Department of Premier and Cabinet. Other relevant interests are declared in the Register of Members' Interests which each Member of Parliament completes.



Remuneration received or receivable by responsible persons in connection with the management of City West Water Corporation during the current and previous reporting periods is reported in the table below.

			30 June 2015 No.	30 June 2014 No.
\$		\$		
10,000	-	19,999	-	2
30,000	-	39,999	-	2
40,000	-	49,999	6	4
90,000	-	99,999	1	1
390,000	-	399,999	-	1
400,000	-	409,999	1	-
Total			8	10
			\$	\$
Total amo	ount	(whole dollars)	794,139	780,014

Other related transactions and loans requiring disclosure under the directions of the Minister for Finance are reported at Note 28 of this report.

## Executives

The number of executive officers other than responsible persons (as defined in FRD 21B *Responsible Person and Executive Officer Disclosures in the Financial Report*) and their total remuneration during the reporting period and the prior period are shown in the first two columns of the table overleaf in their relevant income bands. The base remuneration of executive officers is shown in the third and fourth columns. Base remuneration is exclusive of bonus payments, long service leave payments, redundancy payments and retirement benefits. Total annualised employee equivalent provides a measure of full time executive officers over the reporting period.

Several factors have affected total remuneration payable to executives over the year. A number of employment contracts were completed during the year and renegotiated and a number of executives received bonus payments during the year. These bonus payments depend on the terms of individual employment contracts and achievement of bonus Key Performance Indicators. This had an impact on total remuneration figures due to the inclusion of annual leave, long service leave and other payments.

For the year ended 30 June 2015

## 23. Responsible persons and executives (continued)

			Total remu	nuneration Base remuneration		neration
			30 June 2015 No.	30 June 2014 No.	30 June 2015 No.	30 June 2014 No.
\$		\$				
110,000	-	119,999	-	-	-	1
120,000	-	129,999	1	-	2	1
130,000	-	139,999	-	-	4	6
140,000	-	149,999	-	-	3	-
150,000	-	159,999	-	-	2	3
160,000	-	169,999	3	2	-	-
170,000	-	179,999	2	4	2	4
180,000	-	189,999	-	3	1	-
190,000	-	199,999	4	1	-	2
200,000	-	209,999	1	1	1	-
210,000	-	219,999	-	2	2	3
220,000	-	229,999	-	3	-	-
230,000	-	239,999	2	-	2	-
250,000	-	259,999	1	-	-	-
260,000	-	269,999	2	1	-	-
270,000	-	279,999	1	-	-	-
280,000	-	289,999	1	2	-	-
290,000	-	299,999	1	1	-	-
			19	20	19	20
Total annu	aliseo	d employee equivalent <sup>1</sup>	18.2	19.8	18.2	19.8
			\$	\$	\$	\$
Total amo	ount	(whole dollars)	4,072,362	4,243,018	3,177,043	3,260,470

<sup>1</sup> Annualised employee equivalent is based on working 38 ordinary hours per week over the reporting period.

The number of executives and AEE for 2013-14 has been restated to exclude an executive within the \$80,000 - \$89,999 band.



## Key management personnel compensation

Key management personnel (as defined in AASB 124 *Related Party Disclosures*) include the Managing Director and executive officers who have the authority and responsibility for planning, directing and controlling the activities of the organisation either directly or indirectly during the year.

	30 June 2015 \$'000	30 June 2014 \$'000
Short term employment benefits	2,079	1,834
Post employment benefits	121	163
Other long term benefits <sup>1</sup>	56	9
Total <sup>2</sup>	2,256	2,006
Total employees <sup>2</sup> (no.)	8	7

<sup>1</sup> Other long term benefits represents long service leave.

<sup>2</sup> Total compensation for 2013-14 has been restated to include total remuneration rather than base remuneration. Total employee numbers have also been restated to comply with the definition of key management personnel.

## Payments to other personnel

During the current reporting period and the previous reporting period, City West Water had no other personnel by way of contractors charged with significant management responsibilities.

## 24. Remuneration of auditor

Amounts received, or due and receivable by the auditor of City West Water for the audit of the financial report:

	30 June 2015 \$'000	30 June 2014 \$'000
Victorian Auditor-General's Office	131	128
Total auditor's remuneration	131	128

For the year ended 30 June 2015

## 25. Contingent assets and liabilities

## Quantifiable contingent assets

In the ordinary course of business, developers often provide a commitment to City West Water to construct water supply and sewerage assets. These assets are constructed within an agreed timeframe and upon completion are transferred to City West Water at no charge.

Currently there is approximately \$9.861m (2013-14 \$4.728m) of water supply assets under construction and a further \$9.950m (2013-14 \$4.640m) of water supply assets committed to for which construction is yet to begin. The value of sewerage assets under construction is approximately \$11.905m (2013-14 \$6.861m) with a further \$16.519m (2013-14 \$5.498m) committed to for which construction is yet to begin. Contingent upon the completion of these assets they will be transferred to City West Water, which will maintain them in perpetuity.

## Quantifiable contingent liabilities

Contingent on the completion of the above assets City West Water has a liability to reimburse developers an estimated \$7.620m (2013-14 \$3.552m) for water supply assets and \$14.356m (2013-14 \$2.386m) for sewerage assets for additional works constructed at City West Water's request. These reimbursements will occur either immediately on the completion of the assets or be deferred for an agreed period in accordance with the conditions of the agreement between City West Water and the developer.

This reimbursement together with future investment for urban growth by City West Water or developers will be recovered through a combination of new customer contributions plus service and usage charges from all customers. This is consistent with the Essential Services Commission's final determination for water and sewerage prices in June 2015 (for the 2015-16 year).

## Non-quantifiable contingent assets and liabilities

City West Water has legal claims pending arising out a number of contractual disputes associated with its capital program. Due to the uncertainty inherent in litigation an accurate assessment of any outcome is not possible. City West Water is of the view that further disclosure of these disputes may prejudice the position of the corporation.



## 26. Commitments for expenditure

## (a) Capital commitments

Total capital expenditure (inclusive of GST) contracted at balance date but not provided for on the Balance Sheet:

	30 June 2015 \$'000	30 June 2014 \$'000
Not later than one year	11,508	6,267
Later than one year but not later than five years		-
Total capital commitments	11,508	6,267

## (b) Intangible assets commitments

Total intangible assets expenditure (inclusive of GST) contracted for at balance date but not provided for on the Balance Sheet:

Not later than one year	4	-
Later than one year but not later than five years		-
Total intangible commitments	4	-

## (c) Lease commitments <sup>1</sup>

Total non-cancellable operating lease expenditure (inclusive of GST) contracted for at balance date but not provided for on the Balance Sheet:

Not later than one year	3,837	4
Later than one year but not later than five years	16,709	20
Later than five years	68,468	147
Total non-cancellable lease commitments	89,014	171

<sup>1</sup> Lease commitments are higher in 2014-15 than 2013-14 due to City West Water moving from its former site at Sunshine which was owned by the corporation to a leased head office in Footscray and two leased depots in Brooklyn and Kensington.

## (d) Other commitments <sup>1</sup>

Other expenditure commitments (inclusive of GST) at balance date not provided for on the Balance Sheet:

Later than one year but not later than five years		18,988
Total other commitments	18,979	37,551

<sup>1</sup> Contained within other commitments:

#### Smart Water Fund

The Smart Water Fund is jointly administered via an agreement between City West Water, South East Water, Yarra Valley Water, Melbourne Water and the Victorian Government with the objective of delivering collaborative research in water related fields. City West Water has an equal interest in the arrangement with the other organisations. The total contributions paid to the Smart Water Fund to date amount to \$8.170m (2013-14 \$8.170m). At balance date City West Water's share of unspent contributions to the fund amounts to \$0.040m (2013-14 \$0.394m) (Refer Note 10). City West Water expects to contribute a further \$0.416m (2013-14 \$0.425m) over the next two years in order to fund research and research related activities. The fund is expected to wind up in 2016-17.

#### **Environmental Contributions**

Consistent with the requirements of the Water Industry Act 1994 City West Water is committed to pay an Environmental Contribution of \$18.563m during the next year to the Department of Environment, Land, Water and Planning.

For the year ended 30 June 2015

## 27. Provision for employee benefits

## (a) Employee benefits and related oncost liabilities

	30 June 2015 \$'000	30 June 2014 \$'000
Current		
Annual leave unconditional and expected to be paid within 12 months	2,273	2,142
Annual leave unconditional and expected to be paid after 12 months	344	284
Long service leave unconditional and expected to be paid within 12 months	516	446
Long service leave unconditional and expected to be paid after 12 months	5,936	5,480
Other employee benefits	3,209	3,134
Provision for employee benefits - current	12,278	11,486
Non-current		
Long service leave conditional	2,036	1,773
Provision for employee benefits - non-current	2,036	1,773
Total employee benefits and related oncost liabilities	14,314	13,259

## (b) Superannuation

All City West Water employees are members of either City West Water's defined benefit fund or an approved accumulation fund of their choice. Defined benefit fund members receive lump sum benefits on retirement, death, disablement or withdrawal from the fund. Some defined benefit members are also eligible for pension benefits. All new members receive accumulation only benefits.

The majority of employees of City West Water are members of either the Equipsuper fund or the Vision Super fund. All new City West Water employees who are not already members of the Equipsuper defined benefit fund must join an accumulation fund.

City West Water contributed a total of \$3.7m (2013-14 \$3.4m) to various accumulation funds during the year.

## (c) Defined Benefit Superannuation

The Superannuation Industry (Supervision) (SIS) legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS regulations require an actuarial variation to be performed for each defined benefit superannuation plan every three years, or every year if the plan pays defined benefit pensions.

The plan's trustee is responsible for the governance of the plan. The trustee has a legal obligation to act solely in the best interests of plan beneficiaries. The trustee has the following roles:

- · administration of the plan and payment to the beneficiaries from plan assets when required;
- management and investment of the plan assets; and
- compliance with superannuation law and other applicable regulations.



## (c) Defined Benefit Superannuation (continued)

The prudential regulator, the Australian Prudential Regulation Authority (APRA), licenses and supervises regulated superannuation plans.

There are a number of risks to which the plan exposes the organisation. The more significant risks relating to the defined benefit plan are:

- investment risk the risk that investment returns will be lower than assumed and the organisation will need to increase contributions to offset this shortfall;
- salary growth risk the risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions; and
- legislative risk the risk that legislative changes could be made which increase the cost of providing the defined benefits.

The plan assets are invested by the trustee in a pool of assets with plans providing defined benefits for other employers. The assets have a benchmark weighting to equities of 50 per cent and therefore the plan has a significant concentration of equity market risk. However, within the equity investments the allocation both globally and across sectors is diversified.

There were no plan amendments affecting the defined benefits payable, curtailments or settlements during the year.

When actuarial gains or losses are made by the defined benefit fund these amounts are recognised in the Statement of Profit or Loss and Other Comprehensive Income as per AASB 19 *Employee Benefits* (refer Note 1(y)).

	30 June 2015 \$'000	30 June 2014 \$'000
Reconciliation of the net defined benefit liability/(asset)		
Net defined benefit liability/(asset) at the start of the year	(3,575)	979
Current service cost	879	915
Past service cost/curtailments	-	-
(Gain)/loss on settlements	-	-
Net interest	(126)	16
Actuarial return on plan assets less interest income	(1,876)	(2,680)
Actuarial (gains)/losses arising from changes in demographic assumptions	-	(133)
Actuarial (gains)/losses arising from changes in financial assumptions	2,008	(1,115)
Actuarial (gains)/losses arising from liability experience	513	(919)
Adjustment for effect of asset ceiling	-	-
Employer contributions	(109)	(638)
Net defined benefit liability/(asset) at end of year	(2,286)	(3,575)

For the year ended 30 June 2015

## 27. Provision for employee benefits (continued)

## (c) Defined Benefit Superannuation (continued)

	30 June 2015 \$'000	30 June 2014 \$'000
Reconciliation of the fair value of plan assets		
Fair value of plan assets at beginning of the year	31,178	27,128
Interest income	1,155	904
Actual return on plan assets less interest income	1,876	2,680
Employer contributions	109	638
Contributions by plan participants	290	301
Benefits paid	(3,620)	(210)
Taxes, premiums and expenses paid	(189)	(263)
Transfers in	-	-
Contributions to accumulation section	-	-
Settlements	-	-
Exchange rate changes		-
Fair value of plan assets at end of the year	30,799	31,178

Reconciliation of the defined benefit obligation		
Present value of defined benefit obligation at beginning of the year	27,603	28,107
Current service cost	879	915
Past service cost/curtailments	-	-
Gain/loss on settlements	-	-
Interest expense	1,029	920
Contributions by plan participants	290	301
Actuarial (gains)/losses arising from changes in demographic assumptions	-	(133)
Actuarial (gains)/losses arising from changes in financial assumptions	2,008	(1,115)
Actuarial (gains)/losses arising from liability experience	513	(919)
Benefits paid	(3,620)	(210)
Taxes, premiums and expenses paid	(189)	(263)
Transfers in	-	-
Contributions to accumulation section	-	-
Settlements	-	-
Exchange rate changes		-
Present value of defined benefit obligation at end of the year	28,513	27,603

The asset ceiling is the present value of any economic benefits available to City West Water in the form of refunds from the plan or reductions in future contributions to the plan. The asset ceiling has no impact on the defined benefit liability/(asset).



## (c) Defined Benefit Superannuation (continued)

## Fair value of plan assets

As at 30 June 2015	Total \$′000	Level 1 <sup>1</sup> \$'000	Level 2 <sup>2</sup> \$'000	Level 3 <sup>3</sup> \$'000
Cash and cash equivalents	-	-	-	-
Equity instruments	-	-	-	-
Debt instruments	-	-	-	-
Derivatives	-	-	-	-
Real estate	-	-	-	-
Investment funds	30,799	-	30,799	-
Asset backed securities	-	-	-	-
Structured debt	-	-	-	-
Total	30,799	-	30,799	-

<sup>1</sup> Quoted prices (unadjusted) in active markets for identical assets.

<sup>2</sup> Inputs based on observable market data (either directly using prices or indirectly derived from prices).

<sup>3</sup> Inputs not based on observable market data.

	30 June 2015	30 June 2014
The percentage invested in each asset class at reporting date is:		
Australian equity	29%	30%
International equity	25%	24%
Fixed income	11%	11%
Property	9%	9%
Growth alternatives	9%	8%
Defensive alternatives	9%	10%
Cash	8%	8%
Total	100%	100%

The fair value of plan assets includes no amounts relating to:

- any of City West Water's own financial instruments; or
- any property occupied by, or other assets used by City West Water.

For the year ended 30 June 2015

## 27. Provision for employee benefits (continued)

## (c) Defined Benefit Superannuation (continued)

Significant actuarial assumptions at reporting date:

	30 June 2015	30 June 2014
Assumptions to determine defined benefit cost		
Discount rate	3.8% p.a.	3.4% p.a.
Expected salary increase rate	4.0% p.a.	4.0% p.a.
Expected pension increase rate	n/a	n/a
Assumptions to determine defined benefit obligation		
Discount rate	3.1% p.a.	3.8% p.a.
Expected salary increase rate	4.0% p.a.	4.0% p.a.
Expected pension increase rate	nil	n/a

## Sensitivity analysis

The defined benefit obligation as at 30 June 2015 under several scenarios is presented below.

Scenario A and B relate to discount rate sensitivity. Scenario C and D relate to salary increase rate sensitivity.

Scenario A: 0.5 per cent p.a. lower discount rate assumption.

Scenario B: 0.5 per cent p.a. higher discount rate assumption.

Scenario C: 0.5 per cent p.a. lower salary increase rate assumption.

Scenario D: 0.5 per cent p.a. higher salary increase rate assumption.

	BASE CASE	SCENARIO A	SCENARIO B	SCENARIO C	SCENARIO D
		-0.5% p.a. discount rate	+0.5% p.a. discount rate	-0.5% p.a. salary increase rate	+0.5% p.a. salary increase rate
Discount rate	3.1% p.a.	2.6% p.a.	3.6% p.a.	3.1% p.a.	3.1% p.a.
Salary increase rate	4.0% p.a.	4.0% p.a.	4.0% p.a.	3.5% p.a.	4.5% p.a.
Defined benefit obligation <sup>1</sup> (\$'000)	28,513	29,938	27,178	27,167	29,935

<sup>1</sup> Includes contributions tax provision.

The defined benefit obligation has been recalculated by changing the assumptions as outlined above while retaining all other assumptions.

No asset and liability matching strategies have been adopted by the plan.

The Equipsuper Contribution and Funding Policy provides for a review of the financial position of the plan each six months as at 30 June and 31 December, with the contribution rate comprising a long term contribution rate and an adjustment to meet the financing objective of a funding ratio of 105 per cent.

The funding ratio is the ratio of assets to accrued liabilities, being the greater of vested benefits and the present value of past membership benefits.

Where the funding ratio is greater than 100 per cent the financing objective is to achieve a funding ratio of 105 per cent over five years. Where the funding ratio is less than 100 per cent the primary financing objective is to achieve 100 per cent over three years and 105 per cent over five years.



## (c) Defined Benefit Superannuation (continued)

In the most recent review of the financial position as at 31 December 2014 Equipsuper recommended a contribution rate of nil. The next review of the financial position and contribution rate is due as at 30 June 2015.

City West Water continues to contribute salary sacrifice contributions and at the required rates for accumulation members.

#### Expected contributions

Expected employer contributions for the year ending 30 June 2016 are \$0 (30 June 2015 \$0.439m).

## Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation as at 30 June 2015 is 9 years (30 June 2014, 9 years).

Expected benefit payments for the financial year ending on:

	(\$'000)
30 June 2016	1,548
30 June 2017	1,696
30 June 2018	2,072
30 June 2019	2,175
30 June 2020	2,311
Following five years	13,165

For the year ended 30 June 2015

## 28. Related party disclosure

## Directors

The names of persons who were Directors of City West Water at any time during the financial year are as follows: A. Stockdale, A. Barker, D. Goodin, V. Nguyen, J. Begg, P. McKeown, F. Pearse, and P. Clark.

## Remuneration and retirement benefits

Information regarding the remuneration of directors is reported at Note 23 of this report.

## Transactions with directors and Director related entities

Water and sewerage services were provided to directors and Director related entities for properties within City West Water's service area under normal commercial terms and conditions.

The Hon. Alan Stockdale is a strategic adviser to the CEO of Metro Trains Melbourne Pty Ltd. During the year City West Water paid \$4,400 (2013-14 \$798) to Metro Trains for site inspections with a further \$0 (2013-14 \$1,650) payable. In addition City West Water received \$23,067 (2013-14 \$0) from Metro Trains Melbourne for developer related costs.

Ms Anne Barker is Chair of the not-for-profit organisation Whitelion. During the year City West Water paid \$14,200 (2013-14 \$15,350) to Whitelion in donations and for services rendered.

Ms Anne Barker is a Director of the Water Services Association of Australia (WSAA). During the year City West Water paid \$222,304 (2013-14 \$205,290) to WSAA with a further \$0 (2013-14 \$4,400) outstanding. In addition the organisation received \$0 (2013-14 \$17,171) from WSAA.

Ms Anne Barker is a member of the advisory board of the University of Melbourne - Melbourne Sustainable Society Institute. During the year City West Water paid \$0 (2013-14 \$27,500) to the University of Melbourne for various surveys and studies.

Ms Anne Barker was Chair of the Smart Water Fund until the wind-down of the fund began on 31 January 2014. During the year City West Water received \$107,325 (2013-14 \$198,848) for secondment, office rent and incidentals, with a further \$4,271 (2013-14 \$95,153) receivable. In addition, City West Water made a contribution during the year to the Smart Water Fund of \$220,000 via a payment to Melbourne Water Corporation (2013-14 \$0).

Ms Jan Begg is a member of the Monash University Business and Management Department Advisory Board. In addition Dr Peter McKeown is a Senior Fellow of the Law Faculty of Monash University. During the year City West Water paid \$55,000 (2013-14 \$43,635) to Monash University as contributions to various studies being undertaken by the university.

Ms Jan Begg is an independent member of the Department of Education and Training Portfolio Audit and Risk Committee. During the year City West Water paid \$17,000 (2013-14 \$0) to the department in developer reimbursements for the Suzanne Corey High School, Werribee.

Ms Jan Begg is a member of the Melbourne Business School. During the year City West Water paid \$4,800 (2013-14 \$0) to the Melbourne Business School for attendance at courses.

Ms Debra Goodin was until 30 June 2013 the Chief Operating Officer of Spiire Australia Pty Ltd (a fully owned subsidiary of Downer EDI Limited). Ms Goodin was contracted to Downer EDI Limited through her management consulting business until December 2014.

During the year City West Water paid \$1,185 (2013-14 \$63,883) to Spiire with a further \$26,675 (2013-14 \$0) outstanding and payable for asset verification services. In addition City West Water received \$4,556 (2013-14 \$2,162) for application, acceptance and connection fees.

During the year City West Water paid Downer EDI Engineering Electrical Pty Ltd \$627 (2013-14 \$4,684) for service and calibration of gas detection equipment.

During the year City West Water paid Downer EDI Works Pty Ltd \$9,674,066 (2013-14 \$12,090,251) with a further \$40,850 (2013-14 \$0) outstanding and payable for design and construction of water main renewals. In addition City West Water received \$986 (2013-14 \$1,102) with a further \$1,896 (2013-14 \$0) outstanding and receivable from Downer EDI Works Pty Ltd for chargeable works.

Dr Peter McKeown has a family member who is a senior consultant for Jacobs Group (Australia). During the year City West Water paid \$327,096 (2013-14 \$279,572) to Jacobs Group for electrolysis maintenance with a further \$37,084 (2013-14 \$0) outstanding and payable.

Ms Vivienne Nguyen is a member of the Vietnamese Community in Australia (Vic Chapter) Inc. During the year City West Water received \$0 (2013-14 \$2,979) in developer related revenues from the organisation.

All directors make a contribution to Directors' Liability Insurance.

There were no further transactions with either directors or Director related entities during the reporting period other than payment for services referred to in Note 23 of this report.

Directors with related party interests are not involved in any relevant decision making processes.

#### Victorian Government

City West Water is subject to the provisions of the *Water Act 1989* and the *Water Industry Act 1994*. City West Water operates under specific legislation and is subject to independent economic regulation. City West Water operates under a Board of Directors appointed by the Victorian Government, and makes income tax equivalent payments and pays dividends to the Victorian Government.



## Department of Environment, Land, Water and Planning

City West Water bills and collects parks charges on behalf of the Department of Environment, Land, Water and Planning (DELWP). Due to the nature of the agent/principal relationship between City West Water and DELWP, City West Water does not recognise these amounts in its accounts. City West Water recognises an administration fee collected from DELWP relating to the billing and collection of parks charges as revenue.

City West Water makes various other payments to and receives other payments from DELWP which are recognised as revenue and expenses.

	30 June 2015 \$'000	30 June 2014 \$'000
Payments		
Environmental Contribution	18,563	18,563
Parks Charge collected on behalf of DELWP	41,540	39,107
Other	603	1
Receipts		
Billings and collection fee	1,864	1,909
Water conservation rebates	553	403
Administration fee on water conservation rebates	2	2
Retrofit of dual flush toilets funding	89	79
Other	132	12
Payables		
Parks Charge collected on behalf of DELWP	4	31
Other	-	21
Receivables		
Billings and collection fee	263	70
Water conservation rebates	94	5
Other	2,000	133

## Department of Treasury and Finance

The Department of Treasury and Finance, as State representative, monitors the implementation of City West Water's Corporate Plan in consultation with the Department of Environment, Land, Water and Planning.

Payments		
Dividend	15,600	4,700
Income tax equivalent	14,142	21,290
Financial Accommodation Levy	11,963	9,921
Licence fee	369	475
Payables		
Income tax equivalent	3,454	872
Financial Accommodation Levy	3,059	2,835

For the year ended 30 June 2015

## 28. Related party disclosure (continued)

## Treasury Corporation of Victoria

As required by the State Government pursuant to the *Borrowing and Investment Powers Act 1987*, City West Water's borrowings are sourced solely from the Treasury Corporation of Victoria.

	30 June 2015 \$'000	30 June 2014 \$'000
Payments		
Finance costs	49,192	46,452
Administration fees	1,187	1,060
Advisory services	6	25
Receipts		
Net borrowings during the year	33,200	96,000
Interest received	-	26
Payables		
Finance costs	17,540	17,295
Administration fees	426	398
Advisory services	-	6
Total borrowings	1,056,700	1,023,500
Receivables		
Interest receivable	1	-



## Melbourne Water Corporation

City West Water sources all its drinking water from Melbourne Water Corporation and the majority of its sewage is treated by Melbourne Water Corporation at the Western Treatment Plant.

City West Water bills and collects drainage charges as an agent for Melbourne Water. Due to the nature of the agent/principal relationship between City West Water and Melbourne Water, City West Water does not recognise these amounts in its accounts. City West Water recognises an administration fee collected from Melbourne Water relating to the billing and collection of drainage charges as revenue.

City West Water makes various other payments to and receives other payments from Melbourne Water which are recognised as revenue and expenses.

	30 June 2015 \$'000	30 June 2014 \$'000
Payments		
Bulk water and sewage charges	350,861	351,141
Drainage Charge collected on behalf of Melbourne Water	66,036	60,902
Property information statements	218	190
Other	138	479
Receipts		
Billings and collection fees	3,220	3,191
Government Water Rebate	27,467	-
Other	977	1,230
Payables		
Bulk water and sewage charges	7,997	7,339
Drainage Charge collected on behalf of Melbourne Water	1,914	1,509
Property information statements	109	104
Other	-	21
Receivables		
Billings and collection fees	197	70
Other	-	28

For the year ended 30 June 2015

## 28. Related party disclosure (continued)

## State Revenue Office

The State Revenue Office (SRO) is the Victorian Government's tax collection agency. The SRO administers Victoria's tax legislation and collects a range of taxes, duties and levies.

	30 June 2015 \$'000	30 June 2014 \$'000
Payments		
Land tax	64	28
Payroll tax	2,010	1,867
Unclaimed monies	212	298
Receipts		
Pension rebate	537	483
Payables		
Land tax	-	28
Payroll tax	164	165
Receivables		
Pension rebate	131	122

## Department of Health and Human Services

City West Water provides a number of services to the community including the administration of the pension rebate and Health Care Card schemes on behalf of the Department of Health and Human Services.

Payments		
Safe Drinking Water Levy	129	126
Receipts		
Pension rebate	22,032	21,095
Administration fee on pension rebate	202	209
Dialysis users rebate	20	19
Utility relief grant	302	273
Other	-	42
Receivables		
Pension rebate	3,026	2,927
Administration fee on pension rebate	19	21

## Other Victorian Government controlled entities

Water and sewerage services were provided to other government controlled entities for properties within City West Water's service area under normal commercial terms and conditions.



## 29. Economic dependency

The normal trading activities of City West Water depend to a significant extent on services relating to the acquisition of water and disposal of sewage currently supplied by Melbourne Water Corporation. During the financial year 2014-15 all drinking water supplies were sourced through this organisation and the majority of City West Water's sewage disposals were made through the same organisation. As no alternative suppliers currently exist this dependency is expected to continue into the future.

As required by the *Borrowing and Investment Powers Act 1987*, City West Water's borrowings are sourced solely from the Treasury Corporation of Victoria.

## 30. Ex gratia expenses

	30 June 2015 \$'000	30 June 2014 \$'000
Forgiveness or waiver of debt	984	623
Property damage payments	88	67
Other		3
Total ex gratia expenses	1,080	693

Ex gratia expense items greater than or equal to \$5,000 individually or in total are disclosed.

In exceptional circumstances City West Water may waive part of a customer's debt. This will occur at the discretion of the organisation when there has been a significant undetected leak on a customer's property, unexplained high usage on a customer's account, or in cases of financial hardship.

Property damage payments are made when City West Water agrees to compensate a customer for damage caused by a City West Water asset or the failure of a City West Water asset.

Ex gratia expenses are recognised as part of other expenses (refer Note 4).

For the year ended 30 June 2015

## 31. Reconciliation of profit after income tax to net cash inflow from operating activities

	30 June 2015 \$'000	30 June 2014 \$'000
Profit after income tax expense	36,438	25,078
Non-cash movements:		
Depreciation and amortisation of assets	41,982	39,852
Impaired receivables	2,524	3,579
Defined benefit superannuation fund expense	753	931
Net (gain)/loss on disposal of non-current physical assets	(41)	(109)
Asset write offs/write downs	1,155	33
Developer contributed assets	(19,120)	(13,391)
Movements in assets and liabilities:		
Decrease/(increase) in receivables	(2,690)	(19,557)
Decrease/(increase) in prepayments	1,163	(1,186)
Increase/(decrease) in payables	1,696	986
Increase/(decrease) in current tax liability	2,582	(9,217)
Increase/(decrease) in provision for employee benefits	1,055	884
Increase/(decrease) in defined benefit superannuation	(109)	(638)
Increase/(decrease) in other provisions	146	(3,431)
Increase/(decrease) in unearned income	1,626	(256)
Increase/(decrease) in deferred tax liabilities	(5,872)	(1,006)
Increase/(decrease) in other liabilities	217	(3,328)
Net cash provided by operating activities	63,505	19,224
net cash provided by operating activities		19,224



## 32. Financial instruments

## Interest rate risk

The table below sets out City West Water's exposure to interest rate risk by outlining the effective weighted average interest rate for each class of financial asset and financial liability and its maturity.

Exposure arises predominantly from assets and liabilities bearing variable interest rates and fixed rate borrowings which mature during the year.

2013-14	Weighted average interest rate	1 Year or less \$'000	Over 1 Year \$'000	Non-interest bearing \$'000	Total \$'000
Financial assets					
Cash and cash equivalents (Note 8)	1.07%	410	-	-	410
Receivables (Note 9, 12) <sup>1</sup>		-	-	88,721	88,721
Total financial assets	_	410	-	88,721	89,131
Financial liabilities					
Payables (Note 15) <sup>1</sup>		-	-	55,796	55,796
Borrowings - fixed (Note 16, 21)	5.18%	50,000	862,500	-	912,500
Borrowings - floating (Note 16, 21)	2.77%	51,000	60,000	-	111,000
Advances and deposits (Note 20)		-	-	4,113	4,113
Deferred developer reimbursements (Note 20)		-	-	4,854	4,854
Other (Note 20)	_	-	-	281	281
Total financial liabilities	_	101,000	922,500	65,044	1,088,544
2014-15					
Financial assets					
Cash and cash equivalents (Note 8)	0.84%	526	-	-	526
Receivables (Note 9, 12) <sup>1</sup>	0.0170	-	-	89,234	89,234
Total financial assets	_	526	-	89,234	89,760
Financial liabilities					
Payables (Note 15) <sup>1</sup>		-	-	50,786	50,786
Borrowings - fixed (Note 16, 21)	4.88%	60,000	932,500	-	992,500
Borrowings - floating (Note 16, 21)	2.43%	4,200	60,000	-	64,200
Advances and deposits (Note 20)		-	-	4,238	4,238
Deferred developer reimbursements (Note 20)		-	-	6,802	6,802
Other (Note 20)	_	-	-	373	373

64,200

992,500

62,199

1,118,899

**Total financial liabilities** 

<sup>1</sup> Does not include statutory receivables or payables.

For the year ended 30 June 2015

## 32. Financial instruments (continued)

Consistent with its interest rate risk management policy City West Water entered into a number of forward rate settlements during the year to manage its interest rate risk exposure. There was one outstanding forward rate agreement as at balance date.

#### Credit risk

City West Water's maximum exposure to credit risk is represented by the carrying amount of its financial assets in the balance sheet.

## Categorisation of financial instruments

2013-14	Contractual financial assets - loans and receivables	Contractual financial liabilities at amortised cost
	\$′000	\$'000
Financial assets		
Cash and cash equivalents (Note 8)	410	-
Receivables (Note 9, 12) <sup>1</sup>	88,721	-
Total financial assets	89,131	-
Financial liabilities		
Payables (Note 15) <sup>1</sup>	-	55,796
Borrowings - fixed (Note 16, 21)	-	912,500
Borrowings - floating (Note 16, 21)	-	111,000
Advances and deposits (Note 20)	-	4,113
Deferred developer reimbursements (Note 20)	-	4,854
Other (Note 20)	-	281
Total financial liabilities		1,088,544

## 2014-15

Financial assets		
Cash and cash equivalents (Note 8)	526	-
Receivables (Note 9, 12) <sup>1</sup>	89,234	-
Total financial assets	89,760	-
Financial liabilities		

Payables (Note 15) <sup>1</sup>	-	50,786
Borrowings - fixed (Note 16, 21)	-	992,500
Borrowings - floating (Note 16, 21)	-	64,200
Advances and deposits (Note 20)	-	4,238
Deferred developer reimbursements (Note 20)	-	6,802
Other (Note 20)	-	373
Total financial liabilities	-	1,118,899

<sup>1</sup> Does not include statutory receivables or payables.



## Credit quality of financial assets that are neither past due nor impaired

2013-14	Government agencies \$'000	Other \$'000
Cash and cash equivalents (Note 8)	410	-
Receivables (Note 9, 12) <sup>1</sup>		88,721
Total	410	88,721
2014-15		
Cash and cash equivalents (Note 8)	526	-
Receivables (Note 9, 12) <sup>1</sup>	<u> </u>	89,234
Total	526	89,234

<sup>1</sup> Does not include statutory receivables.

## Ageing analysis of financial assets

## 2013-14

		Not past	Past due and not impaired			
	Carrying amount \$'000	due and not impaired \$'000	30-59 days \$'000	60-89 days \$'000	Greater than 90 days \$'000	
Receivables (Note 9) 1	88,697	83,395	3,610	750	942	
Other receivables (Note 12)	24		-	-	24	
Total	88,721	83,395	3,610	750	966	
2014-15						
Receivables (Note 9) <sup>1</sup>	89,211	84,288	3,051	787	1,085	
Other receivables (Note 12)	23		-	-	23	
Total	89,234	84,288	3,051	787	1,108	

<sup>1</sup> Does not include statutory receivables.

## Ageing analysis of financial liabilities

2013-14	Carrying amount \$'000	Current (less than three months) \$'000
Payables (Note 15) 1	55,796	55,796
Total	55,796	55,796
2014-15		
Payables (Note 15) <sup>1</sup>	50,786	50,786
Total	50,786	50,786

<sup>1</sup> Does not include statutory payables.

For the year ended 30 June 2015

## 32. Financial instruments (continued)

## Comparison between carrying amount and fair value

2013-14	Carrying amount \$′000	Fair value \$'000
Financial assets		
Cash and cash equivalents (Note 8)	410	410
Receivables (Note 9, 12) <sup>1</sup>	88,721	88,721
Total financial assets	89,131	89,131
Financial liabilities		
Payables (Note 15) <sup>1</sup>	55,796	55,796
Borrowings - fixed (Note 16, 21)	912,500	1,004,292
Borrowings - floating (Note 16, 21)	111,000	111,617
Advances and deposits (Note 20)	4,113	4,113
Deferred developer reimbursements (Note 20)	4,854	4,854
Other (Note 20)	281	281
Total financial liabilities	1,088,544	1,180,953
2014-15		
Financial assets		
Cash and cash equivalents (Note 8)	526	526
Receivables (Note 9, 12) <sup>1</sup>	89,234	89,234
Total financial assets	89,760	89,760
Financial liabilities		
Payables (Note 15) <sup>1</sup>	50,786	50,786
	,	,
Borrowings - fixed (Note 16, 21)	992,500	1,100,505
Borrowings - floating (Note 16, 21)	64,200	64,834
Advances and deposits (Note 20)	4,238	4,238
Deferred developer reimbursements (Note 20)	6,802	6,802
Other (Note 20)	373	373

#### **Total financial liabilities**

<sup>1</sup> Does not include statutory receivables or payables.

Net fair value of financial instruments is determined on the following bases:

• Cash, receivables, accounts payable and deposits are valued at their carrying amounts as this is considered to be fair value. Borrowings are valued by discounting expected future cash flows at the yield offered by the Treasury Corporation of Victoria as at 30 June 2015.

1,118,899

1,227,538



## Fair value hierarchy measurements

		Fair valu	e measurement using	<b>j</b> :
2012 14	Carrying	Level 1 <sup>1</sup>	Level 2 <sup>2</sup>	Level 3 <sup>3</sup>
2013-14	amount \$'000	\$'000	\$'000	\$'000
Financial assets				
Cash and cash equivalents (Note 8)	410	410	-	-
Receivables (Note 9, 12) <sup>4</sup>			88,721	-
Total financial assets	89,131	410	88,721	-
Financial liabilities				
Payables (Note 15) <sup>4</sup>	55,796	-	55,796	-
Borrowings - fixed (Note 16, 21)	912,500	-	1,004,292	-
Borrowings - floating (Note 16, 21)	111,000	-	111,617	-
Advances and deposits (Note 20)	4,113	-	4,113	-
Deferred developer reimbursements (Note 20)	4,854	-	4,854	-
Other (Note 20)	281	-	281	-
Total financial liabilities	1,088,544	-	1,180,953	-
2014-15				
Financial assets				
Cash and cash equivalents (Note 8)	526	526	-	-
Receivables (Note 9, 12) <sup>4</sup>	89,234	-	89,234	-
Total financial assets	89,760	526	89,234	-
Financial liabilities				
Payables (Note 15) <sup>4</sup>	50,786	_	50,786	-
Borrowings - fixed (Note 16, 21)	992,500	_	1,100,505	-
Borrowings - floating (Note 16, 21)	64,200	-	64,834	
Advances and deposits (Note 20)	4,238	-	4,238	-
Deferred developer reimbursements (Note 20)	6,802	-	6,802	-
Other (Note 20)	373	-	373	-
Total financial liabilities	1,118,899		1,227,538	-

<sup>1</sup> Quoted prices (unadjusted) in active markets for identical assets.

<sup>2</sup> Inputs based on observable market data (either directly using prices or indirectly derived from prices).

<sup>3</sup> Inputs not based on observable market data.

<sup>4</sup> Does not include statutory receivables or payables.

Net fair value of financial instruments is determined on the following bases:

- cash, receivables, accounts payable and deposits are valued at their carrying amounts as this is considered to be fair value;
- Borrowings are valued by discounting the expected future cash flows at the yield offered by the Treasury Corporation of Victoria as at 30 June 2015.

There were no transfers between levels during the year.

City West Water's policy is to recognise transfers between fair value hierarchy levels at the end of the reporting period.

For the year ended 30 June 2015

## 33. Matters subsequent to the end of the financial year

On 8 April 2015 the Minister for Environment, Climate Change and Water, the Hon. Lisa Neville MP, announced a review of all 135 Victorian water corporation board Director positions. Expressions of interest were invited during April and May 2015 with new boards to be in place by 1 October 2015. Water corporations remain governed by a properly constituted Board of Directors and will do so following 1 October 2015 when any new appointments are due to begin.



# Statutory Certification

The attached financial statements for City West Water Corporation (the corporation) have been prepared in accordance with Standing Direction 4.2 of the *Financial Management Act 1994*, and applicable Financial Reporting Directions, Australian Accounting Standards including Interpretations and other mandatory professional reporting requirements.

We state that in our opinion the information set out in the Statement of Profit or Loss and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and accompanying notes presents fairly the financial transactions during the year ended 30 June 2015 and the financial position of the corporation as at 30 June 2015.

At the time of signing we are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.

This financial report was authorised for release by the Board of Directors on 30 September 2015.

noble

The Hon. Alan Stockdale Chairman

Melbourne 30 September 2015

Anne Barker Managing Director

Sean Crees General Manager, Corporate Services



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## INDEPENDENT AUDITOR'S REPORT

## To the Board Members, City West Water Corporation

#### The Financial Report

The accompanying financial report for the year ended 30 June 2015 of the City West Water Corporation which comprises the statement of profit or loss and other comprehensive income, balance sheet, statement of changes in equity, statement of cash flows, notes comprising a summary of significant accounting policies and other explanatory information, and the statutory certification has been audited.

## The Board Members' Responsibility for the Financial Report

The board members of the City West Water Corporation are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the board members determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the board members, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.



#### Independent Auditor's Report (continued)

## Independence

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

#### Basis for Qualified Opinion

As stated in Note 1(r) and Note 13, City West Water Corporation measures the fair value of its infrastructure assets using the income approach (discounted cash flow) method in accordance with the requirements of AASB 13 *Fair Value Measurement* and the Financial Reporting Direction 103F *Non-Current Physical Assets*.

My audit identified an error in the fair value of infrastructure assets because City West Water Corporation has inappropriately accounted for deferred tax benefits in their fair value calculation, which constitutes a departure from AASB 13 *Fair Value Measurement*.

The error in the fair value model overstates the fair value of infrastructure assets and the infrastructure assets revaluation reserve by an estimated \$161.9 million as at 30 June 2015 (an estimated \$155.0 million at 30 June 2014). This error has a consequential impact on depreciation – infrastructure expense, income tax expense, current tax liability and deferred tax liabilities for the year ending 30 June 2015. The effects of this error on these amounts have not been determined as it is not practicable to do so.

#### Qualified Opinion

In my opinion, except for the effect or possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial report presents fairly, in all material respects, the financial position of the City West Water Corporation as at 30 June 2015, its financial performance and cash flows for the year then ended in accordance with applicable Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*.

Dr Peter Frost Acting Auditor-General

MELBOURNE 16 October 2015

Auditing in the Public Interest

# Appendix 1 - Disclosure Index

City West Water Corporation's 2014-15 Annual Report is prepared in accordance with all relevant Victorian legislation and pronouncements. This index has been prepared to facilitate identification of City West Water's compliance with statutory disclosure requirements.

LEGISLATION	DISCLOSURE REQUIRED	PAGE
Charter and purp	oose	
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FRD 22F	Purpose, functions, powers and duties	5
FRD 22F	Initiatives and key achievements	12
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Management an	d structure	I
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FRD 22F	Statement of workforce data	13
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FRD 22F	Major changes or factors affecting performance	14
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FRD 22F	Environmental performance	18-19
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FRD 22F	Details of consultancies under \$10,000	16
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## Appendix 1 - Disclosure Index (continued)

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FRD 103E	Non-financial physical assets	69-75
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Building Act 199	3	
Protected Disclos	sure Act 2012	
Victorian Industr	y Participation Policy Act 2003	
Financial Manag	nement Act 1994	

# Appendix 2 - Key Performance Indicators

ECONOMIC TARGETS				
	2015 Actual	2015 Target	Variance (%)	2014 Actual
Profit before tax (\$m)	47.3	32.5	45.5	36.1
Debt > 90 days overdue (\$m)	4.1	3.6	(13.9)	3.8
Operating expenditure (\$m) - (excluding depreciation and Environmental Contribution)	105.4	104.9	(0.5)	102.7
Capital expenditure (\$m)	77.2	105.0	26.5	120.6
Gearing - (debt / (debt + equity))	57.0	60.0	5.0	58.3
SOCIAL TARGETS				
ESC regulated standards				
Customers receiving more than five unplanned water supply interruptions in a year (No.)	0	72	100.0	0
Customers receiving more than three unplanned sewerage interruptions in a year (No.)	0	0	0.0	0
Unplanned water supply interruptions (per 100km)	28.3	54.5	48.1	30.1
Water main breaks per 100km of water main (No.)	37.9	62.4	39.3	41.3
Average time to rectify a sewer blockage (mins)	118.6	150.0	20.9	117.5
Planned water supply interruptions restored within 5 hours (%)	98.7	93.2	5.9	98.8
Average unplanned customer minutes off water supply (minutes)	12.8	34.8	63.2	13.7
Average planned customer minutes off water supply (minutes)	7.4	9.6	22.9	9.4
Average frequency of unplanned water supply interruptions (No.)	0.114	0.278	59.0	0.120
Average frequency of planned water supply interruptions (No.)	0.064	0.067	4.5	0.076
Correspondence answered within 10 working days (%)	100.0	100.0	0.0	100.0
Average time taken to attend bursts and leaks (priority 1) (minutes)	25.2	24.5	(2.9)	21.3
Average time taken to attend bursts and leaks (priority 2) (minutes)	32.7	45.0	27.3	32.3
Average time taken to attend bursts and leaks (priority 3) (minutes)	196.4	313.8	37.4	155.0
Average time to rectify water faults (days)	0.7	1.1	36.4	0.7
Average duration of planned water supply interruptions (mins)	115.4	144.7	20.2	122.5
Complaints to the Energy and Water Ombudsman Victoria (per 1,000 customers)	0.811	0.540	(50.2)	0.816
Priority 1 bursts responded to within one hour (%)	99.1	99.8	(0.7)	100.0
Sewer spills within a house contained within one hour of notification (%)	100.0	100.0	0.0	100.0
Emergency calls answered within 30 seconds (%)	90.8	91.7	(1.0)	92.4
Account enquiries answered within 30 seconds (%)	80.8	80.6	0.2	80.9
Calls to Connections and Metering answered within 30 seconds (%)	93.4	80.6	15.9	90.5
OTHER TARGETS				
Number of customers receiving three sewer blockages in a year (No.)	2	21	90.5	1
ISO 9001: 2008 (Quality)	Retained	Retain	-	Retained
E.coli compliance	100.0	98.0	2.0	100.0
Safe drinking water standards	100.0	100.0	0.0	100.0
Recycled water standards - Class A	n/a	100.0	n/a	100.0
Recycled water standards - Class B	n/a	100.0	n/a	100.0
Customers receiving five unplanned water supply interruptions in a year (%)	0	369	100.0	0

Further key performance indicators, including environmental indicators, are reported in the Report of Operations and the Performance Report sections of this report.



## Appendix 3 - Bulk Water Entitlement Reporting

The formerly pooled entitlements held jointly with Yarra Valley Water Corporation and South East Water Corporation were disaggregated effective 1 July 2015. As such City West Water holds new individual delivery entitlements to the water resources of the Greater Yarra System - Thomson River Pool (managed by Melbourne Water Corporation), the Victorian Desalination Project (owned and maintained by AquaSure under contract with the Victorian Government) and the Murray and Goulburn river systems (managed by Goulburn-Murray Water Corporation). Each of these entitlements with the exception of the Victorian Desalination Project allows City West Water to carry unused water allocations over from one year to the next.

REPORTING REQUIREMENT	GREATER YARRA SYSTEM	VICTORIAN	GOULBURN	MURRAY
	– THOMSON RIVER POOL <sup>1</sup>	DESALINATION PROJECT <sup>2</sup>	SYSTEM <sup>3</sup>	RIVER ⁴
Amount of water taken	clause 16.1(a) 107,337ML	clause 13.1(a) 0ML ⁵	clause 14.1(b) 0ML	n/a
Annual water allocation made available	clause 16.1(b)	n/a	clause 14.1(c)	clause 11.1(a)
A: Carryover as at 1-7-14	202,016ML		8,155ML	4,005ML <sup>6</sup>
Annual water allocation made available	clause 16.1(b)	n/a	clause 14.1(c)	clause 11.1(a)
B: Allocation over 2014-15	87,874ML		7,033ML	4,756ML <sup>7</sup>
Annual water allocation made available	clause 16.1(b)	n/a	clause 14.1(c)	clause 11.1(a)
C: Carryover as at 1-7-15	173,368ML <sup>8</sup>		6,829ML <sup>9</sup>	4,606ML <sup>10</sup>
Compliance with entitlement volume	clause 16.1(c) 107,337ML <sup>11</sup>	clause 13.1(e) n/a	n/a	n/a
Assignment of bulk entitlement	clause 16.1(d)	clause 13.1(b)	clause 14.1(d)	clause 11.1(b)
	0ML	0ML	8,000ML	3,913ML <sup>12</sup>
Permanent transfer of all or part of this bulk entitlement	n/a	n/a	clause 14.1(e) 0ML	clause 11.1(c) 0 ML
Approval, amendment and implementation of the metering program	clause 16.1(e) continuing <sup>13</sup>	n/a	n/a	n/a
Any amendment to this bulk entitlement	clause 16.1(f)	clause 13.1(c)	clause 14.1(f)	clause 11.1(d)
	None	None	None	None
Any new bulk entitlement of water granted	clause 16.1(g) 0 ML	clause 13.1(d) 0ML	n/a	n/a
Any failure to comply with any provision of this bulk entitlement	clause 16.1(h)	clause 13.1(f)	clause 14.1(g)	clause 11.1(e)
	None	None	None	None
Any difficulties experienced or anticipated in complying with this bulk entitlement and any remedial action taken or proposed	clause 16.1(i) None	clause 13.1(g) None	clause 14.1(h) None	clause 11.1(f) None

## Notes for compliance with bulk entitlements

<sup>1</sup> Bulk entitlement (Greater Yarra System - Thomson River Pool - City West Water) Order 2014. Compliance requirements in clauses 16.1(a)-(i).

- <sup>2</sup> Bulk entitlement (Desalinated Water City West Water) Order 2014. Compliance requirements in clauses 13.1(a)-(g).
- <sup>3</sup> Bulk entitlement (Goulburn System City West Water) Conversion Order 2012 as at July 2014. Compliance requirements in clauses 14.1(a)-(h).
- <sup>4</sup> Bulk entitlement (Murray River City West Water) Conversion Order 2012 as at July 2014. Compliance requirements in clauses 11.1(a)-(f). Entitlement is managed through separate accounts in Trading Zone 6 and Trading Zone 7.
- <sup>5</sup> The Minister placed a zero order for desalinated water in 2014-15 on 27 March 2014.
- <sup>6</sup> Trading Zone 6, 2,068ML Trading Zone 7, 1,937ML.
- <sup>7</sup> Trading Zone 6, 2,248ML Trading Zone 7, 2,509ML.
- <sup>8</sup> Inclusive of allocated spills during 2014-15 of 8,894ML.
- <sup>9</sup> Inclusive of evaporation of 359ML.
- <sup>10</sup> Inclusive of evaporation of: Trading Zone 6, 112ML Trading Zone 7, 130ML.
- <sup>11</sup> Annual entitlement volume is 155,227ML.
- <sup>12</sup> Net assignment for water held in Trading Zone 6 and Trading Zone 7.

<sup>13</sup> Metering programs for this bulk entitlement are continually maintained and reviewed via the Bulk Water Supply Agreement between City West Water Corporation and Melbourne Water Corporation and System Management Rules established by Melbourne Water Corporation.

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